Bringing Labor Back In:

Varieties of Unionism and the Evolution of Employment Protection and Unemployment Benefits in the Rich Democracies

By

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A thesis submitted in conformity with the requirements for the Degree of Doctorate of Philosophy
Graduate Department of Political Science
University of Toronto

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Abstract
This thesis looks at the politics of labor market policy in the postwar period in the advanced industrialized democracies. Specifically, the dissertation seeks to explain stark cross-national differences in unemployment benefit systems and employment protection legislation. The theory advanced in this thesis emphasizes significant differences in union organization across the rich democracies. This view, “Varieties of Unionism”, shows how the varying political capacities and policy preferences of labor movements explain most of the cross-national policy differences. In particular, the research points to union movements’ ideological traditions and varying rates of union density, union centralization, and involvement in unemployment benefit administration as crucial explanatory forces. Each feature of union movements captures an important part of why they might choose to advocate on behalf of the unemployed and to their differential ability to have those policy preferences realized, as well as indicating the kinds of preferences they will have for employment protection legislation. In the case of policies directed at the unemployed (or so-called labor market ‘Outsiders’), these insights lead to the construction of an index of “Outsider-oriented Unionism”, which correlates very closely to cross-national variations in unemployment benefit generosity as well as to active labor market policy spending. The thesis also introduces a new fourfold typology of unionism that helps to explain the different combinations of employment protection legislation and ‘Outsider policy’ generosity that exist among the rich democracies, or labor market policy ‘regimes’.

The thesis makes this argument with multiple regression analysis of fifteen rich democracies and with detailed historical case studies of Britain, The Netherlands, and Sweden. In making this case, the thesis strongly challenges the explanations of labor market policy put forward by the Varieties of Capitalism literature and Insider-Outsider theory. In addition, the thesis reformulates the traditional Power Resource view by introducing a more rigorous theory of labor movements’ policy preferences and thereby qualifies recent statements that have emphasized partisanship almost alone. Most broadly, the theory challenges the “individualist turn” in recent comparative political economy scholarship and suggests that the field needs to return its gaze far more toward organized interests.
Acknowledgements

This thesis drew on the energy, resources and knowledge of a large number of people. I have many people to thank and I apologize if I exclude anyone through forgetfulness. Foremost among the people I must thank is my supervisor, Rodney Haddow, who was unstinting in the support and advice he provided me. He read each and every draft of different parts of this work and without exception provided prompt, detailed feedback. More importantly, he helped me to frame the project and made sure that I did not chase dead-ends. His knowledge of the comparative political economy literature and its statistical techniques were invaluable. I owe him a great deal for all the help he has given me, including a few well-worn books that I have borrowed along the way. John Myles and Louis Pauly, as committee members, also provided a wealth of knowledge and wisdom to help guide the project. Each has a panoramic view of their respective fields, Sociology and Political Science, and this was of immense use to me, especially as I move toward publications. Both also provided great feedback on various drafts, in sometimes different though complementary ways: from rigorous copy editing and framing advice to reading recommendations and incisive critiques. Not least among their contributions, both provided the encouragement and praise required to keep my spirits up and my motivation strong.

In addition to these three core members of the committee, I must also thank the many others who at one point or another were at the Department of Political Science at the University of Toronto and who contributed to the work herein. In alphabetical order, a provisional list would include: Christian Breunig, Lilach Gilady, Randall Hansen, Jeffrey Kopstein, Erick Lachapelle, Matthew Lesch, Andrew Macdougall, Neil Nevitte, Cliff van der Linden, and Joseph Wong. From reading drafts to just being there to bounce ideas off, they have contributed in many ways to this project. Furthermore, many of the conversations I had during my fieldwork shaped the theory and work developed here, though of course none bear responsibility for any mistakes or poor judgment on my part. Some of these were interviews with people I promised to keep anonymous, so this is a general thank you to all of them. Some of the others I hope will not mind being mentioned here. They were: Brian Burgoon, Eero Carroll, Paul de Beer, Jonathan Hopkin, Kees van Kersbergen, Mark Wickham-Jones, and Jaap Woldendorp.

Lastly, I want to thank all of my family and friends who have supported me along the way. You know who you are, so I will not compose a long list. There are two sets of people I want to single out, though. One is the wonderful girlfriend I had through much of this process, Nicole Shaffer. She, along with Korlee, provided a great escape from the stresses of the dissertation. I thank her for all the patience she displayed when my work interfered with our relationship. The other people I must thank, and to whom I owe it all, quite literally, are my parents, Rick Gordon and Judith Neamtan. They have provided me with enormous support throughout my life and throughout the thesis, in every possible way I could have asked for. Indeed, it was our dinner conversations that motivated my interest in politics and that generated this project. Their love, encouragement and support have made this project possible and I dedicate the thesis to them.
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Chapter 1: Introduction

The Political Economy of Employment Protection and Unemployment Benefits in the Advanced West
Section I: Research Questions and Justification

Directly or indirectly, national labor market policies have a major impact on the lives of most citizens in the advanced industrial world.¹ The vast majority of citizens in these countries will enter the labor market at some point in their lives and most spend a large portion of their lives in it. The regulations, benefits and incentive systems that affect that market therefore matter a great deal, not least in political terms. Labor market policy encompasses a broad spectrum of state actions which directly influence the buying and selling of labor power. These include working time regulations, minimum wage requirements, training and job-search arrangements, statutory hiring and firing rules, and financial assistance to the unemployed (i.e., those without employment but actively looking for it). The focus of this thesis is on the last two areas of labor market policy listed above, what are known as employment protection legislation (EPL) and unemployment benefits (UB). Both provide crucial foundations to contemporary labor markets in advanced industrial countries. The thesis explores the politics behind their evolution over the course of the postwar period and especially during the past thirty years.

Why have certain countries developed extensive, strict statutory regulations regarding dismissal, while others have only minimal statutory constraints on dismissal? Why do some countries have unemployment compensation systems that provide high levels of wage replacement to large numbers of the unemployed, while others provide only meager assistance to a small portion of the unemployed? What political and economic factors determine the placement of countries between these very different policy outcomes? To what extent and in what ways do policies in these two areas interact with each other? And why have some countries, in the face of globalization and other pressures, maintained the labor market protections established in the postwar period while others have experienced significant deregulation or retrenchment? These are the main questions that this thesis seeks to answer.

My answers to these questions are complex and multifaceted. Political outcomes are the product of a wide range of historical forces, including incalculable chance. Very rarely if ever is there a simple explanation that can capture everything of interest. The case of labor market policy is no

¹ The “advanced industrial world” refers to those industrialized countries that have sustained liberal democracy since the early postwar period, and are the focus of the research below (i.e., Western Europe, Japan, and the Anglo-Saxon countries). Greece, Portugal and Spain are included in the analysis at certain points, even though they only democratized in the 1970s, since they are usually considered part of ‘the West’ and have relatively extended periods of liberal democratic politics.
different. My research nevertheless leads me to conclude that the principal reasons for distinctive labor market policies in the postwar period may be found in the varying strength, nature and political involvement of union movements in national policy-making. They are the proximate causes of variation in labor market policy regimes. Somewhat more specifically, relative rates of membership strength and organizational centralization, dominant ideological outlooks, and the degrees of political and administrative integration on the part of national labor movements are the central determinants of differing policy outcomes. This argument will be spelled out carefully in the chapters below, after I introduce more fully the context within which this thesis is framed.

Why Employment Protection Legislation and Unemployment Benefits? The debate over labor market policy

I have chosen employment protection legislation (EPL) and unemployment benefits (UB) for detailed study from amongst the range of labor market policies for four reasons. First, many studies looking at the impact of labor market institutions on unemployment and labor market performance have focused on the three so-called “protective” institutions of UB, EPL and trade unions. This triad is often considered the main cause of labor market “rigidity” in Western countries, which in the neoliberal orthodoxy of the OECD and other influential groups is alleged to create persistently high unemployment in a globalized, post-industrial context. As a result, these institutions have been at or near the forefront of the political agenda in most countries since the 1980s. Only the first two, UB and EPL, however, are policies that can be treated as direct cases engaging broader analytical debates on political reform in contemporary capitalism. Second, their relative centrality in political debates has meant that considerable effort has been made to create precise, comparable indicators in both policy fields across Western countries. This facilitates a more rigorous analysis of their evolution, including the utilization of quantitative methods, which I undertake in Chapter 3. Third, as central “protective” institutions that have been subject to often intense political contestation, EPL and UB furnish excellent cases for evaluating contending theories of welfare state and labor market policy evolution, the subject of much debate in my principal fields of comparative politics and comparative political economy.

Finally, on a basic normative level, whatever the ‘ideal’ form we might think should be taken by these two labor market protections, the very principles or objectives embodied in them are important ones: that workers in a capitalist economic system not be subject to the unmitigated whim

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2 Howell et al., 2007.
or caprice of employers and the market. What this means is that labor power should not be treated like a commodity of any other sort. Labor power is attached to the well-being of human beings and this means that it must not be subject to the same (ruthless) market logic of commodities that have no sentience or life-goals.\(^4\) This ambition is what is referred to as ‘decommodification’.\(^5\) The existence of employment protection that prevents workers from being fired for capricious reasons or when they are highly vulnerable (such as in old age or during economic downturns), alongside the knowledge that unemployment compensation exists, can embolden workers to not submit to objectionable working conditions. As I document below, then, these policies can have an important impact on the conditions under which people spend much of their working lives, as well as influence the frequency of unemployment and the prevalence of poverty among the unemployed. This is not to say that these policies cannot also aggravate the duration and occurrence of unemployment or in various ways be problematic economically and socially. They certainly can. But there are ways in which these problematic effects can be limited or minimized, as I document below, while maintaining their protective functions.

While both EPL and UB can be broadly considered labor market ‘protections’, at any given point in time their primary impact will occur in relation to two quite different groups of people. In the case of EPL, its protections will apply mostly to those already employed, while UB will protect those without employment. As I will demonstrate, this creates different political dynamics in each area of policy, though not as much as some theories would suggest. Nevertheless, in contemporary discourse EPL is usually considered protection for labor market ‘Insiders’ and UB are considered protection for labor market ‘Outsiders’.\(^6\) Despite some hesitancy with these labels, I will largely stick to this dominant usage in what follows. It should be mentioned in this connection that so-called active labor market policies (ALMPs) are also considered a key component of ‘Outsider’ protection. ALMPs consist of state investments in public employment services (e.g., facilitating job search), retraining programs for the unemployed or precariously employed, and direct employment-creation programs targeted at certain groups in the labor market that have poor employment prospects (e.g., youth, minorities, and those with disabilities).\(^7\) Since part of my concern in the thesis is to explain

\(^4\) The logic behind this idea is expressed powerfully by Karl Polanyi, 1944, who argued that labor was a ‘fictitious commodity’ and that any attempt to subordinate its use wholly to logic of the ‘self-regulating’ market was bound to create misery and social upheaval.

\(^5\) Esping-Andersen, 1985.

\(^6\) See for example Rueda, 2007.

\(^7\) See Pontusson, 2005, p.127.
levels of societal resources devoted to Outsiders, analysis of ALMPs will thus be included at various times, so it is important to flag this from the outset.

As will become clear in the following two sections, labor market protections in the two primary realms of EPL and UB do not co-vary in any simple way. Certain countries have strong EPL and weak UB, while others have weak protections in both areas, and yet others have strong protections in both. Explaining these curious combinations of the two main policy areas, the ‘dependent variables’ of this thesis, requires first having a firm grasp of how they differ in various advanced industrial countries. Section II below thus outlines patterns of EPL across countries and over time, and Section III does the same for UB. Only after this is established can an attempt be made to explain comparative patterns. Section IV then lays out the dominant theoretical perspectives in explaining these patterns (literature review). Section V concludes the chapter by outlining the basic argument advanced in the thesis and how it relates to earlier theories.

Section II: Employment Protection Legislation

Employment protection refers to the set of rules governing the hiring and firing process in a country. In other words, measures of employment protection assess the strictness of societal restrictions on employers’ freedom to hire and fire. These restrictions can be instituted either by the government as legal rules or negotiated by workers/unions and employers in collective bargaining. Since only the former constitutes state policy and hence employment protection legislation, this will be the focus of the research below. As I will show, this is sometimes problematic in terms of assessing substantive levels of employment protection over time in certain countries, given the prevalence of collective agreements. However, research indicates that cross-nationally the terms of dismissal protection negotiated in collective agreements has a very strong relationship to the level of statutory EPL. Indeed, this is precisely why EPL is so often a contested field of policy: the costs of the formal or statutory constraints set the basic terms for the negotiation of supplementary, collectively-agreed-to provisions of protection. As a result, EPL is a fairly reliable indicator of overall levels of employment protection in an economy.

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9 Venn, 2009.
The most widely-used EPL index has been developed by the OECD.\textsuperscript{10} The index measures the extent of protection by looking at three forms of hiring and firing regulations: (a) those that apply to the firing of \textit{individual} regular or ‘permanent’ workers, (b) those that apply to \textit{collective} dismissals of these regular workers, and (c) those hiring and firing rules that apply to ‘fixed-term’ or ‘temporary’ workers. In terms of (a), regulations define “the justification employers are required to provide for dismissal, the approval they may be required to secure from employee representatives, the length of the notice they must give, the compensation employees receive if dismissed, and the length of the trial period before employees are protected.”\textsuperscript{11} These are known respectively as rules regarding \textit{just cause}, \textit{consultation}, \textit{notice periods}, \textit{severance pay} and \textit{trial periods}. Given that collective dismissals may have a social cost, supplementary regulations (b) have been introduced in a number of countries to govern them. This aspect of EPL is captured simply by looking at the restrictions that apply in these cases \textit{beyond} those applicable in the case of individual dismissals.\textsuperscript{12} Finally, regulations governing temporary contracts “limit the circumstances or tasks for which fixed-term contracts can be issued, the number of times or length of time a worker can be hired on such a contract, and the types of work for which temporary work agencies can be utilized.”\textsuperscript{13} The core component of most EPL indicators is the first type of regulations (a), those applying to the protection of regular contracts against (individual) dismissals, as these regular contracts remain the dominant employment arrangement across the OECD despite the recent growth of temporary forms of employment.\textsuperscript{14} 

Table 1.1 displays the variation of EPL across the advanced West from 1985 to 2005 in five year averages of strictness according to the OECD index, which ranges from 0 to 6 (the OECD index begins in 1985). Lower EPL scores represent lower restrictions on hiring and firing and vice versa for higher scores. Table 1.2 measures employment protection over a longer period, from 1960 to 1995.\textsuperscript{15} The method used to construct this index is somewhat different than that used by the OECD, and the index ranges from 0 to 2, but the correlation between the two indexes is very high in the period where they overlap ($r_p = 0.95$). The tables are color-coded for ease of interpretation. Note that no longer-term data was available for Greece so it has been excluded from Table 1.2.

\textsuperscript{10} See for example OECD, 2004, 2009. Most other indexes correlate very highly with this index in any case. Venn, 2009.
\textsuperscript{11} Kenworthy, 2008, p. 115.
\textsuperscript{12} OECD, 2004, p. 65.
\textsuperscript{13} Kenworthy, 2008, p. 115.
\textsuperscript{14} OECD, 2004, p. 65.
\textsuperscript{15} This index is drawn from Nickell et al., 2002.
Table 1.1: EPL 1985-2005

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Source: OECD, 2009. *Figure for 1985-89 is imputed from other indexes (e.g., Table 2).

Table 1.2: EPL from 1960-1995

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Source: Nickell et al., 2002.

As should be clear from the Tables, the countries of Southern Europe have the strongest levels of EPL (Greece, Italy, Portugal and Spain), while the Anglo-Saxon countries have the weakest. The countries of North-Western Continental Europe and Scandinavia have moderate or middling levels, though most of them are closer to Southern European levels than they are to the Anglo countries. This fairly neat separation of countries facilitates the creation of a regime typology in Chapter 2. The EPL systems of the UK, The Netherlands and Sweden are described in considerable detail in the case study chapters, so I will not put these numbers into more concrete, qualitative terms here.

To understand the way that these regulations affect the operation of labor markets, we can look at the alleged costs and benefits of EPL in the political science and economics literatures. High levels of employment protection are often blamed for a host of evils: economic inefficiency, the creation of Insider-Outsider dualism, and high levels of unemployment.\(^\text{16}\) Most obviously, economic inefficiency is said to be created when relatively unproductive workers are protected from being dismissed, limiting the ability of firms to replace low productivity workers with those of higher caliber. In addition, as common perception has it, the very act of protection can weaken productivity since workers will not fear being dismissed and hence not work up to their potential. The alleged problems with EPL do not end there, however. Employment protection by its very nature creates so-called ‘turnover costs’ for firms, which insulates ‘Insiders’ from the wage competition of ‘Outsiders’. This ostensibly creates semi-permanent divisions between these two groups, as some workers have long-term job tenure whereas others remain either unemployed or are employed on very precarious terms and are dismissed in the event of even minor economic disruption. According

\(^{16}\) See for example, OECD, 1994; Lindbeck and Snower, 1988. This view informs the frequent complaints of influential magazines such as *The Economist* for labor market deregulation. These sources are used in the paragraph below to outline some of the drawbacks of EPL.
to this view, then, the higher these ‘turnover costs’ the greater the dualism. Finally, this dualism is alleged to create higher levels of (involuntary) unemployment, since protected Insiders can achieve wage rates above those merited on a strictly market/marginal productivity basis and this will have the effect of reducing labor demand. In a sense, the economy’s wage bill will be divided amongst a segment of the workforce, not that of the whole, since higher wages will reduce employers demand for further, unemployed labor power (as well as speed technological replacement or substitution of labor).

If the case against EPL is accurate, we should see clear cross-national evidence of it in the inferior performance of high EPL countries, in particular in terms of unemployment rates. Figure 1.1 presents a scatter plot of average unemployment rates over the period from 1985 to 2005 on a country by country basis versus average levels of EPL. As the critique above predicts, there is a positive correlation between the two figures of $r_p = 0.28$. What is noticeable from the scatter plot, however, is that the relationship is not consistently strong and that there is a clear outlier: Spain. If Spain is removed, the correlation is much weaker, at $r_p = 0.13$. Even more telling, if the Southern European countries are excluded, the correlation effectively falls to zero (0.03), as in Figure 1.2. Interestingly, the same pattern of results happens when measuring the relationship between EPL and GDP per capita levels: when Southern Europe is included, the correlation is negative; without them, the correlation becomes effectively zero.\footnote{Even more curiously, when the US is dropped from such calculations, the correlation between EPL and GDP per capita is \textit{positive}. If the US is a unique case amongst the Anglo countries, given the role of the USD as a global reserve currency and its massive internal market, then this suggests a reversal to the standard neoliberal mantra, in particular since, as I show, EPL is correlated to a range of other ‘non-liberal’ labor market institutions. This is just an aside, though, I do not wish to make too much of it.}

As Chapter 2 makes clear, there are good comparative reasons to bracket the Southern European countries, since they experience a range of ills and historical legacies that put them in a category of their own (and as their current debt travails make clear!). It is also evident from the Figures that having a high level of EPL is not necessarily an insuperable problem, at least in terms of unemployment. Several countries have had high levels of EPL and achieved low rates of unemployment, among them Norway, Sweden and The Netherlands (along with high GDP, high employment ratios, etc.). What this crude, impressionistic analysis suggests is that the picture in relation to EPL is a lot more nuanced than the neoliberal orthodoxy would have it.
Indeed, more careful analysis suggests that EPL has at most a mild effect on rates of unemployment. A number of studies, taking into account change of EPL and unemployment over
time and including other relevant variables, suggest that the relationship, to the extent it exists at all in the advanced Western countries, is quite weak. Where there is more scholarly consensus, though, is around the effect of EPL on the existing distribution of employment and on the pace of flow into and out of unemployment. In terms of the latter, EPL will naturally tend to slow the pace of (un)employment change. In economic upturns, firms will hire less new labor because they are wary of the costs of dismissing them in downturns, yet these very same costs will push them to retain more employees in downturns. This partly explains why in the latest recession unemployment surged so rapidly in the US and UK relative to the Continental European economies. Ultimately, this dynamic will have little impact on the overall level of unemployment over time, but it will mean, worryingly, that EPL can exacerbate long-term unemployment. In fact, the correlation between EPL and rates of long-term unemployment in the early 2000s (both >6 month and >12 months) is positive (0.37 and 0.32, respectively). However, having low EPL is no panacea for mitigating long-term unemployment, as American workers are now finding out. With some hindsight, it appears that low long-term unemployment in at least some Anglo countries was the product of a booming (or bubble) economy, rather than their low EPL. Closer inspection of the data on long-term unemployment also suggests that even moderately strong EPL countries can mitigate it to a large extent through appropriate countervailing measures (including most prominently, ALMPs).

In terms of the distribution of unemployment under strict EPL, the evidence is somewhat less benign: certainly in the Southern European countries and some Continental countries, strict EPL has become associated with higher than average levels of youth unemployment and an overrepresentation of women among the unemployed. There is also evidence that strong EPL systems lead to greater gender segregation along occupational lines, though this of course exists in low EPL systems as well. However, here again the results are often highly influenced by the inclusion of the Southern European systems, and certain related institutions, such as effective

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18 See for example, Howell, 2005; Kenworthy, 2008; and Baccaro and Rei, 2007; for these careful studies, as well as reviews of the relevant literature.
19 See OECD, 2004; Addison and Teixeira, 2003.
20 The sharp rise in Spanish unemployment, in a situation of high overall EPL, is explained by the prevalence of temporary, easy-to-fire workers that has developed in part as a result of its very strict regular worker EPL protections. See for example Rueda, 2007; Lopez and Rodriguez, 2011.
21 Figures for long-term unemployment rates were drawn from Pontusson, 2005, p. 72.
22 This is suggested in Ibid, p. 71-76, where Scandinavian countries are shown to have relatively low levels of long-term unemployment, despite moderate to high levels of EPL.
23 See for example, Breen, 2005, for youth unemployment, and for the latter see the evidence alluded to in Addison and Teixeira, 2003. Howell, 2005, p. 11-16.
educational systems and public employment creation, have been shown to considerably reduce relative rates of youth and female unemployment even in the presence of high EPL.  

In short, the neoliberal view that strong employment protection is a highly problematic institution is largely misplaced, at very least in most advanced Western countries. The question then becomes why this result obtains: Why, given the obvious potential drawbacks to strong EPL, is it not clearly and consistently associated with inferior social and economic outcomes? I would suggest three broad reasons for this. First, the vision of human motivation that underpins the common sense view is in many cases inaccurate. Despite the drudgery and monotony that is associated with many forms of employment in contemporary society, workers will often take pride in the quality of their work irrespective of the immediate economic payoff/situation. This is especially true in situations of highly social workplaces: people want to maintain their reputations as strong, committed workers in the eyes of their peers, regardless of whether they are likely to be fired or not.

Second, the extent of dismissal protection that EPL offers is frequently exaggerated in popular depictions of a ‘sclerotic’ Europe. When one examines the operation of actual employment protection systems, even in many strong EPL systems, the conditions or circumstances for legitimate dismissal remain quite broad and the design of the protections allows employers to get a good sense of a worker’s capacities and comportment before accumulating substantial dismissal ‘duties’ in relation to them. This is not true of all systems, but it is a feature of most effective systems. For example, Italy has had only a very brief trial period of under a month before dismissal protections begin to accrue, which is problematically short, whereas Germany has a trial period of 6 months and Denmark 10 months. In terms of ‘just cause’, most effective systems are quite lenient with, or accepting of, employers’ right to dismiss in circumstances of economic/financial duress or necessity (i.e., dismissals on ‘economic grounds’) so long as employers make an effort to demonstrate this. Even most strict systems give employers the ability to ‘summarily dismiss’ workers in cases of egregious wrongdoing, and this limits blatant disregard for managerial authority.

Perhaps most relevant in the context of this thesis, the approach adopted on the part of unions in relation to management/employers is also crucial. Certain countries have fairly long traditions of cooperative labor relations at the plant and industry level, while others are marked by far more

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25 See the discussions in Howell, 2005, p. 11-16; Esping-Andersen, 2000; Pontusson, 2005, p. 73-76; Addison and Teixeira, 2003; Breen, 2005.


27 See for example the case studies of The Netherlands and Sweden.
adversarial relations.\textsuperscript{28} In practice these different approaches can mean a great deal in terms of the impact of EPL on the case of economic restructuring. It is very difficult to measure this kind of variation in any systematic manner, but a sustained reading of the industrial relations record of different European countries suggests that this is not to be overlooked when comparing the impact of EPL on economic development. In the case of the North-Western European economies, a more cooperative approach to industrial relations has meant that industrial or market adaptation can often be achieved without major disruptive strikes and without major efficiency costs within the firm.\textsuperscript{29} In the Anglo-Saxon and particularly the Southern European countries, this cooperative approach has been much weaker or less-widespread (and thereby exacerbated employer resistance to EPL).\textsuperscript{30} These claims are elaborated in Chapter 2.

Finally, EPL has a range of non-obvious economic benefits from a societal point of view and its ‘costs’ can be mitigated through coordinated wage bargaining and systems of incentives within firms that generate loyalty and hard work. If promotion within a firm is tied to performance, then the incentive for high quality work will remain even in the context of high firing costs. What high firing costs will do in these circumstances, then, is mostly enforce or encourage a longer-term relationship between employees and their employers. This stable, long-term relationship will do two things that are socially beneficial. On the one hand, by pushing the partners in the relationship to develop lasting bonds of trust and cooperation it can boost worker morale and allow for smoother restructuring since workers will not resist re-organization for fear of losing their place in the company.\textsuperscript{31} Longer job tenure will also facilitate what is called ‘synthetic knowledge’ of a firm’s production process: the body of production-relevant knowledge that comes from on-the-job experience that is not easily transferable.\textsuperscript{32} On the other hand, the existence of employment security will encourage both employers and employees to invest in specific skills training. For workers, the knowledge that they will not be merely tossed aside without compensation in economic restructuring will encourage the investment in sets of skills that are highly specific to either a firm or industry

\textsuperscript{28} See for example, Crouch, 1993, and Hyman, 2001.
\textsuperscript{29} Indeed, in these countries, “the primary function of labour law [including EPL] is to promote the peaceful integration of conflicting interests of employers and of workers within the frame of a legal order. This can only be done effectively by balancing the interests of both sides, more or less in accordance with the present balance of powers in the broad context of economic, social and political relations.” Van Peijpe, 1998, p. 34. In short, in this view, EPL can serve to institutionalize and thus ritualize the settling of disputes in the case of dismissal, thus lessening the resort to strikes to establish this ‘balance of power’.
\textsuperscript{30} For a revealing discussion of strike rates that matches up with this characterization of industrial relations traditions, see Cameron, 1984.
\textsuperscript{32} Harcourt and Wood, 2007, p. 144.
(thus improving productivity). Similarly, employers will choose to invest in the skills of their workforce if they are confident that the relationship will be long-term: EPL can furnish insurance of employee loyalty for employers too, since dismissal compensation, as well sometimes as accumulated social benefits, is usually minimal or non-existent in cases when a worker voluntarily leaves a job.

These insights form much of the theoretical basis of the Varieties of Capitalism view in relation to labor market policy. Finally, the wage pressures that can emerge from having a large segment of protected workers can be mitigated by systems of nationally coordinated wage bargaining. In such systems, coordination will limit the extent to which groups of workers can use their entrenched market position to achieve excessive wage gains.

Suffice it to say, as John Addison and Paulino Teixeira conclude in their survey of the literature, that “the balance of the empirical evidence firmly suggests that there are offsets to potentially costly employment protection rules.” To be clear, though, this does not mean that these ‘offsets’ will always exist or emerge. The impact of EPL on economic performance will thus depend on the institutional context in which it exists. In the context of Southern Europe there is probably a strong case for reducing its strictness. But there is much less of case in Northern Europe and even perhaps a case for strengthening them in the Anglo countries. Analysis of UB and ‘Outsider’ policy may be framed in a similar fashion.

**Section III: Unemployment Benefits and Outsider Effort**

Unemployment benefits can be defined as the compensation received by individuals of working age who are not employed, but who are looking for employment and have previously been employed, and whose receipt of compensation depends on sufficient prior employment. UB can thus be distinguished from other forms of social insurance for the non-employed such as welfare or social assistance, which do not require or depend upon past work experience, and sickness or work injury compensation, which depend on a particular misfortune having befallen an individual during their employment tenure. These benefits are almost always administered by the state or state-

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33 See for example Ibid.; Estevev-Abe et al., 2001; Iversen, 2005.
34 This can also be problematic, however, if this worker loyalty impedes labor mobility. For instance, in the US where workers’ health care is tied to their employment, leaving a job to move cities with a partner is potentially quite risky in the way it would not be in universal health care systems. The same logic applies to accumulated severance obligations.
35 The literature on this is very large. See for a discussion, Cameron, 1984; Hall and Soskice, 2001; Howell, 2005.
36 Addison and Teixeira, 2003, p. 122.
37 Kenworthy, 2008, p. 137.
sponsored bodies, with the partial exception of Ghent-system countries (Belgium, Denmark, Finland and Sweden), where unions administer them.\textsuperscript{38} Even in these Ghent countries, though, the level, duration, conditionality, and so on of the benefits are determined by state law, since a significant portion of the funding for these benefits comes from general taxation.

Unemployment benefit systems differ in a number of important ways across countries. Two of the most important sources of variation reflect (i) institutional arrangements of administration and (ii) the principle upon which benefit level is determined. In regards to (i), there are three possible arrangements: fully state-run schemes with no administrative responsibilities on the part of labor market representatives (neither unions or employers); so-called corporatist systems of administration where both labor market representatives, employers and unions, are involved in disbursing benefits; and finally, as above, Ghent systems where union-linked funds administer the disbursement of the vast majority of unemployment funds. As for (ii), there are three basic principles that can be adhered to: means-tested benefits, where receipt of benefits is conditional upon demonstrating financial need; flat-rate benefits, where all recipients receive the same amount independent of financial need or previous income; and earnings-related benefits, where levels of benefits depend on past earnings.

On the basis of these distinctions, Eero Carroll distinguishes four dominant institutional arrangements in relation to UB across the advanced West.\textsuperscript{39} First, there are the voluntary state-subsidized systems found in most of the Scandinavian countries (Sweden, Denmark, and Finland). These systems are unique in that receipt of unemployment benefits is conditional upon voluntary membership in union-linked funds, and benefits are paid mostly in earnings-related ways (i.e., paid as a proportion of prior income up to a certain ceiling). This is usually simply referred to as a Ghent system, in line with the above, and it is the only system in which participation in unemployment compensation is voluntary.\textsuperscript{40} Belgium operates a diluted form of the Ghent system, where unemployment insurance contributions are mandatory and state funds compete with union-run schemes (though the latter are very successful in this competition). While this has had an impact on rates of unionization, it has created similar political dynamics to the other three and is thus usually lumped in with them in what follows.

The other countries of the advanced industrial world all have mandatory systems of contribution to unemployment compensation schemes. They differ, however, in the way in which

\textsuperscript{38} Western, 1997, Ch. 4.
\textsuperscript{39} Below is drawn from Carroll, 1999, p. 123-131.
\textsuperscript{40} Western, 1997, Ch. 4.
benefits are paid out and patterns of labor market representatives’ involvement in administration. Thus, as a second group, are those corporatist insurance countries that have unemployment compensation organized by unions and employers, with benefits tied to occupationally distinct funds and which are again primarily income-related. This group includes countries such as Germany, the Netherlands, and most other continental Western European countries. The income-relatedness of the benefits contributes to the occupationally stratified nature of social provision typical in these countries, as noted by Gosta Esping-Andersen. Third, there are those comprehensive insurance countries which have state administered funds and primarily or effectively flat-rate benefit schemes (given low maximum benefit ceilings), such as Britain, Canada, and the US. In these countries, contribution to unemployment insurance is mandatory, but the generosity of the benefits varies little among recipients except in terms of duration (e.g., where those with longer working histories achieve longer benefit periods). Finally, there are the two targeted systems of Australia and New Zealand, which resemble comprehensive systems in administrative respects except that benefits have for much of their history been means-tested, meaning that only the poorest usually received them.

As I will demonstrate more fully in the chapters that follow, these different institutional arrangements and legacies, especially the administrative ones, have important consequences for the coverage and generosity of unemployment benefits, as well as for the politics surrounding them. In terms of generosity and coverage, voluntary systems tended to experience low levels of coverage and generosity in the early postwar period but saw these both expand with the growth of unions and the threat of unemployment in the later postwar period (though formal coverage usually remains lower than the average for advanced industrial countries even at their peak). Corporatist countries, on the other hand, have tended to have middling or low effective coverage, but generous benefits for those that do receive them. Comprehensive and targeted systems, by contrast, have formally high levels of coverage, but relatively ungenerous benefits to recipients and moderate to low recipiency rates.

Given this institutional variation, it is difficult to measure the generosity of different benefit systems in a simple, comparable way. There are four main components to any measure of the generosity of UB systems: the level of benefits (or replacement rate), the duration of entitlement, the recipiency or effective coverage rate, and the strictness of surveillance/jobsearch responsibilities (and the

41 Esping-Andersen, 1990.
42 Carroll, p. 136-137. It is important to note here the significant difference between coverage and recipiency rates. Coverage refers to those individuals paying in to an unemployment compensation scheme and thus technically covered, but not necessarily eligible to receive benefits should they lose employment. Recipiency rates refer to the percentage of the unemployed who actually receive benefits, and thus is arguably a stronger measure of the genuine scope of UB systems. See below.
sanctions associated with it.\textsuperscript{43} Most studies have focused on replacement rates.\textsuperscript{44} This is usually done by calculating the average net replacement rate for different categories of ‘standard’ workers in a given system: the percent of former income provided, after taxes, to recipients. In some respects, this approach makes sense: it gives a good indication of what kind of benefits a worker with a ‘normal’ employment history is likely to receive. The problem is of course that it leaves the other highly relevant factors completely out of the analysis. For example, there is no way to distinguish between systems that provide benefits for most of the unemployed through lenient eligibility conditions and those that only provide benefits for a small fraction of the unemployed.\textsuperscript{45} Similar examples of the importance of other components are easy to imagine. Without belaboring the point, replacement rates alone are not a good measure of UB generosity, as most of the comparative political economy field has taken for granted. Capturing UB generosity requires including the other components of UB systems.

One way of doing this would be to compile relative indicators of each component and add them together to form a composite index (as is done in the case of EPL). However this would be excessively laborious and even then it is not clear how one would weigh the different components relative to each other.\textsuperscript{46} Are replacement rates equally important to measures of duration or recipiency? Or are they more important? If so, how much more important are they? And so on the dilemmas would go, perhaps inevitably producing a rather subjective index. Fortunately there is a simple way of getting around this: looking at spending totals on UB. Doing this captures nicely the general level of support devoted by society to the unemployed and it will include the influence of all the relevant components of UB systems, since they will all affect spending levels. Perhaps most importantly, it is an objective measure that does not rely on potentially controversial subjective weighting; the weighting, in a sense, sorts itself out. That said, to get the best sense of relative generosity a measure of UB spending ‘effort’ should control for the number of unemployed

\textsuperscript{43} These four components are drawn from Nickell et al., 2002, p. 6.
\textsuperscript{44} See for example, Allan and Scruggs, 2004; Korpi and Palme, 2003; Howell, 2005; Esping-Andersen, 1990; etc.
\textsuperscript{45} This is especially relevant in the analysis of UB systems over the past thirty years, because many of the retrenchment efforts of governments have been directed at making benefits harder to receive.
\textsuperscript{46} For one such effort, which critically re-evaluates Esping-Andersen’s (1990) seminal measure of social insurance decommodification, see Scruggs and Allan, 2006. As they note, combining the different components of social insurance into one overall measure is highly problematic and fraught with difficult decisions for the analyst in terms of weighting, scoring and so on. The issues associated with this process lead me to adopt a different approach based on spending figures, as I explain below. It is revealing to note, though, that the main example they use to suggest the downsides of spending figures is easily remedied by including a denominator that captures the number of people ‘needing’ assistance: the rise of total spending on UB under Margaret Thatcher as she curtailed the generosity of the British welfare state (p. 56). Once we control for the number of unemployed, however, the substantial cuts imposed by Thatcher become obvious. See Table 3.
(spending relative to ‘demand’ or ‘need’) and relative to the wealth of a country (spending totals relative to GDP).\footnote{This latter point is suggested for two reasons. For one, actual costs of living across countries, and thus the substantive assistance provided by different levels of exchange-rate-based measures of spending, will be heavily influenced by existing levels of GDP in a country. For another, spending \textit{effort} should take into account the amount of societal resources that a society can actually bring to bear on a problem.} Table 1.3 provides just such an indicator of UB ‘Effort’ or generosity, dividing share of GDP spent on UB by the share of unemployed in the labor force (i.e., those potentially eligible for UB), in five year averages from 1985-2005. To get some sense of what the figures mean, a score near one would be a highly generous system: one percent of GDP would be devoted to each percent of the unemployed, or in other words an average income in that country per unemployed! Since these are unequal societies and work incentives need to be maintained, most societies will naturally devote substantially less than this, as the Table shows. Still, there is great variation within these bounds.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|c|}
\hline
\hline
Australia & 0.14 & 0.16 & 0.15 & 0.13 & 0.14 \\
Austria & 0.27 & 0.31 & 0.29 & 0.26 & 0.28 \\
Belgium & 0.26 & 0.28 & 0.27 & 0.43 & 0.31 \\
Canada & 0.19 & 0.19 & 0.11 & 0.09 & 0.14 \\
Denmark & 0.6 & 0.51 & 0.6 & 0.6 & 0.58 \\
Finland & 0.28 & 0.29 & 0.24 & 0.23 & 0.26 \\
France & 0.22 & 0.18 & 0.15 & 0.19 & 0.18 \\
Germany & 0.14 & 0.21 & 0.18 & 0.17 & 0.18 \\
Greece & 0.05 & 0.05 & 0.04 & 0.04 & 0.04 \\
Ireland & 0.19 & 0.13 & 0.14 & 0.19 & 0.16 \\
Italy & 0.09 & 0.06 & 0.05 & 0.04 & 0.06 \\
Japan & 0.15 & 0.15 & 0.15 & 0.09 & 0.13 \\
Netherlands & 0.3 & 0.38 & 0.41 & 0.41 & 0.38 \\
New Zealand & 0.22 & 0.18 & 0.2 & 0.17 & 0.19 \\
Norway & 0.17 & 0.21 & 0.16 & 0.13 & 0.17 \\
Portugal & 0.04 & 0.11 & 0.13 & 0.16 & 0.11 \\
Spain & 0.12 & 0.20 & 0.13 & 0.20 & 0.16 \\
Sweden & 0.3 & 0.33 & 0.22 & 0.19 & 0.26 \\
Switzerland & 0.22 & 0.31 & 0.29 & 0.22 & 0.26 \\
UK & 0.15 & 0.11 & 0.08 & 0.05 & 0.1 \\
US & 0.06 & 0.07 & 0.05 & 0.07 & 0.06 \\
\hline
\end{tabular}
\caption{Unemployment Benefit ‘Effort’, in five year averages, 1985-2005}
\end{table}

Source: OECD.
Inevitably, there are downsides to this overall measure. It cannot on its own tell us which components of each UB system are ‘generous’ or ‘lenient’ and which are not. Comparing this with replacement rates and rough figures on recipiency rates mitigates this problem, but not entirely.\textsuperscript{48} Still, the figures, when combined with an understanding of the different institutional principles of the various systems presented above, can give us a good sense of what is going on. For example, it is clear that the US and UK spend very little on the unemployed, both in terms of replacement rates and in terms of recipiency.\textsuperscript{49} (Indeed, these are arguably the two main determinants of spending, since lengthy benefit receipt is not widespread even in countries that technically allow it.) Similarly, Italy and Greece’s very low figures are produced by weak replacement rates for most recipients and highly exclusive system of eligibility requirements. At the other end of the spectrum, Denmark has a very high level of ‘UB effort’ largely because each component of its system is generous, while Belgium has high levels of spending mostly because of the long duration of benefits and a high replacement rate, and The Netherlands due to a high replacement rate and a high recipiency rate.

Another downside with relying upon a spending-based indicator is that it does not always accurately reflect changes in policy. Certain types of economic change can increase or decrease UB ‘effort’ irrespective of policy inertia. For instance, if higher wage workers become a larger share of the newly unemployed, then spending in earnings-related systems will go up even if there is no change in policy (or vice versa). Likewise, if the average duration of unemployment changes in a country over time due to broader economic shifts, this can affect spending levels (in potentially both directions) and thus UB ‘effort’.\textsuperscript{50} Moreover, as I point out in Chapter 2 and 3, the effects of policy change may not be ‘felt’ immediately in changes in spending levels. Some policy change will have an obvious, immediate impact on spending whereas other reforms will only show up after certain types of economic shock.\textsuperscript{51} For example, stricter eligibility conditions will probably have more muted effects in an economic boom than in a recession, since more people will meet the work

\textsuperscript{48} For some rough figures on recipiency rates, see Brusentsev and Vroman, 2007, and for replacement rates see Scruggs, 2004, online.

\textsuperscript{49} Canada has moved in this direction since its overhaul of unemployment benefits in 1994-95 but it remains slightly more generous.

\textsuperscript{50} In fact, it is possible that these two types of shift explain the relatively small drop in ‘UB effort’ over the period from 1985-2005 despite the well-known attempts by government to effect retrenchment of social insurance schemes, in particular UB. Indeed, this is one of the only ways of explaining fairly constant ‘effort’ totals in the presence of repeated policy changes intended to bring about retrenchment (e.g., The Netherlands and Denmark). See Green-Pedersen, 2002, for an account of the retrenchment policies in both countries, as well as The Netherlands case study. Also, a rise in firings or lay-offs as the cause of unemployment may increase take-up rates of UB (since receipt usually requires involuntarily leaving previous employment), as has occurred over the past 30 years in the US. See Vroman, 2010.

\textsuperscript{51} This is analogous, in a way, to the manner in which the revenue impact of the George W. Bush tax cuts of the early 2000s did not become apparent (or at least obvious!) until the recession following the economic crisis of 2007-2009.
requirements for eligibility. This means that changes in the figures over the period in question need to be treated with some caution in terms of inferring policy change. In particular, it means that these ‘effort’ figures, along with spending levels generally, are highly problematic in terms of assessing the impact of short-term changes in government partisanship, for example.\textsuperscript{52} Despite these caveats, the longer-term averages are important and largely accurate reflections of levels of national societal effort devoted to assist the unemployed during their periods of distress, for the simple reason that these sources of variation will average out over time.

As in the case of EPL, understanding the impact of UB on the labor market is conveniently done by comparing some of the alleged problems associated with generous UB with some of the alleged benefits. Perhaps the most significant impact of UB on the labor market is the way that they can set a ‘reservation wage’ for large numbers of workers. If benefits are relatively generous, the unemployed may be better able to (initially) turn down jobs that are below their level of qualification or talent and pursue jobs better suited to them. In a sense, this serves to soften or weaken the intense scramble for work and the intensity of downward market pressure on wages that a free market situation would create. This dynamic has potentially negative \textit{and} positive effects.

Negatively, it is alleged to create a culture of dependency or laziness on the part of the unemployed, and thus slow economic growth and restructuring, as they stay unemployed in lieu of quickly finding new work. As in the case of the neoliberal view of EPL, it is difficult to overstate the prevalence of this view in popular discourse, especially in Anglo-Saxon discourse.\textsuperscript{53} In addition, by helping to raise wages at the lower end of the labor market it can ostensibly ‘price some labor out of work’, by hindering the ‘clearing’ of markets that is supposed to happen under free market conditions.\textsuperscript{54} Therefore, it is alleged that generous UB will exacerbate levels of unemployment. For these two broad reasons, UB have come under sustained attack in the past thirty years from neoliberal advocates. Allegedly they sap the ‘vitality’ of capitalism and have thereby weakened growth and caused ever higher levels of public deficits and debt. As Carroll points out, “Few social programs are criticized as strongly by proponents of free market capitalism as this potentially most interventionist of insurance schemes.”\textsuperscript{55}

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\textsuperscript{52} In Chapter 2 I show how this puts into doubt some of the conclusions reached by Rueda, 2007.
\textsuperscript{53} The classic conservative statement of this view is Murray, 1984, but it pervades the mainstream media and publications such as \textit{The Economist}.
\textsuperscript{54} The logic is in a way analogous to the neoclassical economic case against minimum wage laws. This is the basic thrust of the OECD’s famous 1994 \textit{Jobs Study}. Its impact on the lower end of the labor market is particularly pronounced because, as Carroll notes, “low-income workers have generally been at greater risk of unemployment.” Carroll, 1999, p. 119.
\textsuperscript{55} Ibid.
More positively, generous UB can be seen as the solution for a range of problems faced by modern economies/societies. First, and most straightforwardly, UB can be seen as societal response to the inevitable fluctuations of a market economy, providing insurance and well-being for workers when they lose jobs through no fault of their own. Second, UB thereby act as a so-called ‘automatic stabilizer’ during periods of recession. As in Keynesian economic theory, UB spending puts money in the pocket of the unemployed during slumps and thus helps maintain aggregate demand when and where it is most needed (i.e., to prevent debt-deflation). Third, in social terms, UB are a central part of a host of public transfer or insurance programs that can mitigate poverty and reduce inequality. In fact, the correlation between UB Effort and low poverty rates cross-nationally is strong and even stronger when ALMP spending is included (what I call Outsider Effort; see Table 1.4 below). Among the advanced Western countries, there is a strong negative correlation between strength of UB Effort and Outsider Effort, on the one hand, and poverty rates, on the other. During the period from the late 1990s to the early 2000s it was around -0.63 and -0.7, respectively. Not all of this correlation will be the effect of UB and ALMP spending, since both are highly correlated with levels of total social spending, and the latter is even more closely related to poverty alleviation. But at least part of the effect of social spending will operate through the provision of UB and the effect it has of boosting lower-end wages or post-transfer income, as indicated by various micro-oriented studies.

Finally, there are three more subtle economic benefits to strong, effective UB systems. For one, by reducing the urgency with which the unemployed must accept any given job opening, UB can in fact improve ‘job-matching’. This dynamic explains a second subtle benefit: a strong, generous UB system will encourage particularly young workers to invest in industry and firm specific skills, much as in the case of EPL, and these specific skills have been shown to be highly useful in improving labor productivity and thus international competitiveness. The classic example of the effect this has on productivity is perhaps the manufacturing competitiveness or prowess of

56 Indeed, this feature of UB was a central aspect of policy discussions between Europe and the US in terms of stimulus spending during the Great Recession: European governments suggested that they did not need to engage in as much into stimulus spending precisely because their automatic stabilizers were much stronger. It also explains why the Obama administration has sought to extend the duration of UB in the latest recession: to maintain aggregate demand and forestall a drop into poverty on the part of the long-term unemployed.
57 For the impact of government benefits, including UB, on inequality, see Kenworthy, 2008, p. 146.
58 The figures on poverty rates as well as the figures used to measure UB Effort and Outsider Effort are drawn from the OECD (Various Years).
59 See for example Vroman, 2010; Bjorklund et al., 1991.
60 See for example Centeno and Novo, 2006.
61 The classic statement of this view is Estevez-Abe et al., 2001. See also Iversen, 2005, and Iversen and Soskice, 2010.
Germany, not to mention other Northern European economies, where UB are quite generous for core workers. Again, this argument forms a central basis of the Varieties of Capitalism view of labor market policy, as I document below. Related to this benefit is the third idea that strong UB can reduce worker resistance to industrial restructuring and economic change more generally, thereby limiting costly adversarialism at the firm level between employees and employers (e.g., high strike rates, low labor mobility). It is this line of argument that partly underpins the recent popularity of the so-called ‘Flexicurity’ model (crudely put, low EPL and high UB) and in fact it was a primary motivation in adopting more generous UB in the 1960s and 1970s in certain countries.  

Clearly, there are a range of benefits to a strong, effective system of UB. However, especially in the past 30 years UB systems have largely been on the defensive, with governments trying to curtail the generosity, coverage, and duration of benefits, while simultaneously increasing the job-search responsibilities of recipients. If the neoliberal case against UB is accurate, we should see evidence of it in terms of higher unemployment, slower growth/lower GDP, and higher deficits/debt in countries that have more generous UB. If, on the other hand, the neoliberal case is built upon faulty or narrow economic arguments as well as visions of recipients’ laziness which turn exceptions into the rule, then these things will not obtain. Figure 1.3 and 1.4 plot average societal levels of UB Effort relative to countries’ long-term unemployment rates and during the period 2000-2005. As is clear, UB Effort is in fact negatively correlated with average rates of unemployment, though only quite weakly. The correlations in Figure 1.3 and 1.4 are -0.17 and -0.23, respectively. There are two clear outliers, Denmark and Spain. Removing the outlier of Denmark does not significantly change the correlation figure, though, and neither does removing Spain. In this case, removing Southern Europe from the correlations reduces the strength of the negative correlation (to -0.04 and -0.07), but the sign remains the same. It is important to be clear what is being maintained here. It is not that UB generosity causes lower average unemployment. Rather, it is that generous UB Effort is apparently compatible with low unemployment outcomes.

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62 For flexicurity, see for example Viebrock and Clasen, 2009. In terms of constituting a major motivation for generous programs, see for instance the UK case study, where the rationale for UB was clearly made in these terms in the 1960s.
A range of careful studies have investigated the impact of UB over time as well as including the impact and interaction of other relevant labor market institutions. These numerous studies have come to very different conclusions about the impact of different labor market institutions, though. Some important studies found that generous UB worsen unemployment, whereas others found that...
they have no effect.\textsuperscript{63} Partly as a result, prior to the recent crisis a consensus appeared to be growing even within the more neoliberal institutions such as the OECD that there were different combinations of labor market policy that could deliver high-employment performance, including that combination represented by the Northern European countries.\textsuperscript{64} In short, the earlier neoliberal view that there was only one, neoliberal or deregulatory path to employment success had been effectively abandoned by its initially most influential exponent.\textsuperscript{65}

In terms of societal wealth and public deficits/debt, the strident case against UB and support for the unemployed fares no better. Both UB and Outsider Effort are positively correlated with levels of GDP per capita from 1995-2005: 0.17 and 0.24, respectively.\textsuperscript{66} Figure 1.5 plots the relationship of average UB Effort and GDP per capita graphically over this period. Even in the case of overall social spending (i.e., the entire welfare state), there is no clear relationship between levels of spending and levels of GDP. Again, it is not being maintained that generous UB cause higher GDP, but it should also be clear that it is not nearly as detrimental as is claimed for the ‘vitality’ of capitalism (if it is detrimental at all). Finally, even a cursory look at the spending figures and the countries that are now embroiled in debt problems should make clear that UB spending or even total social spending is not the central problem: those countries that are currently facing high bond yields or outright debt bailouts because of unsustainable debt (i.e., Greece, Ireland, Italy, Portugal and Spain) in fact spent considerably less on average than non-crisis countries as a percentage of GDP. For example, in the case of UB Effort, for the most recent period (2000-2005) the average Effort score for the crisis countries was 0.13 versus an average of 0.21 for the non-crisis countries.\textsuperscript{67}

\textsuperscript{63} For a recent study that finds an effect on worsening, see Bassanini and Duval, 2006. For one that finds no effect, see Baccaro and Rei, 2007.

\textsuperscript{64} OECD, 2006, Employment Outlook, Ch. 6.

\textsuperscript{65} With the benefit of hindsight, after the recent economic turmoil, it appears that even that far more tentative position is problematic too: the very poor employment performance of the US economy since the crisis hit, along with the UK and Ireland, has undermined or tarnished the brightest stars in the neoliberal case. It has become clear that a good deal of the strong employment performance of these economies had been based upon asset-bubbles, or what Robert Brenner calls ‘asset-price Keynesianism’, which had been fueled by low interest rates, massive private debt, financial deregulation and, especially in the case of the US and UK, large external deficits. See Brenner, 2006, as well as Turner, 2008, for data on external imbalances, and Finn, 2011, for the story of Ireland. Those more neoliberal countries that have done relatively well since the crisis in terms of unemployment, Australia and Canada, have done so mostly as a result of booming resource sectors, which has brought with them Dutch disease (and a housing bubble in Canada). See for example “Australia’s dangerous economic divide”, December 3, 2010, \textit{The Globe and Mail}; and “High loonie drives Canada down on the value-added chain”, January 23, 2011, \textit{The Globe and Mail}. It is surely troubling for the neoliberal case that it was largely premised upon the employment performance of countries whose economic situation was unsustainable and artificially inflated.

\textsuperscript{66} If Southern Europe is excluded the correlation for both is close to zero. Figures drawn from the OECD.

\textsuperscript{67} If one includes the US and UK as ‘budget crisis’ countries, as their politicians seem to think is true, then the difference is even more stark: 0.10 to 0.24, crisis vs. non-crisis. This same pattern holds true if we measure UB spending as share of GDP, irrespective of unemployment rate.
In sum, having generous UB and Outsider effort is a political choice that can be made without undue ill-effects, and in many cases can bring several important benefits (such as lower inequality, poverty and insecurity).

**Figure 1.5: UB Effort vs. GDP per capita, Averages for 1995-2005**

Once again, the question may arise: why are the neoliberal expectations not borne out? Some tentative answers can be put forward. These answers are quite similar to those for EPL: a mistaken view of human motivation; a misunderstanding of UB systems; and the offsetting impact of different institutions and effects of generous UB. First, the conception of human motivation implicit in the neoliberal view is that people fundamentally do not want to work and will avoid it if at all possible. For the vast majority of people this characterization is inaccurate. Despite the unpleasant character of much modern work, work can still provide most people with a sense of purpose, a self-identity, and the at least mild satisfaction of having contributed to society. This is not to idealize the work ethic of most modern citizens or to be completely naïve about it: the incentives of making a decent salary and avoiding poverty clearly do matter in motivating people to work. But extreme versions of the ‘inherently lazy’ view are equally problematic, at least for the vast majority, and do not appreciate the way in which work can fulfill people, even if not in nearly as many cases as it should.

This matters when combined with the second point, that in any case the neoliberal argument overstates the degree to which UB provide an alternative means of ‘getting by’. Even in the most generous systems, the replacement rate is only about 70 percent initially for an average waged
worker, and in most systems this rate drops off significantly after a period of 6 months to two years. For lower wage workers this rate can sometimes be higher in the very generous systems, but rarely above 80 to 85 percent, whereas for higher wage workers the net replacement rate is usually much lower. While it cannot be denied that these are generous systems, a 30 or even a 20 percent pay cut is still a difficult and unpleasant experience, especially if one has to pay off a mortgage or a car lease, etc. Given people’s attachment to their previous incomes, even small reductions in disposable income can be felt intensely (and thus be highly motivating). Moreover, the entire time someone is unemployed is also time that they are potentially missing out on moving up the hierarchy in a workplace, achieving pay increases, contributing to their pensions or simply interacting with their peers. In short, even with generous replacement rates unemployment can be an unpleasant and stressful experience. This is also reinforced by the very structure of UB systems, which require a decent prior work history to receive benefits, and thus mostly affect those already inclined to work.

Finally, there are a range of programs and requirements attached to UB systems that attempt to ensure that the unemployed do not lose long-term contact with the labor market. Most obviously, all UB have at least some formal requirements for job-search on the part of recipients, and this job-search activity is monitored with varying intensity. This aspect of UB systems has become more pronounced in the past two decades and usually the intensity of surveillance and job-search requirements increase as the duration of unemployment lengthens. Perhaps more importantly, effective UB systems are usually institutionally connected to job-placement or job-creation programs and these can temporarily move recipients back into quasi-work situations, which hopefully lead to more permanent or stable opportunities in the labor market. As noted above, these often fall under the heading of active labor market policies (ALMPs) and social investment in these programs is highly correlated with UB: 0.77 for the period from 2000-2005. This is in large part because similar political dynamics lead to similar levels of spending on these policies directed to the unemployed, as I show in Chapter 2, but it is also arguably because spending on ALMP can help to ‘activate’ the recipients of UB and reduce the long-term burden of this expenditure. In other words, extensive ALMP are a substitute for and complement to generous UB systems and their ‘activating’ influence

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68 See the OECD, 2006, for a thorough assessment of net replacement rates across the advanced West.
69 The real so-called ‘poverty traps’ are most associated with means-tested welfare systems.
70 Welfare or social assistance systems are different in this respect and it is likely that the incidence of prolonged non-employment among the people on these systems is much higher. There is likely in every society a small proportion of people that will fall into this ‘dependency’ status, irrespective of the programs aimed at them, but beyond this ‘baseline’ there is likely substantial variation (e.g., widely differing rates of homelessness).
71 See for example the evolution of the UB system from the mid-1990s onwards in the UK in the case study chapter.
72 In terms of the similar political dynamics, see Chapter 2, and for a useful general discussion of ALMP see Huo, 2009.
helps mitigate some of the potentially harmful effects of UB generosity. It is for this reason that what I have termed Outsider Effort, UB Effort plus ALMP Effort, is even better correlated to favorable macroeconomic and social outcomes, as discussed above. I therefore conclude this section with Table 1.4, which presents the figures for Outsider Effort over the period from 1985 to 2005.

Table 1.4: Outsider Effort, in five year averages, 1985-2005

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Source: OECD.

Section IV: Contending Theories of Labor Market Policy

How are we to understand the evolution of EPL and UB over time and the patterns of cross-national divergence outlined above? In the political science literature, there have been three main theoretical approaches that have attempted to explain the historical record along with cross-national differences. These three approaches are the Power Resource Approach (PRA), Varieties of Capitalism (VOC), and Insider-Outsider theory (I-O). While PRA has been more broadly concerned
with welfare state development, as well to a lesser extent as VOC, I-O theory is specifically concerned with labor market policy.\textsuperscript{73}

A. Power Resources Approach (PRA)

In the initial postwar period, the dominant approach to understanding welfare state development and labor market policy was a functionalist one. This came in a variety of forms, from a mainstream “logic of industrialism” view to a Marxist one that stressed the legitimating role of the welfare state for capitalism.\textsuperscript{74} It was expected by these theories that capitalism and its associated political institutions would come to look very similar over time. This was indeed a period in which the welfare state was not well developed and where national variations in labor market policy had yet to become fully apparent. Indeed, this distinctive national variation only fully emerged beginning in the 1960s and culminated in the 1970s, as I will explain in Section V.\textsuperscript{75} Only in the mid-1970s did these differences come into stark relief for observers. At this point an effort was made to explain these cross-national variations in welfare state form and generosity, and thus emerged the first generation of PRA research.\textsuperscript{76}

Among the most prominent authors in this first wave were Walter Korpi and John Stephens.\textsuperscript{77} In the view of these authors, if workers under capitalism were to overcome their atomization and (individually) limited resources relative to the significant market power of capital owners and shift the terms of exchange in their favor, they needed to coordinate and combine with other workers in collective action.\textsuperscript{78} This could be achieved either in the economic realm, through trade unions, or in the political realm, through social democratic or labor-friendly parties (where the principle of ‘one person, one vote’ favored workers over owners).\textsuperscript{79} Where this collective action or mobilization occurred, the ‘balance of class power’, normally greatly favoring capital, could be considerably shifted in the direction of wage-earners. The standard measure of this balance of power was union density and centralization along with left party strength. This shift in the balance of class

\textsuperscript{73} In fact, VOC is also centrally concerned to explain macroeconomic outcomes of different advanced Western countries over time, such as unemployment and GDP growth. It differs from the other theories in this wider range of applicability. See below.
\textsuperscript{74} See Haddow and Klassen, 2006, p. 6; Esping-Andersen, 1990, p. 13-14; or Korpi, 1983, 2006; for such an interpretation. Authors closely associated with each ‘functionalist’ perspective are, respectively: Kerr et al., 1960; and O’Connor, 1973.
\textsuperscript{75} Esping-Andersen, 1999, p. 4; Myles and Quadagno, 2002, p. 34-35.
\textsuperscript{76} Myles and Quadagno, 2002, p. 36-38.
\textsuperscript{78} Korpi, 1983, p. 16.
\textsuperscript{79} Ibid. p. 17.
power could alter the conditions under which workers were compelled to work, what Gosta Esping-Andersen famously termed ‘decommodification’. What was meant by decommodification was “the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation.” In this sense, decommodification meant challenging the “sovereignty of the market,” or the extent to which workers were subject to the vagaries of the market. Thus employment protection could also be considered an important element in decommodification as well.

The clear implication of this argument was that the level of working-class organization through unions and the success of left or labor-aligned parties would to a large extent determine the generosity of welfare state programs that provided elements of decommodification, as well as various labor market policies. In this latter context, then, the expectation is that the strength of ‘working-class mobilization’ would be commensurate with both levels of EPL and UB, and that societies with high levels of it would experience the least deregulation or retrenchment in either area during the past 30 years. In other words, according to this simple model, the strength of EPL and UB should co-vary fairly closely. This two class model formed the core of an impressive research tradition. All subsequent PRA research adhered to this rough formulation, though the exact nature of the causal argument often differed. Three main variations or innovations to the PRA core are relevant here.

Almost immediately after its emergence, the two class model was challenged from within the PRA tradition by Esping-Andersen himself. Esping-Andersen made two major theoretical innovations to this model in two seminal books, Politics Against Markets and The Three Worlds of Welfare Capitalism. First, in contrast to the simple dualistic model, he insisted that what was crucial in welfare state expansion and decommodification was not simply working-class mobilization, but successful coalition building with other classes or groups. This was because as traditionally defined the industrial working-class has in very few cases even temporarily constituted a majority of the adult

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80 Esping-Andersen, 1990.
81 Ibid. p. 37.
82 In his original formulation Esping-Andersen makes the connection to employment protection explicit. “For the social democratic movement, the decommodification of labor cannot arise from ideology, nor can it await the revolution. Collective social services, unemployment and sickness compensation, employment security, and general income maintenance must be established.” Esping-Andersen, 1985, p. 31 (emphasis added). Some later writers sympathetic to this tradition have maintained that employment protection was not a central part of social democratic movements’ aims. See for example, Pontusson, 2005, p. 125-126. However, historically, this was an important component of even social democratic movements, as I demonstrate in Chapter 2 and in the Sweden case study.
84 As he notes, “the power of one agent cannot simply be indicated by its own resources: it will depend on the resources of contending forces, on the historical durability of its mobilization, and on patterns of power alliances.” Esping-Andersen, 1990, p. 16.
population. Thus if it wanted to seize parliamentary control it needed to forge alliances.\(^{85}\) This he considered a fundamental objection to the two-class “model’s linear view of power. It is problematic to hold that a numerical increase in votes, unionization, or seats will translate into more welfare-statism.”\(^{86}\) Instead, what needed to be looked at was the capacity of the industrial working-class to forge a political alliance with farmer associations in the early stages of welfare state development (e.g., the famous Nordic red-green alliance) and with the growing white-collar middle class in later, postindustrial stages.

Second, he insisted that welfare states be conceived in terms of three distinct regime-types: Social Democratic, Conservative, and Liberal. Each regime-type had a particular logic to its welfare state programs and each was the product of long historical processes. In the Social Democratic welfare states of Scandinavia, so-named for the high levels of Social Democratic party strength, generous universalist benefits are provided on the basis of high taxes and full employment (to both men and women). Supplementary benefits are available for affluent citizens in some cases but are provided publicly. In the Conservative welfare states of Continental Europe, social insurance schemes including UB are attached to labor market status and funded through work contributions, thus tending to reproduce labor market stratification. Moreover, women are not typically highly employed in these societies and there is thus an assumption that the primary male bread-winner will have stable, high-paying employment. Both features are the product of the influential Christian Democratic parties in these societies.\(^{87}\) Finally, Liberal welfare states of the Anglo-Saxon countries are characterized by meager, means-tested or residualist benefits and low levels of taxation and social service provision. Services are for the most part obtained in the private market and market forces are dominant relative to the other regime types.\(^{88}\)

Both of these innovations are important in this context because they slightly modify the original PRA hypotheses relating to the politics of labor market policy and reform. First, the emphasis on class alliances shifts the attention partly away from unions and left parties and towards the successful negotiation by left parties of political coalitions able to pass labor-friendly legislation. Consequently, according to this variant we should expect that figures of union strength carry less weight than in the two-class model in predicting stronger labor market protections. Second, the politics of labor market policy in relation to left mobilization should differ in each regime type.

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\(^{85}\) See Przeworski, 1985, for the implications this has had for socialist and social democratic strategy.

\(^{86}\) Esping-Andersen, 1990, p. 17.

\(^{87}\) See Van Kersbergen, 1995.

Deeply rooted traditions of social policy should guide attempts on the part of left governments and unions to improve decommodification, and the susceptibility of protections to retrenchment will depend on regime type: Social Democratic welfare states should be most resistant to it (given universalism), followed by Conservative regimes (given the stratified nature of protection which will be defended by privileged groups), and Liberal regimes will be most susceptible (given their residualism). What this emphasis on regimes suggests is that it will be difficult to find consistent patterns of political dynamics across them in terms of labor market policy outcomes.

The third variant in the PRA tradition has been put forward most explicitly in Evelyn Huber and John Stephens’ panoramic account of postwar welfare state evolution: what is crucial in terms of the strength of decommodification is prolonged left government incumbency. In other words, partisanship matters to the extent that left parties can achieve longer-term government power; absent this longer-term presence, welfare state expansion will be stunted and susceptible to reversal. Relative to early formulations of PRA, this approach again tends to sideline the strength and nature of the labor movement relative to partisan dynamics, though certainly not completely.

Despite these various important qualifications and innovations, the PRA view has usually been fairly consistent about the types of policy preferences held by both unions and employers. As should be clear from the basic underpinnings of the theory, unions will prefer stronger labor market protections across the advanced West, both in terms of UB and EPL, while it is alleged that “employers have always opposed de-commodification”. We should thus expect employers’ representatives to be central proponents of deregulation and retrenchment across Western countries, irrespective of the political economic setting, and that unions have roughly similar policy preferences in terms of EPL and UB (though perhaps conditioned by regime type). The first claim in relation to employers, sharply distinguishes PRA from VOC theory. The latter claim largely distinguishes traditional PRA from I-O theory and the ‘varieties of unionism’ perspective that I most fully develop in Chapter 2.

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89 Very briefly, universalism will tie a substantial part of the population to the generosity of welfare state programs, thus making it harder to cut them. Stratified social protection will be more susceptible to retrenchment since the protections of privileged labor market groups can be preserved while curtailing the protection of weaker labor market groups. Finally, support for more generous residual systems of protection will lack the political clout of better off workers and thus be highly susceptible to retrenchment (i.e., the poor and the unemployed, etc., will have very limited political power to resist cuts).

90 Huber and Stephens, 2001. Previous statements of PRA largely assumed this view, but it was not presented in as central a fashion (e.g., Myles, 1984).

91 Esping-Andersen, 1990, p. 22.
B. Varieties of Capitalism (VOC)

If, as Paul Pierson has argued, the PRA generated the “most prominent body of research on the welfare state in the 1980s,”92 then the VOC literature must be considered the main competitor to this hegemonic position in the late 1990s and early 2000s. In contrast to the PRA, which considers variable working-class mobilization (in class coalitions or not) as the main predictor of welfare state form, VOC is employer-centered.93 That is, the form of welfare states and labor market policy is mainly generated or explained by the organization or lack thereof of the business community.

In countries with highly organized business classes, the coordination of economic activity is possible without relying solely upon the market. These Coordinated Market Economies (CMEs) of North-Western Europe solve the various coordination problems faced by firms (i.e., industrial relations, vocational training and education, corporate governance, and inter-firm relations) through deeply embedded institutions that “entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm.”94 These institutions furnish CMEs with “comparative institutional advantages” in certain major types of production: incrementalist, quality-based production (e.g., machine tools and factory equipment, consumer durables, engines and specialized transport equipment).95 Crucial to the operation of this system then, and to understanding the implications for labor market policy, is that workers be induced to invest in the sector-specific skills that allow for this high-quality production.96 This is achieved by providing workers with job security and generous unemployment compensation (relative to normal wages); otherwise investing in sector-specific skills will be too risky for each individual worker, given the possibility that the industry in question will somehow be rendered obsolete.97 This logic behind strong EPL and UB was of course mentioned in Section II and III above. It is also important to reiterate that this arrangement is favored not only by organized labor, for its welfare and decommodifying effects, but also by capital since it underpins their competitive advantages in international trade.98 Therefore in these CME countries, we should expect that stronger EPL and UB correlate to level and nature of employer coordination and specific skill

94 Hall and Soskice, 2001, p. 8.
95 Ibid. p. 39.
96 Estevev-Abe et al. 2001.
98 See also Manow, 2001.
development. Moreover, very little deregulation and retrenchment is expected to occur, since there is a solid cross-class consensus behind them.

In sharp contrast, the Liberal Market Economies (LMEs) of the Anglo-Saxon world organize economic activity much more on a market basis, given their weak and fragmented business organizations. As Hall and Soskice argue, “firms coordinate their activities primarily via hierarchies and competitive market arrangements. Market relationships are characterized by the arm’s-length exchange of goods and services in a context of competition and formal contracting.” As a result of this pervasive competitive environment, where firms are financed through stock markets which emphasize short-term or current profits and labor poaching is common and tolerated, there is little chance for the stable arrangements that encourage incremental innovation. Instead, radical innovation and rapid market adjustment are the prized firm strategies, which mean that capital prefers to have fluid labor markets and that labor market deregulation is often in line with LMEs’ comparative advantages. Most workers respond to this unpredictable labor market situation by investing early on in general rather than company- or industry-specific skills. Consequently, we should expect that in the face of retrenchment pressures in LMEs significant labor market deregulation is likely to occur. Moreover, in terms of policy preferences, both labor and employer representatives will broadly agree on, or be content with, fairly low levels of labor market protection.

If this account is accurate, we should expect two fairly dichotomized groups, one with low EPL and UB and another with high levels of both. Variations in policy outcomes within these groups should reflect differing degrees of employer coordination and variations in skill composition. The VOC view also “predicts a bifurcated response [to globalization] marked by widespread deregulation in liberal market economies and limited movement in coordinated market economies.” We can evaluate this claim by comparing rates of deregulation and retrenchment in LMEs and CMEs over the past 30 years.

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100 Ibid. p. 40.
102 For the latter, see Iversen, 2005. It is acknowledged by VOC that certain Western countries do not fit well into this characterization or model, such as Southern Europe and France. Recent work has tried to integrate them into the theory, but this work is still underdeveloped and fully integrating them into the theory is likely to prove highly problematic. See Rhodes and Molina, 2007. The reader can judge for themselves how much of a shortcoming this represents for the theory.
103 Hall and Soskice, 2001, p. 58. There is some ambiguity in this view regarding the question of retrenchment or deregulation, based as VOC is on a functionalist understanding of institutions: why are we likely to see reform in these long-established production regimes since they should already be functionally consistent? In particular, if VOC anticipates low regulation in LMEs to begin with, why would we expect even further reductions in the wake of globalization? One possible answer is that production regimes operated within relatively loose constraints during the
Finally, to reiterate, this is an employer-centered approach. Part of the inspiration for the VOC view was indeed research that indicated that business was not always opposed to welfare state expansion and labor market regulation (*pace* PRA).\(^{104}\) The VOC predictions about employer preferences are especially important to evaluating the validity of the theory, then, since historically left/labor power has usually been stronger in CMEs and weaker in LMEs. There is some risk of not being able to distinguish VOC effects from PRA effects due to their partial covariance. As a consequence, the case studies in the thesis should be particularly useful in resolving this disagreement, since they examine employer and union preferences carefully.

C: Insider-Outsider Theory

Compared to the two previous approaches, the Insider-Outsider perspective has a far lesser pedigree in political science. Indeed, it was largely developed in economics and only recently integrated into political science to analyze labor market policy. Insider-Outsider economic theory emerged in the late 1980s in response to the persistently high unemployment of European economies, when a number of economists abandoned the neoclassical and Keynesian understandings of unemployment which seemed incapable of explaining the phenomenon.\(^{105}\) In the conventional views, employment was determined by supply and demand; when supply of labor exceeded demand, unemployment was the result. The main difference between the neoclassical view and the Keynesian one was the extent to which wages and prices were ‘sticky’, and thus the amount of time that it would take to arrive back at the underlying, “natural rate of unemployment.” However it was assumed in both cases that in due time the rate of unemployment would revert back to this natural rate. Economists such as Assar Lindbeck and Dennis Snower challenged this view on the grounds that, with highly dualistic markets where there were protected ‘insiders’ and precarious ‘outsiders’, insiders might sufficiently insulate themselves with high turnover costs that the unemployment rate might never revert back to the natural rate (in part by discouraging firms from hiring new workers, since it was so hard to fire them).\(^{106}\) The key assumption of the argument was that Insiders, understood to be securely employed, usually unionized workers, would not take full

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\(^{105}\) This understanding of the origins of the Insider-Outsider view is drawn from Rueda, 2007, p.14.

\(^{106}\) Lindbeck and Snower, 1988.
account of Outsiders, defined as the under- and unemployed or precariously employed, in their wage bargaining since they did not feel threatened by unemployment.107 As a result, the price of labor would be above where markets would ‘clear’ at the natural rate of unemployment and persistently high unemployment would ensue.

David Rueda has recently taken this basic model and applied it to the politics of labor market policy.108 In his view, the Insider-Outsider perspective shows how there could be important divisions within the working-class and therefore that ‘labor’ could not be treated as a monolithic entity with uniform interests as much prior political economy research had implicitly done (especially the PRA). Instead, Insiders and Outsiders might differ markedly in their policy preferences and often their preferences would in fact conflict. For Insiders, employment protection measures would be considered the most important labor market policy goal whereas UB generosity would be either a marginal consideration or in fact contrary to their interests, since their tax contributions would go to fund it yet they would have very little likelihood of using it (this would also apply to ALMP). For Outsiders, preferences would be reversed: employment protection might be opposed since it harmed their chances of replacing Insiders or simply gaining employment, whereas UB and ALMP would be supported for obvious reasons. This tension, it should be noted, only really emerges from the 1970s onwards in Rueda’s view, since it is only then that most labor movements achieved strong measures of employment protection. Thus, he largely agrees with the PRA up to the 1970s but sees politics occurring very differently subsequently.

Naturally, this tension within the working class could also potentially create serious dilemmas for social democratic or labor parties, as both groups are potential bases of support. According to Rueda, though, these parties are more likely to support the interests of Insiders because (a) Insiders have considerable income with which to finance these parties, relative to Outsiders and (b) Insiders tend to be more politically engaged than Outsiders and more capable of collective mobilization.109 It is assumed that Right parties, as representatives of upscale and employer groups who generally find EPL and UB cumbersome, will push for deregulation and retrenchment in both cases (this time in line with PRA and contrary to VOC in the case of CMEs). On the basis of these assumptions, we should expect that Left strength and mobilization, both in terms of unions and parties, should be

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107 The importance of coordinated or centralized bargaining for reducing or mitigating this tendency has already been noted above.
109 Ibid., p. 16. He cites Esping-Andersen in support of the latter contention: “It is difficult to imagine an allegiance of housewives, early retirees, excluded youth, and a variety of groups with a more or less irregular connection to the labor market.” Esping-Andersen, 1999, p. 304-5.
associated with strong EPL and limited weakening of it during the past thirty years. However, in the case of UB, we should expect that Left partisanship makes little difference to trends in spending, and that union strength has little relation to overall levels of generosity in the recent period (since union members allegedly do not have much interest in it).

Comparing the theories and related theories

Some of the central disagreements between the various theories are nicely captured by contrasting their predictions of union and employer preferences in the two policy areas, in both LMEs and CMEs. Chart 1.1 and 1.2 present these differences. The case study chapters investigate these different predictions, with results that I forecast in Section V. Before turning to this, though, I should very briefly introduce two further relevant theories, but not ones focused explicitly on explaining policy differences across countries. These two theories attempt to account for likely political dynamics in the retrenchment period of the past 30 years or so. The first is the “New Politics of the Welfare State” (NPWS) view put forward by Paul Pierson.110 There is no need to get into the specifics of the approach, except to say that it predicts that welfare state retrenchment takes a very different form from welfare state expansion. This is essentially because retrenchment is usually unpopular or painful to a particular group whereas extending or improving benefits to certain citizens is usually, in and of itself, quite popular. This is largely because the ‘costs’ to retrenchment are concentrated, while ‘benefits’ are diffused (e.g., lower taxes). In welfare state expansion ‘benefits’ are usually at least somewhat concentrated, while ‘costs’ are diffuse (e.g., higher taxes). Because of these different dynamics, retrenchment is the politics of ‘blame avoidance’, and it will be difficult for Right parties to curtail the welfare state in the face of concentrated, organized opposition. For different reasons, though, Left parties will find it difficult to expand welfare state programs in the retrenchment era: welfare state maturation and the earlier tax increases that accompanied it will create strong opposition to yet further tax increases.111 As a result, partisan differences will be considerably weaker during the retrenchment era than during periods of expansion. Once again, according to this view, PRA predictions will no longer obtain in the recent period, as in the Insider- Outsider view. Instead, retrenchment will largely happen in areas where there are not well organized interests or constituencies behind programs. Although Pierson does not make the connection to labor market policy explicit, it could be argued that EPL in such conditions

111 This is what might be known as the ‘growth to limits’ argument associated with Peter Flora (1987).
is unlikely to see considerable weakening, while UB will (for reasons somewhat similar to those presented by Rueda: the unemployed and Outsiders generally will be relatively unorganized).

Chart 1.1: Theoretical Predictions Regarding the Policy Preferences of Unions and Employers in the Context of Liberal Market Economies (or Welfare States)

<table>
<thead>
<tr>
<th>Power Resources Approach</th>
<th>Varieties of Capitalism</th>
<th>Insider- Outsider Perspective</th>
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<tr>
<td>Strong Employment Protection</td>
<td>Unions: Pro or Moderately Pro</td>
<td>Unions: Weakly Pro</td>
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<tr>
<td>Employers: Against</td>
<td>Employers: Against</td>
<td>Employers: Against</td>
</tr>
</tbody>
</table>

| Generous Unemployment Benefits | Unions: Pro or Moderately Pro | Unions: Weakly Pro |
| Employers: Against | Employers: Against | Employers: Against |

Chart 1.2: Theoretical Predictions Regarding the Policy Preferences of Unions and Employers in the Context of CMEs (or Conservative and Social Democratic Welfare States)

<table>
<thead>
<tr>
<th>Power Resources Approach</th>
<th>Varieties of Capitalism</th>
<th>Insider- Outsider Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Employment Protection Legislation</td>
<td>Unions: Pro</td>
<td>Unions: Pro</td>
</tr>
<tr>
<td>Employers: Against</td>
<td>Employers: Pro</td>
<td>Employers: Against</td>
</tr>
</tbody>
</table>

| Generous Unemployment Benefits | Unions: Pro | Unions: Pro |
| Employers: Against | Employers: Pro | Employers: Against |
The last relevant theory is what might be called ‘Globalization theory’. This perspective gained prominence in the late 1990s and early 2000s, when discussion of ‘globalization’ came to dominate the discipline of political science as well as most of the social sciences. The basic thrust of this view in the context of comparative political economy was that globalization was gradually forcing a convergence on the neoliberal model of the US and other Anglo-Saxon countries. Economic globalization, characterized by growing trade, foreign direct investment and cross-border capital mobility, was pushing states to engage in a ‘race to the bottom’ of social and environmental protection to maintain competitiveness in a new, more ruthless world economy.\(^{112}\) It was these concerns that generated the anti-globalization movement, while at the same time emboldening and giving credence to neoliberal pleas for deregulation and retrenchment. In terms of labor market policy, the simplest version of this view was that labor market protections would have to be progressively scaled back to levels prevailing in the more neoliberal Anglo-Saxon countries, and thus that those countries with the greatest levels of pre-existing protections would need to effect the most radical retrenchment and deregulation.\(^{113}\) Further, these pressures would affect governments of Left and Right equally and cause them both to move inexorably in this direction, with little possibility that ‘working class mobilization’ could halt or even substantially slow the trend. It is now clear that these predictions were inaccurate in most cases, or at a minimum premature, but it is useful to have this influential theory in the background of the discussion of labor market policy trajectories throughout the thesis in any case. I return to it in the quantitative analysis of Chapter 3.

Section V: Varieties of Unionism and the Trajectory of Labor Market Policy

The argument advanced in this thesis draws heavily upon these various theories, but develops an original perspective in doing so. I term this perspective ‘Varieties of Unionism’. In terms of the theories outlined above, it is most consistent with the PRA. However, in a number of important respects, it modifies the PRA framework to better capture labor market policy outcomes. In doing so, it also takes issue with central hypotheses advanced in the other perspectives, such as their predictions of union and employer preferences, as well as their depiction of the dynamics of the retrenchment period.

\(^{112}\) For early and influential popular statements of this view, see Korten, 1995, and Teeple, 2000.

\(^{113}\) This is what Duane Swank (2002) calls the ‘globalization thesis’ (p. 27).
A useful first step in evaluating the three main theories of cross-national variation is to plot UB and Outsider Effort relative to EPL levels. Figure 1.6 plots UB Effort against average EPL levels from 1985 to 2005, while Figure 1.7 does the same for Outsider Effort and EPL.

**Figure 1.6: UB Effort vs. EPL, 1985-2005 Averages**

**Figure 1.7: Outsider Effort vs. EPL, 1985-2005 Averages**
A few things are clear from Figures 1.6 and 1.7. First, on average, there is a weak positive relationship between levels of UB and Outsider Effort and EPL: countries tend to have either both relatively strong or both relatively weak. But this correlation between the two sets of policies for the whole set of countries is very weak: only .05 for UB and 0.11 for Outsider Effort. This leads to the second point, which is that there are four clear outliers to this pattern that substantially weaken the relationship, the countries of Southern Europe: Greece, Italy, Portugal and Spain. These countries have very strong EPL alongside weak UB and Outsider Effort. If these countries are dropped from the measure of covariance, the correlation becomes stronger between the two areas of policy. In the case of UB Effort and EPL, the correlation becomes quite strong at 0.44, and it is even stronger for Outsider Effort and EPL, at 0.55. This correlation is presented visually in Figure 1.8, plotting UB Effort against EPL, when the Southern European countries are not included. As the reader will recall, this pattern is predicted by PRA, given the importance of ‘working class mobilization’ in both areas, as well as by VOC, since it sees two fairly dichotomized groups emerging: LMEs with weak policy in both areas and CMEs with strong policy in both. Insider-Outsider theory would seem to predict movement towards a much different pattern of labor market policy in the two broad areas than that displayed: systems of strong EPL and weak UB/Outsider Effort, on the one hand, and weak
EPL and strong UB/Outsider Effort, on the other hand. It is difficult to evaluate this contention from Figure 1.6 and 1.7 alone, since Rueda seems to accept the PRA story up until the 1970s and the lingering effect of the policies set up in this earlier period will affect the ‘scores’ or placement of countries in the more recent period. However, it does appear that in the period from 1985-2005 the relationship expected by Insider-Outsider theory does not obtain, except in the case of Southern Europe. As Chapter 2 explains, this should not be surprising, since there are important problems with the theory.

A third pattern that emerges from the various figures is that the VOC prediction of a bifurcation between LMEs and CMEs is fairly accurate, especially when Southern Europe is removed from consideration, as early VOC does. The Anglo-Saxon countries evidently constitute a distinct grouping or cluster relative to North-Western Europe, in the same way that the Southern European countries do (as captured with the circles). This insight forms the basis of much of the analysis and argument contained in Chapter 2, both in constructing different ‘regime types’ and in formulating an explanation of variation. What is also apparent, though, is that there is considerable variation among the CMEs of North-Western Europe in both levels of EPL and especially UB/Outsider Effort, not to mention variation within the LME group. It is here that my alternative view, Varieties of Unionism, can offer a more accurate account of the policy outcomes than that offered by VOC. However, doing so requires that we shift the emphasis from employers and skills, as in VOC, to patterns of union organization and orientation.

Why is this shift required? Most straightforwardly, it is because my research has indicated that employers have never been strong proponents of either strict EPL or generous UB, contrary to what the initial formulation of VOC expected in the case of CMEs. In fact, in most cases they have been staunch opponents of strong protections, even in CMEs. In addition, formulations of the VOC view in terms of skill composition do not capture the historical trajectory and cross-national variation nearly as well as the Varieties of Unionism perspective. I spell out how and why this is the case in Chapter 2. In view of these shortcomings, then, if we are to best explain variations in these policies we need to understand the pressures emanating from union movements, since as I show these movements have in the postwar period been the most organized and powerful proponents of stronger protections. This claim also remains true in most countries during the retrenchment era, against the predictions of I-O theory, and despite the weakening of unions that has undoubtedly happened in the past 30 years. There are certain countries where unions have not been committed

114 This (implicit) expectation is explained more carefully in Chapter 2.
defenders of labor market protections, particularly Outsider protection, but again this can be best understood through the Varieties of Unionism framework developed in Chapter 2 (since it was usually true of the whole of the postwar period, not just since the 1970s).

The Contested Emergence and Evolution of Labor Market Protections in the Postwar Period

Appreciating the explanatory importance of union movements is most evident when we observe the overarching trajectory of labor market protections during the entire postwar period. What follows is thus a brief, though necessarily coarse, depiction of this trajectory. It is not necessary to recount here the story of labor market policy in the period prior to the Second World War except to say that labor market protections were very limited and uneven. Employment protection legislation was very weak where it existed and schemes for unemployment benefits provided meager replacement rates and usually only covered a small portion of the workforce. What protections that did exist were thus mostly bound up with being represented by a union, but even here the scope for protection was constrained by the weak market position occupied by many unions (especially in the context of relatively high unemployment and a minimal social safety net). As a result, when the Great Depression began many workers in the West were left destitute, and this would subsequently lead to pressure for more extensive and effective systems of protection following the upheaval of WWII.

Organized labor movements emerged from WWII in most countries in a position of moderate political strength. It was during this period that the main, distinctive institutional features of the different social insurance schemes were established or consolidated, including UB, and coverage became much broader than during the interwar period. As noted above, in the case of UB, the Ghent countries retained the union administration that had characterized earlier schemes, while other countries in Western Europe that had previously had Ghent systems initiated corporatist or bipartite administration and the Anglo-Saxon countries moved to fully state-controlled administration. As well, some of the basic institutional principles of the different benefit systems were established, usually with the approval of the union movements: flat-rate and means-tested benefits in the Anglo world, earnings-related benefits in Continental Europe, and mostly flat-rate systems in the Scandinavian countries. In the Scandinavian countries the move to earnings-related schemes would have to wait until the 1950s and 1960s, when the Social Democratic parties were less

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115 Social insurance here refers to unemployment, sickness, and disability compensation, as well as pension benefits.
dependent on the support of agrarian parties (who insisted on flat-rate universalism) and union movements pushed strongly for earnings-relatedness.\textsuperscript{116}

The early reformist hopes of the immediate postwar period were thus partly met in terms of broad, basic welfare state provisions. Yet the more transformative and ambitious goals of the Left, such as extensive nationalization and investment planning, as well as highly generous welfare state programs, were largely rebuffed. In part this was because the onset of the Cold War in 1948 served to split labor movements and their affiliated Left-wing parties, and gave added impetus and weight to those who opposed them in the name of ‘anti-Communism’. The period of McCarthyism in the US is only the most famous example of a powerful wave of resistance to reformist movements of all stripes in this period coming from the Right. Another reason for the weakness of transformation was that there remained considerable uncertainty about future economic prospects, making reformist leaders and many in the electorate wary of dramatic policy steps, and this was compounded in several important countries by the fact that unemployment remained high, thus weakening the leverage of labor movements (Germany, France, Italy, etc.).

As a result of these twin dynamics, the Left found itself outside of government in all of the major Western countries near the start of the 1950s, when the postwar economic boom fully got underway: in France, Germany, Italy, Japan, the UK, and the US. Even more marginalized were the Leftist and labor movements of Southern Europe, where in Spain, Portugal and Greece they remained violently repressed by fascist or military dictatorships until the mid-1970s. Only in some of the smaller countries of Northern Europe was the Left either in government or sharing power: in Austria, Denmark, The Netherlands, Norway and Sweden. As a result, during this period of rapid economic growth in the 1950s, the development of the welfare state in most countries was modest and constrained. The most stunted development happened of course in Southern Europe, due to the complete exclusion of reformist movements. But even in the smaller countries where the Left was in power the growth of the welfare state was not dramatic given the very low unemployment prevailing in these countries, which moderated demands for substantial improvements in the welfare state and particularly labor market protections. For instance, in countries with very low unemployment (~2 percent), or ‘full employment’, the need for unemployment compensation was negligible given the relative ease of finding a job, as was the need for employment protection.

These factors delayed the emergence in most countries of both generous unemployment benefits and strict employment protection legislation. As is clear from Table 2, most of the increase

\textsuperscript{116} See the case study of Sweden, as well as Esping-Andersen, 1985, and Huber and Stephens, 2001, p. 117-131.
in EPL occurred in the late 1960s and 1970s. Prior to this period, EPL was often quite weak.\textsuperscript{117} Similarly, replacement rates were in many countries quite low in the early postwar period and recipiency rates were limited (partly because of the prevalence of only very short-term unemployment).\textsuperscript{118} As the boom progressed into the 1960s, though, the dynamics of the postwar system began to change. For one, many of the countries in Western Europe that had earlier had either relatively high unemployment or large reserves of underemployed labor in agriculture saw their labor markets tighten considerably. Unemployment rates dropped to new lows and the diminished flows of ‘reserve army’ workers from the countryside meant that the balance of bargaining power shifted toward labor. This was especially evident in France, Italy and Germany. As this happened, wage pressure began to rise inexorably: in the context of full employment, it was relatively easy for workers and unions to negotiate (nominal) wage increases, and this created inflationary pressure.\textsuperscript{119}

In the countries that had experienced tight labor markets for the duration of the early postwar period, various arrangements had been established to try to address this basic dilemma. In the UK, contractionary fiscal and monetary policy had frequently been employed by the Conservatives in the 1950s to cool inflation and stem the external deficits that emerged in the context of semi-fixed exchange rates (a feature of the Bretton Woods system).\textsuperscript{120} However, this led to a damaging ‘stop-go’ pattern of economic growth. Consequently, as these tensions intensified in the 1960s governments turned to attempts at incorporating the labor movement into voluntary wage restraint and statutory ‘incomes policies’.\textsuperscript{121} Ultimately these did not work out well, as the UK case study shows, but these latter efforts did hand substantial political leverage to the union movement:

\textsuperscript{117} Spain is a partial exception here, along with Italy. Employment protection was high in Spain under Franco because this was a relatively easy way of tying more established workers to the state and thereby establishing its legitimacy. Franco was intent on not raising taxes on his wealthier allies, which would have been required if the state were to provide protection in other ways (i.e., through the welfare state). Mangen, 2001, Ch. 2. Similar dynamics operated in Italy, where provisions in the early postwar period provided high levels of protection to core workers. Vanicelli, 1982.

\textsuperscript{118} See Nickell et al., 2002, for rough figures on replacement rates from 1960 onwards in the advanced Western countries.

\textsuperscript{119} This led to the formulation of the famous ‘Phillips curve’ in economics, which posited an inverse relationship between inflation and unemployment.

\textsuperscript{120} A rise in nominal wages in the context of a fixed exchange rate will increase the international purchasing power of citizens, thus increasing the demand for and volume of imports. Meanwhile, the higher wages will force export firms to raise their prices and thus lose international market share, meaning that export volumes will fall or stagnate. The end result is a growing trade and current account deficit/imbalance, which can only be stopped by putting the brakes on domestic consumption through contractionary fiscal and monetary policy (or through devaluation, which was very difficult politically in the UK especially). See the UK case study, as well as Rhodes, 2000.

\textsuperscript{121} An early attempt at voluntary wage restraint had occurred in the late 1940s under the Labour government. While it was moderately successful, it could not be sustained for more than a couple of years. See UK case study, and Mares, 2006.
governments depended on them for bargaining moderation if they were to deliver strong, consistent economic growth and avoid devaluation, both of which greatly improved chances of re-election. In the small economies of Northern Europe, by contrast, the dilemmas of full employment were tackled mainly through centralized or coordinated bargaining. The exact degree and form of coordination differed from country to country, but a common approach was to have a leading manufacturing export sector set the wage growth pattern for the rest of the economy.\footnote{See Eichengreen, 1997; Upchurch et al., 2009; and the case study of Sweden. This was termed the EFO strategy in Sweden, after the last names of the three Swedish economists who developed the theory: Edgren, Faxen and Odhner.} This ensured that wage increases would not damage the competitiveness of internationally-oriented firms (the so-called ‘exposed’ sector). In addition, in many countries this was accompanied by an explicit attempt to exercise ‘wage restraint’, or setting wage growth beneath the level of productivity growth. Successful wage restraint in the early postwar context would improve the competitiveness of the exposed sector and help to generate export-led growth, with abundant investment created by high profit rates and policies encouraging re-investment (see Chapter 2).\footnote{See Eichengreen, 1997, and Brenner, 2006.}

Tellingly, where the attempts at wage restraint were not successful, due usually to weak coordination, the economies often grew more slowly during the postwar boom relative to their peers.

As noted, though, in several of the major Western countries the need for wage restraint was limited in the late 1940s and 1950s since underemployed labor in agriculture served to limit the tightness of labor markets and thus dampen wage increases, irrespective of the desires of the labor movement.\footnote{This picture follows the basic model of economic development associated with Arthur Lewis, where underemployed labor in the rural sector is gradually ‘soaked up’ by the industrial sector as it expands, eventually leading to wage increases as labor markets tighten. For the case of Italy and France see for example, Lange, Ross, and Vanicelli, 1982. Brenner, 2006, Ch. 3, describes this picture in broader terms for most of the ‘follower’ economies outside of the US (and UK).} Thus, even Italy and France experienced rapid growth in the 1950s and 1960s, despite a weak system of wage coordination that would become evident (and problematic) from the late 1960s onwards.\footnote{The same arguably applies to the former British colonies of Australia, Canada and NZ, where a large rural sector slowed the increase of real wages. These economies were far less dependent on manufacturing exports, though, partly because the manufacturing sector remained highly protected, so this was not as central an issue. If anything, the agricultural and resource sectors were the main export earners, and wealth was transferred from these sectors to the burgeoning industrial sectors (through both investment and wages). On Australia and New Zealand, see Schwartz, 2000.}

As labor markets tightened in the 1960s, though, the need for restraint appeared in these countries as bargaining power in Western Europe and elsewhere shifted sharply towards labor, culminating in the massive strike wave and wage push of the late 1960s.

In an effort to deal with this situation, many governments across the West tried to incorporate organized labor movements into ‘corporatist’ arrangements of wage bargaining and
policy formation that would ensure wage restraint in the face of labor’s growing market power.\textsuperscript{126} As I have already noted, full employment gave labor movements powerful political leverage over governments since their wage negotiations and industrial action would heavily influence the re-election chances of governments. Consequently political parties of all ideological persuasions had to at least consider the interests and policy preferences of organized labor. Naturally, social democratic parties were most inclined to listen to and implement the preferences of organized labor, but even centrist and centre-Right parties adopted conciliatory policy stances toward them. Labor movement leaderships, for their part, also had incentives to enter into such corporatist arrangements, especially given the substantial influence over state policy that it would give them.\textsuperscript{127} It should be little surprise, then, that \textit{this is when most of the labor market protections of the postwar period were initiated or dramatically strengthened}. As Table 2 shows, this is when most measures of EPL were introduced. It is also when effective replacement rates and UB coverage increased sharply in many countries.\textsuperscript{128} What is ironic is that this expansion carried into the 1970s, despite the frequent failure of countries to successfully broker wage restraint. In many cases this was the product of governments struggling to regain the wage moderation of the early postwar period by offering ever greater policy inducements for restraint: i.e., attempting to establish the so-called ‘political exchange’ of wage restraint and industrial peace (low strike rates) in return for favorable policy. But it was also the product of an emerging reality in several Western countries during the 1970s: rising unemployment. In this sense, there were two powerful forces pushing for greater protections: significant political power on the part of labor movements and a growing need or desire for protections in the face of rising unemployment and more rapid structural change (discussed below).

As explained in Chapter 2, though, the labor movements of different countries pressed for and achieved very different forms and degrees of labor market protection during this period. In this respect, we must distinguish between three things: labor movement preferences, priorities and capacities. ‘Preferences’ refer to the ideal form of labor market protection sought by a labor movement, which can be largely discerned from their policy statements and from the policies they put forward in negotiations with government. As I make clear throughout the thesis, and especially in Chapter 2,

\textsuperscript{126} See for example, Panitch, 1981; Upchurch et al., 2009. Certain countries had already established these kinds of arrangements earlier in the postwar period, usually where labor markets had always been tight. This phenomenon of ‘political exchange’ is explained more carefully in Chapter 2.

\textsuperscript{127} The reasons for organized labor to enter into corporatist ‘political exchange’ are nicely summarized by Regini, 1984. One non-obvious reason that should be mentioned here is that union leaders needed to achieve policy goals in order to reestablish authority over their rank-and-file members whose wage behavior was becoming highly problematic in many countries (e.g., disruptive wildcat strikes that threatened others’ jobs, etc.).

\textsuperscript{128} See Nickell et al., 2001, and Eichengreen, 2007.
union representatives of different countries had sometimes very different policy preferences on the question of labor market protection, not to mention other areas of policy. Within this broad picture of what they ‘ideally’ wanted, however, it is also important to distinguish what ‘priorities’ labor movements had: there were usually a whole host of policy measures that labor movements wanted implemented, but only some of them could genuinely be considered priorities (e.g., that they would be willing to trade wage restraint for). Distinguishing between preferences and priorities is not always easy in analyzing the historical record, yet it is crucial to keep in mind if we are to make sense of variations in outcomes. Lip-service to a particular cause does not constitute political commitment, whereas the devotion of resources and a willingness to sacrifice for it does. That being said, in a way ‘priorities’ can be considered a sub-component of ‘preferences’: in the language of economics, priorities are determined by the ‘preference structure’. For this reason, I often use only the term preferences in what follows.

Lastly, ‘capacities’ refer to the ability of labor movements to be heard and taken seriously in policy discussions. What is clear from my research is that union movements and their preferences have often not been listened to in policy decisions. Therefore it is essential that their influence not be overstated and their preferences seen as completely determinative of outcomes, as one might easily interpret ‘Varieties of Unionism’ to be suggesting. Instead, what the perspective I advance suggests is that different labor movements have had very different capacities to exert their influence, and that only once this is appreciated can we begin to distinguish between preferences and priorities. This is especially important to consider in political economies where labor movements have been intentionally excluded from political participation (e.g., most starkly in the postwar dictatorships of Southern Europe). But it is also central to understanding the very different policy outcomes between, say, Canada, Switzerland and Sweden, where labor movements have been free to organize and lobby governments. Nevertheless, in contrast to some expressions of PRA, it is not merely the difference in capacities (or ‘working class mobilization’) that distinguishes variations in policy outcome: preferences and priorities also matter centrally, and I develop a theory of preferences/priorities on the part of labor movements in Chapter 2. The importance of varying preferences is particularly the case for the formative period of labor market protections in the 1960s and 1970s, when as I have suggested labor movements were at their strongest politically. In this period, even previously (and subsequently) weak movements often had their preferences turned into policy, and thus we must look to ‘preferences’ and ‘priorities’ to explain variation.
Chapters 2 and 3 explain carefully how we might understand the variations in preferences, priorities and capacities on the part of union movements across the advanced West. As such, I mostly leave it until then to present the argument, but a brief summary of the argument at this point should help guide the reader. A central distinction I make is between labor movements operating in ‘exclusive’ and ‘inclusive’ political economies. In ‘inclusive’ political economies, the corporatist arrangements of ‘political exchange’ are well-established and unions are given a consistent, institutionalized role in political decisions. This means two things: (a) union movements have longstanding political power because they are usually able to deliver wage restraint and industrial peace that governments want; and (b) their day-to-day policy perspective can be more broadly conceived since they will have greater influence in lesser-priority policy areas and their institutionalized role creates the kind of organizational security that will allow them to not always emphasize maximizing their members’ immediate interests. In ‘exclusive’ political economies, where corporatist political exchange is not well-established or is absent, these things will not obtain. These movements will have only fleeting or limited influence on policy and the policy perspective of these movements will tend to emphasize members’ immediate interests, since these movements will operate much more as stereotypical lobby/interest groups. In these latter situations, areas of policy not centrally relevant to most members’ interests, such as UB and ALMP, will find much less substantive support from these groups, and will remain consequently underdeveloped. Conversely, in inclusive political economies, these Outsider policies will be much better supported politically and thus be more developed or generous.

Within this broad distinction between political economies, though, factors such as union membership strength, degree of organizational centralization, administrative involvement in UB, and dominant ideological traditions will matter in determining policy outcomes. The exact impact of these ‘variations in unionism’ and the logic behind them is explained in Chapters 2 and 3. But to briefly forecast the argument, union membership strength along with organizational centralization will tend to lead to stronger UB and Outsider Effort. This is because both factors affect the strength of unions’ political demands (capacities) as well as their policy preferences for stronger Outsider protection. In terms of capacities, higher levels of membership provide obvious political resources such as financial and numerical clout, while centralization will make union commitments to wage restraint and industrial peace more plausible in the eyes of government. In terms of preferences, high membership rates will tend to mean that some unionized workers will occupy more precarious employment, thus increasing their support for Outsider policy, and centralization will give these
same precariously-employed union workers greater clout within the movement to advance such policy support. The degree of administrative involvement in UB will also matter a great deal in terms of levels of spending: Ghent systems will be the most generous on average and state-run systems with no union role in administration will be the least generous, while bipartite/corporatist systems will be of middling generosity. Variations in union administrative involvement affect both the preferences of labor movements and their capacities to have these preferences translated into policy, in ways consistent with this ordering, as I document. The more integrated into UB administration a union movement is the more powerful and supportive it will be in increasing the generosity of that system, since there may be direct advantages to doing so in terms of serving and especially attracting union members.

Meanwhile, dominant ideological traditions will have more of a direct impact on levels of EPL. For reasons that I present in Chapter 2, traditions of ‘business’ unionism will lead to weak, collective-agreement based protection while traditions of social democratic or integrative/cooperative unionism will lead to middling levels of EPL and militant/Communist unionism will lead to very strict EPL. Dominant ideological traditions will also be crucial, however, in placing different labor movements into either ‘inclusive’ or ‘exclusive’ political economic situations; and, as I have suggested, this will fundamentally affect policy outcomes in UB and ALMP. In this respect, traditions of business and militant unionism will be associated with ‘exclusive’ political economies, whereas integrative/cooperative unionism will be associated with ‘inclusive’ political economies. Chapter 2 will spell out these various points in detail.

In sum, the period at the tail-end of the postwar boom brought about very different configurations of labor market policy across the advanced West, determined most directly by differing patterns of union organization and orientation. These initial differences were to prove fairly stable over time, as the Tables above show and as path dependence arguments might suggest. Yet these policies also came under attack in many countries, as I have noted, and the same Tables indicate that there has been significant change in certain countries over time. Understanding the impetus behind these subsequent changes requires grasping then the significant shifts in the global economy since the 1970s as well as the varying abilities and incentives of union movements to resist the retrenchment pressures associated with neo-liberalism.

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129 The distinction between dominant union traditions is drawn mostly from Hyman, 2001, and Crouch, 1993. Crouch labels the three traditions somewhat differently: pluralist (business), contestative (militant), and corporatist (integrative/cooperative). I avoid his terms though because adopting them would create too many different uses of the term ‘corporatist’ in the thesis, which would be highly confusing for the reader!

130 For a discussion of path dependent arguments in the social sciences, see Pierson, 2004.
A first step in appreciating the fundamental transformation of the political and economic environment since the 1970s is to understand that the postwar boom was in several ways *self-limiting*. Most obviously, the devastation of the Second World War in Europe and Japan created scope for ‘catch-up’ on the part of these economies relative to the US. In this respect, these ‘follower’ economies merely needed to apply the production techniques and innovation developed in the hegemonic US economy to achieve rapid growth. Thus the postwar boom was premised upon the extension and application of Fordist production techniques pioneered in the US. Yet at a certain point most of the easy gains from this process would be exhausted (or at least reach a point of diminishing returns), thus slowing the boom.\(^{131}\) A more crucial factor contributing to the end of the postwar boom was the very success achieved by the ‘follower’ economies of Japan and Western Europe: their growth depended in large part on increasingly winning international market share from the previously dominant American producers, whose profit rates were thus squeezed. Moreover, the US market could not continually absorb rapidly growing manufacturing imports alongside declining export share without experiencing large trade deficits and pressure on the value of the dollar.\(^{132}\) By 1971 the US reacted by abandoning the gold peg and effectively allowing the dollar to float and devalue. What this devaluation did, however, was generalize the profit squeeze in manufacturing that had mostly been happening in the US to all of the Western economies, as American producers became more competitive once again with a newly devalued dollar.

Combined with the OPEC oil price increase of 1973, these pressures put the advanced Western world first into recession and subsequently onto a trajectory of slower growth. Governments reacted initially by trying the Keynesian remedies that had held sway in many countries in the postwar era. In reaction to the recession of the mid-1970s governments began to spend more in an attempt to stimulate the economy: public employment rose sharply, the generosity of social insurance was often raised, new social programs were introduced, and stimulus-type

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\(^{131}\) This is a central part of the story in Eichengreen’s widely cited account (1997), where he suggests that the end of easy catch-up growth made it harder to maintain the cooperative arrangements so successful in generating postwar economic growth in Western Europe (and that the breakdown of these arrangements accounts for the slower growth subsequently). However this type of a dynamic would suggest a quite gradual end to the boom, whereas what actually happened was a quite sharp drop in growth starting in the early 1970s. What follows thus helps to explain the timing and abruptness of this end to the economic boom (based on Brenner, 2006).

\(^{132}\) See Ibid., and Glyn, 2006, p. 9: “The US share of world manufacturing exports halved between 1950 and 1970 (from 33% to 16%).” Most of this share had been taken over by Japan and the countries of Western Europe. Under the Bretton Woods system, with the US dollar set at a fixed rate relative to gold and other countries pegged at adjustable rates relative to the dollar, the overvaluation of the USD could proceed only as long as other countries were willing not to redeem their dollars in terms of gold.
spending was initiated. In this period, monetary policy was also loosened and real interest rates fell to very low levels (even negative rates). This helped spur the economy along somewhat, but in the context of persistent manufacturing overcapacity profit rates did not recover to boom-year levels, thereby slowing investment and productivity growth; and with still relatively tight labor markets, along with newly powerful unions, inflation rose to levels unheard of in the postwar period in several countries.

Gradually during the late 1970s a rethinking of the Keynesian approach began to take hold among policy leaders. Government spending began to be seen as no longer the solution to economic stagnation but rather as its cause. Ultimately this rethinking led to the so-called ‘Volcker shock’ of 1979, when the US Federal Reserve under Paul Volcker raised interest rates sharply in an attempt to stamp out inflation. In this view it was understood that to enforce wage discipline on workers and unions it was necessary to raise the rate of unemployment.\textsuperscript{133} The welfare state also came under attack, particularly in the Anglo-Saxon world, as the source of a variety of evils, including dependency, laziness, economic stagnation, and burgeoning public debt. This neoliberal offensive has not fully subsided even to this day, despite being premised largely on a misdiagnosis of the problem (due to a narrow, non-comparative understanding of the world), as I have tried to show in the case of EPL, UB and ALMP.

There are many things that could explain the persistence of this neoliberal push, but I will highlight just two. Following the economic turmoil of the late 1960s and 1970s there was a concerted offensive on the part of most employer organizations and their affiliated think-tanks and newspapers to advance a neoliberal agenda. The roots of this employer ‘counter-offensive’ lay mostly in the late 1960s and 1970s when profits became squeezed and there were genuine threats to managerial power. Given the influence of union movements during this period, several of them had been able to achieve substantial rights to co-determination within firms and some had begun discussing the importance of investment controls along with even more radical measures to gradually take ownership of major companies.\textsuperscript{134} In response to these challenges, employer

\textsuperscript{133} Glyn, 2006, p. 25-28. For instance, this was clearly what motivated the tight monetary policy of Margaret Thatcher, who sent the UK into easily its deepest recession in the postwar period during the start of the 1980s in order to ‘tame the unions’. See the UK case study. In hindsight it is probable that this neoliberal ‘remedy’ mistook the symptoms of economic slowdown as their cause, since economic growth subsequently failed to recover to boom levels across the West, even in the very countries where the neoliberal mantra was most consistently pursued, the US and UK (and this despite a massive, unsustainable buildup in especially private debt since the 1980s). See Brenner, 2006. In fact, growth has slowed across the West as neoliberalism has become yet more entrenched, with growth rates for each decade progressively lower from the 1970s onwards for the West as a whole. Ibid. p. 239.

\textsuperscript{134} This environment of union assertiveness is nicely described in Glyn, 2006, Ch. 1. See also Pontusson, 1992.
organizations began to set up foundations and think-tanks that would promulgate a neoliberal outlook. In addition, they began to take a much more strident position against unions in bargaining and more generally in their ability to organize new workplaces.

Second, and perhaps more importantly, ‘globalization’ began to fully take shape in this period at the end of the postwar boom. In particular, employers gradually began to expand Foreign Direct Investment (FDI) and pressed governments to loosen controls on cross-border flows of capital and trade. What this accelerated ‘internationalization’ or ‘globalization’ of the economy ultimately meant was that employers became less dependent on their home country for profitable opportunities. Growing FDI and capital mobility, when combined with freer trade, meant that national economies were much more subject to international competitiveness pressures than before. In particular, these developments made “the threat of [capital] exit more credible and thus… greatly strengthened the leverage of capital vis-à-vis both unions and governments.” Naturally this became even more potent with the addition of hundreds of millions of very low-wage workers into the world’s labor supply from the global South (e.g., East Asia and India) that could ‘compete’ with the workers of the North through global trade in manufacturing. In a sense, then, globalization gradually reversed the substantial leverage that unions had obtained in many countries during the tail-end of the postwar boom and shifted it in the direction of employers.

This shift in the balance of power from labor towards capital brought about by globalization was compounded by growing unemployment, weakening union density, ‘disorganization’ and decentralization of bargaining, and growing tensions between unions and their reformist political party allies. However, while these phenomena were nearly universal in the advanced West during the retrenchment era, they were not equally pronounced or influential across the different political economies. While the rise in unemployment and falling membership certainly weakened union movements in some countries, especially the Anglo-Saxon countries, it did not do so in a universally pronounced way. This is for the simple reason that union bargaining coverage remained high in most

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135 This process is documented in the case of the US, for example, in some detail in Hacker and Pierson, 2010.
136 For much of the 1970s this reaction was muted, in part because of enduring union power and in part because the easy credit associated with expansionary fiscal and monetary policy made it easier to stay afloat without directly confronting the unions. Once real interest rates shot up from the late 1970s onwards, though, the counter-offensive became much more intense since the possibility of ‘going under’ was heightened considerably (as represented by recession and rapid de-industrialization in several countries). It was in this period that union membership as a proportion of the work force, i.e. union density, began to fall in the vast majority of advanced Western countries, sometimes dramatically.
137 In terms of trade especially, it is important to note that employers were not monolithically behind greater international openness, but rather that this was the dominant position among their representatives.
139 See Glyn, 2006, Ch. 4; Wood, 1994; Turner, 2008.
European countries, despite falling membership. This curious phenomenon, at least from an Anglo-Saxon perspective, is the product of either legal provisions enforced by the state that generalize union contracts to whole industries (so-called ‘extension mechanisms’) or to the behavior of employer organizations themselves, who have executed this ‘extension’ as part of coordinated bargaining arrangements established since the early postwar period. As a result of these practices, broad union influence in wage bargaining has remained strong in many European countries and their governments have for much of the retrenchment era still been obliged to heed the policy advice of these movements in order to attain macroeconomic cooperation. In fact, during the process leading up to European Monetary Union (EMU), where wage and budget developments needed to be brought in line in order to form the Euro, unions held considerable leverage over governments keen to meet EMU requirements.\textsuperscript{140} In the countries where unions were more substantially weakened by these changes, as in the Anglo-Saxon world, many of the union movements had only had fleeting influence in the postwar period in any case, and there was little need for radical retrenchment since labor market protections were so limited already. In fact, in the case of employment protection, given that most dismissal protection relied upon collective agreements, allowing or encouraging union membership and power to wane was usually sufficient to weaken it.\textsuperscript{141}

In a similar way, the growing tensions between union movements and their reformist partisan allies should not be overstated. In certain countries there is little doubt that this tension led to an effective divorce between the two ‘wings’ of the labor movement. This was perhaps most obvious in the UK under the Labour Party leadership of Tony Blair, where he made a point of distancing the party from its previous union allies, rhetorically, organizationally and programmatically.\textsuperscript{142} Other countries witnessed similar ‘formal’ divorces between the two wings, often as the parties began to adopt more neoliberal policy stances in the late 1980s and 1990s. This is apparent for example in Sweden and The Netherlands. But at a more practical level the ties between them remained quite close and the political parties continued to rely upon unions for financial and volunteer support, and thus granted them special influence within party structures. As a result, we should still be wary of writing off union influence on reformist parties, as many theories have either explicitly or tacitly done (see Chapter 2). To the extent that substantial ‘divorces’ have happened, with a few notable exceptions these have taken place in countries where the ties were

\textsuperscript{140} See for example the literature on ‘Social Pacts’ in the 1990s, such as Rhodes, 2001, as well as Ebbinghaus, 2008, p. 70.
\textsuperscript{141} In some cases there was a concerted and quite drastic curtailing of union power through state legislation affecting industrial relations (e.g., the US and UK), whereas in others the decline was more the product of simply economic and social change (e.g., Canada and Australia).
\textsuperscript{142} See the UK case study.
always fraught with tension or weak to begin with. The ‘exceptions’ have usually depended upon an economic/budgetary crisis or repeated electoral losses, which precipitated the adoption of unconventional (neoliberal) positions on the part of reformist parties and this alienated the unions.

These qualifications to the ‘retreat of labor’ story mean is that retrenchment or deregulation of labor market protections has not proceeded in a universally consistent and rapid manner, as predicted by early ‘Globalization theory’. Instead, the pattern of change has very much depended on pre-existing institutional arrangements of the various countries, the organization of the labor movement, and the existence of ‘crisis moments’. This portion of the argument of the thesis is carefully spelled out in Chapter 3.

While there has been an overall trend to weaker labor market protections, as the very term ‘retrenchment era’ would suggest, it has not been very pronounced in most countries. As I noted above, the indicators of labor market protections have remained fairly stable in most countries over the course of the retrenchment era. This is largely because the pre-existing institutional arrangements (e.g., coordinated wage bargaining, administrative setups in social insurance, principles determining benefit levels, etc.) and the organization of labor movements have remained fairly consistent over the period in question. There have undoubtedly been important changes in both areas, as I have suggested and as I document in the case studies, but these have not usually been fundamental changes that would move a country from one category or regime type to another. For example, in almost all of the countries administrative arrangements in relation to UB have remained fundamentally the same, even if the influence of union movements has waned (see Chapter 2 and 3).

Deregulation is clearer in the case of EPL, where the overall level of strictness has dropped from 1985 to 2005 (Table 1): the average EPL score for 1985-89 in the 21 countries was 2.26 whereas it was only 1.88 from 2000-2005. A trend towards retrenchment is much less obvious from Table 3 and 4, in the case of UB and ALMP spending. When the Southern European countries are removed from Table 3, though, a trend toward retrenchment appears. These systems, given their history with dictatorship, had very rudimentary systems of UB protection at the start of the period shown, but gradually improved them to more moderate levels (especially, in the case of Portugal and Spain, with the help of EU financial transfers).

See the case study of The Netherlands, though, where union involvement was gradually curtailed over the late 1990s and early 2000s.
and their dominant ideological outlooks have remained similar in most cases. Union density, to be sure, has changed substantially in the Anglo-Saxon countries especially, but given their peculiar integration into the political economy that only ever gave them limited political influence the change in density has not had a substantial direct impact on policy. Nevertheless, this group of countries has arguably been most prone to retrenchment in terms of UB, as can be seen from Table 3 (see also Chapter 3).

On the other hand, the dynamics of the retrenchment that has occurred are difficult to summarize in a few simple statements. There are a few tentative conclusions that I draw from the Tables above and that I outline in Chapter 3. First, retrenchment or deregulation of EPL has tended to occur most in countries that began the period with the strongest protections. However, almost all of the changes that have occurred to EPL in the higher protection countries of Europe have focused on weakening protections for, or loosening hiring rules on, temporary and fixed-term workers. Very rarely have changes to EPL substantially weakened the protections of regular employees. Moreover, to the extent that there has not been obvious EPL deregulation in the Anglo-Saxon world, this is because most protections were embodied in collective agreements and it is these that have been weakened (from an already comparatively weak position). Second, with a few notable exceptions, inclusive political economies have been more resistant to retrenchment pressures in terms of UB and Outsider Effort, despite starting from higher levels of spending. The figures to back this claim up are provided in Chapter 3.

Finally, the cases of sharp retrenchment in terms of UB and Outsider Effort are rare, but those that do exist have largely been the product of economic crises or ‘crisis moments’, which allowed governments to push through retrenchment that would otherwise not have been feasible. This is certainly the case in Finland and Sweden, as well to a lesser extent in Japan, where major economic crises in the early 1990s meant that retrenchment pressures were very high (as governments struggled to get budget deficits under control) and governments pushed through major cuts. A similar dynamic unfolded in Canada in the early 1990s, leading to the deep retrenchment of UB (Employment Insurance) in the mid-1990s. The other clear case of sharp retrenchment, the UK, was accomplished mostly under the long rule of the Conservatives, where many of the cuts were enacted in the early to mid-1980s when a similar crisis atmosphere prevailed and when the electoral

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145 There are a few possible exceptions here, in terms of type of political economy, as in Ireland, Portugal, and Spain became much more integrated into the political economy since the late 1980s. Partly as cause and partly as effect, it is possible that the ideological outlook of these movements has become somewhat more ‘integrative’. I explore the first point in Chapter 3, but leave the second as tentative speculation.

146 See for example, Ochel, 2008.
landscape was particularly favorable to radical change. In short, a sharp and sustained retrenchment to UB and ALMP Effort has usually required a ‘crisis’ situation to happen.147

Plan of the Thesis

The thesis proceeds as follows. Chapter 2 lays out the basic theoretical perspective advanced in the thesis, expanding upon what has been outlined here. In particular it engages in a careful critique of two of the main contending perspectives, VOC and Insider-Outsider theory. Chapter 3 presents quantitative evidence for my alternative Varieties of Unionism argument. Chapters 4, 5 and 6 provide case studies of the UK, Sweden and The Netherlands respectively. These countries were carefully selected. All three share characteristics that are, in theoretical terms, capable of being held constant in an analytical sense (ceteris paribus): all are open, unitary, Western European countries with modest natural resource endowments. This allows me to rigorously examine and compare the relevant explanatory variables. For example, the countries vary in terms of Variety of Capitalism (UK: LME; The Netherlands, Sweden: CMEs), strictness of EPL (UK: low; The Netherlands and Sweden: moderate to high) and welfare state regime (UK: liberal; The Netherlands: conservative; Sweden: social democratic). Most importantly, as I make clear in Chapter 2, the countries vary in terms of types of union movement.148 The UK has middling to low union density and a decentralized, ‘business unionist’ movement that has no formal role in UB administration. The Netherlands has low density and an intermediately centralized, ‘social partner unionist’ movement with corporatist or bipartite involvement in UB administration. And Sweden has had high density and a highly centralized, ‘encompassing’ movement with direct, Ghent-style involvement in UB administration. Lastly, their retrenchment experience varies and it is useful to try to understand the variations in this process in relation to the variation of the main explanatory variables considered above. Chapter 7 summarizes the argument and central findings of the thesis, discusses the current applicability of the Varieties of Unionism view, and suggests possible avenues for future research.

147 This is an especially interesting conclusion given the events unfolding in the West today. It is precisely at moments such as now that welfare states are most vulnerable to sharp retrenchment. Given the recent brinkmanship and crisis creation on the part of Republicans in the US, it seems that the advocates of retrenchment understand this well. As a result of its topical importance, then, I explore this issue at length in the Conclusion of the thesis.

148 While in certain respects it would have been convenient to include a Southern European case study, given the theoretical argument I make in Chapter 2, doing so was somewhat less relevant to the current project given the empirical predictions of the various theories, as well as my own. Specifically, VOC did not make firm predictions in their case and PRA was partially inapplicable given the limited experience of three of the four cases with democracy. As the reader will see, I also largely agree with the account given by Rueda’s Insider-Outsider theory in the case of Southern Europe, whereas I do not in the other Western countries. Thus, in order to most directly evaluate the various theories above, I chose three cases where the other theories and my own clearly differ.
Chapter 2: Bringing Labor Back In

Varieties of Unionism and the Political Economy of Labor Market Policy

“Once we see policy, rather than electoral victory, as the grand prize of political conflict, we see politics for what it is: a contest with big and often enduring stakes—a contest more like the one that gladiators played in the Roman Coliseum than the one the Celtics and Lakers play in the Staples Center. And who are the contestants? Who are the political gladiators? They are not, for the most part, atomized voters. The main competitors, the ones in the ring from start to finish wielding their weapons and enduring each other’s blows, are organized groups. Call this vision ‘politics as organized combat.’” —Hacker and Pierson, 2010
Section I: Introduction

Recent theoretical work on the evolution of welfare states and labor market policy has tended to downplay the influence of union movements. This is true, in different ways, of Varieties of Capitalism, Insider- Outsider theory, and globalization theory, as Chapter 1 documented. The current chapter challenges this sideling of organized labor, at very least in terms of labor market policy. In this sense, the chapter is a defense of the Power Resources Approach, which emphasized the importance of ‘working class mobilization’. However it also develops upon and departs from earlier expressions of the view. In particular, the varying nature of union organization and preferences are emphasized in the account of labor market policy given below, in contrast to the more recent focus of PRA on partisanship and cross-class alliances. In response to the VOC view, then, my approach could be termed a “Varieties of Unionism” view. While the perspective I present below draws upon a variety of earlier work from each of the different perspectives mentioned above, its interpretation of labor market policy is original in the central role it accords to unions and it suggests the need for a reconsideration or revision of the contending perspectives.

The chapter proceeds as follows. First, in Section II, the basic elements of my Varieties of Unionism view are presented, including introducing a fourfold typology of unionism to understand labor market policy. Next, in Section III, I use this view to critique the influential Insider- Outsider theory of labor market politics put forward by David Rueda in his book, Social Democracy Inside Out. In Section IV a similar critique is made of the VOC perspective, both in terms of its original employer-centered statement and the innovative skills-centered revision of it by Torben Iversen. Finally, in Section V, I show how the Varieties of Unionism view can explain cross-national variation in resources devoted to the unemployed in terms of unemployment benefits (UB), as well as active labor market policy (ALMP).

Section II: Varieties of Unionism and the Four ‘Worlds’ of Labor Market Policy

As illustrated in the introductory chapter, social democratic or reformist movements in the rich democracies world have pursued and achieved very different welfare states, labor market policies and economic outcomes since WWII. Some have been successful at achieving low unemployment and inequality, generous social protection, and economic modernization (e.g., much

149 See for example, Huber and Stephens, 2001; Korpi and Palme, 2003; and Esping-Andersen, 1990.
150 See for example, Esping-Andersen, 1990; Huber and Stephens, 2001; Pontusson, 2005. “Rich democracies” refers to Western Europe, the US, Canada, New Zealand, Australia and Japan.
of Northern Europe), whereas others now witness relatively high levels of unemployment, poverty and economic stagnation (e.g., much of Southern Europe). Yet others sit somewhere between these two situations, succeeding in certain areas but not in others. A central feature explaining these varying outcomes is the organization of the labor market that social democratic movements have inherited from the past, as well as the policies by which they have sought to transform it for the benefit of their core constituencies.\(^{151}\)

In this respect, it is illuminating to look at the policies advocated by the organized labor movements of these countries, for they have in most instances been influential in shaping the policy preferences of social democratic or reformist parties, especially in the formative stages of labor market policy in the postwar era.\(^{152}\) Indeed, as I argue below, it is striking to note the congruence of policy preferences of the major union representatives in most countries with the labor market policies that were adopted in their respective welfare states. This is not to say that union movements always achieved their preferred policies in the early postwar period, or that causality only runs from union power and preferences to policy and institutions and never the other way around. But as I demonstrate below and in the broader thesis, union movements have had distinctive ideologies, policy preferences and political capacities across countries and these have had a major impact on the labor market policies ultimately adopted. This can be seen in the case of employment protection legislation and so-called ‘Outsider policy’, unemployment benefits and active labor market policy. Building upon what was presented in Chapter 1, Chart 2.1 below displays very crudely the main differences in these labor market policies across the rich democracies and suggests grounds for possible typologies.

\(^{151}\) See for example Eichengreen and Iversen, 1999.
\(^{152}\) See Upchurch, Taylor and Mathers, 2009.
Chart 2.1: Patterns of Labor Market Regulation in the West

<table>
<thead>
<tr>
<th>Weak Outsider Policy</th>
<th>Low EPL</th>
<th>Moderate to High EPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anglo-Saxon Countries (UK, US, Canada, NZ, Aus., Ire.)</td>
<td>Southern Europe (Italy, Spain, Portugal, Greece)</td>
<td></td>
</tr>
</tbody>
</table>

See Chapter 1 and Chapter 3.

As is clear from the chart, the combination of low EPL and strong Outsider policy is a rather limited or rare case (bottom left box). With only Denmark and Switzerland occupying this position, it is fair to question whether it should be considered a distinct regime type (‘Flexicurity’?), especially given that both have very different political and social attributes and historical trajectories. In fact, as I will illustrate, this combination of policies should not be considered a distinct labor market ‘regime’ or ‘world’, in particular since there is a better categorization of labor market policy. In order to achieve this, though, the cluster of countries with strong Outsider policy and strong EPL needs to be broken up and differentiated (bottom right box). The important distinction here then becomes between the inclusive, activating Outsider policy systems found mostly in the Nordic countries (where considerable societal resources are devoted to most unemployed) and the more exclusive, passive Outsider policy systems of much of Continental Europe (where a smaller share of the unemployed receives generous support).  

Thus a more useful typology of labor market policy regimes would leave the Anglo-Saxon (Liberal) and Southern European (Dualistic) ‘worlds’ as they appear in Chart 1 (as they are circled in the Figures 1.6 and 1.7), but now have two distinct ‘worlds’ in Northern and Continental Europe: a Social Democratic world and a Bismarckian one. For reasons that will be elaborated below, the former category would include Denmark, Finland, Sweden, and less solidly Belgium and Norway.

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153 This conceptualization largely overlaps with Jonas Pontusson’s (2005) categories of Nordic and Continental Social Market Economies (SMEs). The overlap is only partial, though, as I outline below.
The latter, Bismarckian category would include Germany, Switzerland, Austria, and less solidly The Netherlands. \(^{154}\) Indeed, Belgium, The Netherlands and Norway fall somewhere between these two ideal types. France and Japan are outliers to an extent, as they are in many categorizations of the rich democracies. France for its part straddles the Dualistic and Bismarckian worlds (though it is closer to the former), whereas Japan straddles the Liberal and Dualistic worlds. \(^{155}\) The major contribution of this chapter to the existing literature is not this typology, though, which overlaps with well-established categories in the welfare state literature. Instead, what this chapter does is (a) suggest the ways that ‘varieties of unionism’ match up with the broad typology above and (b) explains how the different ‘worlds’ connect on a continuum of how well labor market outsiders are ‘looked after’ that varies systematically with the nature of the labor movement.

This emphasis on organized labor is suggested by two simple insights regarding labor market policy. First, it is rare that average voters are well-informed about the details of labor market policy, such as the technicalities of unemployment benefit eligibility or statutory dismissal protections. They may have strong opinions about whether unemployment benefits should be generous or not or whether it should be difficult to fire someone, but the details of the policies that will determine these things are often foreign to the lay observer. As argued by Jacob Hacker and Paul Pierson, in these situations it is organized interests that have a direct stake in the policies at hand that will tend to matter most in policy formation. \(^{156}\) Only organized interests have the resources and will to carefully engage in policy formation and (re)negotiation. In the case of EPL, industrial relations and labor law are naturally of central importance to any union movement (as well as employers) and thus we should be particularly likely to see their impact on this area of policy. Areas of the welfare state that affect broader segments of the population directly and more obviously, such as health care, education and pensions, are less likely to be influenced decisively by labor movements (or employers). In these areas atomized voters are able to mobilize through political parties more effectively and the salience of organized interests will diminish, though certainly not disappear. \(^{157}\)

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\(^{154}\) France is an outlier in many respects, as it is in most welfare state typologies, sitting between the Southern European cases and the Bismarckian welfare states. Japan is also somewhat anomalous, though it is closest to the Dualistic ‘world’.

\(^{155}\) A more nuanced understanding of Japan’s employment protection system than what the OECD’s EPL figures suggest would, however, likely put the country in the Dualistic camp since much of the employment protection provided in the system comes from deeply entrenched norms of employee loyalty in corporate governance. See Yun, 2010.

\(^{156}\) This is argued in Jacob Hacker and Paul Pierson’s recent work on rising American inequality (e.g., Hacker and Pierson, 2010). Where issues are complex and poorly understood by the average voter, organized interests will matter a great deal to the ultimate policy adopted. See also Pepper Culpepper’s (2010) distinction between high and low salience politics.

\(^{157}\) As argued by Stewart Wood: “One difference between labour market reform and welfare reform is that their impact affects different sorts of constituencies. Discrete cuts in transfer payments [e.g., for health care], for example, have clear
Second, in the case of UB (and by extension ALMP), it is precisely the usual absence of well organized groups representing the unemployed that suggests that they will require powerful political allies if they are to be well treated. As I elaborate below, given the possibility of unemployment for many union members, unions can in fact in certain situations be valuable allies. The extent to which unions are in fact ‘allies’, then, will explain a good deal of the national variation in resources devoted to the unemployed. This is what Jingjing Huo refers to as the “positive externalities of organization”, a subject to which I will return in the last section of the chapter.

A Typology of Unionism

Modern unions are economic, social and political actors. As Bruce Western puts it, they are “between class and market”: they bargain over wages and working conditions in the market, while they struggle for broader social and political change. Yet the form that unions’ political activity can take varies widely, and in certain cases it can be quite muted. Thus political activity can be limited largely to ensuring the freedom to collectively negotiate with employers. But it can also be revolutionary, as many socialists and Marxists have hoped for. Or it can be reformist, seeking favorable welfare state legislation from the liberal democratic state. In a sense, then, modern unions can embrace one of three ideal types: an identity focused on bargaining success in the market, an identity focused on class and revolution, or an identity based upon social integration and reform. In reality, of course, no union or union movement can ignore for long their market role, just as they cannot ignore the reality of class in the face of employer resistance, or the need for daily coexistence and cooperation with other groups in society. Thus the ideal types of unionism are just that, ideal types, which are only approached and never achieved. Nevertheless, they are useful in that they furnish a basis on which to categorize the different forms of unionism found in modern democracies. The types of unionism described below are thus not universally held within the various union movements but rather are the dominant tendencies within them. Indeed, they have often competed

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158 The weakness of political organizations representing ‘outsiders’ is noted by many authors, including Rueda, 2007, p. 16-17, and Huo, 2009, p.22.
159 Huo, 2009, p. 22-23.
160 Western, 1997.
161 This schema is drawn from Hyman, 2001. It is what he terms the ‘eternal triangle’ (p. 1). It is also similar to the approach adopted by Crouch, 1993.
against one another for supremacy within the same movement. For various historical reasons explored below, though, one has come to prevail, even if not completely or indefinitely.

The idea that unions should focus on the market and collective bargaining to achieve the best immediate working conditions possible for their members can be termed *business unionism*.\(^\text{162}\) This is the ‘pure-and-simple unionism’ that was advocated by early labor leaders in the US, such as Samuel Gompers, and which led Lenin, among others, to despair at unions’ weak revolutionary potential. In this view of unionism, unions should act in line with a pragmatic ‘economism’ that relies upon their labor market power to achieve gains through collective bargaining. Statutory measures are usually considered second-best to what can be achieved through bargaining and in general it is best that the state stay removed from union affairs. As is clear in the case study of the UK, this is exemplified in the British tradition of ‘voluntarism’. Associated with this view was skepticism of union involvement in state machinery (i.e., corporatism) and a reluctance to take on responsibilities outside of unions’ core competencies and concerns (e.g., joint decision-making in firms, social security administration, etc.). This perspective is most associated with the union movements of the Anglo-Saxon world.\(^\text{163}\) As well, where this type of unionism is prevalent, ‘segmentalist’ labor markets tend to emerge: well-established employers attract and retain workers through ‘efficiency wages’ and other job-related benefits/protections which reduce labor turnover and motivate workers, while there is a large portion of the labor market that is highly competitive, with limited protections and high levels of labor turnover.\(^\text{164}\) In this context, bargaining coordination within and between industrial sectors is rare and employers are highly autonomous in their pursuit of profit.

A second form of unionism can be termed *militant unionism*.\(^\text{165}\) It aligns most closely with the revolutionary or class-oriented ideal type of union activity. Here the focus is on challenging the managerial power of employers, mobilizing in socialist/Communist parties and sporadically in large protests for radical social change, and pushing in the interim for maximal wage or working condition gains. This last point suggests some overlap with the tradition of business unionism: in practice, militant unionism often resembles business unionism in its single-minded pursuit of immediate gains. But lurking behind these short-term demands is at least the threat of social revolution, as many of the union leaders are affiliated with Communist or socialist parties. Unions in this mould

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\(^\text{162}\) Again, what follows draws on Ibid. Ch. 2. See also Ebbinghaus, 2008, p. 69-76, for a similar approach to unionism.

\(^\text{163}\) See Katznelson, 1986; Hyman, 2001, p. 3.


\(^\text{165}\) See Hyman, 2001, Chapter 3.
have thus historically shared business unionism’s disdain for involvement in corporatist negotiation or centralized wage coordination and restraint to promote social integration. Unionism in this view is not about facilitating the effective functioning of capitalism; it is about achieving as great a share of the national wealth in wages and benefits as possible until capitalism’s inevitable collapse. Once again, this is a crude depiction of a complex tradition, but it seems an accurate description of many union members’ worldview, certainly in the late 1960s and 1970s. Though definitely not restricted to Southern Europe, this pattern of unionism has historically been most pronounced there, as is evident from the significant presence of Communist unions in Italy, France, Greece, Spain and Portugal.\footnote{In the latter three cases, this applies in spite of unions being repressed by fascist governments in the early postwar period. See Upchurch et al., 2009, p. 3; Hyman, 2001, p. 27; Sturmthal, 1983, p. 237.} Part of what this meant organizationally for these union movements was that they were fragmented or divided between radical and non-radical union confederations, and that they were largely excluded politically from the formation of state policy.\footnote{For example, in Italy there was an attempt in the early postwar years to unite the labor movement in one overarching federation, but it quickly split apart, leaving a Communist-dominated federation (CGIL), a Christian Democratic federation (CISL) and a more reformist one (UIL). See Hyman, 2001, Ch. 7.} Thus, following John Goldthorpe, union movements in these countries operated in exclusionary political economies, where their input into policy was rarely sought by government and where they had little if any role in the administration of social security.\footnote{Goldthorpe, 1984; Regini, 1984.} This has changed to an extent as the welfare states in these countries have matured and radical impulses subsided in 1980s and 1990s, but in the formative years of the postwar period this is an accurate portrayal of their situation.

In this respect, these union movements were again similar to traditions of business unionism: in the Anglo-Saxon world, to the extent that unions have acted politically they have operated as lobby groups, without an institutionalized voice in policy-making or social security administration (i.e., pluralism). Therefore they too can be considered to operate in ‘exclusionary’ political economies. There were attempts in the 1960s and 1970s to integrate unions into a more consistent political role in some Anglo countries, perhaps most famously with the Social Contract in Britain. But these foundered quickly as it became clear that the central union leaderships either did not have the desire or capacity to genuinely engage in the ‘political exchange’ of corporatism: i.e., wage restraint and industrial peace for favorable social, industrial and macroeconomic policy.\footnote{The example of the UK is discussed at length in the UK case study. See also Rhodes, 2000, and Regini, 1984.} Moreover, the involvement of unions in the administration of UB or other social insurance systems has never been seriously contemplated in the postwar period in the Anglo countries.
By contrast, the final two modes of unionism operated in *inclusionary* political economies. In effect, these were countries where corporatism of one form or another existed. Corporatism can be defined as “a political structure within advanced capitalism which integrates organized socio-economic producer groups through a system of representation and cooperative mutual interaction at the leadership level and mobilization and social control at the mass level.”\(^{170}\) In other words, organized labor and business representatives are brought together in state-sponsored settings to negotiate economic and social policy and to oversee the development of wages and investment in the economy. Thus the unionism that existed in these countries was broadly aligned with the socially integrative ideal type mentioned above. However, within this model of reformist and integrative unionism we can distinguish between encompassing unionism and social partner unionism.

*Encompassing unionism*, as the name would suggest, is found in countries where union membership is very high as a proportion of the labor force (high union density) and where membership is fairly representative of the larger economy. The countries with the highest levels of union density generally have Ghent systems, where unions run the administration of unemployment benefits.\(^{171}\) There are four countries in the postwar period with this system: Belgium, Denmark, Finland and Sweden.\(^{172}\) In these countries, the state subsidizes and regulates union-run UB funds, but the unions are given effective administrative control in disbursing benefits. In these systems, joining a UB fund is voluntary and union membership is not always required for benefit receipt from a fund, but, crucially, having union membership makes the likelihood of favorable treatment from the fund more likely.\(^{173}\) As well, given the state subsidization of the funds, membership costs are often low, which again incentivizes union membership. What is most notable about these systems in the present context is that those at risk of unemployment at the margins of labor markets are drawn towards union membership, thus both dramatically increasing density and, since many of the unemployed retain membership during spells out of work, integrating their interests directly into the labor movement.\(^{174}\) Another feature of encompassing unions is that they are usually highly centralized, in part because the absence of a centralized or at least highly coordinated labor movement in the context of massive

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\(^{170}\) Panitch, 1981, p. 24. Various names were attached to this general phenomenon, including ‘concertation’ and ‘neo-corporatism’. I choose corporatism since this is the most widely recognized term. See Regini, 1984.

\(^{171}\) See Western, 1997, Ch. 4.

\(^{172}\) Belgium has not been a classically Ghent system for most of the postwar period, in that unemployment insurance contributions is mandatory, but in practice unions have controlled benefit disbursal, and this creates similar dynamics as in other Ghent countries. Vandaele, 2009; Western, 1997.

\(^{173}\) Again Belgium is the exception in terms of voluntary contributions. Clasen and Viebrock, 2008. Interview with Eero Carroll, September 2009.

Finally, given the preponderance of union membership, most of those covered by collective agreements are members of the union negotiating them. This apparently obvious observation from an Anglo-Saxon perspective is not so from a Continental European one, since in these countries ‘extension mechanisms’ extend certain unions’ collective agreements to whole industries, regardless of whether other firms are unionized or not.

This last point is a central difference between encompassing and social partner unionism. Both generally share a cooperative approach to industrial relations and have engaged in corporatist negotiations over economic and social policy, often trading wage restraint for preferred state legislation. Where they differ is the degree to which the labor market is unionized and their involvement in the administration of social security. In terms of the former, social partner unions only organize a moderate share of the labor force, and usually a fairly well-established and protected segment of the labor market. Yet because of extension mechanisms applied by the state or employers’ associations, the vast majority of the labor force is covered by union-negotiated collective agreements. Ironically, this very act of extension likely limits the amount of unionization in the first place, since many workers can get the wage benefits of union contracts without the cost of organizing and membership dues. It is this limited membership, though, that constrains the extent to which these unions can behave in a truly encompassing way, even if the custom of collective agreement extension imposes on unions a broader perspective than those unions in the Anglo world that usually bargain at the individual company level. In terms of social security administration, social partner unions engage in tripartite or bipartite administration of the various social insurance schemes (e.g., unemployment, sickness, and disability benefits). In the postwar period, this arrangement was found in Austria, Germany, the Netherlands, and Switzerland, among other places. These countries are where social partner unionism is most present, at least given my definition.

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175 Granted, it is not simply this functional logic that explains centralization, as centralization also facilitates union membership growth in the first place. Western, 1997, Chapter 3. These were also small, export oriented economies where the centralization of the union movement was feasible and, arguably, necessary in light of intense competitiveness pressures. See below, and Regini, 1984; Cameron, 1984.
177 This is Mancur Olson’s well-known ‘free-rider’ problem. Olson, 1962.
178 This applies even to negotiations at the industry level in most Anglo countries, since there is very little centralization or coordination in these movements that could apply agreements across industries, as occurs in encompassing and social partner unionism.
179 Crouch, 1999. Even unions in France and Italy were involved in the administration of social insurance benefits, but given the relative exclusion of the unions from broader corporatist involvement, this exception only really proved the
Varieties of Unionism and Labor Market Policy

At this point the connection between varieties of unionism and the different labor market regimes should be emerging. In broad terms, they match up in the manner presented in Chart 2.2. I will explain the connection between them shortly. Before doing this, though, I want to address immediately two criticisms or concerns that might arise given this striking congruence and the support it lends to my account of labor market policy. First, have the categories of unionism been created or manipulated in a manner to ensure congruence? Second, have the different labor market policies or regimes caused the varieties of unionism and not the other way around? Both questions can be addressed to an extent together.

Chart 2.2: Varieties of Unionism and Labor Market Regimes

<table>
<thead>
<tr>
<th>Exclusionary Political Economy</th>
<th>Predominantly Direct Bargaining</th>
<th>Extension-Based Union Bargaining Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regime: Liberal (Anglo-Saxon)</td>
<td>Unionism: Business</td>
<td>Regime: Dualistic (Southern Europe)</td>
</tr>
<tr>
<td>Unionism: Militant</td>
<td></td>
<td>Unionism: Militant</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inclusionary Political Economy</th>
<th>Regime: Social Democratic</th>
<th>Regime: Bismarckian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unionism: Encompassing</td>
<td></td>
<td>Unionism: Social Partner</td>
</tr>
</tbody>
</table>

The short answer is that considerable scholarship has shown that distinctive patterns of union activity emerged in the late 19\textsuperscript{th} and early 20\textsuperscript{th} century, often well before the given labor market policies that make up the regime types came into being, and that these traditions of unionism exerted major influence on postwar union behavior and development.\textsuperscript{180} For instance, the syndicalism or Communist radicalism of Italian, French and Spanish unions in the early 20\textsuperscript{th} century is well documented, as is the tendency to business unionism of Anglo labor movements. The same applies to my interpretations of Continental and Nordic European unionism, where the broad, rule. As Colin Crouch argues, in the early postwar years in these countries “industrial relations became, as they had in the 1920s and 1930s, a nonexistent arena, or one of uncompromising conflict, with codeterminative and tripartite institutions of the immediate postwar years being reduced to residual status. The continuation of union involvement in the management of social insurance schemes seemed just an aspect of the last of these alternatives, its very survival in such an otherwise hostile environment serving as a testimony to its lack of seriousness.” p. 439.

integrative social role described of the labor movements there is widely acknowledged, even if these union movements were not always as content with capitalism as the formulations of unionism above suggest. In the most relevant period after WWII, though, when the distinctive labor market regimes fully came into being, the union movements in these countries were almost universally dominated by either Social Democratic or Christian Democratic worldviews, and these were not fundamentally anti-capitalist (or at least not in a militant, revolutionary way): to the extent that socialism would be achieved it would be very gradually through an expanding welfare state and still involve private property and the market.

Furthermore, as the case studies in the thesis demonstrate, unions have had distinctive policy preferences in various countries, and these shaped the policies adopted in especially the 1960s and 1970s which set the basic contours of their labor market regimes. There is no doubt that unions and ‘unionisms’ have been affected by a wide range of external forces, including early labor market conditions and policies, state traditions and structures, and so on (see below). But to claim that labor market policies in these particular areas (EPL and UB) have shaped unionism and not vice versa is not supported by the evidence. To take just one example, EPL and UB were both initially quite weak in the Scandinavian countries in the early postwar period, similar to the UK and other countries; yet largely due to union pressure they became vastly stronger in the 1960s and 1970s relative to these latter countries (whereas this pressure did not really emerge in the UK, for instance). Finally, as I also show, unionism has changed over time even within countries, with one or another type of unionism on the ascendant (even if they rarely fully displace the older, foundational tradition), and these shifts have had an impact on labor market policy. In technical terms, then, there is both cross-sectional and longitudinal evidence for the ‘Varieties of Unionism’ thesis.

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181 See Hyman, 2001, p. 42-52. It is clear that militant tendencies remained strong in several Western European labor movements up until the end of the Second World War, especially given the radicalizing experience of interwar fascism. Nevertheless, even in these movements, Social and Christian Democratic currents were much stronger than in Anglo or Southern European movements, allowing their quick transition to a hegemonic position in the postwar environment.

182 Ibid. Granted, the distinction between encompassing and social partner unionism is partly of my own creation (though see Ebbinghaus, 2008, p. 69-76, for a very similar distinction), but it is based on objective criteria that seems relevant to the case at hand, in addition to other fields of welfare state politics (such as pensions, ALMP, gender-oriented policy, etc.). In fact, the arguably less clear-cut distinction between the two types of unionism is indicative of considerable overlap between them, as I show below (and as their joint inclusion in the socially integrative ‘type’ indicates). Nevertheless, the different degrees of unionization, centralization and involvement in UB that (broadly) distinguish the two groups are important in terms of explaining differing policy outcomes. I present this argument in more detail below.

183 Labor market institutions, such as the administration of social insurance, clearly have influenced unionisms.

184 In fact, in certain countries it makes sense to speak of combinations of unionism, as Richard Hyman has done persuasively. Hyman, 2001.
More challenging than answering the criticisms above is to explain the variance in dominant union traditions that emerged in different Western countries in the 19th and early 20th century. This is a very difficult enterprise and not the focus of the thesis. As such, it must mostly be left to others to explore.\textsuperscript{185} I will note, though, that there is no simple or mono-causal explanation of different union tendencies that I have come across that would render a ‘Varieties of Unionism’ view superfluous to labor market politics, as merely an ‘intervening’ variable. Having said this, there appears to be three important factors that explain variation, though this account is somewhat speculative. First, the point at which suffrage was extended to the male working class and how secure this was is relevant.\textsuperscript{186} In countries with late or interrupted democratization and weak liberal traditions, union movements tended to develop strongly political outlooks, either militant or reformist, since achieving suffrage and state control became dominant concerns as their strength grew over the course of the late 19th century. This tended to unify their political and economic institutions and aims to a greater extent than those with early democratization and/or strong liberal traditions. Most union movements fought this kind of a struggle, but for some it was much more difficult and drawn out than for others.\textsuperscript{187} This led to varying patterns of union-party interaction, in particular in terms of social democratic parties.\textsuperscript{188} For example, German workers and unions confronted a strong, authoritarian government in this period and their organization consequently revolved around how to gain suffrage or political power more generally.\textsuperscript{189} This created a tight linkage between the union movement and the Social Democratic and socialist parties that fought for their enfranchisement. The same applies to much of Continental Europe and Scandinavia.\textsuperscript{190}

\textsuperscript{185} See Crouch, 1993; Katzenelson and Zolberg, 1986; Hyman, 2001. I explore these questions in greater detail in the case study chapters, though.
\textsuperscript{186} Katzenelson, 1986, p. 37-38.
\textsuperscript{187} Reuschmeyer, Stephens and Stephens, 1992.
\textsuperscript{188} Upchurch et al. 2009; Minkin, 1991; Pontusson, 1988.
\textsuperscript{189} Upchurch et al., 2009, p. 40. See also Katzenelson and Zolberg, 1986; Hyman, 2003.
\textsuperscript{190} Related to this observation is the significance of the form of electoral system. In countries where proportional representation (PR) is present, as argued by Torben Iversen and David Soskice (2006), left wing governments have more consistently been elected, due to the class-coalitional dynamics of PR vs. single member plurality systems (SMP). In these countries, then, union movements may have greater confidence achieving gains through political/state legislation, since they are not only more likely to achieve it but their achievements are also more likely to be respected or left in place by the consensus-oriented nature of PR systems. This may explain why business unionism is so dominant in Anglo countries (which have SMP systems) and why socially integrative unionism is more present in European PR countries. There is an element of correlation between this electoral dimension and the timing of democratization explanation above: countries that had late democratization tended to adopt PR systems for a variety of reasons, including that divided non-socialist parties fearful of socialist influence opted for PR to ensure some legislative representation. See Kitschelt, 2006, p. 417. As it turns out, this was perhaps the wrong institutional choice, if we are to believe the Iversen-Soskice model, but it was unclear at the time that coalitional dynamics would work against them. In any case, it is quite possible that patterns of union organization can better explain left-wing dominance under PR, as I outline below.
A second important factor likely explaining differing types of unionism was the scale and speed of industrialization. Where industrialization was very limited or late in comparative terms, such as in Southern Europe, union movements remained relatively weak and subject to the political dominance of more rural, conservative forces. This relative political isolation and institutional precariousness likely generated a more pronounced radicalism, as they compensated for their weakness and exclusion with ideological intransigence. As Adolf Sturmthal writes, “There appears to be a fairly sharp North-South differential [in Europe] in the degree of Communist influence… it is fairly easy to relate the North-South differentiation to different stages of economic development and perhaps even more to different rates of economic growth. Even a superficial glance at an economic map of Europe would tend to suggest that the revolutionary or radical appeal to the workers was most successful in those areas in which the rate of economic progress was particularly low or where capitalism was in its early stages of development.”

Finally, union movements in smaller countries have tended to be more socially integrative and centralized than their counterparts in larger countries. This is certainly not a universal phenomenon, as the cases of New Zealand and Ireland attest, but it is a strong tendency. Labor movements in smaller countries have more easily centralized union control and this has tended to encourage political moderation. Arguably this centralization is the product of the following traits of small countries: the relative similarity of economic conditions across the country; the greater intensity of international competitiveness pressures and thus functional need for coordination (due to their small domestic markets and consequent exposure to trade); and the smaller number of workers needing to be coordinated.

All of this leaves unanswered, though, how varieties of unionism leads to the kinds of policy outcomes or regimes noted above. Let me sketch out how it can account for regime variation, leaving the detailed account for my case study chapters. Central to my argument is the distinction between unions operating in an inclusionary, corporatist environment and those operating in an exclusionary environment. A crucial claim that this chapter makes is that operating in a corporatist or inclusionary setting changes the nature of political demands on the part of union movements. In these settings union movements are pushed to broaden their perspective, from the immediate interests of their members to the well-being of the wider economy and society. This is not to say

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191 This perhaps also explains why the Russian movement was so radical as well, given their political exclusion and repression by the Tsarist state in the late 19th and early 20th century. A radical rejection of the existing order was the only alternative for these heavily repressed movements. This would hold for many developing countries’ movements too.
193 See for example, Katzenstein, 1985.
their perspective becomes completely ‘encompassing’ but it can approach this in certain circumstances (as discussed above).

This broadening of perspective happens under corporatism in two ways. First, effective and sustainable corporatism requires that union movements be centralized or coordinated to a certain degree. If they are weak in this respect, the movement will not be able to organize and maintain the wage restraint and industrial peace that is the basis of the ‘political exchange’ that motivates corporatism.\(^{194}\) This process of centralization, though, grants greater influence within the movement to unions that have weak labor market power and prospects, since a centralized movement will operate on roughly democratic principles and democracy will tend to favor the economically weak.\(^{195}\) The logic behind this claim is analogous to the way that unions compress wage differentials within firms and that more unionized economies tend to have more compressed earnings structures:
democratic institutions will tend to favor those with less labor market power given the logic of one person, one vote.\(^{196}\) In such circumstances, the interests of more marginal or precariously-employed union members will be heeded to a greater extent. This is not to say that they will be considered in a way equal to those of secure or ‘core’ union members, but they will be better considered relative to a decentralized movement.

Second, corporatism changes the way that unions behave in the political process, by definition: they are given an institutionalized place in policy discussions and they must be listened to and engaged in a whole range of policy areas that are not necessarily their central areas of concern. If they are not listened to governments risk losing their cooperation in macroeconomic terms (e.g., wage restraint, industrial peace, etc.). This very act of being institutionally involved in many areas of policy of course tends to broaden their policy perspective.\(^{197}\) But there is an even more profound shift in perspective and behavior that incorporation into policy-making creates. To see this, consider how ‘excluded’ union movements engage politically. As with unions in corporatist environments, they will have policy preferences in a range of areas, but in order to be taken seriously in policy discussions they will usually have to invest considerable resources (e.g., lobbying) or mobilize in sporadic protest.\(^{198}\) Given the effort involved in both types of political activity, these forms of mobilization will tend to focus attention on matters closest to their members’ immediate interests.

\(^{194}\) Regini, 1984; Cameron, 1984; Goldthorpe, 1984.

\(^{195}\) John Golthorpe makes this argument on p. 327, 1984.

\(^{196}\) See for example Swenson, 1989; Pontusson and Rueda, 2000; Pontusson, 2005.

\(^{197}\) See for example, Crouch 1999; Boreham, Hall, and Leet, 1996.

\(^{198}\) As Bruce Western writes (1997), “when forums for class conflict and working-class organization are decentralized, workers are compelled to adopt extraintitutional tactics, principally strikes, to achieve their goals.” p. 106.
For example, unions may organize marches around such things as pensions, employment protection, free trade, or austerity budgets. Or they can start advertising campaigns around legislation they find distasteful or inadequate. But it would be quite surprising if they organized similar campaigns around things like funding for training, sickness benefits, or unemployment benefits. If however unions are part of the administration of social security benefits, for example, in tripartite or Ghent-type arrangements, they will naturally be heard much more clearly in these areas, and with the need to mobilize far less resources, than in ‘exclusionary’ arrangements. Institutionalization of a policy role thus creates a broader perspective on the part of union movements since it reduces the ‘costs’ of substantive participation in a wider range of fields. And again, given the implicit ‘political exchange’ involved in corporatism, not listening to union preferences is potentially quite dangerous for governments in a way that ignoring union preferences in exclusionary political economies is not.

It is for these two reasons above that John Stephens contends that: “Centralized trade union movements are more likely to take a more leftist class-wide perspective rather than a narrow group-interest view. They are more likely to become and remain committed to political action.” And given their relative ability to deliver wage restraint and industrial peace, what David R. Cameron terms ‘labor quiescence’, this political action is much more likely to meet with reformist success. This then brings us back to the varieties of unionism outlined above.

Business unionism has been both the cause and effect of fragmented or decentralized labor movements which emerged in the 19th and early 20th centuries in the Anglo countries, which muted and narrowed the political outlook of the relevant labor movements. In these movements, measures for employment protection were sought mostly through collective agreements rather than state legislation and pressure for social security expansion was not as intense or sustained as in the Northern European countries. This relative indifference to welfare state development was also a product of the segmentalist labor markets that emerged in the Anglo countries where business unionism was usually dominant: since a number of social benefits, including pensions, were attached to well-established workers’ jobs, these workers did not have an intense desire for state provided benefits (i.e., the welfare state). Moreover, where business unionism has been dominant, the required wage moderation and industrial peace that underpinned corporatist ‘political exchange’ in

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199 This idea is suggested but not made explicit by Boreham, Hall, and Leet, 1996.
201 Cameron, 1984. See also Boreham, Hall, and Leet, 1996.
202 See the case study of the UK, for example. See also Swenson, 2002.
203 This argument is made in Swenson, 2002. It captures nicely also the limited public provision of pensions in the Anglo countries. See the UK case study.
the postwar period was not possible. Business unionist aversion to incorporation into state machinery and the subjugation of individual unions’ contracts to centralized oversight, which corporatism demanded, meant that the required ‘exchanges’ never really took place (or only very briefly and unsustainably). This limited the expansion of the welfare state, since governments had less incentive to cater to the interests of the working class. In addition, the fragmentation of these movements meant that their response to the economic crisis of the late 1960s and early 1970s was highly problematic in economic terms: in the context of tight postwar labor markets, the economic pressures of this period erupted into high levels of strikes, inflation and ultimately unemployment (i.e., stagflation). This meant in part that whatever limited welfare state gains that were achieved during this period, including favorable labor market policy, were susceptible to reversal by the neoliberal Right when they took power in the late 1970s and 1980s, as the welfare state came to be seen as a major cause of the economic malaise (along with organized labor itself!). Thus during the period when the welfare state grew the most across the advanced West and the various labor market regimes took their distinctive form, Anglo-Saxon unions both did not push for a major legislative expansion of labor market protections and what demands they did make were rebuffed or constrained due to their fragmentation and their failure to deliver labor quiescence in return. The consequence was the liberal labor market regime of weak EPL and meager UB noted above.

In countries with traditions of militant unionism in Southern Europe, divisions between dominant radical unions (e.g., syndicalist or Communist) and more moderate union groups (e.g., Christian Democratic or social democratic) meant that the perspectives and capacities of these labor movements were similarly constrained. As should be clear from what has been written, corporatist ‘political exchange’ was simply not an option for most of the postwar period, both because of the radicalism of the labor movement (and its consequent political isolation by the state) and later because the fragmentation and militancy of the labor movement prevented the delivery of the requisite labor quiescence. Again, this limited welfare state expansion, especially for groups without major political clout such as the unemployed, the disabled, and so on. In part this occurred in the way that union militancy inhibited the possibilities for rapid industrial growth: wage militancy limited the funds available for investment (explained below) and the delayed and

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204 Australia and perhaps New Zealand may be partial exceptions in this respect. See Huber and Stephens, 2001, and Boreham, Hall and Leet, 1996.
205 See for example Rhodes, 2000.
206 See for example, Cameron, 1984.
207 Regini, 1984.
208 See for example, Katrougalos and Lazaridis, 2002, Introduction.
incomplete industrialization of these countries in the postwar period limited state resources for social policy expansion.\textsuperscript{209} As well, the lack of sustained union participation in policy-making meant that the day-to-day concerns of the union movements were relatively narrow. What is telling in this context is that the welfare state expansion that \textit{did} take place was in areas that were advantageous for more well-established workers, particularly pensions, and the expansion that occurred in social insurance was highly differentiated: some categories of workers were covered by generous social insurance schemes, whereas others faced far less generous or non-existent protection.\textsuperscript{210} Revealingly, attempts by social democratic parties at de-differentiating social insurance in the direction of universalistic protection were blocked or resisted by the Communist Parties, those most associated with militant unionism.\textsuperscript{211} Thus welfare state development was influenced by the ideology and organization of the labor movement: militancy constrained general welfare state expansion and fragmentation led to inter-union competition to promote the sectional interests of their members in social protection.\textsuperscript{212} Moreover, partly because of the weakness of this underlying welfare state, unions pushed for and received very strong measures of employment protection: they wanted to avoid unemployment at all cost, especially given the continued dominance of the male-breadwinner household in Southern Europe.\textsuperscript{213} Given the pervasive influence of the state in these economies and

\textsuperscript{209} Katrougalos and Lazaridis, 2002, p.3. They write: “Of all these points, one is incontestable. This is the delay in the construction of the welfare state, which reflects the relative economic underdevelopment of the Mediterranean European South… The residual character of social protection in Southern Europe results from the state’s \textit{inability} to satisfy social needs, and not from an inherent confidence in the self-regulation of the market and individual thrift, as in the liberal model.” (Emphasis in original.) The relationship between union militancy and (weak) economic growth is explored in Eichengreen, 1997, and discussed below. While there is a connection between late industrialization and militant unionism, the latter can also impede the latter in ways unrelated to the initial lateness. The successful industrialization of ‘late industrializers’ such as Japan and South Korea serves as the counterfactual here.

\textsuperscript{210} As noted by Ibid., p.6, “peaks of generosity (especially regarding pensions) for privileged strata of the population (for example public functionaries) exists with gaps in protection.” See also Ibid. p. 8.

\textsuperscript{211} Rhodes, 1997, p. 6.

\textsuperscript{212} The brief period in Italy in the late 1970s which seems to be an exception to this overall picture simply confirms the rule. In the 1970s, facing massive industrial unrest and economic difficulties, the Italian government attempted to bring the unions into corporatist arrangements of political exchange. This was premised upon the gradual healing of divisions within the labor movement, as the different union confederations agreed to cooperate to a much greater extent and not compete for workers (a ‘unitary pact’). In this period, the demands put forward by the labor movement, when it was most centralized, were quite broad-ranging or ‘class-wide’ relative to other periods. However, for a number of reasons (such as weak central confederation power over wage negotiations) the unions could not really deliver sustained wage restraint, which was exacerbated by the government’s failure to live up to many of its promises, and concertation broke down. See Regini, 1984, and Hyman, 2001, Ch. 7.

\textsuperscript{213} See Neugart, 2008, and Ibid. p. xvii-xviii. It appears that some important employment protection measures predated the emergence of organized labor as an officially recognized political entity, such as in Spain and to a lesser extent Italy, where some significant EPL measures existed from before WWII. Emmenegger, 2011. In Portugal, though, EPL started out quite weak and was strengthened over the course of the 1960s and 1970s into one of the strongest in Europe. Eichengreen, 2007, p. 273. Regardless, the persistence and very high level of EPL across these Southern European cases suggest a push on the part of the unions (even if operating in clandestine or unofficial form) for high levels of protection
the weak market position of the unions, employment protection through ‘free collective bargaining’ was never a real option (as in the Anglo countries), and thus legislation was used to establish these protections.\textsuperscript{214} The result has been a highly dualistic labor market with heavily protected ‘Insiders’ and a large, precariously employed segment of ‘Outsiders’.\textsuperscript{215} As noted above, in policy terms this is embodied in a high level of EPL covering a portion of the workforce and meager, targeted spending on the unemployed (UB and ALMP).

In the inclusionary political economies of North-Western Europe, by contrast, the corporatist political exchange between union movements and governments was established in the postwar period. These arrangements rested upon a basic class compromise that fostered rapid economic growth, a compromise facilitated by the socially integrative outlook of the various union movements.\textsuperscript{216} As explained by Barry Eichengreen, the rapid reconstruction of European economies in the postwar period required solving the problem of generating high investment on the part of firms.\textsuperscript{217} Wage restraint was required to make investment profitable and abundant, which would eventually benefit workers in the form of higher productivity and wages, but if workers/unions were unsure of whether profits would be re-invested they wouldn’t exercise restraint. Employers needed to be assured that productivity improvements brought about by their investments would not be immediately captured by higher wages. In other words, they needed to be confident that wage moderation would be exercised by the newly powerful unions in tight postwar labor markets: \textit{wage moderation meant holding wage increases at or below productivity growth}.\textsuperscript{218} In technical terms, both sides faced a problem of ‘credible commitment’ which arose from the ‘time inconsistency’ of investment decisions (paying now for rewards later). Thus institutions were needed that locked in both sides of industry to upholding their side of the bargain. For capital, this involved state-based measures that monitored and publicized the investment behavior of firms for unions (including works councils) against unemployment. One may surmise this because, as I note below, pressure for stronger EPL has very rarely come from employer groups, \textit{pace} VOC.

\textsuperscript{214} Emmenegger, 2011.
\textsuperscript{215} See for example, Rueda, 2007; Katrougalos and Lazaridis, 2002; Rhodes, 1997.
\textsuperscript{216} Hyman, 2001, Ch. 4. He writes: “Enhanced rights for trade union organization, in some countries associated with a formal consultative role in the formulation and implementation of public social and economic policy, could itself be linked (as both cause and effect) to the moderation of goals and methods [i.e., socially integrative unionism]. The strategic shift made by the Swedish unions in the 1930s now seemed an attractive option in Europe more generally. This provided the basis for developments which in the 1960s and 1970s were often termed ‘corporatist’…” p. 51.
\textsuperscript{217} The following draws on Eichengreen, 1997, 2007, as well as Przeworski and Wallerstein, 2008.
\textsuperscript{218} This is the definition adopted by Isabel Mares, 2006. As noted by Przeworski and Wallerstein, 2008, “The norm tying increases of wages to the growth of productivity became the foundation of the compromise established during the expansionist period between 1950 and 1970 [in corporatist countries].” Crucially, in hindsight, expanding trade within Europe and between Europe and the massive consumer market of the US furnished the aggregate demand necessary to spur growth. See Eichengreen, 1997, and Brenner, 2006.
and taxes on dividend payments at high rates that encouraged re-investment of profits. For labor, coordinated and/or centralized wage bargaining was established that ensured that wage increases in the economy rose no faster than productivity growth in the export sector (e.g., either pattern bargaining or national wage agreements). Establishing this coordinated bargaining required giving union confederations considerable powers over their affiliate unions, though, and this led to the concentration or centralization of these union movements (though to differing degrees; see below). More to the point, to serve as a ‘bond’ for adherence to wage restraint, unions were rewarded politically with policy involvement and welfare state expansion. Of course, this is the ‘political exchange’ of corporatism discussed above. For well-organized union movements with strong central authority, these exchanges were attractive in part since they allowed the unions to use their substantial postwar economic clout for material improvements in their members’ situations, without risking the economic problems such as unemployment that wage militancy could have entailed.

In countries where this arrangement was firmly established, the welfare state expanded most in the postwar period and came to cover the majority of union members in social security through generous earnings-related programs. Residualist models of social insurance provision (i.e., those directed only at the poorest) held little appeal for the relatively well-off union members that were exercising wage restraint, and thus social insurance was not established on this basis. For similar reasons strictly universalistic or flat-rate models were not favored by these labor movements, even though they supported extending social insurance coverage to the vast majority of the population (in contrast to the interwar schemes that only covered well-established segments of the labor market).

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219 As we have seen, such efforts faltered in most of the Anglo countries and in Southern Europe, partly explaining their relatively slow postwar growth. Ibid.

220 As Eichengreen argues, “Unemployment, health and retirement programmes – the institutions of the welfare state, in other words – served as bonds that would be jeopardized if labour reneged.” p. 44.

221 As explained by Regini, 1984, “…the national economy may be in deep crisis or be highly exposed to international competition. In such situations, even a strong trade union may find it very risky to exploit to the full its organizational and market power in collective bargaining. Indeed, somewhat paradoxically, the stronger the union, the more likely it is to be confronted with an acute dilemma. If it uses its strength unrestrainedly in pursuing workers’ short-term interests through collective bargaining, then its disruptions of the economy may be such as to imperil its future ability to defend its members’ employment and in turn the very basis of its own power. If, on the other hand, it merely under-exploits its power by moderating its labour-market action, it will risk arousing internal dissent and weakening the loyalty of its members. Political exchange may then be seen as a way out of this dilemma, since union self-restraint in the industrial arena is – or should be – compensated for by access to the resources which the state can offer.” p. 130.

222 Social democratic unions’ preference for earnings-related schemes is made clear for example in Huber and Stephens, 2001, p. 119-125. As they point out, it was the main union confederation in Sweden, the LO, that pushed first for earnings-related schemes, not the Social Democratic Party. The latter soon adopted the position of the former, though, given the very close institutionalized relationship between the two.
This latter feature of broad coverage was largely a product of centralized labor movements and the need to legitimate wage restraint in programs of social solidarity.

The way that this arrangement was translated into specific policy programs differed from country to country depending mostly on the partisan composition of government and the nature of the labor movement. In countries with hegemonic or powerful Social Democratic parties and strong labor movements not split by religion, as in Scandinavia, the welfare state expanded most and in a universalistic, service-providing direction. Most of the countries of Continental Europe followed a different path, with Christian Democratic parties and unions being highly influential and with the welfare state taking a more occupationall segmented form (i.e., a differentiation of social security, though not nearly as pronounced as in Southern Europe). This distinction is well-established in the welfare state literature, however in the specific case of labor market policy it does not match up as neatly to the two policy areas being examined.

Instead, in the case of unemployment benefits the main typological distinction becomes between the Ghent countries and the others, with the level of organizational unity and strength of labor movements also mattering to the amount of resources devoted to the unemployed (e.g., the inclusivity of UB; see below, Section V). In terms of EPL, a clear typology among these countries is hard to establish, though most countries with an inclusionary political economy had developed moderately strong levels of protection by the 1970s (see Chapter 1 and 3). The form of employment protection differs considerably between these countries, however, with the Continental systems mostly relying upon state administration (e.g., Germany, Belgium, Austria, and The Netherlands) and the Nordic countries leaving the regulation of employment protection to the labor market representatives of employees and employers (e.g., Sweden and Denmark). But here there are exceptions, with Norway having a more state-based system, and certain countries having relatively modest levels of EPL, as noted above: Switzerland and Austria in Continental Europe and Denmark in Scandinavia. Despite the difficulty in linking specific forms of EPL among these corporatist countries to varieties of unionism (either encompassing or social partner), it should be noted that the inclusionary political economies associated with socially integrative unionism all produced levels of protection by the 1970s and 1980s that were between the very strict Southern European systems and

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223 For an overview, see Huber and Stephens, 2001.
the weak Anglo-Saxon systems. Thus we can see that socially integrative unionism aimed to protect workers, even non-union ones, from employers’ unmitigated authority, but it also did not seek to make that protection ‘absolute’ or ‘inviolable’ in a way that would seriously hamper industrial restructuring (as it arguably did in Southern Europe). In fact, this more cooperative stance in regards to industrial change was an important part of the class compromise underlying the inclusionary political economies. For instance, the ‘basic agreement’ of Saltsjobaden in 1938 between Swedish employers and the main union confederation (LO), which set very limited dismissal restrictions on employers, was prototypical of this cooperative spirit and “prefigured post-war patterns elsewhere in Europe”.

Putting these typological concerns in regards to EPL to one side, let us examine how different forms of integrative unionism, encompassing and social partner, led to distinctive ‘outsider’-oriented policies in North-Western Europe. In order to understand encompassing unionism, it is instructive to look at the Swedish experience. In the policy areas that concern us here, EPL and UB, Sweden had in the immediate postwar period a quite rudimentary system of statutory protection: collective agreements were mostly relied upon to establish dismissal protection and spending on unemployment benefits was meager, in large part because the voluntary Ghent-system initially left many people uncovered by unemployment insurance. In practice, support for the unemployed was not as limited as this UB spending would suggest however, since various ALMPs (e.g., direct job creation) and housing policy made sure that workers displaced in industrial restructuring could quickly find new work. This was the basis in Sweden of the famous Rehn-Meidner model: a highly egalitarian or solidaristic wage policy on the part of the Swedish blue-collar labor movement that squeezed low productivity employers out of the market while at the same time advantaging high productivity firms, who paid equal wages to their less productive competitors.

While this model proved highly successful at generating early postwar growth, over time frustration

228 See Hyman, 2001, Ch. 4.
229 Ibid. p. 47.
232 See Huber and Stephens, 2001, p. 127-128; Moene and Wallerstein, 2008. ‘Wage drift’, or unofficial/clandestine wage increases above the generally-agreed level, was a constant problem within these systems, thus diluting to an extent the logic or rigor of the model. This arose because employers had an incentive to pay slightly better wages than other firms to attract the best workers. But this was kept in check through strict centralized control on the part of employers’ groups and union confederations. Given the industry- and economy-wide wage deals that existed, there was also the need to regulate competition among employers for workers on the basis of non-wage social benefits. This was accomplished by establishing generous state-run benefits, in contrast to the occupationally-related programs that emerged in segmentalist labor markets and tied workers to firms through various types of ‘efficiency wages’. See Swenson, 2002, Ch. 2.
grew with the demands of redeployment and retraining that it placed on workers. This occurred especially as structural change intensified and unemployment became more of an issue in the mid- to late-1960s.\textsuperscript{233} In this period, the unions began to push for statutory measures to protect jobs and to have the state subsidize to a greater extent the union-run unemployment insurance funds. The result of this push was the Employment Protection Act of 1974 and ultimately a generous system of UB and high levels of effective coverage (in terms of recipiency or take-up rates). In the Ghent countries, growing state commitment to UB also meant rapidly expanding union membership, since state subsidization dropped the costs of membership and raised potential benefits. Thus union membership across the Ghent countries rose sharply with the rise of unemployment in the late 1960s through to the 1980s, in contrast to other countries where rising unemployment eventually undermined union membership and power.\textsuperscript{234} Union density rose in these countries to around 80 percent of the workforce with the exception of Belgium, where a more diluted Ghent-system simply maintained density in the upper 50 percent range (see Chapter 1). Given that the unemployed became directly integrated into the labor movement, they continued to push in the direction of more generous and inclusive UB despite their achievement of stronger employment protection in this period, and social spending patterns reflect this pressure (see section V below). Thus these encompassing movements became associated with considerably more social spending on the unemployed than other Western countries, especially in terms of UB but also ALMP: a fully social democratic regime, in other words.

This distinguishes these countries from Bismarckian regimes, where generous benefits and support have been given to a smaller proportion of the unemployed, leading to comparatively lower levels of UB spending. As described above, in these countries unions have only been involved in bipartite administration of mandatory unemployment insurance schemes, resulting in less attachment to increasing UB recipiency and generosity: there is no direct membership gains attached to improving UB for social partner unions, whereas there is in Ghent countries. Moreover, social partner unions in these countries have achieved considerable political and economic influence through state or employer extension of union-negotiated contracts to whole industries. This has meant two things: (a) weaker membership numbers and resources for political action because of ‘free-rider’ dynamics and (b) existing union members have tended to be more protected from unemployment than in Ghent countries, since union members will be concentrated among segments.

\textsuperscript{233} See Emmenegger, 2010. Similar pressures also emerged in Denmark.

\textsuperscript{234} Sruggs and Lange, 2002; Western, 1997; Ebbinghaus, 2006.
of the workforce that have the market power to actually negotiate the deals that are then ‘extended’.\(^{235}\) Both of these things have moderated union demands for greater social spending and made them more focused on retaining the benefits they have achieved. Since in these countries union members are less likely to be unemployed or at risk of unemployment, their commitment to unemployment benefits is less inclusive than other union movements in corporatist settings (e.g., changes to eligibility rules that make it harder to get benefits for workers with marginal work records are less stridently opposed).\(^{236}\) Therefore, social partner unionism has led to generous (i.e., high replacement rates) but somewhat exclusive UB systems in these countries, while because of limited union density EPL has been mostly state-based administratively to allow for broader coverage. This, of course, is the typical form of Bismarckian labor market regimes as I have defined them.

Notably absent or muted in the account of labor market policy regimes above is partisan politics, usually the foundation of Power Resource accounts.\(^{237}\) This is not because government partisanship has not mattered to labor market development. As the case studies in this thesis make clear, and as a broader literature attests, the partisanship of government has meant a good deal in the evolution of labor market policy and the welfare state more generally. Left-wing or social democratic governments, for example, were most associated with expanding labor market protections in the ‘Golden Age’ of welfare state growth and have generally been more resistant to retrenchment pressures since the 1980s.\(^ {238}\) Moreover, part of what kept socially integrative unions behaving in quiescent or corporatist ways was the frequency or likelihood of a friendly partisan government. Conversely, it can be argued that exclusionary political economies, where left government was either non-existent or infrequent in the early postwar period, fostered a more militant or business unionist outlook, depending on the degree of exclusion and prior union traditions.\(^{239}\)

\(^{235}\) Huo, 2009, p. 26, lists the density ratio of employed union members to unemployed union members for Western Europe, which suggests the likelihood of a union member becoming unemployed. Denmark has a ratio of Unemployed/Employed of 0.93 and Sweden has a ratio of 0.84, reflecting the integration of the unemployed into the labor movement. Germany and The Netherlands, on the other hand, have ratios of 0.44 and 0.54, respectively. Even more telling, Italy has a ratio 0.16, Portugal 0.36, and Spain 0.42, thus making clear the greater extent of ‘insider’ protection in these countries.

\(^{236}\) This is clear in the case of reforms in the 1980s in Germany (see Clasen, 1994, Ch. 6 + 7), as well as in my case study of The Netherlands.

\(^{237}\) See for example, Esping-Andersen, 1985; Huber and Stephens, 2001; Hicks, 1999.

\(^{238}\) See the literature in the footnote above for the expansion era, and Korpi and Palme, 2003, Scruggs and Allan, 2004, and Finseraas and Vernby, 2011, for the continuing relevance of partisanship in the retrenchment era.

\(^{239}\) It seems clear that the integration of unions into corporatist policy-making forums, which depended at very least on not overtly hostile (partisan) governments (e.g., as happened in hostile Southern European regimes), allowed the socially integrative segments of European labor movements to become internally dominant in the early postwar period. This meant that more militant traditions gradually weakened in the late 1940s through the mid-1960s, though the later 1960s and 1970s witnessed a resurgence of this militant strand in Northern European labor movements as the ‘Golden Era’ of postwar growth came to an end.
Nevertheless, a central claim of the ‘varieties of unionism’ view being presented here is that partisanship has not mattered nearly as much as earlier PRA accounts suggest. This is for two interrelated reasons. First, the nature of labor movements has had a significant effect on the likelihood of left or social democratic government, especially during the era when the welfare state grew most.

As made clear by David Cameron in a seminal article,

“…whether a nation’s government is dominated, over the long run, by leftist or non-leftist parties depends very much on the organizational structure of the labour movement. Where the labour movement is highly inclusive in membership, highly unified in the sense of having a relatively small number of industry-wide unions, and capable of speaking with one voice in the sense of delegating considerable power to the confederation (as in Sweden, Norway, Austria, and, to a lesser degree, in Finland, Belgium, and Denmark), the parties linked to that movement are likely to control government most of the time… Where the labour movement is less inclusive of all workers, where it is less unified, and/or where the confederations enjoy less power over their members, as is true (to varying degrees) in Britain, Germany, and the Netherlands, the Social Democratic (or Labour) party is less able to act as the party of the organized working class when in power (and, partly because of that, is more likely to suffer electoral erosion and loss of power). And where the labour movement includes only a small fraction of workers, suffers from numerous internal schisms, and lacks a single voice that can articulate its collective interest, [such as in Italy, the US, and so on,] leftist parties –if they exist at all –are likely to enjoy at best only sporadic control of government.”

For example, the correlation between Cameron’s measure for organizational power and centralization of labor movements and leftist control of government for the late ‘Golden Age’ period of welfare state growth (1965-1982) is very strong: 0.79. This ties in with the discussion of corporatism above because strong, unified and centralized labor movements with socially integrative outlooks were better able to deliver economic success during this turbulent period to friendly leftist governments (e.g., lower unemployment, industrial disruption, and inflation), thus tending to keep them in power longer.

The second reason that partisanship is less important than previously argued in the PRA tradition is intimated in the passage by Cameron quoted above and has already been flagged in my account: the nature of the labor movement, particularly its policy preferences, has a substantial impact on what leftist parties actually do when they gain power. This is clear by comparing the British Labour Party and the Swedish Social Democratic Party, for instance. In most quantitative approaches to explaining welfare state growth, in the PRA tradition and more generally, they are both treated as ‘left

240 Cameron, 1984, p. 167-168.
241 Ibid. p. 166-167.
government’ and their impact on the policy in question measured accordingly. But the policy preferences of the two parties are of course very different. And as the case studies in this thesis show, in the case of labor market policy this is largely, but not entirely, a product of very different preferences on the part of the labor movements of these respective countries. As a result, government partisanship may be limited in what it can tell us about the cross-sectional policy outcomes we ultimately witness.

It may capture trends in social spending and other such measures of the welfare state, but when it comes to explaining relatively stable cross-national differences in policy design and spending patterns it is likely to be of limited use. Instead, as demonstrated in Section V and Chapter 3, a ‘varieties of unionism’ view is much better at capturing or explaining these differences. As will also become clear, this insight into the conditional role of partisanship is an important part of my critique of David Rueda’s Insider- Outsider theory of labor market policy, to which I now turn.

Section III: A Critique of David Rueda’s Insider-Outsider Theory

As Chapter 1 explained, Insider-Outsider theory emerged first in economics in the late 1980s as an attempt to explain persistently high rates of unemployment across the Western world, and especially in Europe. In his book, Social Democracy Inside Out, David Rueda takes this framework as an inspiration for a theory of labor market policy. He conceives of the labor market as divided between Insiders and Outsiders, as in the original theory, except Insiders are no longer defined as simply union members but rather as individuals with highly protected, full-time, permanent jobs. Outsiders consist of the unemployed, the underemployed (e.g., involuntary part-time workers) and the precariously employed (e.g., fixed-term workers). In his case studies, however, it is clear that Rueda treats Insiders as basically synonymous with unions (politically and otherwise), which means that his distinction from early I-O theory is mainly intended to facilitate his survey analysis of policy preferences.

This matters because it means that we can investigate union preferences to get a sense of the relative accuracy of the theory, as I detail below.

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243 For below, see Rueda, 2007, Ch. 2.
244 To take a couple of examples, Rueda speaks in a few places of how Insiders traded wage restraint in the Netherlands to maintain employment protection, yet it is unclear how it would be possible for non-union workers to exercise intentional and coordinated wage restraint, let alone ‘trade’ it for anything (e.g., Ibid. p. 126-127). If his case study account of labor market policy in the Netherlands is to make any sense, then, Insiders must be equated with unions. Similarly, in his case study of the UK, when he discusses ‘anti-Insider’ Thatcherite policy, the vast majority of legislation he describes was an attack on unions, not specific statutory measures of EPL. Finally, his description of the unions in his three case study countries more or less explicitly suggests that unions represent insiders almost exclusively. Ibid. 105-112
Second, Rueda saw a dilemma emerging for Leftist or social democratic parties in the West since the 1970s, when significant measures of employment protection were passed: do they cater to the interests of Insiders or Outsiders? Fundamental to the theory advanced by Rueda is that the interests of these two groups in labor market policy terms is not only in tension but actually often contradictory, since Insiders will largely be paying for the welfare state support received by Outsiders and they will resent this. In effect, this broke apart the vision of homogenous ‘labor’ in political economy that had dominated earlier PRA accounts. ‘Labor’ was now split into two very different groups with conflicting interests. Faced with this tension and dilemma, argues Rueda, leftist parties have since the late 1970s sided with the interests of Insiders. This is because Insiders are better able to give parties financial contributions and they tend to be more politically engaged as well as better organized relative to Outsiders. As a result, labor market policy will not be determined by the same types of PRA partisan dynamics that obtained in the early postwar period: leftist parties will remain associated with higher levels of EPL, but the impact of partisanship will become nil in the areas of Outsider-oriented policy, UB and ALMP. It is in this sense that Insider-Outsider theory effectively sidelines labor, as noted above, since measures of labor strength and partisanship cease to matter in two important areas of labor market policy.

In his book, Rueda defends the micro-foundations of this view through survey analysis, runs quantitative tests to back up the theory’s expectations regarding partisanship, and details its impact on the politics of Spain, The Netherlands and the UK in case study material. He also tests whether high levels of EPL and corporatism intensify the Insider-Outsider dynamics he presents, and he finds that they do in fact do so.

Insider-Outsider Theory and the Four Labour Market Regimes

An important part of the critique advanced below is that Insider-Outsider tensions are not universal or equally pronounced among advanced Western countries but are rather mediated by the nature of the political economy and labor movement. Rueda acknowledges in places the former

245 Subsequent work in the Insider-Outsider mould has continued to deconstruct ‘labor’ into even more sub-groups, but I leave this to one side for the moment to focus on Rueda’s arguments. See for instance, Hausermann and Schwander, 2009.

246 Rueda, 2007, p. 16. He cites Esping-Andersen in support of the latter contention: “It is difficult to imagine an allegiance of housewives, early retirees, excluded youth, and a variety of groups with a more or less irregular connection to the labor market.” Esping-Andersen, 1999, p. 304-5. There is a tension associated with this plausible view, though, given Rueda’s broader case: if Insiders are listened to by Social Democratic parties and this has meant that the latter has ceased to care about Outsider-oriented policy, how do we explain the distancing of unions and SD parties alongside retrenchment? It is precisely the divorce of the two that allowed for SD parties to adopt more neoliberal stances, as the case studies of The Netherlands and Sweden show, and to a lesser extent, the UK. See below.
point that Insider-Outsider dynamics can vary in intensity across countries, but he contends the main determinant of this variation is the level of pre-existing EPL and the presence of corporatism (which he maintains worsens dualism). While not denying that high levels of EPL can worsen Insider-Outsider tensions, the varieties of unionism view advanced here suggests that this is not necessarily a central determinant of labor market politics’ dynamics and that corporatism has in fact historically tended to mitigate Insider-Outsider problems, not worsen them. More to the point, in order to understand Insider-Outsider dynamics and the evolution of labor market regimes, we need to understand the nature of the labor movements of various countries. In certain countries the nature of the labor movement has led to pronounced Insider-Outsider dynamics, whereas in others this dynamic is either muted or not very relevant. In Southern Europe, for example, there is little doubt that Insider-Outsider dynamics are intense and pervasive. These countries have highly dualistic labor markets and this is matched and reinforced by labor market policy regimes that cater to Insiders and tend to neglect Outsiders. In addition, the politics of labor market policy, where partisan differences are not pronounced on the question of Outsider-oriented policies, have largely unfolded as predicted by Rueda.

In the Bismarckian regimes of Continental Europe, this labor market dualism and the political dynamics associated with it are certainly present to an extent since the late 1970s but they are less pronounced than Rueda’s framework would lead us to expect. This is in large part because the labor movements of these countries have been institutionally attached to the UB systems and, due to corporatism and socially integrative traditions, have taken a broader, class-wide perspective politically than ‘excluded’ movements. Consequently, these regimes have generally devoted considerably more societal resources to the unemployed, even if this has dropped in recent years and effective UB coverage has become more exclusive. To the extent that there has in these countries been a move away from the generous and relatively inclusive welfare state arrangements of the late ‘Golden Age’, though, this has been accomplished by either right-wing governments or left-wing parties that have distanced themselves from their erstwhile union allies. The expectation of Insider-Outsider theory that unions will oppose generous UB systems is frequently contradicted by the political positions adopted by labor movements of these countries, and by the fact that they have often traded wage restraint to retain welfare state generosity. Moreover, in these countries leftist

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247 Rueda’s account of Spanish politics makes this very clear. This stark dualism is also true of Japan. See for example Yun, 2010.
248 See for example the case study of the Netherlands.
parties have been more likely to increase investment in ALMPs to compensate for cuts in passive support systems such as UB, as part of a ‘restructuring’ and ‘activation’ of the welfare state.\textsuperscript{249}

A somewhat similar story to that for the Bismarckian regimes can be told of the Social Democratic ones, except here the labor movements have been much more vigorous in their defense of UB systems and partisan differences have consequently been more pronounced. There has been significant retrenchment in some of these countries to the UB systems, as elsewhere, but to the extent that these were accomplished by the social democratic parties they depended upon a bitter divorce of these parties from their union allies in the context of a deep economic crisis in the mid-1990s. As the crisis passed, relations improved and some of the deep cuts were reversed and/or compensated with higher ALMP spending. In any case Outsider-oriented spending or ‘effort’ on the part of these countries remains generally higher than for the other labor market regimes, especially the Liberal and Dualistic ones (see Section V). Again, the staunch defense on the part of these union movements for the UB systems is inconsistent with Rueda’s theory, since these ‘protected Insiders’ should not support Outsider-oriented spending. That they have done so suggests the need to look at the nature of the union movement in order to understand the extent of Insider-Outsider dynamics politically.

Finally, Rueda’s Insider-Outsider theory is also of questionable utility for the analysis of Liberal regimes’ labor market politics. In the first place, EPL has never been high or covered a high proportion of workers in these countries (see Chapter 1 and 4). Thus the very concept of Insiders is somewhat dubious when applied to labor markets in Anglo countries, as Rueda at one point seems to acknowledge.\textsuperscript{250} Indeed the initial Insider-Outsider theory of unemployment was intended to mainly apply to the economies of Western Europe with persistently high unemployment.* Granted, there is no doubt that there are and have been many protected and secure workers in the Anglo countries. However, this needs to be put in a comparative context if we are to understand the comparative development of policies. Given the relative insecurity of workers in Liberal regimes, including union workers, we should expect them to behave politically in ways that are more cognizant of, and similar to, Outsiders. As Rueda argues,

\textsuperscript{249} See Huo, 2009.
\textsuperscript{250} He notes as an aside that “the degree to which ‘insiderness’ remains after Thatcher is open to question”. Ibid. p. 144. However if this is true, then it is ‘open to question’ whether insiderness has ever been a prominent feature of Anglo economies, since EPL in the US and other Anglo countries has by standard measures been roughly equal or below the UK level post-Thatcher. It could be argued that EPL scores in Anglo countries don’t fully capture ‘insiderness’ because of the prominence of collective agreements in establishing protection, but this argument is not made by Rueda and making it would likely significantly change the type of quantitative tests he would have to run subsequently.
“...it is clear that decreasing levels of employment protection directly increase the vulnerability of insiders to unemployment. If firing insiders becomes easier, it is reasonable to assume that the interests of insiders and those of outsiders will become more similar. The benefit of policies directed to promote employment will then become more attractive to insiders as they themselves become more likely to need them. The insider-outsider model therefore implies that decreasing levels of employment protection should be associated with increasing levels of pro-outsider policy when social democratic governments are in power. As insiders become more vulnerable to unemployment, they will pressure social democratic parties to promote labor market policies [e.g., UB and ALMP].”

Yet in the countries with the weakest employment protection, the Anglo countries, commitment to Outsider policies has been very weak in comparative terms. Examining the Anglo countries reveals that ‘Insiderness’ is not required to have a large number of poorly treated Outsiders, as the theory suggests. For example, American workers have the weakest employment protections in the West yet there is (now) high unemployment, significant underemployment and precarious employment, and high levels of poverty among these groups in part due to very meager UB and ALMP. Furthermore, this is partly because unions in these countries have not been nearly as proactive and supportive of generous UB systems or effective ALMPs as they have been in the moderately high EPL countries of North-Western Europe. In fact, in certain cases, the attitude has been one of mild indifference. From the perspective of Rueda’s Insider- Outsider theory, these empirical facts are inexplicable. In a way, it is confirmation of the view that unions ‘do not care about Outsiders’, but when placed in comparative context it makes little sense because they should be the unions most likely to ‘care’ given the theory. Of course, in the context of ‘varieties of unionism’ these puzzles disappear: a tradition of business unionism has led to a distinctive set of policy preferences and political behavior on the part of Anglo labor movements, not capable of being explained by Insider-Outsider theory.

252 See the UK case study.
253 It might be contended that this feature of Anglo regimes is a product of very infrequent left government, but in the case of New Zealand, Australia and the UK left government is not ‘rare’ enough to explain weak Outsider effort both in the ‘Golden Age’ or in the retrenchment era. For example, from 1980 to 2003, all three countries had more ‘left’ government than the Netherlands, yet the Netherlands had much higher spending on UB and ALMP. In fact, NZ and Australia had more left government in this period than a number of countries with much higher Outsider effort: Belgium, Denmark, Finland, etc. These figures are drawn from Rueda’s own chart.
254 For an elaboration of this position, see again the case study of the UK.
The Weaknesses of Insider-Outsider Theory

The fact that Rueda’s framework cannot account for the important policy differences and union preferences across regimes noted above suggests that a range of deeper problems plague the theory. This can be seen by examining two central components of his account: the ‘micro-foundations’ of survey analysis and the quantitative regressions of policy determinants.

There are a number of flaws with the ‘micro-foundations’ Rueda presents. Rueda uses the 1996 Eurobarometer survey on Employment, Unemployment and Gender Equality to establish the relative policy preferences of different labor market groups. There were over 18,000 respondents from 13 European countries to the survey and so it should provide good grounds to make statistical tests, even if it is a bit dated and it only captures a particular moment in time. However, the most central worry associated with the survey is that it does not directly ask questions about the policies that Rueda wants to understand. Rueda must therefore rely upon proxy questions of uncertain relevance to establish his conclusions. This of course is not of his choosing, since these surveys are apparently all that was available, but it should immediately make us wary of drawing firm conclusions from the results. For example, to test preferences for EPL, Rueda uses the question “For you personally, how important do you think each of the following is in choosing a job?” The respondents are given a choice of rating several job qualities, including job security, on a scale of very important to not important at all. Those rating job security as important or very important were taken to be supportive of EPL, even though this is far from self-evident, as Rueda treats it. In the case of ALMP preferences, the question respondents are asked to rate their agreement to was “I would be ready to pay more tax if I were sure that it would be devoted to creating new jobs.” Finally, for passive labor market policy (PLMP) such as UB, respondents were asked to rate their agreement with the statement “The welfare state costs too much to be maintained in its present form.” In each case, the answer given by respondents was dichotomized to a score of 1 or 0 depending on which way they leaned. This technique will tend to exaggerate preference differences, something to keep in mind when interpreting his results. More importantly, though, it should be clear that these questions are only vaguely connected to the policy areas in question and thus must be treated with significant caution.

255 For below, see Rueda, 2007, Ch. 3.
256 This is a common feature (and weakness) of most recent work in this ‘tradition’.
257 Ibid. p. 43. He immediately claims: “This seems a reasonable way to capture a respondent’s preferences regarding employment protection.” This strikes me as far too strong or hasty a conclusion, but given the absence of direct questions this is what must be worked with.
In order to understand Insider and Outsider preferences Rueda then classifies respondents into both groups depending on whether they have (i) a full-time, permanent contract job or are working part-time or fixed-term voluntarily (Insiders) or (ii) are unemployed or working part-time or fixed-term involuntarily. He also adds a third category of ‘Upscales’ to capture the preferences of managers, professionals, owners, and self-employed people. In the case of the ‘employment protection’ question he finds, as predicted, that Insiders value job security the most, followed by Outsiders and then Upscales. However what is notable here is that the differences in average response ratings are not very large: Insiders score just above 0.63 in relation to the question in the last paragraph, Outsiders 0.58, and Upscales just under 0.55. Also striking is that all groups tend to feel that job security is important, just in slightly different degrees. (If this is a proxy for attitudes to EPL does this mean everyone supports it?) Even more revealing than this result, though, are the results to the questions ostensibly about ALMP and PLMP. In terms of ‘ALMP’, Outsiders agreed with ‘more tax to create employment’ for an average score of just over 0.44; Insiders scored just over 0.42; while Upscales scored 0.38. In this case it is clear that real ‘difference’ in preferences is between Upscales and the rest, rather than between Insiders and Outsiders (a difference of only 0.02). Similarly, in the case of ‘PLMP’, the average disagreement score with the claim that ‘the welfare state costs too much’ was almost 0.32 for Outsiders, almost 0.31 for Insiders, and 0.25 for Upscales. Again, the main difference in preferences towards the welfare state is between upscale groups and the rest (as traditional PRA would suggest). And remember that scores have been dichotomized to exaggerate differences. But what is even more curious is what Rueda makes of this very minor difference between Insiders and Outsiders of 0.01: he claims that these results confirm his prediction that “Outsiders were most supportive of the welfare state. Insiders and, especially, members of upscale groups do not see themselves as potential beneficiaries of social policy and dislike paying the costs of a generous welfare state.”258 Somehow a 0.01 average score difference becomes the dividing line between supporting the welfare state and not! Granted, his different scores are statistically significant. Indeed it should not be hard in a sample of 18,000 to find statistical significance. But he then jumps to the conclusion that these differences are substantively significant in a very convenient way for his theory, and this is a dubious leap of faith.

He also repeats his analysis of the policy preferences of the three groups using multilevel logistic regression analysis. Here again he claims support for his underlying theory, and the ordinal preferences of the different groups again matches up to that predicted by Rueda. For instance,

258 Ibid. p. 46.
Outsiders prefer spending on ‘ALMP’ more than Insiders and they in turn support it more than upscale groups. What is striking again here is that Insider status correlates positively with support for ALMP and PLMP, in contrast to what Insider-Outsider predicts. True, the support is less pronounced than Outsiders’, but this is a matter of degree (again exaggerated by dichotomization): in the case of ALMP a positive coefficient of 0.127 for Insiders compares to one of 0.206 for Outsiders. Upscale groups, on the other hand, are negatively associated with support for ALMP with a coefficient of -0.068. A similar pattern holds for PLMP, with Upscale groups associated with opposition to welfare state generosity and both Insiders and Outsiders tending to be supportive of current welfare state generosity. In short, the results of Rueda’s analysis lend themselves much more to the view that Insiders and Outsiders are mostly supportive of the welfare state whereas Upscale groups are much less so: i.e., something approaching the traditional capital/labor division of PRA.

Similar problems plague his survey analysis in regards to the conditional impact of existing EPL levels and corporatism, which he introduces through multilevel regression analysis of the survey results. The most important problem of this analysis is that it takes no account of the context in which the questions are being asked of respondents. Let me take one example. Rueda tests the impact of corporatism on the three groups’ preferences by controlling for the level of corporatism of the country that the respondent is in. What he finds is that support for ‘ALMP’ and ‘PLMP’ through his proxy questions decreases in the presence of stronger corporatist arrangements. However what must be kept in mind is (a) the ‘welfare state’ questions that are being asked of respondents require evaluating the current welfare state they confront; and (b) the widely noted historical association of corporatism and generous welfare states. In the case of PLMP, recall that the question is “The welfare state costs too much to be maintained in its present form.” Asking this question in Sweden or Denmark, where the welfare state is very large, is a very different question than asking it in Ireland or the UK, with relatively weak welfare states. A similar logic applies to the question about ALMP, which asks respondents if they would be willing to pay more taxes for employment creation: if taxes are already high in the corporatist countries, which given their more extensive welfare states is a safe assumption to make, then it is little surprise that respondents will be less willing to agree to further taxes. In this sense, the effect of ‘corporatism’ in the survey analysis captures something very different from that intended by Rueda. Even more revealing in this context is that the interaction term for Insiders and corporatism, which will capture whether Insiders become more supportive of

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260 For the connection between corporatism and welfare state expansion see for example Hicks, 1999.
‘ALMP’ and ‘PLMP’ in more corporatist settings, is not only positive in both cases but highly
significant in the case of ALMPs.261 This is a crucial result, and one that undermines his whole case,
but Rueda skips completely over it in his discussion.

In the end, then, the whole exercise is deeply flawed: Rueda uses (dichotomized) answers to
proxy questions that have limited relevance to the policies at hand; the results of the analysis often
do not support the claims that Rueda is making and frequently contradict them; and far too much
theoretical weight is put on very small substantive differences in preferences. At times in the chapter
Rueda seems to sense and acknowledge the weakness of his conclusions. Yet by the start of the next
chapter this hesitancy and caution is completely gone. He begins the next chapter by stating:
“Chapter 3 has shown that the preferences of the insider-outsider model are accurate.”262 He then
continues to audaciously misconstrue, in a way favorable to his case, the results of the last chapter in
summary fashion. This is very unfortunate, since it sets him on the wrong foot right from the start.

The problems continue with the regression analysis of policy determinants that he
undertakes later in the book. The first problem is that regression analysis of EPL is highly
problematic: the dependent variable (EPL) changes very rarely and when it does it changes abruptly
from one year to the next and then goes back to being stationary. Others who have looked to
explain EPL levels have abandoned regression analysis altogether for this very reason.263 For
example, Rueda analyzes the period from 1970 to 1998 when EPL was completely stationary in 5 of
the 16 cases, and in the others the changes were not dramatic or frequent. In addition, many of the
important determinants of EPL will be missed because these systems often changed considerably in
the period from 1960 to 1970 and yet this period is left out of the analysis. Partly as a result of these
various issues, the results he finds in the case of EPL are very strange: for instance, Rueda claims that
the analysis shows that a Left party victory in Australia (moving from 0 to 100 in terms of the ‘left
partisanship’ variable) would be “associated with a 250 percent long-term increase in employment
protection.”264 On a possible EPL scale of zero to two, this would move Australia from an EPL
score of 0.5 to 1.75, higher than every country in the sample except for Italy. (And yet just such an electoral
victory happened in the early 1980s, with no change in the EPL index.) The plausibility of this kind

261 Ibid. p. 65.
262 Ibid. p. 68.
263 Emmenegger, 2011. He writes, “The analysis of the determinants of job security regulations is complicated by the
lack of temporal variation. The OECD indicator of employment protection legislation exhibits a correlation of r = 0.91
between the earliest (1985) and the latest observation (2003), which sets narrow boundaries for statistical methods.” p.
337.
264 Rueda, 2007, p. 90.
of analysis is very suspect, given how much scholars understand the connection of EPL to deeply rooted labor market regime characteristics (as discussed above).  

How this kind of result does not raise major alarm bells for Rueda is quite startling, and more importantly puts the whole regression into serious doubt.

This is especially relevant because this is the one area that he finds an effect of Left partisanship, which he claims supports his theory. The remaining results for the most part simply fail to find a statistically significant relationship between Left partisanship and ALMP and PLMP spending. Yet for Rueda this is apparently sufficient to establish his case: ‘partisanship does not matter for spending patterns’. The form of this ‘confirmation’ matters for two reasons, though. On the one hand, a statistical non-result is easier to achieve than a result, since a null hypothesis of ‘zero relationship’ is always easier to not disprove than to disprove. There are a whole range of reasons involving regression design that can lead to non-results. Tellingly, in Rueda’s results Left partisanship is positively associated with ALMP and PLMP spending in terms of a long-term effect, just not in a statistically significant way. Curiously, the only test that involved a statistically significant effect of partisanship was for ALMP and in this case the effect was negative. But Rueda makes no attempt to explain this surely puzzling result: Left parties are less committed than right wing parties to ALMP? This contradicts a number of careful case study analyses on the question and it alerts us to the problematic form of his statistical tests. In fact, once again, he approvingly cites the substantive effect that the election of Left government would have in Germany, a 19 percent decrease in ALMP spending, even when it seems bold and implausible. Once more we can compare his statistical ‘result’ with actual history. The Social Democrats took power in Germany in 1997, thus moving them from 0 to 100 in the Left partisanship score, and ALMP spending went up briefly from 1.1 percent of GDP to 1.2 and hovered between the two figures until 2004.

On the other hand, the absence of a partisan impact on social spending does not necessarily mean Rueda’s theory is accurate: there are a number of other theories that could account for an absence of a relationship, even if the statistical work is properly done. Theories such as the New Politics of the Welfare State play down the impact of partisanship, along with theories that emphasize path dependence, globalization, state structures, comparative institutional advantages (e.g., VOC), skill compositions, and so on. Even recent PRA theorists acknowledge that in the retrenchment era partisanship does not matter as

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265 Emmenegger, 2011.
266 See for example Huo, 2009, for evidence and a discussion of previous work.
268 OECD, SOC-X Database.
much as it once did, even if most research from this perspective still finds a relationship. In short, there is little direct evidence for Rueda’s specific Insider-Outsider view of diminished partisan effect, especially when we take into account how questionable or implausible the EPL results are.

It is problems such as these that again raise deeper questions about the method adopted by Rueda. These relate in part to his choice of statistical tests and dependent variables. First, his dependent variables for ALMP and PLMP are spending figures as a percent of GDP. However, arguably the more relevant indicator for something like ALMP is to divide these figures by indicators of ‘need’ or ‘demand’, such as the unemployment rate, or in the case of UB or PLMP more precise figures of benefit generosity such as replacement rates (as done by others). This measures Outsider effort in a more meaningful way. In my quantitative tests of Chapter 3 this will be my dependent variable in the case of UB and I use it in Section V to outline the impact of varieties of unionism. Second, the dependent variable is measured year to year even if reforms will sometimes take years to show up in spending changes and if spending changes can result from a host of factors not involving policy change. Third, others have argued that it is not year to year partisanship but rather long-term Left incumbency that matters for welfare state development and this possibility is not investigated by Rueda, nor is there any account taken of the nature of the labor movement allied with the Left party, as the analysis above would suggest is highly relevant. For these reasons there should be considerable skepticism about Rueda’s finding of little or no partisan effect.

Ultimately it is unclear what to make of the broader picture presented by Rueda. He claims at the start of his regressions to want to explain “policy outcomes” across the advanced West in EPL, ALMP and PLMP. At the end of his analysis though, given his results, it remains unclear how to account for relatively stable cross-national difference in these policies (see Chapter 1). As I suggested in the discussion above about the different labor market regimes, there is very little in Insider-Outsider theory that can explain these “policy outcomes”. If anything, given a crude Insider-Outsider model, we should expect two poles: one with weak employment protection and generous Outsider policies and another with strong EPL and meager Outsider policies. In reality, of course, we do not see this simple dichotomization at all. Strong EPL coexists with generous Outsider policy (e.g., Sweden) while weak EPL coexists with meager Outsider policy (e.g., the U.S.). It is not clear to me how Insider-Outsider theory could possibly account for this. Perhaps even more puzzling from

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270 See for example Huber and Stephens, 2001.
271 See for example, Allan and Scruggs, 2004; Korpi and Palme, 2003.
272 I discuss this at greater length in the quantitative chapter.
273 Rueda, 2007, p. 69.
this standpoint is to explain the persistence of reasonably generous Outsider-oriented spending *in any scenario*. If Social Democratic parties no longer support it, as Rueda argues, and Right or Conservative parties never have, then how are spending levels maintained? Who is fighting politically for the well-being of Outsiders? In Rueda’s model, it seems, no one is!

As my case studies demonstrate, though, union movements have often fought for Outsider-oriented policy. Moreover, a large body of research has suggested that partisanship still does matter for a range of welfare state policy outcomes. It is not hard to see why, especially given Rueda’s own results in his survey analysis: *Insiders often support a generous welfare state, and only marginally less than Outsiders, so there is no need for Social Democratic parties to choose between them.* Naturally, this brings us back to a PRA understanding; though given the varieties of unionism perspective developed here, perhaps a more conditional or qualified version than previously. Telling in this respect is that to the extent that Social Democratic parties have reduced their support for the welfare state, this has usually been a product of a bitter *divorce or distancing* between them and their respective labor movements. Given Rueda’s characterization of unions as ‘political Insiders’, and his argument that Left parties have ‘sided’ with Insiders, we should have expected the opposite to be the case (note the reasoning he provides above for why Insiders ‘capture’ Left parties). That welfare state retrenchment has taken place mostly under Left governments *at odds or at least in tension* with their labor movements suggests something fundamentally inaccurate about the Insider-Outsider model of partisanship. It is far more likely that other aspects of the political economic environment are pushing towards retrenchment, such as globalization, rather than Left parties simply ‘siding’ with Insiders to the exclusion of Outsiders.

**Section IV: A Critique of VOC Accounts of Labor Market Policy**

There are two variants to the VOC account of labor market policy. One is employer-centered and the other is skill-centered. The former is associated most with the initial Hall and Soskice volume, *Varieties of Capitalism* (2001), whereas the latter is most forcefully expressed in Torben Iversen’s *Capitalism, Democracy, and Welfare* (2005). While the employer-centered version emphasizes employers’ relative support for generous UB and strong EPL as the source of cross-national variation, the latter explains policy outcomes in terms of the *training* systems that prevail in

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274 For a brief sample, see Huber and Stephens, 2001; Scruggs and Allan, 2004; Korpi and Palme, 2003; and Huo, 2009.

275 Indeed, it is possible that a failure to distinguish between different types of Left parties leads to his finding of insignificant partisan effect, though this is a more general difficulty with regression tests of partisan effect. For a discussion of this and an attempt to deal with it see Finseraas and Vernby, 2011.
given countries and how the relative prevalence of different types of ‘specific skills’ motivate workers to vote for parties and policies that ensure strong labor market protections. Given what I have said above, I take issue with both variants. I begin with the employer-centered perspective and then move on to a critique of Iversen’s view.

Employer-centered V’OC

As explained in the seminal VOC essay on labor market policy, the VOC “model predicts what types of political alliance are likely to emerge in support of a particular type of social protection. For example, in economies where companies engage in product market strategies that require a combination of firm- and industry-specific skills [i.e., Coordinated Market Economies], and where a large number of workers invest in such skills, a strong alliance between skilled workers and their employers in favor of social protection advantageous to them is likely to emerge –even if this means reducing job opportunities for low-skilled workers. By contrast, where business has no common interest in the promotion of specific skills [i.e., Liberal Market Economies], it will have no interest in defending any of the three components of social protection [i.e., wage protection through coordinated bargaining, UB and employment protection].”

As a result of these different business preferences, then, a weak system of labor market protection will emerge in LMEs (low EPL and UB) and a strong system of labor market protections will emerge in CMEs (high EPL and UB). My critique of this view can be stated very easily: employer representatives in a number of CMEs did not support politically the introduction of strong systems of EPL or generous UB and have for much of the retrenchment era been pushing governments to weaken both. My case studies of both Sweden and The Netherlands show this clearly. In short, the preferences on the part of actual employers groups in certain CMEs do not match up with that posited by VOC theory. LME employer preferences are generally in line with the VOC prediction, yet this can be explained from a PRA standpoint as well, so it does not a constitute strong evidence for the theory.

Since this argument is the empirical burden of the case study chapters, I will not rehearse the historical record carefully for the two CME countries. A brief summary of the two cases will have to suffice. In Sweden, measures for employment protection were contained almost exclusively within collective agreements up until the late 1960s; employment protection legislation, as such, was next to

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276 Estevez-Abe et al. 2001. See also Ibid. p. 160. Wood, 2001b, also makes the connection to employers interests explicit.
During this decade, though, pressure emerged from within the main union confederation (LO) for a much stronger system of statutory protection, and despite intense employer resistance the Employment Protection Act was passed by the Social Democratic party in 1974 that strengthened EPL substantially. Subsequently, employer groups have continuously lobbied for its repeal but to no avail. In fact it is arguably their main political desire, along with changes to industrial relations law governing strikes and so on. In terms of UB, the generosity of the system was established and pressed for by the union movement in cooperation with the Social Democratic party. While direct evidence of employer preferences regarding UB is hard to come by for the early postwar period, employers’ preferences in this and other areas of the welfare state were seldom vigorously supportive of expanded generosity and coverage. As argued recently by Walter Korpi, employers were often ‘consenters’ to social policy expansion but never ‘protagonists’, and their stance between consenting and opposing was determined by the likelihood of political success. In fact, in Peter Swenson’s careful work on Swedish employers’ policy preferences, unemployment benefits are unique in not even receiving tacit (‘consenting’) support. Even more clear are employer preferences in the retrenchment era and here again they have supported most moves to retrench the system and occasionally pressed for a radical overhaul of social insurance arrangements on a much more residualist basis.

A similar story can be told of employer behavior in The Netherlands, though their opposition to labor market protections has been less intensely hostile than their Swedish counterparts. In the case of EPL, the unique statutory system of employment protection established during WWII was not intensely opposed by employers in the early postwar period when economic times were good. The push during this period to reinterpreting the system in a stricter direction came mostly from the unions, though. However during the 1970s, when large-scale layoffs became common, employers began to push for abolishing the state-run system of ‘prior administrative consent’ that underpinned the EPL regime. Their opposition to the system was partly muted during the 1980s because mass layoffs were facilitated by early retirement schemes and the use of the country’s lax disability insurance system. When both of these programs were curtailed in the early 1990s, though, their opposition to the current system intensified considerably. Pressure from employer representatives has steadily chipped away at portions of the postwar EPL system and

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279 Ibid.
281 Again, see the case study for details and citations.
a more radical overhaul has recently been widely discussed politically. In terms of UB, again employer resistance to generous schemes was muted when unemployment was very low in the postwar period. As the UB system became expensive in the late 1970s with widespread unemployment, though, employer opposition to the welfare state, including UB, developed swiftly and they pressed the Christian Democratic government coalitions of the 1980s to implement a much more restrictive and residualist system. This pressure has continued in various forms and forums to present day, though employers’ representatives have at times sought to dilute more strident neoliberal proposals due to their fear of provoking labor unrest and weakening unions’ commitment to restructuring. Once again it is clear that the preferences of employers representatives do not match up to that predicted by VOC, so they are hardly a solid basis to explain different labor market policy outcomes.

Given this, why has the employer-centered VOC view commanded such tacit approval? Foremost, of course, is the fact that employer preferences and political behavior has not been very carefully researched in the case of EPL and unemployment benefits, as this thesis has sought to remedy. Another reason is that the strength of employer coordination or organization has generally matched up to the different labor market regimes in the way posited by the theory: strongly organized or coordinated employer groups in CMEs have coincided with strong labor market protections, while weakly organized employer groups in LMEs have coincided with weak labor market protection regimes. However this is a spurious correlation. Instead, to the extent that the correlation holds, it is because strong employer organizations are (or were) required for corporatism to function effectively and because these organizations are usually matched by equivalently coordinated and centralized labor movements. It is these two features of the political economy, corporatism and type of labor movement, which explain labor market policy variation, not employer preferences. This is not to say that employer organization has played no role in creating the types of labor movements that have pushed for different policy outcomes. There is a strong case to be made that it was employers that were initially most keen about centralizing or coordinating labor market bargaining and that this created the centralized union movements of North-Western Europe. But this does not change the fact that they have not been initiators or strong proponents of significant labor market protections. It has been labor movements that have done this in these CMEs, as my arguments in this chapter have made clear.

282 See also Emmenegger, 2010, and Emmenegger, 2011, for case studies of Denmark and Germany, respectively, that arrive at the same conclusion in relation to employer opposition to strong EPL.

**Skills-centered VOC**

The second variant of the VOC view of labor market policy plays down the influence of employers in favor of existing ‘skill regimes’. In particular, it emphasizes the importance of skill specificity for the development of labor market regimes, since specific or weakly-transferable skills generate demands for social insurance or job protection on the part of those that have them.

Through a similar survey approach to policy preferences as Rueda, Iversen establishes this point very clearly (and more robustly). According to Iversen, in CMEs with strong traditions of vocational training the welfare state has expanded rapidly in the face of globalization and de-industrialization, as workers have sought to insure themselves during intense economic restructuring. In LMEs, by contrast, the prevalence of general skills associated with higher rates of formal and tertiary education has meant that workers do not demand social insurance nearly as strongly; their insurance is in effect the general applicability of their skills. This view could also be used to account for different union preferences for labor market policy such EPL and UB. It could be argued that many Anglo labor movements have not pressed for strong EPL or UB because their members have not had highly specific skills.

It is clear that Iversen’s framework is at least partly inconsistent with the varieties of unionism view: differing skill profiles explain national variation, not patterns of union organization. In fact, Iversen has a very compelling chart that plots the share of workers passing through vocational training against civilian government spending as a share of GDP and the relationship is strongly positive. To be clear, Iversen uses vocational training share as his main proxy for the prevalence of industry- and firm-specific skills. Given his data, we can reproduce this relationship in terms of vocational training and unemployment benefit generosity. There are two ways we can measure the latter, either through a composite measure of ‘unemployment protection’ developed by Iversen or more straightforwardly by measuring the percent of GDP devoted to each percent of unemployment in the form of UB spending (i.e., UB spending controlling for level of unemployment; what Iversen himself terms ‘generosity of benefits’). These relationships are presented below in Figure 2.1 and Figure 2.2, and the data used to produce them is in Table 2.1. Iversen’s ‘unemployment protection’ index is a composite of three measures: the average net replacement rate for a 40 year old representative worker; the share of GDP devoted to UB divided

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284 For below, see Iversen, 2005.
285 Ibid. p. 147.
by the share of the population unemployed; and the strictness of the definition of a ‘suitable job’ used by benefit administrators do determine continued eligibility. Note that Iversen’s figure will underplay the effective coverage rate of UB in its calculation of generosity relative to ‘UB effort’.

Table 2.1: Vocational Training and Unemployment Benefits

<table>
<thead>
<tr>
<th>Country</th>
<th>Vocational Training Share</th>
<th>Iversen's UB Index</th>
<th>Average UB Effort (1985-2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>9</td>
<td>0.22</td>
<td>0.14</td>
</tr>
<tr>
<td>Austria</td>
<td>22</td>
<td>0.81</td>
<td>0.28</td>
</tr>
<tr>
<td>Belgium</td>
<td>53</td>
<td>0.82</td>
<td>0.31</td>
</tr>
<tr>
<td>Canada</td>
<td>5</td>
<td>0.3</td>
<td>0.14</td>
</tr>
<tr>
<td>Denmark</td>
<td>31</td>
<td>0.91</td>
<td>0.58</td>
</tr>
<tr>
<td>Finland</td>
<td>32</td>
<td>0.43</td>
<td>0.26</td>
</tr>
<tr>
<td>France</td>
<td>28</td>
<td>0.54</td>
<td>0.18</td>
</tr>
<tr>
<td>Germany</td>
<td>34</td>
<td>0.77</td>
<td>0.18</td>
</tr>
<tr>
<td>Ireland</td>
<td>6</td>
<td>0.37</td>
<td>0.16</td>
</tr>
<tr>
<td>Italy</td>
<td>35</td>
<td>0.18</td>
<td>0.06</td>
</tr>
<tr>
<td>Japan</td>
<td>16</td>
<td>0.33</td>
<td>0.13</td>
</tr>
<tr>
<td>Netherlands</td>
<td>43</td>
<td>0.89</td>
<td>0.38</td>
</tr>
<tr>
<td>New Zealand</td>
<td>7</td>
<td>0.27</td>
<td>0.19</td>
</tr>
<tr>
<td>Norway</td>
<td>37</td>
<td>0.64</td>
<td>0.17</td>
</tr>
<tr>
<td>Sweden</td>
<td>36</td>
<td>0.63</td>
<td>0.26</td>
</tr>
<tr>
<td>Switzerland</td>
<td>23</td>
<td>0.86</td>
<td>0.26</td>
</tr>
<tr>
<td>UK</td>
<td>11</td>
<td>0.11</td>
<td>0.10</td>
</tr>
<tr>
<td>US</td>
<td>3</td>
<td>0.1</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Source: Iversen, 2005; OECD, Various Years.
In the case of Figure 2.1, the Pearson’s R correlation is $r = 0.69$, while the correlation in Figure 2.2 is $r = 0.49$. The difference between the two measures of benefits is not of major concern at the moment, though it should be noted that Iversen chose his composite index for reasons that were specific to his theoretical concerns at the time. I have explained why I believe the

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286 Using different years than the average for 1985-2005 did not produce substantially different results. The correlation between the two different measures of UB generosity is $r = 0.79$. 

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'UB effort' measure is the best overall measure of generosity we have available in Chapter 1, yet this should not obscure the fact that (a) the correlation between the two measures of UB generosity is quite high in any case and (b) Iversen’s correlation between UB generosity and vocational training is quite strong and suggestive, though less so in Figure 2.2. This evidence gives prima facie support to Iversen’s account. The relationship he has proposed clearly exists. It is simply a question of whether this relationship is causal, spurious or something in between. From the perspective of varieties of unionism, it is likely something in between, though much of the correlation will be spurious. This is the case for a number of reasons.

First, it is unlikely that different skill compositions played a central role in determining the basic institutional features of UB systems and unions’ relative involvement in UB. This is because (i) there is no clear logic linking certain important institutional features of UB to skill composition (e.g., Ghent vs. bipartite vs. state-run systems) and (ii) there is little evidence to suggest that skill compositions differed greatly in the early postwar or interwar period when many of these features were established. There were some important national differences in training arrangements during these periods, to be sure. But they likely did not cover a large enough portion of the workforce to plausibly explain different institutional and policy choices, let alone different stances on the part of labor movements towards the various UB systems. For example, as I will show shortly, one major explanation for generous benefits was the presence of a Ghent system, but why did Sweden, Denmark and Finland continue with a voluntary Ghent system whereas the other Continental countries and Norway did not? In what sense could skill composition explain this? The larger point is that Iversen does not provide any evidence to suggest that vocational training arrangements differed systematically in the way he suggests in the early postwar period. While there is a relatively strong correlation between skill profiles and relative UB generosity, this relationship is found using data mostly from the 1990s. However if current generosity is in large part a product of institutional decisions and ‘political exchanges’ made by labor movements in the more distant past, especially in the early postwar period, the correlation Iversen finds may be spurious.

Second, to the extent that there is a correlation between skill profiles and UB generosity this is largely because there is a historical correlation between socially integrative, centralized unionism and the development of broad, effective vocational training systems. These systems demanded organized employer and union groups to function effectively, and again both are associated with the kind of political economic features that can explain generosity along the lines suggested by varieties

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287 See for example Thelen, 2004.
of unionism.\textsuperscript{288} In fact, even recent work by Iversen himself makes this quite explicit. In an article with David Soskice, he writes that “union centralization, or at least cross-sectoral coordination in wage bargaining, has been necessary for expanding publically subsidized training on a large scale because it has required wage restraint among existing skilled workers, but it has also required political coalitions willing to subsidize such training so that enough workers have an incentive to train when the skill premium is relatively low.”\textsuperscript{289} Naturally, this coordination or centralization is central to the varieties of unionism perspective too. Careful case study history also suggests the association of different unionisms and training regimes.\textsuperscript{290} As Pepper Culpepper and Kathleen Thelen remark in their account of the origins of training regimes, “the history surveyed here suggests that the absence of class conflict over skills was necessary for the survival of strong plant-based training [i.e., leading to ‘specific’ skills], and the presence of such conflict was sufficient to undermine it.”\textsuperscript{291} This, they claim, explains why such training persisted and grew in Germany and Denmark, where unionism was more socially integrative and less adversarial, whereas it never blossomed in Britain or the US, given the plant-level adversarialism of business unionism. Thus, arguably, specific unionisms are connected to the development of different training regimes and this explains the relationship between them and UB generosity.

Third, the varieties of unionism approach better explains cross-national differences in UB spending, as I show in the next section and Chapter 3. What are most notable in this connection are the cases that do not seem well explained by Iversen’s approach. For instance, looking at Table 2.1, Italy considerably under-spends on UB given its training regime, while Denmark and Austria considerably over-spend. As Section V makes clear, this is likely because of very different union movements in these countries that Iversen’s focus on skills cannot capture: Italy has had a fragmented, militant movement for most of the postwar period, while the latter have had centralized, socially integrative union movements. Similarly, the ‘UB effort’ difference between Sweden and Norway is inexplicable given Iversen’s theory alone since the share of workers passing through vocational training is the same; recognizing that Sweden has a Ghent system whereas Norway does not cannot enter the picture.

\textsuperscript{288} As noted by Culpepper and Thelen, 2008, “Training regimes developed in tandem with the development of of other key labor market institutions and organizations, in particular, employer associations, unions, collective bargaining institutions, and, in some cases, artisanal associations.” p.25.
\textsuperscript{289} Iversen and Soskice, 2010, p. 601. They also write that “systems of extensive vocational training have worked most effectively when coordinated unions have boosted international competitiveness by sufficient wage restraint to absorb trained workers into the open sectors of the economy.” Ibid.
\textsuperscript{290} Ibid. See also Crouch, 1993.
\textsuperscript{291} Emphasis in original. Culpepper and Thelen, 2008, p. 29.
Finally, Iversen’s emphasis on skill profiles is problematic when trying to explain change over time in UB generosity. As my case studies make clear, important shifts have taken place over time within countries, including retrenchment, and these are not well explained by changes in (inevitably slowly-moving) skill compositions. The radical retrenchment of UB in the UK under Thatcher, for example, cannot be explained by changing skill compositions (e.g., a radical decline in vocational training). Neither can the retrenchment of the mid-1990s in Sweden be explained by such considerations. It is for this reason that union dynamics and partisanship need to be integrated into the theoretical picture, as has been proposed here, in order to understand the historical record.

Does this mean that Iversen’s theory is of no relevance or completely mistaken? I do not think such a strong reaction is entailed by what is said above. It is quite possible that differing skill compositions have intensified or weakened demands for social insurance and job protection on the part of both voters and unions. Indeed, Iversen’s survey evidence strongly suggests this. However, as Section V shows the central determinant of cross-national UB generosity is varieties of unionism and the association of training arrangements with it if anything simply strengthens the theory.

Section V: Explaining ‘Outsider-Effort’ in Advanced Western Economies

In order to test the varieties of unionism theory developed above, at least as it relates to ‘outsider’-effort such as UB and ALMP, we must try to capture the theory’s basic insights in quantitative form. Naturally, capturing something like ‘militant’ or ‘business’ outlook in a plausible quantitative indicator is highly problematic. As a result, the indicators used to represent different varieties of unionism are of a different form below. There are three main elements to the composite indicator I develop: union density, centralization, and relation to UB administration. Each explains something important about the nature of the labor movement that is relevant to the case at hand. Let us take each in turn.

Union density expresses the proportion of workers who are unionized as a share of the people who could potentially be union members (the dependent labor force). Union density has long been considered one of the most important indicators of union strength, and as a major influence on welfare state development. This is for good reason. High union membership gives labor movements the political resources and clout to demand favorable policy. Most simply, union membership gives movements the financial means to advance political causes (and parties) dear to...
them and to better defend their market power through organization drives that maintain or increase density as the economy expands. High membership also helps unions mobilize politically through strikes as well as through the ability to offer Left parties volunteers during election campaigns. In this way, union density was often taken to best represent the relative ‘balance of power’ between labor and capital in a society, even if only crudely, in early PRA work. While these are some of the more obvious sources of influence that union density figures embody, there are also more subtle aspects to its influence. For one, a higher density figure suggests that a larger share of the non-traditional union sector is represented in the movement: in the language of the 1970s, it is not just the secure ‘labor aristocracy’ that is represented, but more marginalized sections of the working class too. Moreover, as Rueda himself spells out, “The encompassing nature of unions significantly depends on whether union members are a high or a low proportion of the labor force… Following the Olsonian framework… unions that have a larger constituency should be more aware of, and concerned about, the consequences of their actions over the economy as a whole and more able to internalize the cost of nonparticularistic strategies.” This, of course, was used to differentiate ‘encompassing’ from ‘social partner’ unionism. Finally, I would suggest that high union density allows labor movements to focus less on their mere existence and immediate gains, and more on the kind of society they want to live in. In countries with low union density, unions are often under intense pressure from employers to simply continue representing their members and this focuses their attention even more centrally on improving the well-being of their members in immediate, tangible ways. In such circumstances, the amount of resources they will be willing to expend on broader political projects with limited impact on their members is likely much less than if they feel secure institutionally (e.g., promoting UB generosity).

Centralization measures the extent to which bargaining takes place at levels higher than the firm-level (i.e., the sector- and national-level), the extent to which the union confederations have authority over the behavior of their affiliate unions, and the degree to which union movements are composed of a small number of cooperating confederations. The degree of centralization in union movements captures three things of relevance to ‘Outsider’-orientation. First, as argued above, centralization will tend to empower weaker labor market groups within the broader movement, since centralization will be associated with democratic processes that mean more substantively in the

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295 Arguably, the rise of media-centered campaigns has made this source of leverage less potent in recent years.
296 Korpi, 1983.
297 Rueda, 2007, p.32. It should be noted that Rueda is presenting the Olsonian view of corporatism in this passage, not endorsing it.
298 See for example, Western, 1997, p. 30.
behavior of the overall movement. Second, centralized movements are much better at delivering the labor quiescence upon which the ‘political exchange’ of corporatism relies. These movements will thus be more likely to confront left-wing parties friendly to them, as explained above, and will be better able to be taken seriously in policy negotiations with governments of any partisan stripe. In a sense, then, centralization captures a crucial part of the influence of corporatism in the account provided in Section II, which also includes the “encompassing logic of inclusionary participation”. It can thus be considered a rough proxy for militant and business vs. socially integrative unionism. The third impact of centralization is that centralization tends to minimize competition among different unions within a movement over potential members. Not only does this save valuable resources from jurisdictional disputes, but it also allows unions to take a broader, more long-term perspective in relation to their members’ interests. This is evident in the well-documented difficulties of multi-unionism to deliver wage restraint and so on. Where the authority of a given union body is relatively unquestioned, it need not submit to the immediate, often narrow ‘populism’ of its members. It is for this reason that Bruce Western argues that “In the highly centralized setting, labor market representation is broad and unified. Under decentralization, labor market representation is narrow and fragmented.” In the latter circumstances the interests of Outsiders will be marginalized relative to the former.

Finally, there are three broad ways in which union movements can relate to the administration of UB that impact on their relative generosity: Ghent arrangements, bipartite or tripartite administration, and non-involvement. As explained above, Ghent systems not only dramatically increase density but also give union movements a direct, strategic stake in the generosity of the UB system: since a generous UB system can be an important membership recruiter, unions will be strongly committed to them politically. Furthermore, labor market Outsiders will be directly integrated into the labor movement and their interests will be considered to a much greater extent.

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299 To give one example of what I mean by this ‘substantive’ effect: the main British union confederation, the TUC, attempted in the late 1960s and early 1970s to trade wage restraint for welfare state gains and other favorable policy from the Labour government. Various resolutions were passed in the TUC that endorsed the restraint along with laudable social policy goals, and the wage restraint was justified in part because it would have improved the relative wage position of lower wage workers. However, when it came to delivering the wage restraint on which the wage compression and long-term existence of the policy gains relied, the TUC could not enforce it, in large part because the movement was not centralized: it did not have the institutional capacity to deliver its side of the bargain. See Taylor, 1993, for a fascinating account of this period (and Chapter 4). Thus decentralized movements may often adopt many ‘worthy’ social justice causes, and at times be vocal in their defense, but the resources or restraint to back up the causes is weak and relatively ineffective. (Scare quotes signify that many may not see the causes as ‘worthy’, especially those on the political Right.)

300 See Western, 1997, p. 31.
301 Ibid. p. 30.
In situations of bipartite or tripartite administration, unions will have a stake in the generosity of benefits but to a lesser extent. In subtle ways union membership may benefit UB recipients, motivating broader political support. But more importantly their participation in administration will make them a required participant in any reform, giving them a pronounced, institutionalized voice and modest veto power. The importance of institutionalized voice has already been explained in Section II, but it also matters in terms of retrenchment. As argued by Philip Manow, in the Continental welfare states where this arrangement is present, “Often unions protect existing arrangements not because it is in the interest of their core clientele, but because it is in the interest of the organizations themselves to protect union-run schemes or because the union rank and file has developed a vested interest in welfare state administration.”

Similar arguments have been made elsewhere, stressing the role of the social partners and union involvement in particular for resistance to retrenchment pressures. In countries where unions have no role in UB administration, this kind of veto power simply does not exist. More importantly, union movements were never bound up with its expansion during the postwar period and thus it has historically not been a central concern. This lessened pressure on governments in these countries to develop generous schemes, and their often residual nature meant that subsequent efforts at retrenchment were successful.

Putting these three pieces together, an index of “Outsider-Oriented Unionism” can be constructed, as in Table 2.2. The union density score measures the average union density for the period of 1985-2005. Union centralization is an index compiled by Torben Iversen and expresses the relevant figure for the period from 1984-1993. Centralization in the way understood here has not changed rapidly, though, so these figures are likely accurate for the later period too. Lastly, the involvement in UB administration was broken down into three possible scores: 0 = no institutionalized involvement; 50 = bipartite involvement; 100 = union-run or Ghent systems. This is a standard way of constructing such indexes and the scores reflect the central importance attributed to institutional involvement in the theory above. As can be seen from the Table, Iversen did not produce centralization figures for Australia, Ireland, and New Zealand, so a final Outsider-Oriented Unionism figure could not be calculated. In general these countries have been given low

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304 Crouch, 1999; Clasen and Clegg, 2005.
305 As the case study of the UK makes clear, the TUC was rarely centrally or even moderately concerned with the development of unemployment insurance.
306 Iversen, 1999. The lack of more recent figures for centralization is unfortunate, but as Iversen’s own work shows, the shift in centralization (as he measures it) has not been dramatic since the 1970s. See also Baccaro and Simoni, 2010. This may have changed in more recent years, and we should expect that this will affect the dynamics I have described around UB and ALMP in more recent years. This is for future research.
centralization scores in other studies, so their Outsider-Oriented Unionism would be relatively low.307

Table 2.2: An Index of Outsider-Oriented Unionism

<table>
<thead>
<tr>
<th>Column1</th>
<th>Average Union Density</th>
<th>Union Centralization</th>
<th>Involvement in UB Administration</th>
<th>Outsider-Oriented Unionism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>32.8</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>41.7</td>
<td>42</td>
<td>50</td>
<td>44.56</td>
</tr>
<tr>
<td>Belgium</td>
<td>53.0</td>
<td>27</td>
<td>100</td>
<td>60.00</td>
</tr>
<tr>
<td>Canada</td>
<td>31.8</td>
<td>7</td>
<td>0</td>
<td>12.93</td>
</tr>
<tr>
<td>Denmark</td>
<td>75.2</td>
<td>58</td>
<td>100</td>
<td>77.73</td>
</tr>
<tr>
<td>Finland</td>
<td>75.2</td>
<td>40</td>
<td>100</td>
<td>71.72</td>
</tr>
<tr>
<td>France</td>
<td>9.6</td>
<td>11</td>
<td>50</td>
<td>23.54</td>
</tr>
<tr>
<td>Germany</td>
<td>28.8</td>
<td>32</td>
<td>50</td>
<td>36.93</td>
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<tr>
<td>Ireland</td>
<td>47.8</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>37.3</td>
<td>14</td>
<td>50</td>
<td>33.76</td>
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<tr>
<td>Japan</td>
<td>23.6</td>
<td>29</td>
<td>0</td>
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</tr>
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<td>Netherlands</td>
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<td>36</td>
<td>50</td>
<td>36.74</td>
</tr>
<tr>
<td>New Zealand</td>
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<td>Norway</td>
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<td>Sweden</td>
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<td>73.92</td>
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<td>22.1</td>
<td>25</td>
<td>50</td>
<td>32.36</td>
</tr>
<tr>
<td>UK</td>
<td>35.1</td>
<td>12</td>
<td>0</td>
<td>15.69</td>
</tr>
<tr>
<td>US</td>
<td>14.4</td>
<td>7</td>
<td>0</td>
<td>7.14</td>
</tr>
</tbody>
</table>

Sources: OECD; Carroll, 1999; Western, 1997; Iversen, 1999.

Turning to the dependent variables, Figure 2.3 and 2.4 document UB Effort and Outsider Effort (UB + ALMP), respectively. As outlined in Chapter 1, these figures represent the share of GDP devoted to each percentage point of unemployment averaged over the period from 1985-2005; in other words, spending relative to ‘need’ or ‘demand’. Comparable spending data is not available for many of the relevant countries before 1985, so unfortunately this is as far back as we can analyze. Figures closer to 1 represent very generous systems, with high replacement rates and wide coverage (and high investment in ALMPs in the case of Outsider Effort). For example, to repeat the example of Chapter 1, a figure of 1 or higher would suggest that the unemployed received more social resources than an average worker, which would be a truly generous system. These figures then

307 See the different measure of union centralization compared in Western, 1997, p. 42. If anything, adding them to the analysis makes the correlation stronger, at least if we impute values from other studies according to Iversen’s metric.
capture nicely the relative societal ‘effort’ being directed towards the unemployed. They cannot capture variations in generosity amongst recipients, as exists particularly in some Bismarckian and Dualistic systems, but it remains the best unitary measure we have (at least in terms of capturing a long time period and being cross-nationally comparable).

Figure 2.3: Unemployment Benefit Effort, 1985-2005 Average

Source: OECD.
What interests us is the correlation between these figures and the Outsider-Oriented Unionism index developed above. The correlations for spending effort for the whole of the period in question (1985-2005) with the index is $r = 0.74$ in the case of UB and $r = 0.78$ in the case of Outsider Effort. These correlations are presented visually in Figure 2.5 and 2.6. This is a very strong correlation, I submit, and compelling evidence for the varieties of unionism view; especially since this is but one variable that has been noted in the welfare state literature. What such a strong, positive correlation suggests is that there are strong, “positive externalities of [labor] organization”, as argued by Jingjing Huo.\footnote{Huo, 2009, Ch. 2.} 

*Having a strong, coordinated and politically involved union movement is indispensable in achieving relatively good treatment of the unemployed.*
Moreover, the partial outliers to the strong correlation can be explained in ways quite consistent with the overarching theory. In these figures above, there are three clear outliers: Italy, The Netherlands, and Finland. Italy under-spends relative to what the index expects, however this is
in part because its score for institutional involvement is 50 while in reality union involvement in social insurance was never as committed or meaningful as in the other corporatist countries. If administrative involvement is more accurately put at 0 (for an Outsider-Oriented Unionism score of 17.1) then the correlations improve to 0.78 for UB and 0.82 for Outsider Effort. Indeed, this is the one clear case of a Southern regime in the data and it suggests the difficulty of capturing the impact of militant unionism in the index. In the case of The Netherlands, the index under-predicts the actual level of spending. As I detail carefully in my case study of The Netherlands, though, the continued generosity of its welfare state owes much to the remarkable degree of wage restraint exercised by the labor movement, which has usually been (explicitly) traded off for mitigated retrenchment. Finally, the figures for Finland indicate that it under-spends relative to the index expectation. However, as the spending figures in Chapter 1 and 3 indicate, this is largely because of a sharp drop in the 1990s which followed the major economic crisis associated with the collapse of the Soviet Union, a previously major trading partner for Finland. The deep crisis moment arguably ‘forced’ retrenchment in a way that more normal economic slumps would not have. A similar deep slump in Sweden, following fiscal and monetary mismanagement and a financial bubble in the early 1990s, explains a similar pattern for UB there, though ALMP partly compensated for this retrenchment. As the case study for Sweden explains, it also followed and intensified a bitter split between the labor movement and the Social Democratic party, which again is consistent with the theory. Of course, it is not possible to go through every case in this manner, but highlighting these countries should serve to buttress the case.

Section VI: Conclusion

The importance of “Varieties of Unionism” to the policy outcomes of labor market policy should be clear by now. Union movements have taken very different approaches to politics, collective bargaining, and policy, and these have had a substantial impact on labor market policy. These different approaches have of course interacted with and been formed by differing capacities,

309 See quote by Crouch, 1999, above: in the early postwar years in France and Italy “industrial relations became, as they had in the 1920s and 1930s, a nonexistent arena, or one of uncompromising conflict, with codeterminative and tripartite institutions of the immediate postwar years being reduced to residual status. The continuation of union involvement in the management of social insurance schemes seemed just an aspect of the last of these alternatives, its very survival in such an otherwise hostile environment serving as a testimony to its lack of seriousness.” p. 439.

310 Huber and Stephens, 2001, p. 259-262. Finland also had a much stronger militant (i.e., Communist) sub-current than the other encompassing or social partner movements, thus hindering early efforts at political exchange. See the strike figures in Cameron, 1984, p. 153, for example, and Crouch, 1993.

311 See Ibid. p. 241-257.

312 As well, if correlations are taken before the 1990s crisis period, they are stronger.
institutional arrangements and economic circumstances, but this should not obscure the importance of the approaches themselves, nor their deeply-rooted nature. Union movements that adopted socially integrative outlooks and involved themselves politically in the machinery of the state have tended to produce higher levels of labor market protection, yet not in ways that have inordinately impeded economic dynamism. The cost of such behavior has often been limited market autonomy for different sections of the movement. By contrast, for those decentralized movements that have regarded the state with suspicion or outright antipathy, however well-founded initially (or historically), the willingness and capacity to sacrifice their market ‘autonomy’ for gains in policy has been too weak and intermittent to establish either strong or well-functioning labor market protections. The result has been weak or highly uneven levels of labor market protection, with limited resources being devoted to the unemployed.

For most of the 20th century, labor movements have been central political actors, especially in terms of pushing through welfare state expansion and other reformist measures. Early literature in the welfare state field appreciated this. Subsequent work has tended to marginalize labor, however. This is surely not coincidental with the fact that this same period witnessed many union movements being increasingly marginalized in their country’s political economy. Indeed, the correlations between the Index of Outsider-Oriented Unionism above and policy outcomes have tended to weaken over the period under analysis. But this weakening has only been very slight. Thus, despite their partial marginalization, unions and union organization remain highly relevant factors in welfare state evolution.

As globalization and post-industrialism has advanced across the West since the 1980s, labor markets have without doubt become more dualistic and the number of ‘Outsiders’ has increased, as emphasized by Insider-Outsider theory. However the way in which this has been mediated by state policy is highly uneven, and understanding this contingent relationship is impossible without understanding varieties of unionism. In some countries, the impact of shifts in post-industrial labor markets have been mostly compensated for and their detrimental impact mitigated by relatively generous Outsider-oriented policies. In others, the challenges posed by post-industrialism have been intensified and reinforced by government policy, leading to growing poverty, precarious employment, and burgeoning debt for those displaced in economic restructuring. To an extent, even in these countries these tendencies up to now have been less pronounced than they would have

313 For example, correlations of Outsider-Oriented Unionism with Outsider Effort remain in the .7 range for the period from 1995-2005, when some union movements became more distant from their political allies.
otherwise been due to a massive build-up of private and public debt (e.g., the US and Southern Europe). But the limits to this ‘solution’ are now painfully obvious and the future looks bleak for labor market Outsiders in these countries.

The perspective of VOC is also of limited use in understanding the dynamics of labor market policy in the postwar period. Despite the clear economic functions provided by labor market protection, detailed in Chapter 1, employers have grown increasingly critical of the protections established in the postwar period, not only in LMEs but in CMEs too. The continued strength of these protections has therefore largely depended upon their defense by union movements and their ability to temper the retrenchment efforts of Right parties as well as, to a lesser extent, newly Third Way Left parties. In this sense, the relevance of the class- and partisanship-centered PRA view should remain alive and well for the foreseeable future, although in a form that is much more attuned to “Varieties of Unionism” than before.
Chapter 3: Quantitative Evidence for Varieties of Unionism
Section I: Introduction

Chapter 2 presented the basic theoretical case behind the ‘Varieties of Unionism’ perspective and a critique of two contending theories, Insider-Outsider theory and VOC. In presenting the case for Varieties of Unionism, the chapter also provided some very suggestive correlation evidence: an index capturing variation in ‘Outsider-oriented unionism’ could account for a substantial amount of the variation in social spending on the unemployed. In the case of both Unemployment Benefit Effort and Outsider Effort, the coefficient of correlation was around $r_p = 0.75$ between average country scores and the index measure. This chapter expands and deepens the quantitative evidence supporting Varieties of Unionism in two ways. First, in Section II, I explore the quantitative evidence surrounding Employment Protection Legislation more carefully and show how it matches up very closely to the expectations of the theory. Second, in Section III, multiple regression analysis is introduced in the case of UB Effort and Outsider Effort to further reinforce the basic correlation analysis of Chapter 2. Section IV concludes.

Some of the material presented in this chapter is tentative and will be refined as I move forward. In addition, there is considerable controversy in the literature surrounding so-called time-series cross-section (TSCS) regression analysis. Some commentators doubt its appropriateness for this kind of political analysis, though most continue to see it as viable and as essential to more rigorous analysis.\textsuperscript{315} Lacking the expertise to fully engage in these methodological debates, I must leave it to the experts to decide the ultimate validity of this kind of work. Nevertheless, the work I present below in Section III is largely consistent with previous statistical work in the field, and in the context of existing practice the evidence strongly supports my central theoretical claims.

Section II: Variations in Employment Protection Legislation

While it is tempting to attempt TSCS regression analysis of the determinants of EPL, there are a couple of good reasons why this would be unwise.\textsuperscript{316} The most important issue is insufficient temporal variation. As noted in Chapter 2, quantified measures of EPL rarely change and when they do they change from one year to the next and then revert to being stationary again.\textsuperscript{317} For example,

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\textsuperscript{315} See for instance the debate in \textit{Political Analysis}, June 2007.
\textsuperscript{316} See Emmenegger, 2011.
\textsuperscript{317} A brief inspection of the OECD dataset on EPL available online makes this abundantly clear. As Patrick Emmenegger argues, “The analysis of the determinants of job security regulations is complicated by the lack of temporal
in the dataset I use for the regression analysis in Section III, the country scores for EPL only change a total of 29 times in the entire period, from 1985-2005, in a 15 country sample. In other words, each country on average experiences only around two (quantified) changes to EPL in a twenty year period. This means that there is very little scope to employ traditional year-to-year measures of the kinds of independent variables we might think are relevant (e.g., unemployment rates, partisanship, union density). Datasets that employ TSCS methods in the case of EPL only really have a cross-sectional component on which to base conclusions, and the addition of a time-series component to the analysis simply expands N to permit greater ‘degrees of freedom’, but given minimal temporal variation this is artificial.

The second problem with such analysis is related to the first problem of limited temporal variation: in many cases, the strength of EPL is basically set before the ‘tests’ in question are conducted. As Chart 1.2 in Chapter 1 makes clear, and as the case studies of later chapters suggest, the roots of different EPL systems are quite deep. Trying to explain cross-sectional variation in EPL in recent decades without reference to these historical foundations thus makes little sense. At most, with regression analysis of recent decades we might be able to get a weak and problematic sense of what conditions make EPL change more or less likely. But this will not fundamentally explain most cross-national variation, and these regressions will be especially prone to strange results in terms of ‘EPL change’ given the limited number of such cases. The regression analysis conducted by David Rueda on EPL, and the strange results he arrives at, certainly suggest that these two weaknesses are major issues confronting any straightforward regression-type analysis (see Chapter 2).

Partly in reaction to these weaknesses of regression analysis, a recent attempt to explain cross-national variation by Patrick Emmenegger adopts a “fuzzy set Qualitative Comparative Analysis” methodology (fzQCA).318 This methodology is a hybrid of quantitative and qualitative approaches, where different explanatory variables are assigned numerical values and the analysis tries to distinguish between necessary and sufficient conditions for the outcome in question.319 While there are certain advantages to this kind of analysis, it is also somewhat ill-suited to understanding EPL variation and its weaknesses demonstrate nicely the limits of quantitative analysis of EPL. I briefly critique Emmenegger’s approach below to illustrate this point, and to thereby suggest that the

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318 Ibid.
319 For the original theoretical defense of such an approach, see Ragin, 1987, 2000.
more straightforward qualitative explanation of EPL variation put forward by Varieties of Unionism has some important merits.

In his article, Emmenegger sets out to explain why some countries have achieved a ‘high’ level of EPL or job security regulations, broadly defined. What is important to note in our context is that this makes his analysis one of ‘equi-finality’: explaining the achievement of the same outcome in different contexts. This means that he does not really distinguish between the higher levels of EPL found in the Southern European countries relative to the Northern European economies; in his analysis they are simply all deemed to have ‘high’ levels of job security. (As I show below, this is an important distinction in terms of EPL in the context of Varieties of Unionism.) In his analysis, he finds that there are four main pathways to ‘high’ levels of EPL and that underlying them are two alternative ‘necessary conditions’: a tradition of ‘statism’ and/or the presence of widespread ‘non-market coordination’ in the economy. In the absence of either statism or non-market coordination, high EPL cannot emerge. But while these are necessary conditions, they are not sufficient. As he suggests, high levels of ‘statism’ in the case of the UK have not led to strong EPL, for example, and neither have high levels of non-market coordination led to high EPL in Denmark or Switzerland.

What is required or ‘sufficient’ for high EPL, Emmenegger claims, is one of four sets of conditions: “[1] high levels of statism, Catholicism and few institutional veto points; [2] high levels of statism, strong labour movements, Catholicism and strong religious parties; [3] high levels of statism, non-market coordination, Catholicism and strong religious parties; and [4] high levels of non-market coordination, strong labour movements, strong religious parties and few institutional veto points.”

While this analysis seems initially plausible, it is in the end overly complicated, insufficiently precise in its causal mechanisms, and often based upon ad hoc reasoning. A good example of the last point is the fact that one of the supposed ‘sufficient paths’ to high EPL, path [2], consists of only one country in Emmenegger’s view: Spain. In what sense is our understanding advanced if a path is constituted by only one country? Is this not simply an ad hoc explanation? The problem becomes even clearer if we start expanding the scope of his theory: if Greece and Japan and South Korea get integrated into the analysis, then what ‘path’ do they fall under? Each has effectively high EPL and yet none of them have a very strong labor movement, as conventionally defined, and of course none of them have a dominant Catholic tradition. In each case, then, it is possible that we would have to create a new ‘path’ altogether, along with new ‘sufficient conditions’. The more fundamental problem lurking behind these ‘ad hoc’ weaknesses is that the causal mechanisms are

320 Ibid. p.348. Numbers in brackets have been added.
not clearly specified or consistent in Emmenegger’s theory: why does statism lead in one case to high EPL but not in another, and why do high levels of non-market coordination not always lead to high EPL? Because he cannot really advance a consistent causal argument with his ‘necessary and sufficient condition’ schema, Emmenegger ends up not being able to explain such things compellingly. For instance, in his article ‘non-market coordination’ is never clearly defined (nor is statism really). It seems to represent the kind of coordinated capitalism emphasized by VOC theory, however exactly what it is about such coordination that makes ‘high EPL’ more likely is not made clear. Emmenegger briefly discusses the potential of employers to find EPL attractive in conditions of non-market coordination, yet other work by Emmenegger himself suggests very plainly that employers strongly resisted the introduction of EPL. In this way the causal mechanism remains unspecified, perhaps inevitably, given its status as just a necessary but not sufficient condition. Compounding these problems are several questionable codings or scores given to his main explanatory variables, and which are largely subjective in nature. In short, despite all the fancy quantitative apparatus, the specific fzQCA explanation he offers up is problematic and worryingly ad hoc.

To be clear, though, this is not to say that Emmenegger’s analysis is mistaken in its broad outlines. It is simply to say that the fzQCA apparatus is largely unnecessary and muddies the causal claims he can make. Indeed, what is striking about his main ‘pathways to strong EPL’ is how closely they match up with three of the four different cases of unionism I outlined in Chapter 2: militant, social partner, and encompassing unionism. Militant unionism has been closely associated with what he terms the “state capitalist” path to high EPL in Southern Europe (i.e., paths [1] and [2] above); social partner unionism is most associated with the “Continental managed capitalist” path of Northwestern Europe, path [3]; and encompassing unionism is associated with the “Nordic managed capitalist” route in Scandinavia, path [4]. Where Varieties of Unionism can contribute, then, is to a better understanding of how these clusters emerged and why. For example, from the

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322 For example, the UK is given a maximum score of 1 for statism, and New Zealand a statism score of 0.67, while Canada and Australia are given scores of 0. It is unclear to me how such a stark contrast could be drawn between the four countries in terms of state-society relations, since all share the same form of parliamentary government and with it a British tradition of pluralist liberal democracy. There is the feature of federalism that has diluted federal government power in Canada and Australia, but it is hard to see how this alone could justify completely opposite coding in the area of ‘statism’. In any case, as Chapter 4 shows, the British state has if anything had a strongly laissez-faire approach to industrial relations, not a classically ‘statist’ one. To take another example, the “labor movement strength” score of Spain is implausibly high at 0.71, at least as compared to the score given to Germany, 0.43, or The Netherlands, 0.29. Indeed, Spain’s score is equal to Finland (with its ~80 percent density rate and centralization)!
323 Ibid.
perspective of Varieties of Unionism, it is no surprise that countries with ‘excluded’ labor movements but statist traditions have developed particularly strong EPL systems; i.e., paths [1] and [2] in South-Western Europe, but also Greece and South Korea, etc. Excluded movements in these countries, lacking organizational centralization and comprising only a small share of the workforce, opted to achieve strong employment security in sectional and legislative ways, and were largely unconcerned with the impact it would have on broader economic performance. And this was especially so given the weakness of the welfare state and unemployment compensation systems, which ‘exclusion’ and earlier economic backwardness contributed to. Thus, in a sense, the perspective advanced in this thesis can be applied to cases outside of Emmenegger’s set of countries and still explain EPL outcomes, such as in the case of Greece, but it can do so not just in an ad hoc manner.

Moreover, given the perspective of this thesis, the EPL placement of social partner and encompassing union movements between the rigid Southern European cases and the liberal Anglo-Saxon countries also becomes more intelligible. Both former types of unionism are ‘socially integrative’ and have tried to maintain relatively cooperative industrial relations with employers, and they have done so in part by not imposing undue restrictions on managerial prerogative through EPL. This also solves a potential puzzle for traditional PRA, which might expect that the strongest unions would lead to the strongest EPL (see Chapter 2). That encompassing union movements have not pressed for as high a level of EPL as in Southern Europe, for example, despite being much stronger than their Southern brethren, is something of a surprise in the traditional PRA formulation. By understanding the impact of political and economic ‘inclusion’ on their policy perspective, as in Varieties of Unionism, as well as their historically grounded ideological traditions we can better appreciate the reasons behind this curious outcome. In a similar way, as I outline in Chapter 4, it helps us understand why the Anglo-Saxon countries enacted such weak EPL regimes despite the considerable strength of Anglo union movements in the formative years of the 1960s and 1970s.

Indeed, it is the clear clustering of countries according to type of unionism that constitutes the strongest evidence in favor of the Varieties of Unionism view in the case of EPL. Table 3.1 below shows this clustering nicely. It arranges the countries according to EPL strength and highlights in different colors the various kinds of unionism. The blue shading represents business unionism, purple represents encompassing unionism, orange represents social partner unionism, and

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324 This is not ignore the role played by state elites in introducing strong EPLs, who often did so to better integrate or win allegiance of the core workforce in lieu of developing a broad welfare state. See Chapter 2 and Crouch, 1993.
red represents militant unionism. Japan is something of an outlier, in terms of both EPL and in its type of unionism (i.e., a hybrid of business and militant unionism). That being said, it seems likely that its OECD scoring significantly underplays the strength of employment protection in the country. Much of the protection afforded to the core workforce in Japan has been achieved through deeply-engrained traditions of lifelong job tenure and thus it is possible that statutory EPL has been downplayed as a result. Recent work by Ji-Whan Yun certainly suggests this: a highly protected core Japanese workforce and a dualistic labor market, much as in the Southern European economies.325

Table 3.1: Employment Protection Legislation, Lowest to Highest, 1985-2005

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
</tr>
<tr>
<td>UK</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.73</td>
<td>0.63</td>
</tr>
<tr>
<td>Canada</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
<td>0.75</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.93</td>
<td>0.93</td>
<td>0.93</td>
<td>1.02</td>
<td>0.95</td>
</tr>
<tr>
<td>New Zealand*</td>
<td>0.86</td>
<td>0.86</td>
<td>0.86</td>
<td>1.47</td>
<td>1.01</td>
</tr>
<tr>
<td>Australia</td>
<td>0.94</td>
<td>0.94</td>
<td>1.14</td>
<td>1.19</td>
<td>1.05</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
</tr>
<tr>
<td>Japan</td>
<td>1.84</td>
<td>1.84</td>
<td>1.63</td>
<td>1.43</td>
<td>1.68</td>
</tr>
<tr>
<td>Denmark</td>
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<td>2.40</td>
<td>1.50</td>
<td>1.50</td>
<td>1.95</td>
</tr>
<tr>
<td>Finland</td>
<td>2.33</td>
<td>2.19</td>
<td>2.10</td>
<td>2.03</td>
<td>2.16</td>
</tr>
<tr>
<td>Austria</td>
<td>2.21</td>
<td>2.21</td>
<td>2.21</td>
<td>2.07</td>
<td>2.18</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.73</td>
<td>2.73</td>
<td>2.61</td>
<td>2.12</td>
<td>2.55</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.15</td>
<td>3.15</td>
<td>2.55</td>
<td>2.18</td>
<td>2.76</td>
</tr>
<tr>
<td>Norway</td>
<td>2.90</td>
<td>2.90</td>
<td>2.69</td>
<td>2.56</td>
<td>2.76</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.49</td>
<td>3.08</td>
<td>2.33</td>
<td>2.24</td>
<td>2.79</td>
</tr>
<tr>
<td>Germany</td>
<td>3.17</td>
<td>3.16</td>
<td>2.64</td>
<td>2.18</td>
<td>2.79</td>
</tr>
<tr>
<td>France</td>
<td>2.72</td>
<td>2.98</td>
<td>2.98</td>
<td>3.04</td>
<td>2.93</td>
</tr>
<tr>
<td>Italy</td>
<td>3.57</td>
<td>3.57</td>
<td>3.16</td>
<td>2.00</td>
<td>3.07</td>
</tr>
<tr>
<td>Spain</td>
<td>3.82</td>
<td>3.66</td>
<td>2.96</td>
<td>3.00</td>
<td>3.36</td>
</tr>
<tr>
<td>Greece</td>
<td>3.56</td>
<td>3.50</td>
<td>3.50</td>
<td>3.12</td>
<td>3.42</td>
</tr>
<tr>
<td>Portugal</td>
<td>4.19</td>
<td>3.90</td>
<td>3.71</td>
<td>3.60</td>
<td>3.85</td>
</tr>
</tbody>
</table>

Source: OECD.

It is true that social partner and encompassing unionism do not match up in any consistent way with EPL except in being ‘middling’. This is to be expected, though. The importance of the distinction I made between them was primarily in the dynamics they generated in terms of UB, where encompassing unions would have a stronger direct incentive to increase UB generosity for

325 Yun, 2010.
membership recruitment purposes. That they differ in terms of EPL is thus no refutation of Varieties of Unionism. Instead, what it points to is the importance of varying industrial relations and statist traditions, as well as partisanship dynamics in the formative years of the late 1960s and 1970s. Even taking this potential variation into account, Switzerland appears to be a bit of an outlier, as it has been in the welfare state literature in some other respects too. In particular, it is known to have had stronger liberal traditions than the surrounding countries, though the roots of this difference lay beyond the scope of our analysis now. Still, it is telling that Switzerland has had stronger EPL for most of the period in question than all of the liberal Anglo-Saxon cases, despite the ‘advantages’ some of the latter possessed in terms of raw union density and more cumulative Left government. Also telling is that the two examples of business unionism that are most exceptional, with histories of modest ‘extension mechanisms’ and other forms of state engagement, Australia and New Zealand, are the countries with the strongest EPL among this group. Lastly, the relative strength of Germany’s EPL relative to the other social partner unions is likely in part the product of the lingering influence of its earlier, Communist (or militant) traditions from the interwar period. Regardless of how we see these mild variations within each type of unionism, though, the obvious clustering of countries according to the typology of unionisms is highly suggestive. Table 3.2 shows the stark differences in average EPL among types of unionism to make this point.

**Table 3.2: Average EPL Score for each Variety of Unionism, 1985-2005**

<table>
<thead>
<tr>
<th>Unionism</th>
<th>EPL Average 1985-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>0.8</td>
</tr>
<tr>
<td>Social Partner</td>
<td>2.3</td>
</tr>
<tr>
<td>Encompassing</td>
<td>2.4</td>
</tr>
<tr>
<td>Militant</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: OECD.

If what I have said captures the major cross-national differences, what about the change of EPL over time in the retrenchment era? Table 3.3 calculates the change of EPL from the late 1980s

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326 See for instance Emmenegger, 2010, for a comparison of Sweden and Denmark and why the former brought in a much stricter EPL system. The author suggests that the unstable grip of the Danish social democratic party in these years led to the weaker EPL regime, as compared to the Swedish social democrats’ firm grip on parliamentary power. What is interesting to note here, though, is that both the Danish and the Swedish LO, the main labor confederations, pushed for very similar EPL regimes to be put in place. This suggests that the preferences of encompassing labor movements may be very similar, but they may not all be able to have those preferences achieved in undiluted form.

327327 See Schwarz, 2000, for a brief account of the postwar trajectory of Australia and New Zealand.
to the early 2000s in each country. The mid- to late-1980s is a good starting point for this analysis of change because it is only really in this decade that EPL begins to come under sustained pressure politically. In this respect, and as Table 1.1 in the Introduction shows, almost all countries reach their peak level of EPL around the early 1980s. The subsequent two decades witness the gradual erosion of EPL in most countries, with a few notable exceptions (that I discuss below).

Among the types of unionism, there is no obvious pattern to the rate of change: encompassing, social partner, and militant union countries all see their level of EPL drop, sometimes substantially. Overall, however, there is a clear pattern of change. Those that start the period with the strongest EPL see, on average, the greatest subsequent reduction. This pattern is starkly shown in Figure 3.1. What this suggests is a dynamic similar to that expected by globalization theory: those countries with the strongest protections will see the greatest drop in their levels of protection as a ‘race to the bottom’ follows the intensification of global economic integration (see Chapter 1).

Table 3.3: Change in EPL from the late 1980s to the early 2000s

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Source: OECD.
There is almost certainly something to the argument of globalization theory, at least in terms of EPL. Still, as plausible as it is, it must be tempered or qualified by the existence of five cases of EPL expansion. Four of these five cases are in the Anglo-Saxon world, where the lowest EPL prevailed in the 1980s. It is here that the perspective of Varieties of Unionism can offer some insight. As I noted in Chapter 2, in the Anglo-Saxon world unions have traditionally relied upon their ‘industrial muscle’ in the market to ensure stable employment and various other gains in working conditions. As I point out in Chapter 4, this was exemplified by the tradition of ‘voluntarism’ in the Britain. And as I also argue there, this very approach to industrial relations led to quite low levels of EPL, despite considerable raw union strength (e.g., union density) and spells of Left party government. What occurred in the 1980s and 1990s, though, was a rethinking of this stance on the part of the British labor movement as unemployment rose rapidly and greatly weakened their labor market leverage (or ‘industrial muscle’). Subsequently this led them to push for statutory forms of employment protection, and the modest upturn in EPL in some of the Anglo-
Saxon countries can be explained by this reorientation.\(^{328}\) Absent any Left/Labor party government in the US and Canada at the national level since the early 1980s, though, no such increase took place.

It is important to note, given this overall picture, that the reductions in EPL that have occurred in the highly protective economies of Western Europe have mostly related to changing the conditions of employment of temporary or fixed-term workers. In the majority of cases, core EPL has been left relatively untouched.\(^{329}\) For example, in Italy, the massive drop in its overall EPL score is due entirely to a massive liberalization of its temporary or fixed-term work regulations. In only five of the Western European countries were reductions made to core EPL during the period under consideration here (up to 2005): Austria, Denmark, Finland, Greece and Spain. Of these countries, only the reductions in Austria, Finland, and Spain were significant (involving more than a 10 percent drop), and even with these changes employment protection of regular workers remained reasonably high in all three (and especially Spain). In fact, in some countries, EPL for regular workers rose while protections of temporary workers fell, as in Belgium and Germany. In short, big drops in overall EPL should not be taken to suggest that the core institutions of worker protection in CMEs have been abandoned, and neither have they been abandoned in Southern Europe. Instead, a process of “shielded and selective deregulation” has taken place, as argued by Torben Iversen.\(^{330}\) As I argue in the case study chapters of Sweden and The Netherlands, this is perhaps to be expected, given the continued clout of labor movements but also, more importantly, because of the very large constituencies benefitting from core EPL protection. Workers on regular contracts continue to constitute the majority of the labor market and few of them want to see their protections weakened, for obvious reasons. Moreover, there is suggestive survey evidence that even labor market ‘Outsiders’ still want strong core EPL, regardless of whether they may be temporarily disadvantaged by such systems.\(^{331}\) Thus reducing core EPL is a very difficult enterprise politically, especially when it covers such a large segment of the labor market. Only time will tell whether the current economic crisis will bring enough pressure to bear on such systems to force change, but so far this seems unlikely and if anything the crisis will likely reinforce core workers’ aversion to reducing their own dismissal protection.\(^{332}\)

\(^{328}\) It is possible that small improvements were made at sub-national levels (e.g., in the provinces or states). See for example Haddow and Klassen, 2006, for a discussion of Canada.

\(^{329}\) For a discussion, see Ochel 2008.

\(^{330}\) Iversen, 2005.

\(^{331}\) Emmenegger, 2009.

\(^{332}\) Reforms imposed IMF-style by lenders to economies in crisis, be it an EU-centered fund or the IMF itself may be a different matter; but this has not yet come to pass in Europe.
Section III: Variations in Unemployment Benefit Effort and Outsider Effort

In contrast to EPL, it is more plausible to conduct multiple regression analysis of the other two dependent variables in this thesis, UB Effort and Outsider Effort. The most important difference is that there is a fair bit of temporal variation. Effort figures vary frequently from year to year and often experience significant changes over time. This means that there is both cross-sectional and temporal variation in the dependent variable and this greatly increases the number of relatively distinct observations (or ‘N’). In such circumstances, multiple regression analysis can be usefully undertaken, at least if certain features of the data are taken into account and addressed. The most serious of such issues for our data is serial correlation, which refers to the fact that an UB Effort score at time t, for instance, is related to (or correlated with) UB Effort at time t-1. For obvious reasons, the generosity of unemployment benefit systems do not swing wildly from year to year and this introduces serial correlation. However, this continuity is much milder than in the case of EPL, as should be clear from what I have said in Section II. This allows us to test more accurately for the impact of partisanship, unemployment levels, deficits, and so on, that vary from year to year.

Given this temporal and cross-national variation, regression analysis of data such as UB and Outsider Effort is termed time-series-cross-sectional (TSCS) regression. This kind of data is usually studied in political science (and comparative political economy in particular); though it is certainly not restricted to these fields. Given the nature of the political variables of interest to political scientists, such data is frequently characterized by heteroskedasticity and causal dependence on the cross-sectional dimension, along with serial correlation (as noted).333 Heteroskedasticity exists when certain sub-populations in a dataset (such as countries) have significantly different variability or variance than others.334 Moreover, countries are likely to experience similar shifts over time in certain key variables such as unemployment and government spending, given an interconnected global economy (e.g., Western countries now often go into recessions almost simultaneously). This “causal dependence on the cross-sectional dimension” means that statistical tests which assume that the effect and residual (error) variances are uncorrelated and normally distributed across time and space, such as Ordinary Least Squares regression, will be misleading.

The most common regression model to address such complications in political economy data is the one popularized by Nathaniel Beck and Jonathan Katz in the mid-1990s. Their “panel-

333 See Podesta, 2000, for a thorough discussion of these issues.
334 For example, the variance in unemployment rates might be higher in the US relative to Germany, given the more liberal dismissal system, and this may in turn have an impact on the variance of government social spending.
corrected standard errors” (PCSE) estimators are able to address the problems of heteroskedasticity and causal dependence in TSCS data. However, the issue of serial correlation must also be addressed, and there are a couple of ways to do this. Beck and Katz’s proposed solution is to include a lagged dependent variable (LDV), which will explain the dependent variable \( y \) at time \( t \) with reference not only to the various independent variables but also to \( y \) at time \( t-1 \) (or the year before in our case). The problem with this method for our purposes is that it will largely eliminate the cross-sectional component of variation; it will, in a sense, be “soaked up” by the lagged dependent variable. In models that include a lagged dependent variable, it is fairly common that almost all of the explanatory power of the model is captured by the LDV and that the various other independent variables have little or no statistical significance.

Yet for tests that seek to explain not simply change over time but also cross-sectional variation, the inclusion of an LDV is problematic. This leads me to adopt a “first order autoregressive” approach to dealing with serial correlation, or AR(1). In recent work, Beck and Katz have suggested that both approaches are potentially fruitful to examining time-series dynamics.

The advantage of multiple regression analysis, as compared to the simple correlation analysis of Chapter 2, is that we can take into account the impact of a variety of different independent variables simultaneously. It could be, for example, that once we integrate partisanship and the level of EPL, the impact of ‘Outsider-oriented unionism’ simply falls away in statistical terms. By failing to control for the impact of other variables, in other words, we might be incorrectly assigning causal importance to something that has none or very little. By integrating a host of other potentially relevant variables we can get a much better sense of whether the variables we think are important are in fact so. Naturally, given that this thesis has asserted the importance of a certain variable (varieties of unionism) in contrast to other theories that rank other variables as more important (e.g., EPL for Insider-Outsider theory; partisanship for traditional PRA; and LME vs. CME or vocational training share for VOC), we want to run multiple regression tests that include all of the potentially relevant, theoretically-justified variables to see which ones best correspond to UB and Outsider Effort. Below I list and describe the various independent variables that are used in my tests to explain variation in UB Effort and Outsider Effort and their predicted association with each.

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336 As I noted in Chapter 2, this perhaps especially pertinent to David Rueda’s finding of no partisan effect on spending, since he uses an LDV model.
337 Indeed, such was my critique in Chapter 2 of Torben Iversen’s analysis of the importance of skill composition and vocational training: that there were other, far more relevant, variables explaining the generosity of UB systems.
(1) Outsider-oriented unionism: As I set out in Chapter 2, ‘Outsider-oriented unionism’ is a composite variable made up of three distinct features of union movements: their membership strength, their level of internal centralization, and their degree of involvement in unemployment benefit administration. In order to track the changes to this variable over time, I have calculated the variable by year on the basis of the main feature of ‘Outsider-oriented unionism’ that changes from year to year: union density. The centralization of union movements has also changed in the past thirty years, but this has not usually been as dramatic and there is little good data that measures its change from year to year. This constitutes an important weakness to using this variable in a dynamic way, i.e. to explain temporal variation, but as I made clear in Chapter 2 the policy preferences and outlooks of union movements have deep roots and do not usually change radically over a short period of time. In this sense, the fact that my centralization score is drawn from the period from 1984-1993 does not undermine its rough accuracy in predicting the impact of union centralization on union preferences and capacities. The latter in particular, capacities, is likely to experience substantial inertia even in the face of decentralization, since arrangements of corporatist political exchange that centralization bolsters are usually not easily or quickly undone (at least if they survived the turbulent 1970s and 1980s!). Given these partial caveats, then, Table 3.4 presents the 5 year average scores of Outsider-oriented unionism that I use in the regressions (outsiderunionismbyyear). If my theory is correct, we should see a strong positive correlation between this variable and UB or Outsider Effort in regression analysis.

(2) Left Government Partisanship: According to traditional variants of Power Resources theory, the most crucial feature explaining the generosity and form of postwar welfare states was the partisanship of government, and in particular the long-term incumbency of social democratic or Left parties (see Chapter 1). While there were variations on this emphasis on Left partisanship, such as when the impact of Christian Democratic or Right parties were included in the analysis, generally the view has been that Left/Labor parties were the key proponents of social insurance expansion. I use three variables to capture these claims: two measures of current left government partisanship (leftgov, govparty) and a measure of long-term left government incumbency since 1945 (cumulativeleft). All three variables are drawn from Evelyne Huber and John Stephens’ dataset available online. Leefgoe varies between 0 and 1 based upon the share of government cabinets taken by Left parties, while cumulativeleft simply adds these scores up since 1945 (and thus changes more slowly or incrementally). These theories therefore predict a straightforward positive relationship between these variables and UB and Outsider Effort.

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338 To the extent that the scores do not accurately reflect the changes to unionism over the period in question (by for example failing to adjust to growing union decentralization), it is more likely that this will weaken the relationship of my variable to UB and Outsider Effort rather than strengthen it. In this way, it is quite possible that my tests understate the impact of ‘Outsider-oriented unionism’.  
339 Their dataset only runs to 2000, so I have updated their scores to 2005.
(3) Employment Protection Legislation: In David Rueda’s Insider- Outsider theory of labor market policy, the extent of employment protection or security achieved by ‘Insiders’ is a major determinant of their support for Outsider policy such as UB or ALMP. The stronger EPL is, therefore, the less likely we should see generous Outsider policy: the correlation between EPL and the two Outsider policy variables should be negative, if Rueda’s view is correct. This variable is drawn from the standard OECD dataset that I have been using throughout, and which Section 2 above presents.

(4) Variety of Capitalism: As Chapter 1 explained, VOC theory is clear that whether a country is an LME or a CME matters a great deal in terms of their labor market policy. LMEs should see weak and residual UB systems, whereas CMEs should see the opposite, as a cross-class alliance behind generous Outsider protections emerges in the latter (given CMEs’ functionalist production needs). To test for this assertion I include a VOC variable based upon the original VOC formulation of Peter Hall and David Soskice: 1 for CMEs (Austria, Belgium, Denmark, Finland, Germany, Japan, The Netherlands, Norway, Sweden, Switzerland), 0 for LMEs (Canada, UK, US), and 0.5 for hybrid cases (France and Italy). If the original VOC formulation is correct, there should be a strong positive relationship between this variable and UB and Outsider Effort.

(5) Share of Vocational Training: Another variant of VOC theory, proposed by Torben Iversen, points to the centrality of different skill compositions (or training systems) among countries in explaining variations in UB generosity. His main indicator of such differences, or proxy variable, was the share of youth passing through vocational education as a proportion of their cohort. Relative to the simple VOC dummy, this variable could vary in a continuous way among countries and thus might be better suited to explain variation in UB and Outsider Effort. If what Iversen says is true, we should expect a strong positive correlation between this variable and our two indicators of the generosity of Outsider policy.

Control Variables/ Functionalist Explanations:

(6) Unemployment Rate: The level of unemployment in a country may affect UB or Outsider Effort in two ways. First, a high rate of unemployment will increase the overall costs to society of both unemployment benefits and labor market assistance to the unemployed. This will often put political pressure on elected officials to constrain the generosity of UB in order to keep government spending/deficits/taxes under control. Many examples of this happening can be pointed to, and I give some examples of this in the case studies of Sweden and The Netherlands. Second, rising unemployment may decrease the UB Effort or Outsider Effort simply by virtue of spreading out some of the basic administrative costs of these programs over more unemployed people (recall that policy Effort is calculated by dividing total policy spending by unemployment rate). This simple mathematical relationship
is also likely to show up, then, and mean that unemployment has a strong negative correlation with the Effort figures. This second effect of rising or falling unemployment is less theoretically interesting to us, but it will help control for this aspect of the data and thus provide a better picture of the influence of the other variables.

(7) Trade Exposure: This variable measures the share of national GDP constituted by exports plus imports (i.e., how integrated into world trade a country is given its size). In the globalization theory literature of the late 1990s and early 2000s, it was often contended that increasing exposure to trade would gradually force welfare state retrenchment as competitive pressures were intensified around tax rates: countries with high tax rates would see an exodus of capital and skilled labor fleeing these punitive rates, and the pressure on governments to prevent this from happening would push them to reduce the rates. Doing so would however create serious fiscal pressure to rein in government spending and retrenchment would ensue. This type of view would tend to predict a negative relationship between trade openness/exposure and UB and Outsider Effort. A conflicting view, known as the “compensation thesis”, suggested by contrast that government spending might in fact increase with global economic integration as citizens began to demand greater social protection from the intense vicissitudes of the world market.\(^{340}\) If this were true, we would expect a positive relationship between trade exposure and UB or Outsider Effort.\(^{341}\)

(8) Public Budget Surplus/Deficits: This variable captures the relative budgetary position of countries as a proportion of GDP (e.g., what percent of GDP the country is in deficit or surplus in a given year). In a functionalist sense, as in the case of high unemployment rates, we might expect that high deficits put pressure on governments to curtail the generosity of social insurance in order to bring the budget back into balance. If this is true, we should see a positive relationship between this variable and UB and Outsider Effort: the more in surplus a country is, the higher the likelihood of increases in policy Effort.

(9) GDP Growth: A country that is growing strongly economically is a country where there is less likelihood that alarmist arguments about an ‘inefficient and overly-generous’ welfare state will find resonance, and less likelihood that such ideas will motivate parties to adopt potentially unpopular political action such as curtailing the generosity of social insurance. If this basic insight is accurate, we should expect a positive relationship between GDP growth and UB and Outsider Effort, if only because when GDP growth is negative or weak, the above will not hold.


\(^{341}\) This is drawn from Armingeon et al. 2005.
Given the lack of a union centralization score that would allow me to calculate an ‘Outsider-oriented Unionism’ score for Australia, Ireland and New Zealand, I only run the regression analysis on 15 countries. This gives us 15 countries x 21 time periods = 315 observations (or N). Figure 3.2 and 3.3 show the various tests I ran for UB Effort and Outsider Effort respectively.\(^{342}\) I added in the different independent variables stepwise in order to see whether their inclusion significantly changed the results of the estimations.\(^{343}\) The first tests included simply Outsider-oriented Unionism and the four control variables. I then added, in turn, measures of partisanship (leftgov, cumulativeleft, govparty), EPL, and finally the VOC indicators. In order to see what explanatory variables came to the fore in the absence of Outsider-oriented Unionism, I ran the final tests with it dropped. I should also note that, given what I have said about the problems of regression analysis in terms of EPL, Outsider-Oriented Unionism scores are very similar in the period from the early 1970s to the period under review (a correlation of \(r_p = 0.99\)). What this means is that even if a lot of the UB and Outsider policy regimes were established in this earlier period, the unionism variable will be a big part of ‘explaining’ it (at least in cross-national terms). My regression analysis does not go farther back than 1985 simply because broad comparative spending data from the OECD is not available.

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\(^{342}\) The form of the STATA command was `xtpcse dv iv1 iv2 ..., corr(ar1)`.

\(^{343}\) In my tests, the order in which variables were added made no difference to the estimation results.
### Figure 3.2: Stata Output of Different UB Effort Tests

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N = 315

* p<0.05, ** p<0.01, *** p<0.001

t statistics in parentheses

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### Figure 3.3: Stata Output of Different Outsider Effort Tests

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<tr>
<td>_cons</td>
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<td>0.258***</td>
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<td></td>
<td>(5.46)</td>
<td>(5.48)</td>
<td>(4.70)</td>
<td>(5.25)</td>
<td>(5.12)</td>
</tr>
</tbody>
</table>

N = 315

* p<0.05, ** p<0.01, *** p<0.001

t statistics in parentheses
What the various tests presented in Figure 3.2 and 3.3 suggest is that Outsider-oriented Unionism is by some margin the most important explanation of variations in each policy area, at least relative to the variables suggested by the other major theoretical accounts tested here. In each and every test, Outsider-oriented Unionism is statistically significant in the predicted, positive direction, and very strongly so. Only once Outsider-oriented Unionism is excluded do explanatory variables from the alternate theories show up as statistically significant in the predicted direction (although EPL does not, even then). To put these results in more concrete terms, if the Outsider-oriented Unionism score rose by 10 points, the models would predict a rise in UB Effort of around 0.05 and a rise of 0.08 in Outsider Effort. As Tables 3.5 and 3.6 suggest below, this would be quite significant. In terms of UB Effort, it would move a country like Canada up to the level of Germany or Germany up to the level of Finland (averaged over the 20 year period). These are significant shifts, but they are also not implausibly large, since an increase in Outsider-oriented Unionism of 10 points would be no small matter itself: e.g., an increase in union density by 30 percent. If anything, the results suggest that while Outsider-oriented Unionism is a major determinant of UB and Outsider Effort, it is also very difficult to change the latter two in substantial ways through changes in unionism (especially given how deeply-rooted such union patterns are, as Chapter 2 and the case studies make clear). To give an example of this consider that the integration of a previously uninvolved union movement into bipartite UB administration (producing a rise of about 17 points in Outsider-oriented Unionism) would over time be predicted to increase UB Effort by 0.085. This would move a country such as the UK to a position more similar to France. Again, though, this would be quite a departure from existing British traditions.

In terms of the other variables in question, high unemployment rates clearly put downward pressure on Effort figures in the tests, and in a statistically significant way. What is unclear, however, is whether this is simply through the mathematical relationship of the unemployment rate to Effort figures (since unemployment is the denominator, and higher unemployment may spread out administrative costs more broadly) or whether the existence of high unemployment puts strong political pressure on governments to curtail UB generosity. What the figures suggest is that with each one percent increase in the unemployment rate, UB Effort will drop around 0.01 and Outsider Effort will fall around 0.03. From this perspective, countries with 5 percent unemployment rates on average, say, will be able to be a bit more generous than those with 8-10 average unemployment. In the period under consideration, though, most countries clustered between 6-8 percent

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344 See the discussion of the ‘Cumulative Left’ result below.
unemployment (from 1985-2005). So in practice it is unlikely that this has consistently made a major difference in Effort figures across countries. In the ‘unemployment outliers’, however, it may well have (e.g., Switzerland and Austria at the low end, ~4 percent unemployment, and Belgium and France at the high end, ~10 percent unemployment). Two other control variables also show up as statistically significant in the regression tests: trade exposure and deficits. As predicted by the simple functionalist logic, public deficits have tended to weaken support for generous UB and Outsider policy. Deficits were only statistically significant in the tests for UB, though. Higher levels of trade exposure, on the other hand, were found to predict higher UB and Outsider Effort. This is more consistent with “compensation thesis” described above, than with the globalization theory view. The rate of GDP growth was found to have no significant impact on Effort figures.

Perhaps the most surprising result of the tests is that Cumulative Left government is in fact negatively correlated with UB Effort when Outsider-oriented Unionism is included and in a statistically significant way. This is of course the opposite of expectations of traditional PRA. However, once the unionism variable is removed then Cumulative Left becomes positively correlated, as expected. The fact that Huber and Stephens in their seminal work, The Development and Crisis of the Welfare State (2001), do not include any union variable in their tests means that perhaps their results overstate the importance of Left partisanship (which they find to be significant in the predicted direction). At a minimum, these results suggest that the types of unionism prevalent in different countries need to be taken into account much more when testing for partisanship. The measures of current Left government, leftgov and govparty, are also insignificant in predicting Effort figures, but this is somewhat less troubling to the traditional PRA view. This could suggest one of a number of conclusions: that Left parties are in fact constrained to pursue welfare state expansion in the era of globalization (as globalization theory has it); that the tests are not of a form that would adequately capture the impact of Left partisanship; that Left parties have, net of Outsider-oriented unionism, effectively abandoned Outsiders (as in Insider-Outsider theory); or simply that Left parties are not nearly as important as Outsider-oriented unionism in predicting policy Effort. At this point, I am not comfortable strongly endorsing any particular view. I would caution against dismissing partisanship as irrelevant, however, since my case study research has suggested its continuing importance (see Chapter 5 and 6 especially). In this sense, it is quite likely

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345 Indeed, Sweden’s experience suggests as much. Its UB Effort and Outsider Effort scores are very high in the 1980s when unemployment was very low (~2 percent) but they became much more modest when unemployment rose dramatically in the 1990s, in large part due to major reforms (or retrenchment) to UB. See Chapter 5.

346 The correlation between “Outsider-oriented Unionism” and cumulative left government is quite high: ~.71. In fact the high correlation between union density and Left partisanship is the reason they dropped density from tests.
that the form of the tests simply cannot capture the impact of Left partisanship given the nature of UB reforms, which often see their effects in terms of spending or ‘Effort’ delayed and modified as economic change proceeds in twists and turns. Perhaps more to the point, recent work by Henning Finseraas and Kare Vernby suggests that when we include a measure of party polarization on distributive issues in different countries, then partisanship is clearly important in welfare state dynamics: as predicted by traditional PRA, Center and Right government is associated with greater retrenchment in the past few decades in a number of tests, once party polarization is controlled for. What this suggests is that ‘Left’ party government does not mean the same thing in different countries, and this weakens its association with patterns of welfare state change. Of course, this argument is very consistent with the perspective I advance throughout the thesis.

Table 3.5: UB Effort by Type of Unionism and Change from Late 1980s to Early 2000s

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>0.05</td>
<td>0.05</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>-0.01</td>
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<td>0.05</td>
<td>0.04</td>
<td>0.06</td>
<td>-0.05</td>
</tr>
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<td>0.07</td>
<td>0.05</td>
<td>0.07</td>
<td>0.06</td>
<td>0.01</td>
</tr>
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<td>0.08</td>
<td>0.05</td>
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</tr>
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<td>0.12</td>
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<td>0.20</td>
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Source: OECD.

347 Finseraas and Vernby, 2011. Party polarization is measured according to the Comparative Manifestos Project. See for example Klingemann et al, 2006.
Table 3.6: Outsider Effort by Type of Unionism and Change from Late 1980s to Early 2000s

<table>
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Source: OECD.

Also striking is the absence of statistical support for the VOC variables. Neither the VOC dummy nor the share of vocational training showed a statistically significant impact on Effort figures in either policy area. The one exception is vocational training when Outsider-oriented Unionism was excluded (Test 5 in Figure 3.2). As I contended in Chapter 2, this may simply reflect the correlation of strong vocational training arrangements with the ‘integrative’ unionism emphasized in Varieties of Unionism. Indeed, the very fact that it only emerges as statistically significant in the predicted direction in the absence Outsider-oriented Unionism suggests as much. In short, the VOC perspective receives little support from the regression analysis and, if interpreted properly, the tests likely undermine its plausibility substantially.
Another more straightforward way of showing the importance of Varieties of Unionism is to analyze how the different countries rank in terms of UB Effort and Outsider Effort. Table 3.5 and 3.6 do this, above. Notice how the ‘inclusive’ political economies cluster at the bottom of the charts (most generous) and the ‘exclusive’ political economies at the top (least generous). With the very partial exception of France in terms of UB Effort, the countries match up as expected. Moreover, within the group of ‘inclusive’ political economies, those with encompassing union movements tend to be closest to the most generous, again as expected, in particular in terms of Outsider Effort. Figure 3.4 and 3.5 show the averages of each type of unionism in terms of UB Effort and Outsider Effort over time. The differences between each type are significant, and match up with the expectations of the theory.

Figure 3.4: Average UB Effort According to Type of Unionism, 1985-2005

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348 And as I noted in Chapter 2, France is something of an outlier in terms of unionism and labor market regime, as it is in other welfare state typologies. It is closest to the militant unionist tradition, certainly, but there have also been more elements of social partner unionism in recent decades. See Upchurch et al., 2009.

349 Encompassing Unionism countries are Belgium, Denmark, Finland, and Sweden. Social Partner unionism countries are Austria, Germany, The Netherlands, Norway and Switzerland. Business Unionism countries are Australia, Canada, Ireland, New Zealand, UK, and US. Militant Unionism countries are France, Greece, Italy, Portugal and Spain.
There do appear to be a few countries that are partial exceptions to the broad, general differences between ‘exclusive’ and ‘inclusive’ political economies: New Zealand, Ireland, Portugal, and Spain. More specifically, the last three have seen a notable increase in Outsider Effort from the late 1980s to the early 2000s, such that their Effort figures in the latter period approach those of some inclusive political economies. In this respect, they clearly break with the trend of either stable or declining Effort figures in many of the countries. What is most important to note about these countries, then, is how their sharp increase in generosity was premised, at least in the most recent period, on economic foundations that were profoundly unstable. Especially in Spain and Ireland, the growth of recent years up to the crisis of 2008 was due in large part to massive asset bubbles in real estate, which propelled their growth from the early 2000s \textit{at the latest} onwards.\textsuperscript{350} And indeed all three are now at the forefront of austerity as of December 2011, given the sharp rise in their unemployment rates that followed the economic crisis of 2008 onwards. In a way, these ‘exceptions’ may thereby serve to illustrate ‘the rule’, as I note in the concluding chapter.\textsuperscript{351}

\textsuperscript{350} See for example, Lopez and Rodriguez, 2011.
\textsuperscript{351} Portugal and Spain were also the recipients of EU transfers during this period, which may have allowed them to increase their generosity beyond what might be expected (given my theory).
What the tables also suggest is that countries have not seen UB and Outsider policies evolve in very consistent ways, neither overall nor in terms of type of unionism. This suggests that the main source of the regression results presented above is probably cross-sectional difference, not dynamic or temporal variation. I will have more to say about this in the concluding chapter, Chapter 7, but for now let me note that this may suggest that certain features of the recent political economic landscape have weakened the connection between types of unionism and Outsider policy. In particular, globalization has weakened the leverage and influence of union movements, and this means that their imprint on policy has been reduced (though certainly not eliminated). This important theme is also taken up in the case study chapters. Having said this, there are mild differences in the rate of change if we compare ‘inclusive’ with ‘exclusive’ political economies. Table 3.7 and 3.8 show these differences. In fact, when we take out the clear outliers of Sweden and The Netherlands from the ‘inclusive’ group (outliers in different directions) what we see is that ‘inclusive’ Effort figures have in fact increased significantly in terms of Outsider Effort (or more accurately ALMP, since the difference between the UB figures and the Outsider figures is simply the inclusion of ALMP Effort). If we also take out some of the countries from the ‘exclusive’ group with the biggest bubble economies of the early 2000s, Ireland and Spain, then the differences become yet starker.352

Table 3.7: UB Effort by Political Economy, Average Score and Change over Time

<table>
<thead>
<tr>
<th>Political Economy</th>
<th>Average Effort Score 1985-2005</th>
<th>Average Change from 1985-89 to 2000-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Exclusive&quot;</td>
<td>0.123</td>
<td>-0.0167</td>
</tr>
<tr>
<td>&quot;Exclusive&quot;, excepting Ireland and Spain</td>
<td></td>
<td>-0.027</td>
</tr>
<tr>
<td>&quot;Inclusive&quot;</td>
<td>0.298</td>
<td>0.011</td>
</tr>
<tr>
<td>&quot;Inclusive&quot;, excepting Sweden</td>
<td></td>
<td>0.026</td>
</tr>
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</table>

Table 3.8: Outsider Effort by Political Economy, Average Score and Change over Time

<table>
<thead>
<tr>
<th>Political Economy</th>
<th>Average Effort Score 1985-2005</th>
<th>Average Change from 1985-89 to 2000-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Exclusive&quot;</td>
<td>0.188</td>
<td>-0.001</td>
</tr>
<tr>
<td>&quot;Exclusive&quot;, excepting Ireland and Spain</td>
<td></td>
<td>-0.023</td>
</tr>
<tr>
<td>&quot;Inclusive&quot;</td>
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<td>0.016</td>
</tr>
<tr>
<td>&quot;Inclusive&quot;, excepting Sweden and The Netherlands</td>
<td></td>
<td>0.047</td>
</tr>
</tbody>
</table>

352 Arguably Portugal could also be included in this group, since it was running big public deficits before the recent economic crisis (which were unsustainable), and this would make the differences even more clear.
Section IV: Conclusion

The quantitative evidence presented above provides compelling evidence for the Varieties of Unionism perspective, I submit. Both the simple diagnostic, cluster analysis and the multiple regression analysis support the contention made in Chapter 2 that “Having a strong, coordinated and politically involved union movement is indispensable in achieving relatively good treatment of the unemployed.” The variable I have constructed to capture this phenomenon, Outsider-oriented Unionism, is by far the most important of the numerous variables in explaining relative Effort scores. Other theoretically-inspired variables find very little support, from the regression analysis in particular. In the case of EPL, the striking clustering of countries according to variety of unionism also constitutes strong evidence for the theory presented in Chapter 2. Recent reforms to EPL have perhaps weakened the initially very clear clustering of countries in the 1980s and early 1990s, but these reforms have mostly related to temporary contracts and have thus often left standing the existing protections of core workers. Union movements have frequently resisted this increasing dualization, as Chapter 5 and Chapter 6 show, yet its occurrence is not inconsistent with the perspective advanced here, since unions will have the most influence over the type of protections provided to the majority of their members (i.e., core worker protections).

Given the continuing controversies around TSCS analysis in political science, the regression results reported here must remain only tentative confirmation of the Varieties of Unionism view. For some, the most compelling evidence for my thesis will be that presented in the basic correlation analysis of Chapter 2. This is the most straightforward presentation of my contention, in some ways. But even this evidence may be questioned on the grounds of causality: that correlation is not causation. For my view to hold up, it needs to be demonstrated in qualitative analysis that some of the major claims I am making about union and employer preferences and behavior are accurate. Therefore, I now turn to the qualitative evidence of the case studies. Each chapter illustrates carefully how the claims I make about Varieties of Unionism ring true in careful historical research. Chapter 4 presents the UK case, where unions did not effectively or pro-actively establish the kind of strong labor market protections that existed in much of Northern Europe, while Chapter 5 and 6 present the case studies of Sweden and The Netherlands, respectively, where union movements clearly did play this role.
Chapter 4:

Business Unionism, ‘Voluntarism’ and the Evolution of Labor Market Policy in the UK

“Unions in Britain (even if rhetorically committed to socialist aims) have in practice accepted and adapted to the existing social and economic system; but they have been prepared to fight determinedly in defence of their members’ immediate economic interests within it. Traditionally they have recognized the need to rely on their own collective strength –‘industrial muscle’ –rather than depending on external support; they have been more concerned with de facto than de jure rights… British trade unions have [thus] displayed a militant, but sectional and defensive, economism.”

-Richard Hyman, 2001, p. 68.
Section I: Introduction

Along with the embattled economies of Southern Europe and Ireland, Britain is back at the forefront of austerity. Thirty years after Margaret Thatcher set out to ‘roll back the state’ and reassert the dominance of market forces, the new Conservative-Liberal Democrat coalition has announced that large portions of the current welfare state are to be cut. While the government has pledged not to cut the hefty budgets of Education or Health, this has meant that other departments are being asked to cut up to a quarter of theirs. As part of this effort, social assistance is to be overhauled, university tuition fees are to be nearly tripled, and large numbers of public sector workers are to be laid off. The expectations placed on those receiving unemployment benefits have also been increased. Many youth receiving the country’s unemployment benefit, Jobseekers Allowance (JSA), have been told that in order to continue receiving it they must enter into unpaid ‘work placements’ at various affiliated employers as part of the government’s ‘work experience scheme’. These youth are expected to be available between 9am and 10pm during the week and have been asked to work up to 30 hours a week, unpaid, for up to two months. In return, they continue to receive their £53-a-week JSA benefit, or roughly $83 USD. In short, the already meager British system of unemployment benefits, evident from Table 4.1, has become even more punitive to the jobless.

Meanwhile the youth unemployment rate in Britain is above 20 percent as of November 2011, and the wider unemployment rate stands at around 8 percent, so the chances of finding work are slim for many of these young recipients. In this context, the youth riots across the country in August 2011 should perhaps come as little surprise. Not every Anglo-Saxon country is experiencing such a bleak jobs market, but the two biggest are, the UK and the US. In these countries, long-term unemployment stands at historic highs: the proportion of the unemployed that have not had a job for over a year currently stands at above 30 percent in each country and rising.

353 The Economist, “Reforming the State: Radical Britain”, August 12, 2010. In what follows, the UK and Britain are used interchangeably, since the administration of labor market policy has been centralized in postwar UK.
355 “Young jobseekers told to work without pay or lose unemployment benefits”, Guardian, November 16, 2011. In order to bypass laws that make such mandatory unpaid work illegal, JSA case managers need to get a verbal ‘expression of interest’ in work experience on the part of recipients. Once the recipient has indicated this interest, though, they can have their benefits fully revoked if they fail to comply with the placement.
Explaining how the situation got to be so bleak for ‘Outsiders’ in the UK is an important aim of this chapter. While it is not centrally concerned to explain the high rates of long-term unemployment that now exist, it does seek to explain how the safety net for these people has come to be so weak and punitive in comparative terms. As Tables 4.1 and 4.2 suggest, the UK now has the second weakest commitment to labor market Outsiders among the Anglo-Saxon regimes, as measured by UB and Outsider Effort. This is particularly striking given that all of these countries are comparatively weak in this respect, as Chapter 1 and 2 showed, and that the UK was seen by many as the birthplace of a universalistic, generous welfare state in the early postwar period. The argument of this chapter is that this labor market policy outcome is in large part the product of a highly fragmented, business unionist labor movement. Unable and unwilling to deliver sustained wage restraint to governments of different partisan stripes in the early postwar period, the development of labor market protections was thus stunted and they never developed the broad coverage and generosity that would have protected them politically from the onslaught of Thatcher’s neoliberalism. Moreover, because of the intense fragmentation of the labor movement and its related attachment to ‘voluntarism’ (explained below), unions’ preferences for statutory labor market protection remained weak and very much secondary to their concern for short-term bargaining success. While this also applies to other cases of business unionism, it was in certain ways especially the case in the UK. The relative weakness of its labor market protections, in spite of repeated spells of Left party government and strong union density for much of the postwar period, reflects this.\footnote{Other Anglo-Saxon countries that have had less frequent Left party government and weaker union density figures, such as Australia, Canada, and NZ, have still managed to have mildly stronger protection for ‘Outsiders’. See below.}

<table>
<thead>
<tr>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
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<td>0.16</td>
<td>0.15</td>
<td>0.13</td>
<td>0.14</td>
</tr>
<tr>
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<td>0.11</td>
<td>0.09</td>
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</tr>
<tr>
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<td>0.14</td>
<td>0.19</td>
<td>0.16</td>
</tr>
<tr>
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<td>0.2</td>
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</tr>
<tr>
<td>UK</td>
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<td>0.08</td>
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</tr>
<tr>
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<td>0.07</td>
<td>0.05</td>
<td>0.07</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Source: OECD.
Table 4.2: Outsider Effort in the Anglo-Saxon Countries, 1985-2005

<table>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
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<td>0.18</td>
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</tr>
<tr>
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</tr>
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</tr>
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<td>0.09</td>
<td>0.07</td>
<td>0.09</td>
<td>0.09</td>
</tr>
</tbody>
</table>

Source: OECD.

Table 4.3: Employment Protection Legislation in the Anglo-Saxon Countries, 1985-2005

<table>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
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<td>0.94</td>
<td>1.14</td>
<td>1.19</td>
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<tr>
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<tr>
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<td>New Zealand</td>
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<td>1.01</td>
</tr>
<tr>
<td>UK</td>
<td>0.60</td>
<td>0.60</td>
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<td>0.73</td>
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<tr>
<td>US</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
</tr>
</tbody>
</table>

Source: OECD.

Contending Theories of Labor Market Policy in the UK

In advancing this argument, the chapter challenges both VOC and Insider-Outsider interpretations of labor market policy in the UK. To a lesser extent, it also challenges the traditional, partisanship-oriented account of PRA. I outline how it does so below, beginning with my critique of Insider-Outsider theory.

According to the Insider-Outsider perspective of David Rueda labor market ‘Insiders’ achieved a considerable amount of employment security or protection in the late 1960s and 1970s, both in the UK and across Western Europe. These workers thus ceased to have the same strong desire as before for labor market safety nets such as unemployment benefits (UB) and active labor market policy (ALMP), perhaps especially those covered by unions who gave them extra protection. In fact, in some ways they began to oppose the resources directed to these measures since they benefited mostly unemployed or precariously-employed Outsiders and yet were paid for by Insiders. As a result, after the ‘Golden Age’ of welfare state development in the early postwar period, they pressed the social democratic or Left-wing parties they supported to limit spending on these

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359 The following depiction of the Insider-Outsider account is drawn from Rueda, 2007, p. 2-4, 11-27.
Outsider policies. Since these Insiders, and again particularly unions, held considerable sway in Left parties due to their high levels of political involvement and financial support, the parties acceded to their demands and Left or social democratic Outsider-policy became largely indistinguishable from those of the political Right. In his analysis of the UK, Rueda contends that this view is confirmed by the events of recent decades, since the Labour and Conservative parties have not allegedly had different spending records in relation to UB or ALMP, whereas they have differed when it comes to employment protection legislation (EPL; the main political demand of Insiders).

This chapter challenges this account in a number of ways. First, there is a simple but fundamental empirical mistake at the heart of Rueda's account in the case of the UK: the main indicator of Insider protection used by Rueda, employment protection, has never been particularly strong, and certainly not as compared to other European nations. This contrasts with Rueda’s claim that in Britain “by the end of the 1960s, insiders were protected by a dismissal cost system that compared favorably with those in most other European countries.”360 Not only is his claim contradicted by his own earlier data but it is inconsistent with a thorough understanding of the British employment protection regime, which I elaborate in Section III. This basic empirical error thus leads to a mischaracterization of UK labor politics: that it followed essentially the same dynamic as that found in the rest of Western Europe and that the main difference was that the Conservatives took power for such a long time after 1979 (18 years).

Instead, I argue, understanding British labor market policy requires appreciating the unique organization and policy preferences of the British labor movement in the European context. For one, unions never pushed for strong employment protection legislation as compared to the labor movements in the other Western European countries. To the extent that unions behaved as ‘political Insiders’ this manifested itself in being concerned overwhelmingly with wage increases and collectively negotiated benefits, rather than generous state-provided UB and ALMP. However this behavior characterized basically the whole of the postwar period, not simply the period after the achievement of very modest measures of employment protection in the 1960s and 1970s. In fact, given Rueda’s framework, we should have expected British organized labor to have been much more concerned to promote Outsider policies such as ALMPs and UB in recent decades, since weak employment protection ostensibly makes Insiders more like Outsiders.361 That they have rarely taken

360 Rueda, 2007, p. 137.
361 Ibid. p. 27-28.
this stance in a concerted way suggests that the very nature of the labor movement is different in this case as compared to most of Western Europe.

Similarly, and largely as a result, the Labour Party never really developed an expansive conception of labor market protections, with a brief though very partial exception in the early- to mid-1970s (and to an extent in the 1980s when they were in the political wilderness). As with other attempts to expand the welfare state in Britain, though, this particular effort in the 1970s came up against the limits of the country’s ‘stop-go’ pattern of early postwar economic development (explained below). This ‘stop-go’ pattern restrained welfare state expansion in the early postwar period and led to a weak partisan effect on welfare state spending during these years, as noted by Rueda and others.362

Thatcherism no doubt represented a decisive shift away from the previous government policy of both parties, but this had little to do with Insider-Outsider dynamics. It was in a sense both anti-Insider and anti-Outsider policy.363 By undermining the position of unions in the economy, while declining to establish countervailing legislative protections, Thatcher significantly weakened the employment protection of Insiders. The era of Thatcherism thus brought about a rise in temporary work, part-time work, precarious self-employment, and a much higher rate of unemployment for a long period of time (i.e., Outsiders).364 It also brought about a much more punitive and meager system of protection for this growing mass of unemployed, as spending on ALMP and UB per unemployed individual fell considerably during this period (see Table 4.1 and 4.2).

The return to power of (New) Labour in 1997 exhibited strong continuities with the period of Conservative rule, however with larger investment in ALMP, a very modest expansion of employment regulations and protection, and a sustained effort to address the direst of poverty. This last effort, though, did not involve a return to pre-Thatcherite levels of unemployment benefits, and union representatives did not push strongly in this direction. That this is so suggests again that weak employment protection is not a good predictor of ‘Outsider-orientation’ on the part of either organized labor or social democratic parties. Instead, ‘Outsider-orientation’ is much more linked to

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362 Ibid. p. 201. See also for example Rhodes, 2000. This very fact undermines Rueda’s broader model, since it suggests that partisan differences have never been as important in the UK as elsewhere, not that EPL in the 1960s and 1970s changed this.

363 Rueda agrees that Conservative rule in the 1980s and 1990s was anti-insider, but surprisingly does not explicitly consider it anti-outsider, despite the clear retrenchments to UB and ALMP spending per unemployed that I document below.

the organization of the labor movement and its integration into corporatist institutions, as Chapter 2 explained. The fact that this expectation of the theory does not materialize in the case of British labor market politics suggests not only that Rueda’s Insider-Outsider view is inaccurate, but also that it is in a way inapplicable to the UK, given the relatively small number of highly secure employees.

In the case of VOC, one of its central claims is that the politics of labor markets differs considerably between liberal market economies (LMEs) and coordinated market economies (CMEs). As explained in Chapter 2, this is mainly because export-oriented employers in CMEs rely upon workers with strong firm- and industry-specific skills. Getting workers to invest in these specific skills requires measures for job security and a strong social safety net in case of redundancy, and strong employer associations as well as coordinated bargaining prevents poaching and ruinous competition from low-wage upstart firms. Therefore, allege VOC proponents, employers are encouraging of strong employment protection measures and generous unemployment benefits in CMEs, and that these institutions do in fact emerge. By contrast, in LMEs, where the possibilities for employer coordination and non-market cooperation is far less developed for various historical reasons, employers rely much more on flexibility and the general skills of their workforces to succeed in export markets. Rapid innovation and price-based competition is where firms from these economies do well, and efforts to constrain the freedom of maneuver of these employers through intrusive employment regulation and high reservation wages are stridently resisted by them. Again in this view, the type of labor market regulation present in a country flows from these employer preferences and this has meant limited labor market protections in LMEs.

The present chapter challenges this employer-centered view of the development of labor market policy. It does not dispute that the politics of labor markets differ considerably in the UK as compared to its Western European CME counterparts. Nor does it substantially challenge the predictions of employer preferences in the VOC view. Indeed, as Chart 1.1 in the introductory chapter suggests, the various theories do not really differ in their interpretations of employer preferences in the case of the UK (or LMEs). But the chapter does challenge the emphasis placed in the VOC literature on employer preferences as the main source of this different political dynamic. Rather, a very different pattern of union organization in the UK is posited as the main source of this contrast in labor market politics. In particular, the ‘voluntarist’ tradition of industrial relations, along with considerable fragmentation or decentralization in the union movement and ‘segmentalist’ labor

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365 See for instance the Introduction to Hall and Soskice, 2001, and particularly the chapters by Wood and Estevez-Abe, Iversen and Soskice in the same collection, on which the following paragraph is based.

markets, meant that the labor movement never really sought to achieve the strong EPL and UB regimes found in most CMEs (and which were advocated by the labor movements of these latter countries). As a result, these institutions never developed strong beneficiary groups that might challenge a neoliberal assault on them. This set up the Thatcherite revolution which, strikingly, considerably weakened an already quite modest system of labor market protections. Indeed, in the functionalist VOC account, it is unclear why employers would not have ‘got their way’ in the pre-Thatcher period, only to finally have their needs met by Thatcherite deregulation and retrenchment. That a major employer group such as the Confederation of British Industry (CBI) was openly hostile initially to some of the early Thatcherite policies also suggests that it was not straightforwardly employer interests being in the driver’s seat. In their place, partisan and class dynamics move center-stage in the account below, as is consistent with Varieties of Unionism and PRA.

Where the present explanation differs from traditional PRA, though, is by downplaying the influence of partisanship. It does not deny that partisanship played an important role in the development of labor market policy. What I have said above and will say below should make this clear. However, the difference between the UK and other countries in Western Europe was not primarily that there was less frequent Left government or that union density was weaker, two standard measures of ‘power resources’, but rather that the labor movement’s policy preferences and priorities were very different. This matters because even when the Labour Party was in power it was never pushed in the same strong fashion by its union allies to expand labor market protections for the unemployed or to develop a strict EPL regime, as other reformist parties were pushed to do in Europe. Thus it is not right, as Isabela Mares argues (or traditional PRA implies), that the British labor movement had the same policy preferences as others in Europe and that the only difference between them was the institutional capacity to deliver wage restraint. They certainly were active proponents of a more generous welfare state, as her analysis makes clear, however it was not of the sort found elsewhere in Europe. The prolonged rule of the Conservatives from 1979 to 1997 undoubtedly made an impact on the generosity and coverage of Outsider protection, as Table 4.1 makes clear, but the labor movement was surprisingly meek in its defense of these protections during this period. Moreover, the fact that the Conservatives took power for so long after 1979 certainly has something to do with the performance of the union movement in the 1970s. This is not really to point blame at union officials or leaders, because many of the problems of that era were

\[367\] Mares, 2006, p. 194, 218. She writes: “It is this institutional characteristic of the wage bargaining system [decentralization or fragmentation] – and not the policy preferences of unions – that distinguishes the British economy from the other economies examined in this study [Sweden and Germany].”
structural or deeply-rooted and sometimes unrelated to union organization. But there is also little doubt that the particular British experience of union militancy in the 1970s provided a major catalyst for extended Conservative dominance thereafter.

The chapter proceeds as follows. Section II examines the rise of ‘voluntarism’ and business unionism in the UK and relates it to the overarching trajectory of the postwar period. This sets up Section III, which investigates in a detailed way the evolution of EPL in the UK. Section IV does the same for UB. Finally, Section V concludes and briefly looks at the immediate future of labor market protections in the UK under the Conservative-Liberal Democrat coalition.

**Section II: Political Economy of Modern Britain**

*The Emergence of ‘Voluntarism’ and Business Unionism*

Chapter 2 suggested that business unionism is made up of four main features: minimal or non-existent involvement in institutionalized forums of government consultation or social insurance administration (i.e., pluralism); a relatively fragmented or decentralized labor movement; direct union bargaining over the terms of employment of union members, with very few or no ‘extension mechanisms’; and an adversarial, if pragmatic, orientation to industrial relations with employers. In sum, business unionist movements have operated in ‘exclusive’ political economies and have focused on short-term bargaining success for their members in the market, largely free from direct state interference. Other typologies have given this industrial relations pattern different labels, such as ‘pluralist unionism’, but there is wide agreement that this type of unionism is common to the Anglo-Saxon countries, with the partial exceptions of Australia and New Zealand.368 In the specific sense above, then, the British union movement has clearly been a business unionist one.

Understanding how the movement got to be this way, as well as some of the problems that the British political economy ran into in the postwar period, requires going back to the unique process of industrialization that the country underwent. The most important thing to note about this process was that it was very gradual and drawn-out. This is no wonder, since Britain is widely considered the birthplace of modern capitalism.369 It was in Britain that the commodification of

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368 See for instance Ebbinghaus, 2008. These two partial exceptions have had a greater degree of state intrusion into the bargaining system, such that at times it has resembled the ‘extension mechanisms’ found in most Continental European economies (but usually only to establish a base wage amount in a given industry). In Australia, for example, this has been bound up with the influential state bodies of ‘Conciliation and Arbitration’. Schwarz, 2000. Their stronger EPL and Outsider protections, relative to the rest of the Anglo-Saxon world, should perhaps be understood in this context.

land, labor and capital was most advanced in the early modern period and the imposition of this dynamic ‘self-regulating market’ generated the Industrial Revolution, which in turn produced the basis for British global hegemony in the 19th century.\(^{370}\) Being an ‘early industrializer’ created a distinctive type of capitalism, though. As noted by Alexander Gershenkron, those countries that industrialized first had little initial need for large-scale investment projects coordinated by the state (in conjunction with industrial banks) and thus their development was much more ‘free-market’-based than those of later industrializers.\(^{371}\) This led to a very gradual expansion of industrialization, based largely upon retained-earnings forms of capital investment and/or stock-market financing (see below). Because of this, small factories were the dominant form of early industrial production and this led to the initial ascendancy of craft unions, which could expand under such conditions.\(^{372}\)

Craft unions were founded on the basis of the unique ability of craft members to perform certain economic tasks, such as engineering, construction or printing. There were long periods of apprenticeship, which the craft unions controlled the supply of, and only after the completion of this apprenticeship could workers perform the task or function that the union had monopolized. In this way, craft unions controlled the supply of labor into their particular fields of work and this allowed them to set the conditions for their employment by employers or contractors.\(^{373}\) Employers that did not abide by these conditions would have their ability to employ such laborers curtailed, and this would serve to bring them back into line; this was called a ‘strike in detail’, since not all craft workers were usually withdrawn at once. In the meantime, the craft members that could not find work would be supported by forms of ‘mutual insurance’ that would provide them with something equivalent to an unemployment benefit from union funds.

Because of their possession of unique, valued skills and their control over labor supply these craft societies tended to be made up of relatively better off workers. Early attempts to form ‘general unions’ not attached to a specific skill foundered in the first half of the 19th century, and generated

\(^{370}\) See for example Polanyi, 1944 (2001).

\(^{371}\) Gershenkron, 1962. Will Hutton summarizes this argument nicely: “The British Industrial Revolution was unique. It was an act of apparent spontaneous combustion that seemed to owe nothing to deliberate state action or consciously-designed social and economic institutions… In fact the state played a larger role in British economic development than those who explained the British phenomenon acknowledged either at the time or later – protecting the domestic market; guaranteeing traffic in British vessels; developing the London banking system through government deposits; issuing government stock, and underwriting loans and using the power of public procurement to develop key industries – but even so it was hardly as proactive as its counterparts in Germany, Japan, or today’s Asian tigers. British industrialization was sufficiently market-led for the free-market explanation to correspond feasibly to reality.” Hutton, 1995, 112-113.

\(^{372}\) See Hyman, 2001, p. 72-77, for what follows below.

\(^{373}\) As Hyman writes, “The craft society thus possessed a mission to defend the valuable market niche of those whose qualifications set them apart from labour in general – if necessary, by reinforcing the barriers against incursions by other members of the labour force.” Ibid. p. 75.
the intense hostility of employers and elites that Marx and other early socialists were in part reacting to. By the second half of the 19th century, the craft unions had distanced themselves from the more radical unions of the earlier period and they ceased to challenge directly the political and economic order. They did help push in the 1860s for an expansion of the suffrage but this political unrest was largely diffused by the 1867 Reform Act, which expanded suffrage so as to include most of the craft elite. Indeed, in this early period the majority of craft union leaders that engaged in politics affiliated with the Liberal Party, which was hardly a radical or socialist party.374

Nevertheless, the craft union movement in this period also sought to establish its place in the economy more solidly, since the legal system was founded upon individualistic, *laissez-faire* principles that were hostile to collective organizations such as themselves. It was this legal system that had stymied the growth of general unions in the early 19th century, as early attempts “by workers to organize collectively, to submit joint demands to their employers, or to unite in strike action all fell afoul of the prohibition of ‘restraint of trade’; [and] those committing such acts risked conviction on the serious charge of conspiracy.”375 In order to pursue legislative reforms, then, the unions formed the Trades Union Congress (TUC) in 1868, a year after the Reform Act was passed. The TUC was from the start a quite weak organization in and of itself, and merely served to bring the unions together annually to discuss political strategy; an intermittent ‘parliament of labour’, as it were. What is most important to note about this period is the strategy that was adopted on the part of the union movement to establish itself more securely. Instead of securing the “positive right to organize, to negotiate and to strike” *within* the law, trade unions were assured of a place in the economic system through a variety of ‘*legal immunities*’.376 In a sense, union activity was made legal by carving out a sphere where the law would simply not apply. This ‘legalization’ of union activity was embodied in three central pieces of legislation adopted over the course of the late 19th century and early 20th that created this sphere of immunity: the Trade Union Act of 1871, the Conspiracy and Protection of Private Property Act of 1875, and the Trade Disputes Act of 1906.

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374 As noted by Wolfgang Streeck (2011), “Being as strong as they were at the workplace, especially in Britain but also in parts of the United States, craft unions tended to be politically conservative; all they wanted from government was the right to look after themselves through free collective bargaining. Thus, British craft unions for a long time sided with the Liberals and would not see the need for a political party representing labor in particular. Since their members typically prospered, craft unions also had little interest in public provision of welfare; here as well they preferred to rely on their own strength, running mutual support funds and serving as “benevolent societies” for members who were in difficulties.” p. 3.

375 Hyman, 2003, p. 38.

376 Ibid. p. 38-40; Hyman, 2001, p. 76-77. As Hyman notes, “The unions were highly satisfied with this method of legalizing their status…” Ibid. p. 76.
What is unique about this system is that while unions could bargain collectively without restriction, employers for their part were not forced to recognize the unions or bargain in ‘good faith’ either. In fact, they could dismiss striking workers and often did so until the unions were sufficiently established that this would be counter-productive.\textsuperscript{377} The only thing that held agreements together was the acquiescence by both sides to its terms: this constituted the tradition of \textit{voluntarism} or ‘collective laissez faire’. While over time this usually produced compromise and accommodation, it also led to the rise of widespread ‘unofficial’ strikes, particularly in the late 1960s and 1970s as unions broke the terms of their contracts repeatedly in inflationary conditions.\textsuperscript{378} Another significant consequence of this regime was that \textit{unions became very wary of statutory changes or restrictions}, especially since the law had been so unfavorable to them previously.\textsuperscript{379} Even small changes to the parameters of their ‘immunities’ could have substantial implications for their bargaining position. Rather than allowing the state to regulate their ‘private’ affairs, then, unions were more content to stand on their own feet even if this meant passing up favorable legislation. As they reasoned, anything that was given by the state and the courts could just as easily be taken away, as the quote to start the chapter suggests.

As the 19\textsuperscript{th} century progressed, craft distinctions blurred and industrial workplaces expanded in size, pushing these craft ‘societies’ to form national union organizations and to extend membership to non-craft occupations and workers.\textsuperscript{380} Increasingly these ‘new unions’ adopted more socialist stances politically, as they were composed to a greater extent by more manual, lower class workers. Yet the imprint of the craft union traditions would continue to be felt. The new general unions had been able to expand partly because of the growth of mass industry, but also because of the immunities that had been established in the 1870s. Their steady growth from this time onwards and their assertive stances vis-à-vis employers and the state were viewed with increasing alarm by economic and political elites, though, and this prompted a counter-attack on the part of both in the 1890s. The unions were blamed for the decline in British economic competitiveness (something that

\textsuperscript{377} Ibid. This again created a contrast with the industrial relations systems of Western Europe. Where the legal rights to organize were firmly entrenched in the legal system, not as an exception from it, the mutual recognition of both sides of industry was more easily achieved. As Richard Hyman remarks “the Continental vocabulary of ‘social partners’ was, at least until recently, almost incomprehensible in English.” p. 39.

\textsuperscript{378} For strike data, see Elliott, 1978, p. 567.

\textsuperscript{379} As Robert Taylor (1993) argues: “Another important underlying theme that also needs to be stressed, if we are to understand the evolution of the trade union ‘problem’ in the years that separate Clement Attlee from John Major, concerns the lingering and underlying hostility towards organized labour displayed inside a political and legal system dominated by the divisive consequences of class… From their very origins in the early nineteenth century, trade unions were regarded as potential threats to the established order.” p. 11.

\textsuperscript{380} Ibid. p. 44-45; Hyman, 2001, p. 81.
would recur) and new legal rulings attacked forms of union action such as picketing. In addition, employers organized lock-outs just before the turn of the century to re-establish the upper hand.

It was in this context that the Labour Party came into being: the TUC in 1900 convened a conference which established a Labour Representation Committee, a group that would participate in national elections in cooperation with the Liberal Party (the so-called ‘Lib-Labs’). Initially the aims of this group were defined quite narrowly, with little reference to ‘socialism’. Indeed, the group set itself the goal of simply defending the ‘trade union interest’, and this would not change even after electoral success in 1906 when, on the coattails of the Liberals’ surprising victory, the fully-fledged Labour Party emerged. This narrow political vision illustrated the continued dominance of the craft unions within the broader labor movement, if not in terms of numbers then in terms of ideological traditions. Moreover, the entrenched position of the craft unions, given their long history and continued economic strength, prevented the emergence of the kind of unified industrial unions that appeared in other Western European countries around the same time, and which came to adopt more socialist/egalitarian stances politically and in bargaining. As Wolfgang Streeck explains,

When, at the end of the nineteenth century, the growing masses of “unskilled” or “general” workers struggled to get organized as well, craft unions were skeptical if not hostile as the new “second-wave” unions aspired to represent workers across industries and skills, pushed for wage leveling, engaged in political action and clamored for state intervention, and sided with socialist movements and parties. But since craft unions were already well established, general unions hardly ever succeeded in their efforts to integrate skilled workers into broad-based industrial unions. Instead they had to face, like the American CIO in relation to the AFL, a powerful defense of wage differentials, or “relativities,” and of “job territories,” as well as an ingrained preference of the established trade union movement for private and particularistic as opposed to public and universal welfare provision. Divisions between the two types of union remained strong and politically consequential even as the new general unions adapted their modus operandi to that of their older brothers...

While it is true that after the First World War the Labour Party broadened its political vision considerably, the foundations of the ‘voluntarist’ system preferred by the craft unions had been set and would not really change for over 70 years. The establishment of the Labour Party in this context, and in this manner, also had a powerful influence on the nature of the labor movement going forward, since it tended to sharpen the separation of the ‘political’ and ‘economic’ to the

381 Hyman, 2001, p. 82-83. Hyman quotes David Coates to this effect, “the Labour Party went into the First World War as it had been formed: as a Parliamentary expression of trade union aspirations which involved no coherent programme and no officially accepted socialist commitment”. In terms of the broader question of social reform, “the most radical pressure came from within the ranks of the Liberals themselves rather than from Labour. Certainly many socialists were rapidly disillusioned…” Ibid.
382 Streeck, 2011, p. 3.
benefit of the latter.\(^{383}\) While the TUC and its affiliated unions obviously continued to be major supporters and organizers for the Party, they generally refrained from trying to direct party policy, except as it related to immediate union interests. This pattern was evident even in the interwar period, when various challenges arose to this segmentation and to the relatively non-political stance adopted by the labor movement leadership. The most obvious manifestation of these challenges was the General Strike of 1926, but it was soundly defeated and only reinforced the aversion of union leaders to concerted political action.\(^{384}\)

It is true that the TUC became more powerful during the interwar period than it had been previously, through the establishment of a permanent institutional headquarters in London and the election of a general secretary whose sole job it was to oversee TUC affairs.\(^{385}\) Indeed, in the early interwar years the TUC established its unquestioned monopoly of representing the trade union movement. But, as Robert Taylor notes, “even the TUC’s 1920-21 modernisation was only partial, uneven and heavily circumscribed. The tenacious strength of trade union autonomy ensured that the TUC was not about to be transformed into an unquestioning and centralized body, a general staff for an obedient army of labour.”\(^{386}\) It was never given the power to collectively bargain on behalf of its affiliate unions, and any influence in this respect that it possessed needed to come through the moral suasion of Congress resolutions. Again, this limited central authority was largely the product of the craft union traditions, which sought to safeguard union autonomy and their ability to extract wage gains independently of other unions. In sum, by the end of the interwar period, the labor movement remained wary of concerted political action, intent on maintaining the separation of ‘political’ and ‘economic’ affairs, and highly decentralized internally despite its (superficial) organizational unity in the TUC.

The Political Economy of Postwar Britain: Relative Industrial Decline and the Emergence of Thatcherism

While the emergence of a dominant business unionist tradition in Britain is clearly central to the case I make in this chapter, it is not the only historical legacy of the country’s unique early

\(^{383}\) As Hyman writes, “Paradoxically, a third of century of pressure for independent working-class political action –in which trade unionists were also socialists had played a prominent role –ultimately reinforced the traditional mind-set which segmented politics and industrial relations.” Ibid. See also Minkin, 1991.

\(^{384}\) Ibid. 84-87. The General Strike of 1926 was disastrous for the unions, with the TUC forced to call it off unconditionally after only 9 days in the face of government intransigence (and with union leaders imprisoned and the initial strikers, the miners, defeated in a brutal 6 month strike). This “heroic disaster” proved to be something of a turning point for the labor movement leadership, as it moved away once again from its incipient politicization and radicalization. See Ibid.

\(^{385}\) Taylor, 2000, p. 8.

\(^{386}\) Ibid.
industrialization that is relevant. On the other side of the industrial relations tradition was an organization of finance and industry that was highly problematic in terms of maintaining the UK’s initial advantage in international industrial competition. This was largely because a relatively stock-market-based system of funding industrial expansion was coupled with a dominant, externally-oriented finance sector based in London, the latter of which had little initial connection to the emerging industrial sector.\textsuperscript{387} When combined they powerfully contributed to relative industrial decline in the postwar period and made the unions an easy scapegoat for national economic trouble.

There were thus much deeper structural issues behind Britain’s lackluster, ‘stop-go’ pattern of postwar growth, as Britain poor manufacturing performance since the ‘taming of unions’ has suggested. What is crucial to note about the dominance of stock-market finance in British politics is how this played into limited welfare state spending.\textsuperscript{388} For one, the desire of British finance to maintain a high and stable pound meant that British industry was always at a competitive disadvantage internationally, and when inflationary pressures could not be contained it meant that the state had to slam on the brakes of expansionary monetary and fiscal measures.\textsuperscript{389} Among other things, this limited the generosity of the unemployment benefits and other welfare state programs that successive governments were willing or able to provide. As Martin Rhodes argues, “far from early postwar economic growth and export performance being damaged by the welfare state, it was the reverse.”\textsuperscript{390} Perhaps more importantly, the nature of financing for industry, dependent as it was on either short-termist stock markets or internally-generated profits, meant that industrial firms had a strong desire to maximize their flexibility and managerial independence, as well as limit their long-term commitments to workers. This led to weak collective organization among employers, resistance to industry-wide collective agreements, and limited investment in training programs that might allow for innovation and productivity improvements. As a result, British industry eventually found itself in

\textsuperscript{387} See Hutton, Ch. 5. He writes that in the late 19th century “Banks would not lend; stock market finance was prohibitively expensive and subject to waves of enthusiasm and pessimism; and so technical opportunity after opportunity was never fully exploited –leaving German and US producers the chance to forge ahead, their products pouring into the UK… By the First World War, a pattern was firmly established: a national banking system disengaged from production; a risk-averse London stock market focused on international investment; equity finance made available only on the most onerous terms, heaping large dividend demands on British producers; a Bank of England concerned to preserve price stability and the international value of sterling; and an industrial base losing ground to foreign manufacturers with higher productivity –and having to respond by bidding down wages to maximize retained profits, the only reliable and cheap form of finance.” p. 123.

\textsuperscript{388} See for example, Rhodes, 2000.

\textsuperscript{389} This situation is in a way a financial version of ‘Dutch disease’, where instead of natural resource wealth leading to an overvalued currency and weak industrial competitiveness, a strong financial sector does. This may also have occurred in the US in recent years, as its much weakened manufacturing sector would suggest.

\textsuperscript{390} Ibid. p. 25.
a ‘low-wage, low-skills’ equilibrium, which meant that firms had to compete internationally primarily on a cost basis, and this in turn put pressure on taxes (and thus social spending). 391

Of course, these dynamics contributed to, and interacted with, industry facing a highly fragmented or decentralized union movement in a particularly adversarial industrial relations climate. Given my argument, this is especially important for labor market policy, as this fragmentation constrained the union movement from becoming ‘encompassing’ in behavior and outlook, and doomed the numerous attempts to establish a ‘social wage’-type political exchange between the unions and government. 392 But it also helps explain the rise of Thatcherism, which pinned almost the entirety of the blame for postwar decline on the labor movement and the welfare state, and which stagflation in the 1970s seemed to vindicate.

There were times that the TUC was able to pressure member unions to work cooperatively with the sitting government, especially the Labour Party. For example, on a few occasions the TUC successfully pressed unions to exercise wage-restraint, and used that restraint as a bargaining chip for welfare state expansion. 393 However, these episodes of restraint never lasted very long in postwar Britain, partly because wage coordination among the hundreds of unions was extremely difficult. What is telling in the context of my broader argument is that the desire for wage restraint and for social policy expansion was usually most acute within the institution of the TUC. 394 It could adopt a broader, longer-term (social democratic) perspective and its most powerful individuals often did in fact do so. But its efforts to push this perspective on the member unions were usually rebuffed or only partially accepted, and any excessive pressure from the central bodies gave rise to radical, protest candidates that attacked even modest notions of ‘class collaboration’. 395 While it was an appealing politics to many in the movement during the period, this aggressive ‘autonomist’ stance undermined efforts to establish the political exchange that prevailed in several other Western European countries. Repeated attempts to advance stronger social policy legislation in both the Wilson Labour government of the late 1960s and the Wilson-Callaghan governments of the 1970s thus faltered in the face of high inflation and balance of payments crises.

Employers for their part were similarly weakly organized. In almost analogous fashion to the TUC, the main employer organization, the Confederation of British Industry (CBI), has had very

393 See Mares, 2006, Ch. 5.
394 This is clear from reading, for example, Taylor, 1993.
395 See again, Ibid. This characterized the movement especially in the late 1960s and 1970s, a trend which was celebrated by some Marxist intellectuals at the time (e.g., Panitch, 1981).
limited power over its members. There were a large number of separate employers’ organizations which operated independently of the CBI (over 250) and the CBI has had no role in collective bargaining. Moreover, only a minority of British companies are represented by an employer association, in contrast to most Western European economies, so the amount of resources devoted to these groups was limited. Therefore, the CBI remained essentially a lobbying organization in London and, more recently, in Brussels as well. Nevertheless, it is a useful barometer for the policy preferences of major employers and thus is used as the main representative of business.

What is striking theoretically about the CBI’s role in labor market policy is how tentative it was in the Thatcherite ‘revolution’. This contrasts with the more neoliberal positions it was to take later on, but also with the preferences and influence attributed to it by VOC. Instead of being at the forefront of policy in the early Thatcher period, the CBI was in fact resistant to some of the policy agenda of that government, as I document. Furthermore, in line with Thatcher’s disdain for Britain’s weak postwar attempts at ‘corporatism’, or more accurately ‘tripartism’, the Conservatives largely shut the CBI out of policy consultation in the early years. This resistance to CBI consultation continued until even after the 1983 election, when the CBI reached a low-point in its policy influence. Afterwards the organization rebuilt its public standing and became more supportive of, and engaged in, Conservative policy. Still, it is notable how Thatcher’s New Right project sought and drew initial support for its policies among less prominent business organizations and sidelined the dominant CBI. This is somewhat in contrast to the vision of policy causality in the VOC literature, where a vociferously neoliberal business community pushed in unison for deregulation and retrenchment (and as a result, got it). The main social foundations of Thatcher’s early politics lay rather among the financial community, small business and the upper-middle classes of Southern Britain, not the official representatives of British industry.

The overall trajectory of postwar Britain, very briefly, is therefore as follows. Early postwar industrial decline and union fragmentation in Britain led to a weak labor market policy regime and to the emergence of stagflation in the 1970s. The latter set the stage for Thatcherism. In attacking unions and the welfare state while failing to spur significant investment in vocational training,

396 Rueda, 2007, p. 111. The CBI itself was the product of the merging of three major business associations in 1965: the Federation of British Industries, the British Employers’ Confederation, and the National Association of British Manufacturers.
397 Other more staunchly neoliberal employer groups, such as the Institute of Directors (IoD), are considered below as well.
399 Ibid.
400 See for instance Grant, 1980.
Thatcher entrenched a ‘low wage, low skill’ equilibrium that had already been developing in British industry. When New Labour took power 18 years later this equilibrium was well-established and winning power seemed to require committing to it (as Tony Blair duly did).\(^{401}\) This constrained any future labor market policy expansion and meant that inequality continued to increase. While this arrangement proved successful in reducing unemployment and generating growth it did not lead to a substantial ‘upskilling’ of British manufacturing, which became instead dependent upon FDI attracted by its relatively low (Northern) wages as well as its proximity and access to European markets.\(^{402}\) Indeed, under New Labour the share of manufacturing in GDP dwindled even more dramatically than under the Conservatives: its share fell from 26 to 20 percent from 1979 to 1997, whereas it subsequently fell to only 12 percent in the years to 2009.\(^{403}\) Partly as a result, economic growth under New Labour was largely based on a surging financial sector alongside a property boom, with higher levels of private debt accumulating rapidly as those stuck with low wages tried to keep up with the Joneses.\(^{404}\) When the economic crash of 2008 arrived, the whole British growth model was put in doubt and the government found itself with massive deficits. Not surprisingly, the Labour Party was ousted for presiding over the crash. However, with few new ideas to set Britain on a path of industrial competitiveness, the Conservative-Liberal Democrat coalition has turned back to the same Thatcherite solutions of yesteryear: attacking the unions and the welfare state.

**Section III: Employment Protection Legislation**

**Early Developments**

Given what I said above, it should be clear that employment protection legislation was minimal in the 19\(^{th}\) and early 20\(^{th}\) century. The fact that unions had achieved their place in the economy through *legal immunities*, and were largely content with this mode of ‘legalization’, made it highly unlikely that legal instruments would be brought to bear on the employment relationship negotiated by employees and employers. Collective agreements or individually-negotiated employment contracts were the rule, and the state was kept separate from this process (except in wartime). This of course constituted the tradition of ‘voluntarism’ described in Section II. In reality

\(^{401}\) See for example Rhodes, 2000.
\(^{402}\) Nolan and Slater, 2003, p. 73-76.
\(^{404}\) See for example Turner, 2008; and Lee, 2008. As Wood notes, the share of finance in GDP increased from 22 to 32 percent between 1990 and 2007, an even larger increase than that experienced in the US during the same period (25 to 33 percent). Wood, 2010, p. 13.
the tradition of ‘voluntarism’ was never absolute, though, both before and after WWII. Certain segments of the labor market where collective bargaining was weak or non-existent were regulated by basic legislative standards (e.g., limits to working hours, sector-based minimum wages), while issues with a clear public interest such as workplace health and safety were often addressed as well.\(^{405}\)

In addition, the state provided a conciliatory body to mediate industrial disputes, although these organizations had very little power to intervene unilaterally (since 1974 this role was taken by the Advisory Conciliation and Arbitration Service [ACAS]). Lastly, the period after the 1926 general strike until 1946 saw the introduction of restrictions on union activity that did not fit well with the tradition of voluntarism.\(^{406}\) Nevertheless, the overall picture of state non-involvement is accurate in terms of dismissal rules, certainly for the period up until the late 1950s. It was precisely this aspect of the system, however, that would be tested in the 1960s and 1970s.

**Modest Employment Protection Expansion in the 1960s and 1970s**

The employment protection system that emerged from WWII was in many ways a ‘non-system’. Any arrangements for dismissal compensation, notification periods, and so on, were regulated by collective agreements. If no collective agreement existed, then an employee was at the whim of the employer, protected only by the incentives that employers had not to be overly ruthless for fear of either inducing unionization or poisoning morale.\(^{407}\) Initially this voluntarist system of industrial relations suited both employers and unions fairly well. The unions appreciated the autonomy it gave them to negotiate their own conditions of employment, especially now that tight labor markets had strengthened their position significantly. In fact, the unions did not press in these years to include redundancy payments in collective agreements or to have significant input in redundancy decisions, likely because with unemployment as low as it was redundancy was not a major concern.\(^{408}\) Employers for their part appreciated the absence of state interference as well, in line with their strong desire for managerial freedom explained above. What redundancy compensation arrangements that did exist in this period, which were very limited and weak, were effectively established by management fiat to maintain worker morale and conform to societal norms of good practice.\(^{409}\) In retrospect, the 1950s proved to be the heyday of voluntarism. Even the leadership of the Conservative Party reconciled itself to this system after the period of the

\(^{405}\) Hyman, 2003, p. 40.

\(^{406}\) Dickens and Hall, 2003, p. 125.

\(^{407}\) See Ibid., p. 125-126, for below.

\(^{408}\) Mukherjee, 1973, p. 60-61.

\(^{409}\) Ibid. p. 54-55
Labour Party being in power from 1945 to 1951, and the narrow Conservative victory in 1951 convinced them that they needed to establish a more amicable relationship with the trade unions than during the interwar years.410

Already in the 1950s, however, many employers began to complain about the strength that unions had achieved with full employment. There were three main areas of concern: “the effect of unconstitutional and unofficial strikes on Britain’s industrial output and competitiveness, the inhibiting effect of ‘restrictive practices’ on productivity and industrial change, and the contribution of union-backed wage demands to the problem of inflation.”411 The solution to these problems differed among employers as well as policy-makers and academics. For some, the unions were simply too powerful and the state had to step in to limit their powers: the state needed to reduce legal immunities, increase the power of individual workers in relation to their unions (e.g., concerns over the ‘closed shop’), unilaterally arbitrate industrial disputes with large spillover effects, and so on. This was the general thrust of the pamphlet, *A Giant's Strength*, produced in 1958 by a group of Conservative lawyers, as well as the perspective of many employers.412 For others, the problem was that unions were in a sense *too weak*: there was not enough control of rank and file union members by the overarching unions or the TUC and thus collective bargaining remained narrow in content, reactive, and unpredictable. In particular, the prevalence of ‘multi-unionism’, with multiple unions operating in a single workplace, meant that unions became “hapless victims of [a] destructive competitive structure… as they fought with each other for members and bargaining recognition.”413 This dynamic made it especially difficult to restrain wage demands. As I will document below, these competing yet partially overlapping diagnoses came to inform industrial relations reform over the course of the following decades.

The criticisms of the existing voluntarist system did not make much of an impact at first. During the 1950s the Conservative leadership in power continued to see amity with the union movement as more important than reforming the industrial relations framework, despite signs of dysfunction. Moreover, wage developments were not strongly out of line with productivity improvements, and British growth, while slower than some other European economies, was

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410 Taylor, 1993, Ch. 3. Much of the membership of the Conservative party remained, however, less than enthusiastic about the trade unions and the type of voluntarist status-quo that prevailed.
412 Ibid. See also Taylor, 1993, p. 107. *The Economist* also adopted this stance.
413 Taylor, 1993, p. 3. This was the perspective of the influential Oxford industrial relations scholar Allan Flanders, as well as Andrew Shonfield later on.
This stance toward the unions began to change, though, after the Conservative election victory in 1959. What occurred shortly after the election was a classic example of the ‘stop-go’ pattern of British growth. After a brief period of economic growth leading up to the election victory, the Treasury pressed the Prime Minister Harold Macmillan to rein in public spending due to a looming balance of payments crisis and potential devaluation. Somewhat reluctantly Macmillan introduced a ‘pay pause’ for public sector workers, which he hoped private sector workers would imitate and thus limit inflationary pressures on the pound. While the pay pause was temporarily successful, wages were soon rising again as unions broke the policy guidelines through strikes; with an unemployment rate of around 1.5-2 percent this was not difficult to do. This convinced Macmillan that Britain required a more permanent system of incomes policy if the country was to avoid repeated crises and slow growth. The only way to maintain full employment, Macmillan reasoned, was if wage increases were kept in check through state involvement. Initially the conception of this ‘state involvement’ was quite limited, though. A National Incomes Commission was established that would oversee national wage developments, but the body was not given the power to overturn wage increases or to punish the market actors who signed them. Rather the institution would operate on the basis of reporting wage developments and thus try to ‘shame’ the market participants in excessive wage deals to reconsider.

This timid approach was intended to keep the unions on side, but it also reflected the continued attachment to some form of voluntarism among the Conservative leadership. Of course, whatever the character of the incomes policy, it was clearly a step away from a voluntarist situation and the unions responded accordingly: the TUC opposed the setting up of the Commission. However, to Macmillan’s surprise and pleasure, several important union leaders did not strongly resist it and TUC behavior in the period was at least mildly conciliatory. This emboldened Macmillan to attempt to reform industrial relations in certain ways that were favorable to the unions in tacit exchange for tolerating the mild incomes policy (though it proved ineffective) and the setting up of a inquiry into ‘trade unions and society’.

Growing public displeasure with unions and

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414 Mares, 2006, p. 180-183
416 Ibid. p. 112.
417 Ibid. 114-115. This logic also applied to discussions under Macmillan to create earnings-related unemployment benefits (see below). See also Elliott, 1978, p. 569. The setting up of the inquiry was actually delayed until after Labour’s victory in the elections of 1964, due to a squabble between the Conservatives and the TUC over a judicial decision that the TUC thought infringed on the voluntarist tradition and which the Conservatives refused to address through legislation.
unofficial strikes also suggested to Macmillan that perhaps votes could be won by appearing firm in his dealings with the unions and pushing for industrial relations reform.

It was these dynamics in the early 1960s that produced two notable policies addressing employment protection. The first, passed in 1963, mandated a minimum notice period before dismissal for all workers, and longer ones for those workers with more than two years of service at a particular job (Contracts of Employment Bill). The second provided statutory redundancy compensation payments and was initiated during the last years of Macmillan’s government in 1963 and 1964 but did not make it into legislation until 1965, after Labour had taken power. The 1965 bill, the Redundancy Payments Act, was very similar to what had been drafted under the Conservatives.418 It mandated minimum redundancy compensation payments to those workers who lost their jobs through technological change or industrial contraction (i.e., no fault of their own). These payments were only granted to workers with over two years of continuous employment at a firm, though, and the number of workers receiving them was in practice quite low (around 12 percent of unemployed).419

Compared to the employment protection regulations established in other European countries in the 1960s and 1970s the new measures remained quite weak, providing just a basic floor for dismissal protection.420 In this way, the regulations were thought of as simply a mild supplement to voluntarist arrangements; though an important supplement given that only 16 percent of manufacturing workers were covered by redundancy schemes before legislation.421 According to the Conservative Minister of Labour responsible for these pieces of legislation, John Hare, the hope was that they would create a greater sense of employment security and thus encourage “cooperation in creating an efficient and flexible economy”.422 There was also hope that these measures would allow a Conservative government following the 1964 election to more seriously reform the industrial relations system. If the Conservatives were not seen as straightforwardly ‘anti-labor’, the envisioned reforms to voluntarism could be made more palatable to the unions and more saleable to the public.

As it turned out, the Conservatives lost the election, but debate within the labor movement and within the Labour Party in the early years of the decade meant that voluntarism would not go unchallenged under Labour either. The central issue was wage increases and their tendency to outstrip productivity improvements. While the Labour Party shied away from explicitly proposing an incomes policy, it acknowledged in its election manifesto the need for “a planned growth of incomes

418 See Mukherjee, 1973, for a careful discussion of the impact of the latter Act.
419 Bosworth and Wilson, 1980, p. 98.
420 Eichengreen, 2007, p. 273. See below as well.
422 Ibid. p. 114.
broadly related to the annual rate of production.” 423 Many in the union movement accepted this formulation, largely because it did not specify statutory intervention in wage setting. Within the union movement there was in fact a great deal of disagreement over just what would be acceptable. Some in the TUC, including its General Secretary George Woodcock, were quite open to a future incomes policy under the stewardship of Labour, so long as the policy addressed prices and dividends as well and was combined with social policy expansion. 424 Many union leaders of the TUC’s affiliates, on the other hand, were hostile to any notion of statutory intervention. In the end the vague formulation of the Labour Party was able to patch over differences in the movement until the election, yet the uneasy truce was to be ripped apart during the party’s tenure from 1964 to 1970.

Shortly after the 1964 election the incoming Labour government of Harold Wilson was forced to deal with a large balance of payments crisis, created in part by a pre-election consumer spending boom facilitated by the Conservatives. 425 No longer could vague rhetoric about the “planned growth of incomes” suffice. The government had two choices: devalue or deflate. Given the dominance of finance explained above, the government chose the latter option. This immediately put the government on a collision course with the unions: wage restraint in the context of growth was one thing, accepting wage losses or effective deflation was altogether different. Surprisingly, the government managed to browbeat the union leaders and the TUC to try to restrain wage increases and it established the National Board for Prices and Incomes (NBPI) in 1964. The NBPI was again a voluntary approach, without legal sanctions for those that broke wage norms. It succeeded in restraining inflationary wage increases in 1964 but failed to do so in 1965 and 1966, again largely because the decentralized nature of bargaining made it very difficult to enforce wage norms. 426 As a result, the Wilson government turned to an approach based on statutory control in 1966, after a decisive electoral victory in that same year. Once again the unions were resistant but ultimately acquiescent to the new approach, in part because they received social policy expansion in return (see below on UB). 427 Yet again, however, the scheme for wage control was only briefly successful and it was not enough to indefinitely put off devaluation. In late 1967 the pound was devalued by 14 percent. Rather than easing the tensions between the government and the unions, however, the government sought to ensure continued wage restraint post-devaluation in order to reap the (export) benefits of the move and this pushed the two sides into conflict again.

423 Ibid. p. 130.
424 Ibid. p. 128-129.
425 Ibid. p. 135.
427 Ibid. p. 192.
While wage developments were the central issue of contention between the ‘industrial’ and ‘political’ wing of the labor movement, it was far from the only one during this period.\footnote{Most of the other conflicts were tangentially related to wage concerns, but they were also issues in-and-of themselves. For what follows below, see the fascinating history provided by Taylor, 1993, Ch. 5. See also, Elliott, 1978.} The debates surrounding the Donovan Commission show this nicely. Set up in 1965 to investigate the sources of dysfunction in British industrial relations, the Commission’s report was published in 1968 after three years of work and numerous submissions by various relevant parties (TUC, CBI, Labour, Conservatives, etc.). The report itself was critical of existing industrial relations, in particular noting the disjuncture between ‘formal’ and ‘informal’ spheres of collective negotiation. Ultimately, though, it was within the voluntarist tradition and did not propose dramatic reform. For example, the final report rejected legal sanctions against unofficial strikers, rejected proposed cooling-off periods, and dismissed calls to make collective agreements legally enforceable. The report did propose, however, a legal remedy against unfair dismissal, which is obviously relevant in the present context.

Given the frustrating experience of the Wilson government’s last three years in power, with only minimal wage restraint to show for its efforts, this was not a sufficiently bold conclusion for either Wilson or his Secretary for Employment and Productivity, Barbara Castle. Castle quickly set out to reform industrial relations more thoroughly in drafting the White Paper \textit{In Place of Strife}. In it Castle sought a balanced approach to reform: in certain ways the unions were to be strengthened but they were required to be more legally responsible in return. On the one hand, she proposed encouraging company recognition of shop stewards; giving union access to firms’ financial information for bargaining purposes; providing state funds for union education courses; and legal protection for workers from unfair dismissal. On the other hand, ‘conciliation pauses’ of 28 days before unofficial strikes would be mandatory and unofficial strikers could be made liable if these were not respected; the government would have the ability to call for a secret ballot in an industrial dispute when rank and file support was in doubt or when there was the risk of significant spill-over effects; and a new Commission for Industrial Relations (CIR) was to be given the power to enforce a settlement or collective agreement in the case of an inter-union dispute.

In effect what was being proposed was a much more formalized structure of industrial relations where the central labor market bodies, such as the TUC or CIR, could become involved in local disputes. There was little doubt that it was a departure from voluntarism, but it was not especially onerous either. And of course the unions had been offered significant gains in certain areas, including unfair dismissal protections. That the unions were so vehemently opposed to the
policy is thus striking, as well as telling in the context of my argument. Right from the start they resisted the approach of *In Place of Strife* and nearly caused Wilson to resign through their intransigence. This shows very clearly that the preferences of the labor movement differed fundamentally from those in other European countries, where state regulation of industrial relations (and employment protection) has rarely been as intensely opposed. In the end Wilson was spared by a face-saving compromise with the TUC, yet the unions were successful in resisting most of the measures proposed by Castle.\(^{429}\)

As a result of this affair and the struggle over incomes policy, many union leaders became disillusioned with the Labour government and vice versa. Indeed a new breed of union leader (and unionism) had emerged in this period, one much more militant and intent on strengthening local unionists and union officials (shop stewards).\(^{430}\) These new union leaders, such as Hugh Scanlon and Jack Jones, shifted the balance of power within the TUC to the ‘Left’ and made working with the Labour Party far harder. They resented the pressures being placed on them to restrain their members’ demands, seeing this as part of the government’s attempt to co-opt them.\(^ {431}\) Of course, if one was only ambivalently committed to capitalism and its smooth functioning, this made some sense. But for those with more revisionist social democratic aspirations in the Labour Party, with broader constituencies to appease and thus intent on making capitalism function reasonably well, this posture was maddeningly counterproductive.\(^ {432}\) Such is the split that seemed to grow between the Labour Party and the union movement.\(^ {433}\) Previously the union movement had been able to pursue its own interests without undue ill-effects on British capitalism; however the new more decentralized and militant expression of unionism was now creating a lot more dysfunction. Consequently public opinion towards the unions began to deteriorate during this period and the perception emerged that Labour could not tame them.

\(^{429}\) The CIR was established but was not given many cases in the tense industrial relations climate of 1969 and 1970. Many of its members resigned in protest following the incoming Conservative government’s Industrial Relations Bill, while the TUC refused to cooperate with it, and thus the institution ceased to operate as it was intended to shortly after its establishment. Elliott, 1978, p. 579. See below as well.

\(^{430}\) Taylor, 1993, p. 147-151.

\(^{431}\) It was in these years that discussions of a “loyalty trap” between unions and Labour began to emerge. Ibid. p. 140.

\(^{432}\) As an example of this, Leo Panitch, a revolutionary Marxist, was enthusiastic about the rise of this new decentralized, militant portion of the British labor movement, suggesting as it did in his view the possibility of superseding capitalism. Despite the many social benefits corporatism brought the working class, thus, Panitch dismissed it as ‘class collaboration’. See Panitch, 1981.

\(^{433}\) As one of the leaders of the new, ‘Left’ unionists argued (Hugh Scanlon), the difference between the union and government perspective was that the unions held a “simple, straightforward Socialist belief of ensuring that less of the national gross product goes in rent, interest and profits and more goes in wages and salaries.” Ibid. p. 146.
Not surprisingly, the Conservatives won the next general election in 1971 and Labour was pressured to re-conceptualize its relationship with the unions. Fortunately for Labour, in its brief spell out of office, the Conservatives showed that they could not ‘tame the unions’ either. After the election loss in 1964 the Conservative Party had begun a major reorientation to the union question and industrial relations. No longer did they broadly accept voluntarism; they were now determined to pass comprehensive legislative reform. Indeed this project was given the highest priority within the party during its years in opposition.\textsuperscript{434} The Industrial Relations Act of 1971 was the culmination of this process. Central to the legislation was the idea of union registration with the CIR, which would enforce basic standards of conduct for unions. As a condition of registration, unions would be forced to clearly specify those in charge of calling industrial action; they would lose various legal immunities in the case of unofficial strikes and contract breaking; and they would be more circumscribed in the kinds of actions they could take to support strikes (either in sympathy actions or preventing ‘scabs’ from working). Moreover, the legislation placed the Secretary of State in a position to unilaterally intervene in disputes in ‘emergency situations’, if only temporarily. In short, the Act meant that “the right to strike therefore became [more] vulnerable and precarious.”\textsuperscript{435} In return, the unions were given various incentives to register: firmer grounds for union recognition, official strikes would now be positively accepted in legislation for the first time, tax concessions would be maintained, and continued legal immunity in cases of appropriate industrial action. In addition, the Act finally put into law the proposals of the Donovan Commission in regards to unfair dismissal: full-time employees with more than two years of service would be allowed to challenge what they deemed unfair dismissal in front of a tribunal, where the burden of proof would fall on the employer.\textsuperscript{436}

The unions intensely and effectively opposed the Act, though the unfair dismissal provisions were never controversial for them. A central weakness of the legislation was that it required the unions to register, but if the unions refused to do so \textit{en masse} the Conservative government would have little recourse in enforcing the Act short of draconian measures.\textsuperscript{437} Thus, through the coordination of the TUC, the unions simply boycotted the registration system and derailed the

\textsuperscript{434} Taylor, 1993, p. 181. What is striking in the context of VOC literature is that the Conservative Party leader at the time, Edward Heath, saw industrial relations reform as crucial to Britain becoming a “high wage, high profit” economy by resolving inflationary spirals and allowing market participants to get on with improving productivity. Ibid.

\textsuperscript{435} Elliott, 1978, p. 581.

\textsuperscript{436} Ibid. p. 584. See also, Taylor, 1993, p. 191-193.

\textsuperscript{437} Taylor, 1993, p. 191.
Clearly the Conservatives had not expected the ferocity of opposition that the trade unions exhibited. In fact, many of them had initially seen the Act as one that the unions could be brought to accept or even embrace, given that it would have centralized power in the unions and TUC at the expense of the shop stewards (in this sense *strengthening* the unions). The episode indicated, however, how deep the attachment to voluntarism and legal immunity was among the union movement, particularly among the more militant, newly assertive ‘Left’ unionists who sought greater ‘local power’. Given this sustained opposition, as well as a surge of strikes and wages in the years surrounding the Act, the Conservatives were forced to reverse course and largely abandon enforcement of the Act’s provisions. Crucially, the continued rise of inflation meant that the government would need union cooperation in restraining wages and the only way this could be achieved was by backing off. This led to what became known as Edward Heath’s “great U-turn”, as the Conservative Prime Minister tried to bring the unions onside in a new incomes policy. Ultimately this effort had only limited success and a major miners’ strike in early 1974 undermined both the incomes policy and authority of the Conservative government, pushing Heath to call a general election. The Conservatives lost the election and party members were not to forget the loss handed to them by the unions.

With their resumption of power in 1974 Labour moved immediately to repeal the Industrial Relations Act. More importantly, in our context, the new government of Harold Wilson set about expanding various measures of employment protection. This was the period of the Social Contract, a more explicit (if unsuccessful) exchange of wage cooperation for favorable welfare state policy than existed at any time before or since in the relations of Labour and the unions. I will say more on the subject in the section on unemployment benefits. For now suffice it to say that the arrangement initially delivered considerable policy gains for the union movement, including the Trade Union and Labour Relations Act of 1974 and the Employment Act of 1975. The former Act essentially re-established the pre-1971 status quo in industrial relations, though some of the old legal immunities

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438 As well, the Act had opened up a loophole that allowed employers and unions to sign contracts that were not legally enforceable, even in the context of registration. The CBI actually advised many of its members to follow this course, since the CBI had never been overly keen on the legislation in any case, seeing it as impractical. This of course proved prescient. Ibid. 192.
440 Taylor, 1993, p. 192. Indeed many in the public supported the new legislation, with a Gallup poll in December 1970 showing a large majority of support for major portions of the bill. Ibid. p. 193. Even a large number of TUC members considered cooperating with the government on the Act, but the increasingly powerful Left in the movement forced total opposition to the various provisions.
441 Elliott, p. 587-588.
were now more narrowly circumscribed.\footnote{This was partly due to the minority position of the government and the legal immunities were expanded to the status quo ante in 1966, after a majority Labour victory. Taylor, 1993, p. 228-229.} The Employment Act on the other hand introduced maternity leave and job security for pregnant women workers; made it illegal to dismiss employees for being trade unionists; reintroduced the earlier provisions on unfair dismissal; required employers to follow the terms of employment of the prevailing ‘general level’ of a given industry; and gave unions access to company information relevant to collective bargaining and mass redundancies. While the latter act was impressive on paper, the measures were actually quite modest in practice.\footnote{Ibid. p. 238.} Many employers were already following these guidelines on the basis of ‘best practice’, while enforcement of the provisions in areas without collective agreements proved to be weak.\footnote{One study concluded: “Many employers had developed policies and practices which were in advance of minimum standards specified in the legislation. Many others, for whom this was not the case, were able to continue much as before, presumably due to a lack of people at their workplaces with the knowledge or inclination to draw attention to the law or invoke its requirements.” Cited in Ibid. p. 239.} Again, the provisions mainly formalized current practice and established basic standards for dismissal protection.\footnote{As Dickens and Hall, 2003, describe it, the system in the 1970s was a “modified, supplemented form of voluntarism” (p. 126).}

Apart from important if tangential legislation regarding health and safety (1974) and anti-discrimination (1975 and 1976), the Labour government passed no further measures for employment protection during its tenure up to 1979. It might be argued that this was because the failure of wage restraint in these years forced the government to adopt elements of austerity in later budgets and adopt a less accommodating stance towards the unions. This interpretation is somewhat implausible, though. A more plausible interpretation is that there was not strong pressure from the union movement to introduce new measures of employment protection. They had basically achieved what they wanted during that period and despite a clear turn away from the strict voluntarist approach they had pushed as far as they wanted. Austerity is unlikely in any case to explain weaker incentives for employment protection by Labour. After all, the costs of employment protection measures did not fall significantly on government but rather employers; the need for austerity was thus not likely a primary motivation in this field. This is important to note in the context of my argument because as they existed in this ‘heyday’ period, measures for employment protection were not onerous in comparative perspective. This is clear from Table 4.4 and Table 4.5.
Table 4.4: A Sample of Countries’ Employment Protection in the 1960s and 1970s

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<tr>
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<tr>
<td>France</td>
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<td>0.68</td>
<td>1.21</td>
</tr>
<tr>
<td>Germany</td>
<td>0.45</td>
<td>1.05</td>
<td>1.65</td>
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<td>1.35</td>
<td>1.35</td>
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<tr>
<td>Sweden</td>
<td>0</td>
<td>0.23</td>
<td>1.46</td>
</tr>
<tr>
<td>UK</td>
<td>0.16</td>
<td>0.21</td>
<td>0.33</td>
</tr>
<tr>
<td>US</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
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</tbody>
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Note: Scores range from 0 to 2, with higher scores indicating more extensive protections. Source: Eichengreen, 2007, p. 273.

Table 4.5: A Sample of Countries’ Employment Protection in 1970, 1975 and 1980 (Rueda)

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<thead>
<tr>
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<tbody>
<tr>
<td>Belgium</td>
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<td>1.55</td>
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<td>Sweden</td>
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<td>1.32</td>
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<tr>
<td>UK</td>
<td>0.24</td>
<td>0.33</td>
<td>0.35</td>
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</tbody>
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Note: Scores range from 0 to 2, with higher scores indicating more extensive protections. Source: Rueda, 2007, p. 72. Rueda did not use figures from before 1970 and only displayed figures for every 5 years.

What is striking is that David Rueda uses Table 4.5 as his basic reference for quantitative tests and yet it shows very clearly that British employment protection compared “unfavorably”\(^{446}\) with that of other European countries. This is backed up by surveys of employers done by the Department of Employment in these years. When asked in 1979 what the main problems facing them were in terms of government policy, only 9 percent mentioned employment regulations.\(^{447}\) Furthermore, “When asked directly if employment legislation had affected them 65 percent said it had not and only 12 percent had found particular pieces of legislation troublesome when faced with a specific list.”\(^{448}\) This evidence makes Rueda’s claims of a highly protected ‘Insider’ atmosphere dubious, at least when compared to the rest of Western Europe.\(^{449}\)

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\(^{446}\) That is, ‘unfavorable’ from the perspective that stricter EPL is better. The term ‘favorably’ is used by Rueda in this context (see Section I), though he is not making an evaluative claim. Rueda, 2007, p. 137.

\(^{447}\) Taylor, 1993, p. 240. See also Bosworth and Wilson, 1980, p. 110-111.

\(^{448}\) Cited in Ibid.

\(^{449}\) It is true that the UK employment protection system was dependent upon collective agreements, which are more difficult to quantify in crude measures of national protection such as those in the Tables above. But most of these other national systems had collective agreements that supplemented the basic statutory levels of protection too, as in the UK; workers in these countries simply began from a much stronger negotiating position. See below and Chapter 1. In fact,
The period just covered was the main period in which unions were listened to by British governments and where they held considerable leverage in policy discussions. Periods before WWII and since are very different, as I will illustrate shortly. Consequently, an in depth look at this period is the best way to evaluate the policy preferences of British organized labor. That the final product of this period "was a quite weak employment protection regime is therefore telling, and argues against a simplistic Insider- Outsider view that sees British organized labor as being highly secure in terms of employment protection. This modest regime was to be undermined by Thatcher and her Conservative successor, John Major, and the unions were completely excluded from any say in the matter. Since there is less debate between the contending theories about the empirical record of the Thatcherite period in British politics, however, I turn to documenting more briefly the evolution of employment protection in this era.

Thatcherism, Employment Protection and the Attack on the Unions

If Thatcherism can be considered a revolution in British industrials relations, it was not one that happened quickly with a major piece of comprehensive legislation, as Heath had attempted in the early 1970s. The Conservatives had learned their lessons from their first attempt to challenge voluntarism. They were not going to rely upon union cooperation and they were going to proceed gradually, in 'step by step' fashion. Over the course of eighteen years of Conservative rule, six separate acts directly addressing industrial relations were passed. Together they amounted to a major revision of the postwar tradition. Naturally this program was developed incrementally; power was never assured for the Conservatives, especially early on. And while the aims of Margaret Thatcher were clear in her own mind during this early period (i.e., decimating union power), they were not universally held within her own party and those who held them decided to tread cautiously for fear of a repeat of Heath’s fate.

During their years out of power in the 1970s, the Conservatives began to take a much harder line towards unions. For many in the party, they were the “enemy within” and the primary cause of postwar British economic decline. The dramatic events of the 1979 ‘Winter of Discontent’, during which large public sector strikes led to massive disruption and turmoil, only confirmed and stiffened this anti-union stance. But this was not the dominant policy orientation even up until a few years into Thatcher’s rule. Jim Prior, an appointee of Heath as the party’s shadow Employment spokesperson

Rueda’s case is even more questionable considering that the one source he cites to back up his claim that British employment protection “compared favorably with Western Europe” has no discussion whatsoever of EPL in Western Europe and generally suggests that British measures were very weak and covered a small proportion of the labor force (i.e., Bosworth and Wilson, 1980).

450 See for example Taylor, 1993, Ch. 8.
during the late 1970s, maintained a more sympathetic stance towards the unions than Thatcher and her leadership group.\textsuperscript{451} He was a so-called One Nation Tory of the same ilk as previous Conservative Prime Ministers in the postwar period. It was Prior who passed the first measure to reform industrial relations and thereby ‘tame the unions’; as a result it was not particularly aggressive. His aim was to “re-balance” the relationship between capital and labor in Britain, not to throw it wholeheartedly on the side of business. The 1980 Employment Act did a number of things: it limited picketing and sympathy industrial action by removing some legal immunities; it made it more difficult to establish a ‘closed shop’ (where 100 percent of workers were required to be union members); and it reduced dismissal protections.\textsuperscript{452} This last element is obviously most relevant here and it was accomplished by (a) removing the burden of proof from employers in cases of unfair dismissal and (b) lengthening the period of time that a worker had to serve in a workplace before they were eligible to make an unfair grievance from 6 months to 2 years.\textsuperscript{453}

While these were important steps, they were not nearly strong enough for many in the Conservative Party. Consequently, Prior was moved out of the Department of Employment and replaced by a more staunchly neoliberal minister in 1981, Norman Tebbit. He quickly set about preparing a much more aggressive piece of legislation, the Employment Act of 1982. This was perhaps the most influential of the various industrial relations bill passed under the Conservatives. Central to the Act was that the funds of trade unions were to be made liable to large legal damages in civil courts for ‘unlawful’ or ‘unofficial’ actions of their local officials.\textsuperscript{454} Prior to the measure, union officials could be sued but this was naturally quite limited in what it could accomplish given that they were merely individuals. This portion of the Act was thus a major blow to the traditional legal immunities enjoyed by the unions and it forced them to tread much more cautiously in disputes, shifting power decisively towards employers. In effect, it terminated the industrial relations settlement established with the 1906 Trade Disputes Act and conveniently did so without the required cooperation of the unions. Other portions of the Act also weakened legal immunities by very strictly delimiting the legitimate causes of strikes: only disputes between an employer and their own union regarding pay and conditions could be at issue, not broader political causes or sympathy

\textsuperscript{451} Ibid. p. 278-279.
\textsuperscript{453} This was initially applied to smaller firms but was extended to all firms in 1985. Clasen, 2007, p. 15.
\textsuperscript{454} Taylor, 1993, p. 288.
action. Finally, there were other aspects to the bill that further limited closed shops but none that directly addressed dismissal protection.

This last point is important. It is important because it makes clear that the main method the Conservatives followed to reduce protections and increase labor market flexibility was to weaken the unions and their bargaining position. These were the organizations that by and large negotiated dismissal compensation arrangements and limits on at-will firing, therefore to reduce protections one needed to attack them.456 As Jochen Clasen observes, “it was difficult to reduce the scope of employment protection much further because of its already very low level compared with other European countries.”457 In this light, it is apparent that another component of the attack on worker protections was the steady, rapid rise in unemployment under Thatcher in her first few years. This development naturally weakened the bargaining position of unions’ vis-à-vis employers. Indeed, it is probably fair to say that Thatcher’s most significant policy change was the abandonment of full employment and her embrace of monetarism.458 Not only did this weaken unions in the labor market but it meant that their cooperation was no longer necessary for the government to achieve its aims. Unions had been so influential in policy discussions of the early postwar period precisely because any government hoping to keep unemployment (and inflation) down was basically required to consult them. With the abandonment of full employment as an explicit policy goal, the unions lost their prominent place in British policy discussions.

This dynamic helps explain why and how the Thatcher governments were able to so completely exclude the unions from policy discussions. The TUC was effectively shut out of any consultative policy role during the 1980s and early 1990s. Of course, the unions opposed the various measures being introduced by the Conservatives. However apart from organizing demonstrations and channeling funding and support to the Labour Party, there was not much the unions could do to stop the legislation.459 It is here that the absence of well-entrenched corporatist institutions and the British constitutional structure, with its concentration of power, is important in understanding the radical changes of this period. These were particularly pronounced since during the early years of

455 Ibid. p. 290.
456 To be clear, this is not to say that the primary motivation for Thatcher in attacking the unions was to weaken dismissal protection. As we have seen, these were never that strong anyway and matters such as pay inflation, strike disruptions and ‘restrictive workplace practices’ (e.g., jealously guarding occupational demarcations) arguably loomed larger.
457 Clasen, 2007, p. 15.
459 Interview with official from UNITE, September 2010. The tragic drama of the miners’ strike of 1984-85 was to reinforce this image of powerlessness amongst the unions.
the 1980s the Labour Party had shifted sharply to the Left and this split the Left and Center-Left politically, leaving Thatcher’s Conservatives to dominate in Britain’s first-past-the-post electoral system. In 1981 a number of disenchanted centrist Labour members and MPs split away from the party to form the Social Democratic Party. Combined with Thatcher’s opportunistic victory in the Falklands War of 1982, the split on the Left allowed the Conservatives to retain power in 1983 and largely secured Thatcher’s continued rule throughout the 1980s.

Large sections of business also found themselves ignored or sidelined under Thatcher, contrary to the usual interpretation of her rule. Granted, there is no doubt that many of the policies she advanced were welcomed by business leaders and organizations and even many of those critical of her were sympathetic to her broader aims. It is also clear that business leaders obtained a great deal of influence under Thatcher and obviously more so than the unions. Nevertheless, it is important theoretically to note that substantial portions of business opinion, especially in industry and the CBI, initially opposed a number of the ‘New Right’ policies her Conservatives put in place. In their book on the political preferences of British business, Jonathan Boswell and James Peters identify two main forms of business ideology: what they term ‘Revisionism’ and ‘Liberationism’.

Very briefly, Revisionists were accepting of much of the postwar tripartist arrangements and saw an important role for the state in the economy, not only in terms of Keynesianism but also in terms of developing infrastructure, regulating industrial relations and providing social services. In short, these business leaders were tolerant of the postwar settlement and did not envisage a radical emasculation of unions. They became ascendant in the 1960s and were to be found predominantly in the CBI and from industrialist backgrounds. Liberationists, on the other hand, were much more in the Thatcherite, ‘New Right’ mould. They believed that taxes and the welfare state needed to be dramatically cut, that inflation needed to be brought under control by monetarism if need be, and that unions needed to be diminished or neutered. Naturally it was this last issue that is most relevant here, for Revisionists did not think it was a good idea to attack the unions vociferously. They often

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460 Wickham-Jones, 1996, p. 3.
461 It was very unclear whether the Conservatives could win the 1983 elections especially given the high level of unemployment, which had more than doubled since the mid-1970s. The 1983 elections can thus be seen as a crucial turning point which sent Labour into the political wilderness for several years.
462 What follows is drawn from the careful study of British business opinion found in Boswell and Peters, 1997.
463 Westergaard and Resler’s distinction between “two clusters of capitalist opinion” matches up with this characterization, as discussed and cited in Grant, 1980, p. 150.
were frustrated by the unions, and sought to weaken them or encourage ‘discipline’ in their ranks in various ways, but they were not intent on dismantling or completely undercutting them.\textsuperscript{464}

Through the 1960s and early 1970s, Revisionists firmly held the upper hand in organizations such as the CBI. The events of the late 1960s and 1970s pushed many of them towards Liberationist positions, however, and certainly stiffened their opposition to union power. Nevertheless, Revisionists still in large part controlled the CBI during Thatcher’s first two terms, despite intense Liberationist pressure and criticism. In part this was because many Liberationists were to be found in the influential, if less established and formal, Institute of Directors (IOD) which developed a rivalry with the CBI in the 1980s. Partly as a result, the CBI was often highly critical of the early Thatcher government, given the Liberationist stance her administration took on many issues. Most of this criticism related to the deep recession and industrial ‘shakeout’ that Thatcher’s monetarism and austerity had brought about, but it also extended to the industrial relations reforms of Tebbitt.\textsuperscript{465}

While the CBI had welcomed Prior’s initial legislation, the Employment Act of 1980, there was only a “reluctant acquiescence to the 1982 and 1984 Acts”, with some in the CBI doubtful of the value of the legislation and wary of unduly hurting relations with the TUC and Labour.\textsuperscript{466} This opposition to Thatcher within the CBI meant that it was increasingly sidelined in policy discussions by the government, who turned instead to the IOD, its most trusted and loyal business organization.\textsuperscript{467} To be clear, the above does not suggest that ‘most’ of British business was opposed to Thatcher, but simply that there was clear divergences of opinion and that a formerly dominant group (CBI) did not push strongly in the Thatcherite direction. That the Liberationist or deregulatory push came mainly from outside manufacturing is also telling in the context of VOC and suggests that the theory’s simple functionalism and emphasis on employer ‘interests’ is problematic.

The 1980s witnessed three more policy changes to industrial relations, the Trades Union Act of 1984 as well as the Employment Acts of 1988 and 1989.\textsuperscript{468} In terms of employment protection,

\textsuperscript{464} This is evident for instance on the CBI submissions to the Donovan Report. Ibid. p.54-58. See also Grant, 1980, p. 150.
\textsuperscript{465} See Ibid. p. 142-160.
\textsuperscript{466} Ibid. p. 152-153.
\textsuperscript{467} Boswell and Peters write that “The IOD established itself very quickly in the early 1980s as the government’s most reliable supporter and as a source of new ideas.” Ibid. p. 155.
\textsuperscript{468} See Taylor, 1993, p. 298-300; Rueda, 2007, p. 141. The first mandated that unions had to hold strike votes by secret ballot before industrial action, otherwise they would lose their legal immunities. It also required unions to hold elections for union executive positions every five years and for approval of unions’ political funds every ten years, again on pain of losing immunities. The Conservatives believed that the changes would make it much harder for unions to call strikes and that political funds would be abandoned by union members. As it turned out, the “Act was a major coup for the trade union movement.” David Grant, cited in Taylor, 1993, p. 301. Contrary to the expectations of the Conservatives, the political funds were overwhelmingly endorsed by union members, strike votes were virtually always in line with the
the 1989 Act is most relevant. It weakened basic employment standards for young workers, exempted small companies of less than twenty employees from providing written statements of any disciplinary procedures or explaining dismissal when the worker had less than two years of service (previously it had been six months) and introduced a £150 fee for initiating an unfair dismissal case in industrial tribunals. 469 This fit well with the policy mantra of the Conservatives to lessen the “burdens on business” and create a highly ‘flexible’ labor market. 470

The combined effect of these various measures was clear by the end of the 1980s and early 1990s. For instance, with the new higher years of service requirements for eligibility to unfair dismissal protection, it was estimated that more than half of all part-time workers and around 30 percent of full-time workers failed to qualify. 471 Moreover, as one survey of employment protections put it, individual employees made “little use of their legal rights to seek redress, with limited success and with limited redress for those who are successful.” 472

With the resignation of Thatcher in 1990 after years of declining popularity, the Conservative leadership passed to John Major. This transition occasioned little change in policy direction however. 473 Two further industrial relations reforms were introduced under Major in the early 1990s, as well as one late in his tenure in 1996 that partly re-expanded protections. Neither the Employment Act of 1990 or the Trade Union Reform and Employment Rights Act directly addressed employment protection measures. Instead, they attacked the bases of union power by outlawing the ‘closed shop’, making certification and striking more difficult, and making re-certification mandatory every three years. 474 Sensing a looming electoral defeat and presiding over a very different labor market, though, the Conservatives decided in 1996 to modestly expand and formalize basic statutory dismissal protections. After all, as I have suggested, the protections of the old voluntarist model depended to a large extent on having strong unions in a favorable position relative to employers. Now that union membership and coverage had declined drastically, and globalization and higher unemployment had tilted bargaining power towards employers, the old system no longer operated effectively to protect the majority of workers. To get a sense of this

union leadership stance, and the introduction of the votes gave unions both greater public legitimacy and often strengthened their bargaining position.

469 Clasen, 2007, p. 15.
470 Rueda, 2007, p. 140.
471 Clasen, 2007, p. 17.
472 Dickens and Hall, cited in Ibid.
473 For below, see Ibid. p. 142-143.
474 Arguably Conservative policy became even more stridently anti-collectivist under Major, since earlier reforms had mainly attempted to limit various union excesses such as disruptive unofficial strikes (and tried to ‘democratize’ unions, etc.) whereas the recent reforms were more clearly attacking the very idea of unions existing at all.
transformation, union density figures will suffice. From around 52 percent of the labor force being union members in 1978, union membership had been nearly halved to 27 percent in 1995. This dramatic fall in membership meant that not nearly as many employees had collective bargaining or the back-up of unions to pursue dismissal compensation or protections. The 1996 Employment Rights Act thus specified three basic elements of dismissal protection: a minimum notice period of a week for those with less than two years of continuous service and an extra week per year worked after that (up to a maximum of twelve weeks); it also granted (again) the right to not be unfairly dismissed, though the definition of unfair dismissal was very vague/weak and those with less than two years of service at a company were excluded; and lastly it created a ‘basic’ compensation formula in cases of unfair dismissal of one week pay for every year worked up to a maximum of twenty weeks pay, as well as a ‘compensatory award’ to be determined by a judge (but no more than the ‘basic’ amount). In sum, the Thatcher and Major reforms dealt a major blow to organized labor but only modestly weakened EPL directly, since it was so limited to begin with. The impact of their reforms must thus be seen instead as striking a fatal blow to the postwar compromise around voluntarism, full employment and union power.

**Tony Blair, New Labour and the Partial Re-Expansion of Employment Protection**

It is difficult to overstate the impact that four consecutive electoral defeats will have on a previously competitive party. Throughout the 1980s and the 1990s the Labour Party was pushed into a sustained period of internal conflict, introspection and renewal (arguably in that order). This period in the Party’s history has been dealt with extensively elsewhere, and I do not hope to add to it, but there are a few points that merit emphasis. The first is that especially following the election loss of 1992, Tony Blair and his supporters moved to dilute the connection between the trade unions and the Labour Party. After the first two Thatcher election victories this desire had remained muted within the Party; in fact the unions arguably had greater control over the Party during Thatcher’s first term. However after the 1987 election a (contested) process of ‘modernization’ began within the Party to reconfigure both its policy orientation and its organizational form. By the mid-1990s the leadership of the Party had separated itself to a considerable extent from union

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475 Rueda, 2007, p. 110. While there is not sufficient space to discuss this development here, to a large extent it was the product of the de-industrialization that decimated the union strongholds in industry. The economy of the mid-1990s, as with today, was much more service- and finance-based than it had been in the early postwar period.

476 Ibid. p. 143. The Act also expanded the dismissal protection around maternity leave and required that employees be remunerated if they wanted to use their notice periods to find, or train for, another job.

influence through voting and other institutional reforms. For example, the union block vote at the annual party conference was reduced from 70 to 50 percent in 1995, while policy making became more centralized within the parliamentary leadership and consultation with the unions diminished. This process was reinforced by the fact that Labour had gradually ceased to depend on union funding over the period of Conservative rule: from contributing around 90 percent of party finances in the early 1980s, the unions only contributed about half in 1995.

Second, this ‘modernization’ also brought about to a large extent an acceptance of the Thatcherite ‘settlement’, not only in industrial relations but also in terms of existing privatizations, taxation, and so forth. Indeed, the New Labourists went out of their way in the run-up to the 1997 election to assure voters and business that no return to the 1970s would be attempted. The emergence of the globalization narrative during these years reinforced this approach and seemed to justify making a concerted effort to attract and reassure ‘footloose capital’.

Finally, the rise to power of New Labour occurred in an economy very different from that of the 1970s, as alluded to earlier. It was not merely that union membership had dropped substantially and that the unions had been ‘tamed’; among other things, the economy was now far more service- and less manufacturing-based than before and economic power had shifted towards the South of the country with the resurgence of finance in London.

It was in this context in 1997 that New Labour took power after a decisive electoral victory. While the TUC had called as recently as 1995 for the “repeal of all anti-trade union legislation passed by the Tories”, the Labour leadership had sufficiently insulated themselves from trade union influence or pressure that they did not need to abide by the motion. Indeed, none of the major pieces of Tory legislation was really overturned under New Labour, nor was there ever a major hostile push by the labor movement to achieve this during its early reign. The depth of New Labour attachment to the Thatcherite industrial relations settlement was evident in Blair’s foreword to the

478 For a review of this process, see McIlroy, 1998. This was spurred by the (contested) idea that British voters continued to associate Labour with the ‘reckless, irresponsible’ unions of the 1970s and early 1980s and that this limited the party’s appeal among the electorate.
480 EIRO, 2001, “Unions review links with ‘New Labour’”.
481 Significant acceptance of most of Thatcher’s industrial relations policies appeared to happen as early in 1989, though they were counterbalanced by certain improvements in the unions’ position. Panitch and Leys, 2001, p. 222. See also McIlroy, 1998. The TUC did not reconcile itself to the Conservatives legislation nearly as quickly however.
483 This was thus the period of the so-called ‘prawn cocktail offensive’, where Labour leaders tried to win over support from finance in London by assuring them of their business-friendly credentials.
484 Mares, 2006, p. 213.
government’s “Fairness at Work” White Paper in 1998, which was to become the Employment Relations Act of 1999. In it Blair claimed that “Even after the changes we propose, Britain will have the most lightly regulated labor market of any leading economy in the world.” True to form, the ERA of 1999 did not implement substantial measures for employment protection. Of direct relevance here, the Act reduced the period that an employee had to have worked before being protected from unfair dismissal from two years to one; it raised the maximum unfair dismissal compensation from £12,000 to £50,000; and allowed a union member to be accompanied by a union representative during grievance and disciplinary procedures. Each of these measures improved the level of dismissal protection to employees, but not in a significant way comparatively (as Table 4.3 and 4.6 indicate).

While this was the timid stance that New Labour took on the question of dismissal protection in its first term, it did expand employment regulations in a number of other ways, to the chagrin of employers groups. These measures related mostly to the decision by Blair to end the UK’s ‘opt-out’ from the EU Social Charter, which Major had put in place in 1991. This decision resulted in a flow of EU legislation being implemented in the UK, such as expanding parental leave rights, work/life balance regulations, greater rights for part-time workers, and rudimentary employee consultation in the workplace. Perhaps more significantly, New Labour introduced a national minimum wage in 1999, albeit at a low initial rate (£3.60). Despite these moves, Blair’s first term government was keen to not overly upset business representatives, and frequently employment regulations were watered down as a result of business pressure. One example of this is with the regulations on part-time work. Generally speaking the regulations were embraced by the TUC and seen as an important victory in protecting part-time workers (usually considered ‘outsiders’). The regulations established the right of part-time workers to comparable (per hour) pay, benefits, and redundancy protection to full-time positions in the same company. However in a number of ways

485 Cited in Ibid. p. 214 as well as Coates, 2000, p. 130.
486 See Coates, 2000, p. 130-131; Rueda, 2007, p. 144-145; and EIRO, 1999, “Coverage of unfair dismissal law extended.” In the late 1970s, as noted above, the relevant period was 6 months. It also made union recognition slightly easier and more formalized, as well as protecting union members from employer discrimination (e.g., blacklists).
488 A case in point was the EU legislation on working time, which set a 48 hour a week limit on working hours. After intense employer resistance Blair decided to allow for ‘voluntary individual opt-outs’ of this particular measure and this option was renewed in 2005. Taylor, 2005, p. 187-188. This watering-down also occurred with measures relating to union recognition. EIRO, “1998 Annual Review for the United Kingdom”.
489 EIRO, 2000, “Regulations introduce new rights for part-time workers.”
the government weakened the regulations to assuage business: for instance by not introducing a clear statutory code of practice, not protecting full-time workers from involuntarily being turned into part-time workers, and rejecting the model of ‘hypothetical comparators’ in job categories where full-time was largely non-existent (common in some service sector work). More relevant here, the Blair government moved to clamp down on the number of cases being brought to the unfair dismissal tribunals. Over the preceding few years the number of cases being brought forward had steadily risen, and employers began to complain loudly that a “compensation culture” was emerging. In order to reverse this trend, the government proposed making it easier for judges to simply strike out complaints with limited chance of success and raising the cost of making weak claims from £150 to £500, among other things. As the CBI noted in response, this was “an important step in the right direction.” The unions, predictably, viewed the changes more critically and a protracted struggle between both sides of industry emerged on the issue. It took until Blair’s second term for the issue to be resolved, and the settlement was in many ways a nod to business concerns, as I document below.

During Blair’s first term there was thus disappointment among the unions that Blair had not gone further in a number of areas. Yet they did not protest loudly for fear of ‘rocking the boat’ and to demonstrate their appreciation for the limited reforms that had come their way. This accommodation to New Labour on the part of the unions began to fracture, though, during Blair’s second term. After another convincing election victory in 2001 it was hoped by the unions that a more traditionally left-wing stance could be adopted by New Labour, at least as regards industrial relations. They were to be largely disappointed. If anything, Blair’s approach became more strident in its New Labour outlook, taking more time to listen to the concerns of business representatives and largely ignoring the unions. Partly as a result, no major new employment protection or industrial relations reform was adopted during this period (2001-2005). For example, the review of the 1999 Employment Relations Act produced very few significant union victories, much to the relief of the CBI and other employer groups. The TUC had pushed in particular for better protections of striking workers and to legally allow sympathy industrial action, along with various measures to facilitate

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490 Ibid.
491 EIRO, 2000, “Government announces employment tribunal reforms.” At 130,000 tribunal applications a year in 2001, though, the unions countered that this was hardly a ‘deluge’ given a working population of 23 million (or 1 in 800). EIRO, 2001, “Controversy over proposed employment tribunal changes” and “Employers and unions argue over ‘compensation culture’”. The median award given by the tribunals was £2,515 for unfair dismissal.
492 Ibid.
493 Chadwick and Heffernan, 2003, p. 5.
494 Taylor, 2005.
union recognition.\textsuperscript{495} It had also pushed for removing all qualifying periods for employment protection rights, thus considerably broadening the number of employees covered by the statutory protections. However, apart from some minor conciliatory measures that eased the recognition process, none of these main demands were met by the amendments in the 2003 Employment Relations Bill.\textsuperscript{496} In reaction, the CBI expressed its contentment at having limited the number and scope of changes introduced, while the TUC did little to conceal its dissatisfaction.

Despite this overall stalemate, there were two changes of note in the period. First, the Employment Act of 2002 set out minimum statutory standards for ‘internal grievance procedures’ such as cases of dismissal or employee grievance. The dismissal protections thereby gained by workers were minimal, however, and indeed this regulation was mostly intended to limit the number of employment tribunal cases.\textsuperscript{497} Second, the 2002 Act also introduced basic protections for fixed-term workers. This consisted largely of transposing an EU Directive on fixed-term work. It mandated that differences in pay between fixed-term and permanent employees could only exist in situations that were ‘objectively justified’ and that the use of successive fixed-term contracts would have a four-year limit, at which point they would be transformed into permanent contracts.\textsuperscript{498}

This concern to strengthen the position of marginal workers would become a source of controversy in the third Labour term after the 2005 election, this time over whether to implement an EU Directive on temporary agency workers (TAWs). The unions pushed strongly for its implementation, whereas the Labour government resisted doing so along with employers’ groups. Indeed, the struggle over the question was symptomatic of broader relations between the unions and

\textsuperscript{495} EIRO, 2002, “Unions seek wide-ranging employment law reforms.”
\textsuperscript{496} EIRO, 2003, “New Employment Relations Bill published.”
\textsuperscript{497} For what follows in this paragraph, see Clasen, 2007, p. 17-18; EIRO, 2002, “Employment Act 2002 Outlined”; and EIRO, 2004, “New statutory workplace dispute resolution procedures outlined.” The main obligations this implied were that either side must provide the reasons for their action in writing prior to moving forward; that a meeting of both sides be arranged at some point, with the possibility of a future informal appeal; and that a waiting period of 28 days be observed before taking any claim to a tribunal. Any employee-initiated dismissal or grievance case not following this procedure could have an employment tribunal reduce compensation by up to 50 percent, while employers not following this procedure in dismissals would have the case deemed automatically unfair and compensation increased by up to 50 percent. This was subject to an important caveat however: the latter would only apply if it could be shown subsequently that following the procedure would have altered the outcome. Clearly this caveat made it much easier for employers to by-pass the requirements, as business support for the provisions indicated. Indeed, a supplementary provision that made those advancing a grievance or dismissal appeal liable to the costs of legal preparation made it riskier to adopt this course of action for workers. Consequently, these technical requirements were seen by the unions to make it more difficult to pursue resistance to dismissal or to prosecute a grievance, and they opposed them accordingly. This is not surprising given that this was a major motivation for the legislation in the first place, to limit employment tribunal cases. Nevertheless, the introduction of statutory procedures helped solidify the standing of employees in smaller firms especially and the TUC welcomed this aspect of the legislation. It pushed in fact for these procedural rules to be incorporated into all employment contracts and thus undermine the caveat explained above, but business pressure was able to push the government away from this position.
\textsuperscript{498} Ibid.
Labour during this period. It had been agreed between them in the summer of 2004 that a Labour government, if victorious in 2005, would accomplish a range of legislative goals of the unions, including the implementation of the Directive.\textsuperscript{499} This constituted the so-called ‘Wawrick Agreement’, named after the university where a policy summit had been held between the two sides. The summit was an attempt to patch up the differences and tensions that had arisen between them during the second Labour term, in particular relating to the introduction of public sector reforms to which the unions had strongly objected. While there is not space to lay out all of the points agreed to at Wawrick, what is noteworthy is how timid the achievements were from a union standpoint. Once again union pressure to undo significant portions of the Thatcherite industrial relations settlement was rebuffed and the new provisions that were outlined did not constitute a radical departure from existing policies.\textsuperscript{500} Nevertheless, the Agreement was sufficient for the unions to throw their support behind Labour in the 2005 election, which is what the Labour leadership had sought from the whole exercise.\textsuperscript{501}

What is striking and revealing about the issue of TAWs, then, is how the Directive was never implemented during the course of the third Labour term. For the first couple of years the Labour government dragged its feet on the question of the Directive and it continued to do so even after the supposedly more union-friendly Gordon Brown took over from Blair in June 2007. As a result, the TUC made a concerted effort to publicize the issue, publishing a major report in May 2008 on the situation of TAWs.\textsuperscript{502} The TUC’s Commission on Vulnerable Employment found that TAWs were often significantly underpaid relative to regular workers (around 20 percent on average), that many had been in their ‘temporary’ positions for a prolonged period (e.g., a quarter of them for over a year), and that nearly half of them would prefer a permanent job.\textsuperscript{503} However, the Brown government remained unmoved, again with the support of business representatives, on the grounds that implementing the Directive would ‘damage labor market flexibility’.\textsuperscript{504} Shortly after the publication of the TUC report, a compromise arrangement was agreed to between the government,

\begin{thebibliography}{99}
\bibitem{499} EIRO, 2004, “Unions win concessions from ministers on employment law agenda.”
\bibitem{500} As the EIRO report puts it, “senior Labour figures reportedly emphasized that ministers had resisted union pressure for more radical changes to existing industrial relations legislation, and that many of the reforms were already in the pipeline irrespective of union demands. One was quoted as sayin: ‘None of our red lines have been crossed.’” Ibid.
\bibitem{501} A similar union-Labour policy forum at Wawrick in July 2008 produced essentially the same kind of outcome. The unions reportedly drew up a list of 130 legislative ‘suggestions’, only to have the vast majority turned down. As a left-wing Labour MP put it, “The unions went in with a shopping list and came away with a bag of sweets.” Representatives of business were predictably relieved at the outcome, again. EIRO, 2008, “Labour Party gives little ground to unions in policy review.”
\bibitem{502} EIRO, 2008, “TUC commission calls for better protection for vulnerable workers.”
\bibitem{503} EIRO, 2007, “UK: Industrial relations developments in Europe 2007.”
\bibitem{504} EIRO, 2008, “Debate on temporary agency work intensifies.”
\end{thebibliography}
According to the compromise, TAWs would be entitled to equal treatment with directly-employed staff after 12 weeks of work, though they would not be eligible for occupational social security schemes. The TUC’s General Secretary proclaimed that the agreement was “a victory for union campaigning” and that it opened “the door for much stronger legal protection that agency workers deserve.” For its part, the CBI saw the deal as “the least-worst outcome available for British business” and noted that the 12 week qualifying period meant that over half of all agency assignments would be unaffected. In the end, however, the compromise was never enacted. In the face of stiffening business pressure in 2009 and against the background of the global economic crisis, the Brown government postponed the implementation of the Directive until October 2011, well after the upcoming 2010 election. Naturally, the TUC expressed disappointment with the decision, while employer groups welcomed the move.

Given that Labour lost the 2010 elections to a coalition of Conservatives and Liberal Democrats, it cannot be known whether they would have implemented the Directive. But the fact that they had failed to implement it in a five year term is revealing enough of the timidity of New Labour in relation to the issue. In the meantime, during Labour’s third term little of substance was introduced in relation to employment protection. The one notable move that was made was probably neutral in its effect: the Employment Act of 2008 repealed the statutory dispute resolution provisions of the 2002 Act, replacing them with a statutory code of conduct overseen by the Advisory Conciliation and Arbitration Service (ACAS).

To enforce the code, employment tribunals could adjust compensation awards by 25 percent if it had not been followed by one side of a dispute. The move was inspired by dissatisfaction on the part of both business and the unions with the formalistic requirements of the 2002 Act. Whereas business disliked the rise in procedural hurdles and costly formalism, the unions had never really warmed to the original provisions since they were seen as an attempt to simply reduce tribunal claims (see above). Thus it appeared that little changed one way or the other with the reform. The OECD figures on EPL in Table 4.6 suggest as much.

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Footnotes:

505 EIRO, 2008, “Government and social partners agree on equal treatment for agency workers in EU directive.”
506 EIRO, 2009, “Government makes concessions to employers on employment law agenda.”
507 It is unclear at present whether the new coalition will implement it, but given the Conservatives’ strong distaste for EU-inspired legislation (discussed below) it is highly unlikely.
**Table 4.6: OECD Measure of Overall EPL Strictness for the UK during New Labour Rule**

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Note: Level of Overall EPL is given on a scale of 0 to 6. Change in 2000 was produced by greater protections given to regular workers in the 1999 Employment Act. Change in 2002 was produced by greater protections to temporary/fixed-term workers of 2002 Act.

**Understanding EPL Change in the UK**

As was argued in the introduction, understanding the evolution of employment protection in Britain requires in large part grasping the preferences and fluctuating ‘strength’ of its labor movement. In the early postwar period, the union movement was content with very little state intervention on the question of dismissal protection and other aspects of employment regulation. Indeed, as noted, they were not particularly concerned with employment protection for a long period after the end of the war. In part owing to the very low levels of unemployment in the 1950s and early 1960s, the unions did not press for legislative restraints on firing or even the inclusion of redundancy compensation arrangements in collective agreements. This latter point is especially revealing, given that low unemployment would have allowed them to achieve such provisions in collective agreements had they so desired. The initial impetus to set up redundancy compensation schemes thus mostly came from outside the movement, and from within a Conservative administration no less. The thinking in Macmillan’s Ministry of Labour in the early 1960s was that redundancy compensation and other dismissal protections might in fact facilitate labor market flexibility and economic dynamism, as it would diminish the resistance of unions and workers to industrial restructuring (especially by easing the problem of ‘restrictive practices’). This quickly became the dominant view and led to Redundancy Payments Act of 1965. The unions accepted this legislation, and certainly made use of it, but they remained highly skeptical of further state intervention. No doubt the experience of repeated incomes policy along with the failed efforts of both Wilson and Heath to fundamentally reform industrial relations (and circumscribe voluntarism) only reinforced this aversion. As a result, even during its period of greatest political influence in the 1960s and 1970s, the unions did not seek to establish a rigorous employment protection regime such as that found in most of Western Europe. It is true that redundancy payments increased in size and scope following the 1965 Act, but they were never especially generous, and they continued to only

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510 Ibid. p. 39-40.
be provided to a minority of labor market participants for most of this ‘heyday’ period. Moreover, redundancy payments only constitute one component of dismissal protection, and the main difference between countries’ levels of EPL relate to other things such as the statutory regulation of notification, requirements of consultation, length of trial period, strictness of ‘just cause’, need for state authorization, and so on. In almost all of these other categories, the UK employment protection regime was comparatively weak and unobtrusive, in large part stemming from the commitment to voluntarism. Again, this contrasts with Rueda’s depiction of a highly protected Insider environment in the UK in the late 1960s and 1970s.

Part of what this meant was that when the Thatcher government came to power in 1979, increasing employers’ flexibility to hire and fire was considerably simpler than it proved in Western Europe. The main legislative changes that needed to be made concerned weakening the unions and allowing unemployment to rise. Thus in the context of the early 1980s recession, employers were very successful at cutting severance payments or removing them from collective agreements altogether. In many cases they also simply by-passed customary notification periods and traditional ‘last in, first out’ rules applying to redundancy, while blackmailing unions to forego previously agreed to severance arrangements. Without a strong statutory system of employment protection, it was thus much easier to effectively or substantively weaken worker protections by indirect legislative means. Given the unpopularity of unions in the broader electorate at the time and a sense of prolonged economic ‘decline’, the Thatcherite attack on them was successful even if it was also to have deleterious effects on the employment security of a much larger portion of the labor market. In Western Europe the systems of employment protection consisted of stronger and more extensive statutory provisions and thus covered larger portions of the workforce. Consequently, it has been much more difficult to reduce employment protection, as the very limited changes to regular-contract EPL in Europe in the past 30 years suggests. In these settings, it is easier politically to defend protections or regulations as those of ‘all workers’ and not simply ‘the unions’; there is in a

511 Ibid. Ch 5, 6 and 7. See also Bosworth and Wilson, 1980.
512 See OECD, 2004, for the importance placed on these other aspects of employment protection.
513 As I show in the other case studies, this desire for ‘flexibility’ on the part of employers and especially right-wing governments was widespread from the 1980s onwards in the advanced industrial countries. Of course, the UK’s employers had more flexibility to hire and fire to start with than those in Western Europe, though not as much as in the United States.
515 Ochel, 2008.
sense a larger, more powerful coalition of EPL ‘beneficiaries’ in the electorate, analogous to the beneficiary ‘interest-groups’ attached to other programs of the welfare state.\textsuperscript{516} Gradually in their years in the political wilderness the unions and Labour warmed to statutory forms of employment regulation.\textsuperscript{517} For their part, the unions recognized that in a labor market with limited collective bargaining and weak unions, statutory measures would be important to protect most of the workforce and give themselves a stronger starting point in bargaining. This was a departure from an earlier strategic rationale for voluntarism: that if workers wanted to improve their conditions of employment in the labor market they would need to organize into unions and fight for improvements. Naturally this was an important recruitment mechanism which served to sustain or increase union membership in the early postwar period and thereby empower the labor movement.\textsuperscript{518} With voluntarism effectively discarded by Thatcherism, though, the union position changed to an extent on statutory intervention, not just in terms of employment protection regulation but also in relation to a national minimum wage and statutory requirements for employee consultation in the workplace (both long areas of union skepticism or ambivalence). It should also be noted that several of the recent interventions advocated by the TUC were specifically aimed at marginalized groups, including its concerted effort to introduce temporary worker protections. This undermines the Insider-Outsider view that unions are only representatives of Insiders.\textsuperscript{519} For New Labour, its conversion to advocating more extensive yet still mild statutory protections (e.g., the EU legislation) followed partly from its resistance to re-empowering the unions and partly from its sense that some of the ‘deregulatory excesses’ of Thatcherism needed to be addressed. It was also the product of a growing admiration of the Western European model, which gained in stature in some parts of the Party during the late 1980s and early 1990s.\textsuperscript{520} In truth, it is questionable how attached Blair was to the new employment regulation, as is suggested by his frequent dilution of the new EU-inspired measures in the face of business opposition. And Blair was certainly no great admirer of Continental Europe’s economies. Regardless, the ‘light touch’ to regulation advocated by Blair in his first term and beyond, when set against the economic and employment successes of the period, seemed justified and gave Blair a strong political position from

\textsuperscript{516} This naturally makes retrenchment or deregulation more difficult, as suggested by Pierson, 1996.
\textsuperscript{518} Arguably the increase in unionization experienced in the UK in the 1970s was driven by this dynamic in terms of wages: to keep up with inflation it was often necessary to form a union.
\textsuperscript{519} Rueda makes this association of unions with insiders quite clear in his discussion of employment protection in the UK, p. 137-146.
\textsuperscript{520} This Euro-philie tendency never became hegemonic in the party, however. See for example Hill, 2001, and the strong case for a ‘stakeholding’ European model in prominent Labour intellectual Will Hutton’s \textit{The State We’re In} (1995).
which to resist union pressure for tougher or more comprehensive measures. This was therefore also a central aspect of politics under New Labour in terms of UB as we will see: apparent economic success bred policy complacency.

Employers’ representatives for their part have clearly opposed most of the New Labour legislation on employment regulation, and staunchly so. This is in contrast to a period in the 1960s and 1970s where they were more acquiescent to statutory intervention, though they were certainly never policy initiators and were not keen on the 1960s and 1970s legislation. Still, this moderate or accommodating stance began to change in the late 1970s and by the mid- to late-1980s it had been dropped as the official CBI position. In these years the CBI, once a bastion of Revisionist business opinion, gradually came to adopt the Liberationist positions of the IOD. The CBI has now fully embraced the neoliberal project, as is evident from their recent policy statements. All of the recent employment regulations have simply been seen by the CBI as “costs” to business, hurting competitiveness. Among employers, though, it appears that smaller companies have for a long time been more resistant to employment regulation relative to larger companies (as well as more disdainful of unions and the welfare state in general).

Given the success that employers have had in shifting the economic balance of power in their direction since Thatcherism, including through legislative means, it is tempting to see them as the clear inspiration and cause of this trend. However doing so overstates the extent of consensus found within the business community at the start of Thatcherism and ignores the large, influential sections of business that wanted different policies than those adopted by Thatcher and her group, as explained earlier. Instead, it is more accurate to contend that the Conservative Party has often since the 1970s led the bulk of employer opinion in a neoliberal direction, rather than following it. There is no doubt that it followed the advice of Liberationist business leaders in many cases and thus that clear circumstantial evidence can be found of Thatcher ‘following business opinion’. But the fact remains that the CBI, business’ main representative, resisted or was ambivalent at the time about many of the measures her government ultimately passed. The emphasis on the explanatory power of

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521 See for example Clasen, 1994, p. 77, on employers’ lack of enthusiasm for the Redundancy Payments Act.
522 Boswell and Peters, 1997, Ch. 9.
523 CBI “Jobs for the Future”, 2009. Over the past 30 years the trend has been towards even more decentralized bargaining and this has made them averse to any imposition of universal costs or ‘inflexibility’. It appears that they are content creating their own incentive structures and protections, in segmentalist fashion, rather than accepting statutory regulation or industry-wide arrangements.
525 Even in the very recent past the Conservative Party is often more radical in its policy ambitions than the CBI deemed desirable or feasible. EIRO, 2007, “Unions criticize opposition party’s deregulation proposals”.

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employer interests in the VOC view is thus misleading: early on the Conservatives chose which business viewpoints to heed, rather than responding to a unified and dominant ‘business’ perspective.\textsuperscript{526}

A more plausible interpretation of the VOC view stresses the nature of the skill regimes established in the postwar period as the source of differing levels of EPL.\textsuperscript{527} In this interpretation, labor movements did not press for strong employment protection in the UK and other Anglo-Saxon countries because of the relative absence of firm- and industry-specific skills training in these economies. I have critiqued this view in Chapter 2. One thing I will note again here, though, is that such an account would have a difficult time explaining change over time in employment protection in countries such as the UK. It is hard to believe that changing skill composition could explain rising protection in the 1960s and 1970s, decreasing protections in the 1980s and 1990s, and then modest expansion in the 2000s. Granted, employment protection fluctuated around a fairly weak level the whole time, as I have emphasized. But if we are to understand the changes that did take place a framework that takes union preferences and traditions as well as partisanship seriously is more plausible and necessary, as the narrative above hopefully makes clear.\textsuperscript{528}

Section IV: Unemployment Benefits

Early Developments

As the birthplace of modern capitalism, Britain has an especially long history of efforts to alleviate the suffering of those not capable of finding work.\textsuperscript{529} The proletarianization of labor was most advanced there in the 19\textsuperscript{th} century, as farmers and peasants were forced into the burgeoning cities through Enclosure and agricultural market competition. This gave rise to a segment of society without a steady source of income and which thus needed to be tended to, if only to prevent widespread social unrest. During the 19\textsuperscript{th} century the dominant approach to dealing with this was the Poor Law system, which was (re-)legislated in 1834. Underlying the Poor Law system was the assumption that poverty and ‘idleness’ arose from individual failings and laziness and thus that any relief be very meager (i.e., well below prevailing wages) and targeted at the most needy. In practice,

\textsuperscript{526} As Wyn Grant described the situation in 1980, “anyone in the Conservative Party trying to find out what business really wants has a variety of messages to listen to and can select whichever point of view happens to fit in with his or her own ideological preferences.” Ibid. p. 157.


\textsuperscript{528} See also the powerful critique of this view by Streeck, 2011.

\textsuperscript{529} What follows below draws upon Hill, 1990, p. 14-25.
this meant that ‘workhouses’ were established, which offered basic subsistence in return for acceptance of their rigorous work regimens. As the 19th progressed, however, greater awareness emerged of how widespread poverty actually was and how even the so-called ‘respectable working class’ could often not find employment. In part this was addressed through charity and in part it was addressed through the ‘self-help’ societies of the late 19th century, where small ‘friendly societies’ or trades unions provided forms of collective insurance or support. In fact, trade unions organized occupation-related unemployment insurance schemes through the early 20th century, much as in other Western European countries.

At the turn of the 20th century, three developments converged to produce a transformation in the British state’s approach to poverty relief: the growing strength of the trade unions and the socialist movement, along with the formation of the Labour Party in 1900, who were seen as threats to the social order; the experience of the Boer War, where the British army found its working-class recruits in poor health and physical fitness; and a re-conceptualization of poverty and ‘idleness’. This re-conceptualization concerned the emergence of the very concept of unemployment, or ‘involuntary idleness’, which had been foreign to previous conceptualizations of poverty/worklessness. Responding to these various changes, the National Insurance Act of 1911 initiated the country’s (and the world’s) first statutory unemployment insurance program. Initially it only applied to three industries that had frequent employment fluctuations—shipbuilding, engineering, and building—and thus most clearly fit with the new conceptualization of unemployment. Benefit receipt was conditional upon a previous work record in these industries and a minimum of 26 weeks paid contribution, while financing for the scheme was derived from contributions by employers (37.5 percent), employees (37.5 percent) and the state (25 percent). Benefit levels were also quite meager, only providing on average 20 percent of gross wages. Of course, this left out the majority of workers in the economy who were forced to turn to the Poor Law system or to the trade union schemes, which continued to operate in other industries and supplemented the statutory provisions of the 1911 Act.

531 The Act also established a sickness benefit scheme, which had broader coverage than the unemployment benefit system. These programs emerged also in the wake of the Old Age Pensions Act of 1908. Ibid. p. 18. See also Schmid, Reissert, and Bruche, 1992, p. 75. Those who voluntarily left their jobs or refused placement offers could be disqualified from benefit receipt for 1-6 weeks.
Shortly after WWI this limited coverage was addressed with the extension of the scheme to nearly all workers, regardless of industry, in the Unemployment Insurance Act of 1920.\textsuperscript{532} Even in the 1920s, though, the unions continued to run their own supplemental arrangements for unemployment insurance, given the stinginess of statutory benefits. This changed however starting in the late 1920s, as unemployment rose sharply and put serious strain on the union-run funds.\textsuperscript{533} In reaction, the unions decided that they no longer wanted to be involved in this area of policy and they turned their attention to lobbying for improvements to statutory benefits (e.g., increasing benefit levels and resisting means-testing). This divorce of the union movement from social insurance was to prove lasting and a major turning point in hindsight: the UK became one of the only countries in Western Europe without any union involvement in the administration of unemployment insurance. As I show, this made it much easier to subsequently ignore the unions’ input and it diminished their attention to the field relative to other labor movements.

Meanwhile, the Poor Law system had gradually ceased to administer poverty alleviation through the workhouses but instead as ‘outdoor relief’ (i.e., cash payments). In order to sharpen work incentives and keep costs down, though, financial support became means-tested.\textsuperscript{534} In 1934, in the midst of the Great Depression, the Conservatives passed the Unemployment Act which integrated the two systems, (Poor Law) social assistance and unemployment insurance. The Act was motivated by a desire to centralize control over social assistance and again to reduce costs; thus it established a unified means-tested system that covered all workers. Levels of support were very meager in the new system, however, and former recipients of unemployment benefits lost out in the change. At the start of WWII, then, the unemployment benefit system was not very generous or extensive; social assistance did however tend to cover the neediest in society.

\textit{The Beveridge Report and the Postwar Expansion of Unemployment Insurance}

The Beveridge Report was published in 1942 in the middle of WWII. It was to serve as the basic blueprint for postwar social security. Named after its lead author, the economist William

\textsuperscript{532} Ibid. p. 22. The change was spurred in part by state promises during the War for better social support after its conclusion, in particular to those who had served, and also by the fear of unrest or socialist revolution (common across Europe at the time). Initially the unemployment insurance program was quite generous for its time, and provided benefits for up to 26 weeks. However due to a sharp jump in unemployment in 1921 the costs of the program rose accordingly and pushed the state to reduce its costs in various ways, including introducing stiffer tests of job search, limiting benefit duration and means-testing benefits (only those with low income or wealth could receive benefits). These measures have clear parallels to the various reforms seen since the late 1970s, as I outline below.

\textsuperscript{533} Crouch, 1999, p. 438.

\textsuperscript{534} This meant that people had to reveal the financial means of all household members and sell any assets down to a level of destitution before receipt of assistance. Ibid. p. 23.
Beveridge, the report laid out a scheme for universal public pensions, health care, and unemployment, sickness and disability benefits. In terms of social security benefits, workers were to pay into the national system with flat-rate contributions and receive in return flat-rate benefits when needed, thus pooling risks across the population. Generally Beveridge thought that benefits should be slightly above a subsistence level and that unemployment benefits should be available indefinitely if the recipient could prove they were looking for work or were in a training program. Furthermore, since some people would likely be poorly covered by the system due to a weak or problematic labor market connection (e.g., women, youth, and the self-employed), there should be a fall-back social assistance program that was means-tested and unrelated to work contributions. But this was hoped to be a minor, residual category, since means-testing created ‘poverty traps’. Thus the Beveridge proposals established a two-tier unemployment benefit system, much as had existed prior to 1934, with unemployment insurance as the first tier (non-means-tested) and social assistance or welfare as the second tier.

There were a few relevant areas in which Beveridge’s proposals were not adopted though. Instead of being available indefinitely, the National Insurance Act of 1946 set the maximum duration of unemployment benefits at a year. As well, the benefit levels for UB were not as high as he had desired. Beveridge had envisioned phasing in pension benefits over a 20 year period but the decision was made by the Attlee Labour government to introduce them immediately and this constrained the level of benefits that could be provided in the other programs (since financing was drawn from the same National Insurance Fund). Thus, in 1948, standard rates of unemployment, sickness and pension benefits were only around 20 percent of an average manual worker’s income.

In part, what is important to note about the initial Beveridge-inspired system is what it was not: benefit levels as well as contributions were not income-related and unions played no role in the administration of benefits. The political significance of the latter has already been noted but the former should be flagged as well: without an income-related benefit level, many in the middle class found benefits less relevant than they would otherwise, and this limited public support for benefits. This is

535 See Hill, 1995, Ch. 3.
536 Private insurance systems adjust contributions especially on the likelihood of insurance payment need (i.e., they are actuarial).
537 Schmid, Reissert, and Bruche, 1992, p. 75. As I show below, the differentiation between these two levels has waxed and waned since this early period but the underlying distinction is consistent (and across countries too; e.g., Canada).
538 Mares, 2006, p. 176. Beveridge had also sought to integrate the administration of unemployment insurance with social assistance in the same government department; however in the end social assistance was delivered through a separate National Assistance Board. They were reintegrated in 1966 under Wilson’s Labour government with the creation of the Ministry of Social Security.
due to the inherent tension in flat-rate UB systems that prevents benefits from becoming generous, in contrast to the logic that can apply to other ‘universalistic’ welfare state programs. In terms of health care, education or pensions, universalism can lead to (upper) middle-class support for generous or high-quality programs.\textsuperscript{539} The same logic cannot apply to universalistic flat-rate unemployment benefits, however, without creating major work incentive or moral hazard problems. For example, a benefit that replaces 50 percent of income for an upper middle-class worker might well be higher than what a lower-class worker could make in the labor market. As a result, flat-rate benefit systems must limit the generosity of benefits to what will incentivize work for those in lower income brackets. There were attempts to address this issue in the later postwar period, as I document below, but they were half-hearted and prone to reversal, as Thatcherism amply proved.

Initially, these concerns were very much secondary to the major benefits that the Beveridge welfare state system had brought about. The TUC and the Labour Party were supportive of the policy principles of the Beveridge system and it was the latter that enacted many of the actual measures under Clement Attlee. Indeed, the TUC at the request of the Labour Party in the late 1940s exercised wage restraint in order to sustain the expansion of the welfare state, recognizing that the social policy benefits were in a way equivalent to wage increases since they no longer needed to be bargained from employers.\textsuperscript{540} In addition, the very low unemployment of the 1950s diminished the salience of unemployment benefits, given the relative ease of finding work. Nevertheless, by the end of the 1950s concern was emerging about persistent pockets of poverty and about how certain benefit levels had failed to keep pace with average wages and costs of living under the Conservatives.\textsuperscript{541} In contrast to the Labour Party, the Conservatives were not nearly as committed to the universalistic welfare state of Beveridge and sought instead to develop a more targeted system of social policy.\textsuperscript{542} They were constrained in moving in this residualist direction though by the popularity of the welfare state programs, their narrow parliamentary majorities, and the threat by the unions of industrial action and higher wage claims (credible in the context of tight labor markets). Consequently the level of the social security benefits relative to earnings was maintained (though not increased) over the course of Conservative rule from 1951 to 1964, while overall social spending increased gradually due mainly to a rising number of old age benefit claimants.\textsuperscript{543}

\textsuperscript{539} This is of course noted by Gosta Esping-Andersen, 1990; and Baldwin, 1990; though see below in terms of pensions.
\textsuperscript{540} Mares, 2006, p. 177.
\textsuperscript{541} Hill, 1990, Ch. 4.
\textsuperscript{542} Mares, 2006., p. 179.
\textsuperscript{543} Ibid. p. 180-187.
Despite these constraints, the Conservatives were successful in shifting the financing for social insurance benefits increasingly from general taxation to flat-rate payroll taxes. Beveridge had recommended that a third of social insurance financing come from general taxation and this was initially followed by Labour; by 1961, though, only 15 percent of financing came from this source.\(^{544}\) The impact of this shift was regressive, since flat-rate contributions of course took up a greater share of lower incomes than higher ones. While this move was condemned by the TUC it was to no avail.

As it turned out, developments in the field of pensions were to eventually mitigate these regressive financing changes. Labour had through the 1950s been developing a plan for an earnings-related pension fund that would supplement the flat-rate benefits currently offered, to be paid for by higher earnings-related insurance contributions.\(^{545}\) The proposal proved highly popular. In reaction the Conservatives adopted and passed (in 1961) a much milder and stingier version of the plan, but one that still included an earnings-related component. This pension reform meant that the structure of earnings-related insurance contributions was already present when discussion turned in the early 1960s to reforming the unemployment benefit system in order to contribute to labor market flexibility.\(^{546}\) Indeed in 1966 Labour passed reforms that introduced exactly this earnings-related component into unemployment benefits, as a supplement to the existing flat-rate benefits. In return for an increase in now mandatory earnings-related social insurance contributions, which would help the financial position of the National Insurance Fund, employees could be eligible for these Earnings-Related Supplements (ERS).\(^{547}\) The push for this reform lay largely outside of the union movement, though, and the step in the direction of earnings-related benefits was mild and limited in its coverage.

It is clear that flexibility was the main motivation behind the labor market reforms of the 1960s, as has already been noted above in the context of the 1965 Redundancy Payments Act.\(^{548}\) In the case of unemployment insurance, the 1966 National Insurance Act was intended to lessen the resistance of higher-skilled workers in particular to redeployment and industrial restructuring. This rationale meant that the Conservatives were also favorably disposed to the reform. After the Labour Party’s official adoption of the proposed reforms in 1963, the Conservatives inserted a similar promise in their 1964 election manifesto. In fact, the main components of the legislation were

\(^{544}\) Ibid. p. 185-186.
\(^{545}\) See Blackburn, 2003, p. 282-283.
\(^{546}\) Clasen, 1994, p. 78-79.
\(^{547}\) This method of financing benefits was still more regressive than funding social insurance through general taxation, though, since earnings-related contribution rates were combined with an upper limit on contribution levels. Hill, 1990, p. 40.
\(^{548}\) See for example, Ibid. and Bosworth and Wilson, 1980.
developed during Conservative rule in the early 1960s, such as in the 1963 report of the tripartite National Economic Development Council. Despite union participation in the NEDC, it was also clear that union interest in, and pressure for, the earnings-related reform was at best weak. As Jochen Clasen writes, “when compared with discussions surrounding other social security matters, the TUC remained almost indifferent to earnings-related unemployment benefits… British unions did not act as a major force behind the introduction of the supplement to unemployment benefits. Once implemented, the TUC did little more than skeptically acknowledge what they regarded as an improvement while at the same time concentrating more on the attack against other changes… In short, there was little indication of a move towards new social security principles as a result of union influence or demands.”

Partly as a result, the new earnings-related benefit supplements were not very generous: they would only supplement existing flat-rate benefits at a maximum level of one third of former earnings for lower paid workers and a minimum of 15 percent for higher paid workers. As well, they only covered a small proportion of the unemployed. Up to the early 1970s less than half of all unemployment benefit recipients received the ERS, which in turn constituted less than 15 percent of all registered unemployed. Moreover, they would not cover people with short spells of unemployment (up to 12 days), they were only provided for a maximum of 6 months, and the way benefits were calculated (in the context of high inflation) meant that benefits were even less of genuine income replacement than the figures above suggest. These features of the new system were in part induced by the general pressure the Labour government felt to mitigate the costs of the new scheme, again in the context of the threat of devaluation. On the other hand, the Labour government significantly increased the level of the underlying flat-rate insurance benefits, including pensions and sickness benefits, and standardized the duration of unemployment benefits to a year (effectively increasing average duration by a few months). This meant that for perhaps the first time since the late 1940s, benefit recipients gained relative to regular employees in terms of disposable income, as intended by Labour’s redistributionist agenda.

549 Bosworth and Wilson, 1980, p. 97.
550 Clasen, 1994, p. 84-85.
552 Clasen, 1994, p. 112.
553 Clasen, 1994, p. 81.
554 Ibid. p. 80. That this featured prominently in Labour calculations is evident in the fact that the introduction of their pension plans was delayed until economic conditions improved.
That the Labour government achieved this despite considerable economic constraints puts in doubt the notion that there existed negligible partisan differences in social policy. Nevertheless, the Conservatives made no attempt to dismantle the reforms introduced under Labour when they returned to power in 1970. There were a few minor administrative changes that weakened the value of benefits, such as a change in the way the relevant contribution year was calculated and the introduction of a three day unpaid ‘waiting period’, but these were just that, minor.\textsuperscript{557} Most of the budget cuts that the Conservatives introduced lay outside of the present area of concern, such as in housing policy and food subsidies. These cuts were part of their attempt to cut taxes, which they had campaigned on in 1970, and the initial cuts were intended to be expanded in subsequent years.\textsuperscript{558} However, as discussed earlier, the Conservative Heath government had also introduced a major industrial relations bill that occupied much of its attention and yet failed to be effective in addressing unemployment and inflation in the manner it had hoped. As a result, both continued to increase steadily in 1971 and 1972 and forced the government into its policy U-turn, in particular as unemployment climbed towards the symbolically powerful 1 million person mark in 1972.

This pushed the government to court the unions in their effort to restrain wage increases. It was always going to be difficult to achieve this, especially given the major row between the two sides over the Industrial Relations Act, but it is useful to consider the major demands put forward by the union movement as the policy ‘price’ for wage restraint: improved and indexed public pensions, expansion of non-means tested (universal) benefits such as food subsidies and family allowances, and lower rent prices, to be paid for largely by higher taxes on capital gains and a wealth tax.\textsuperscript{559} Predictably these demands, “a veritable shopping list of [the TUC’s] favourite demands,” were too much for Heath to accept, and the experience was interpreted by many Conservatives later as showing that the unions were not really interested in negotiating in good faith with them.\textsuperscript{560} But the policy demands are illuminating in that they did not feature any real change in the unemployment insurance system, despite the clear weaknesses of the current ERS system. In the end, the Heath government did move to improve the benefit rates of longer-term claimants such as pensioners, yet it allowed shorter-term benefits such as unemployment and sickness benefits to decline in relative terms.\textsuperscript{561}

\textsuperscript{557} Clasen, 1994, p. 111-112.
\textsuperscript{558} Mares, 2006, p. 196.
\textsuperscript{559} Taylor, 1993, p. 204; Mares, 2006, p. 197-198.
\textsuperscript{560} Taylor, Ibid. See also p. 217-220.
\textsuperscript{561} Clasen, 1994, p. 112. These post-U-turn years also saw the initiation of a number of tripartite bodies that would outlast the Heath government, including the Manpower Services Commission (training) and the Health and Safety at Work Commission (though the latter was formally established by the incoming Labour government in 1974). Taylor, 1993, p. 205.
In the meantime, as the Heath government struggled in vain to tackle stagflation, the unions and Labour Party set out to craft a ‘Social Contract’ arrangement that would trade wage restraint for social policy and thus hopefully avoid the difficulties of the previous Wilson governments.\(^\text{562}\) To formulate this plan, the TUC-Labour Party Liaison Committee was created in these years, with representatives from the TUC, Labour’s Shadow Cabinet, and the Party’s National Executive Committee. The idea was to bind the two ‘wings’ of the labor movement together more tightly than ever before and ensure in particular that the Labour Party would not renege on its commitments once back in power. Indeed, as intended, the unions’ influence on Party policy was at its post-war height during these years, and the Party’s industrial relations policy was virtually written by the TUC. Predictably, industrial relations reform was the first substantive topic to be discussed by the Committee but from mid-1972 onwards the policy remit of the group widened to include industrial policy and the welfare state.\(^\text{563}\) In this latter field, the demands of the TUC were, unsurprisingly, very similar to those it presented to Heath: significant improvements to pension rates, housing reforms to limit rent increases, higher rates for various basic state benefits (e.g., child cash allowances and disability benefits), and a much more progressive system of taxation. Again what is notable here is the absence of any significant demands relating to the improvement of the unemployment benefit system, certainly as it concerned the ERS. For their part, though, the unions’ commitment to wage restraint in the Social Contract was tentative and this foreshadowed many of the problems that were to arise in the 1970s. Given the bitter disputes that had emerged in the 1960s around a statutory incomes policy, the wage restraint envisioned by the Social Contract was to be ‘voluntary’ and even this was often only implicit in the policy proposals drawn up by the Liaison Committee.\(^\text{564}\) In effect, as before, the Labour government was reliant upon the good will and coordination of the unions in the labor market.

Of course, as noted, this reliance was to prove the Social Contract’s undoing for the incoming Labour government. In 1974, a minority Labour government passed many of the measures outlined in the Social Contract and desired by the TUC: the repeal of the hated Industrial Relations Act; immediate increases in the value of public pension payments and other national insurance benefits (around 13 percent); higher food and rent subsidies; and increased taxes on the rich.\(^\text{565}\) Moreover, future pension rates were to be indexed to the increase of average earnings, not prices, which was a substantial commitment (revealingly, this was not applied to unemployment

\(^{562}\) For below, see Taylor, 1993, p. 221-227; see also Mares, 2006, p. 199-201.
\(^{563}\) For industrial policy, which veered sharply to the Left in this period, see Wickham-Jones, 1996.
benefits). Overall, the 1974 budgets were highly expansionary, increasing government expenditure by roughly 12 percent. In short, the TUC acknowledged, “Since taking office the government has demonstrated their commitment to implementing the general approach [of the Social Contract].” Yet the TUC was unable to deliver its side of the bargain. This was not primarily due to an unwillingness to do so, though TUC resistance to statutory measures no doubt made wage restraint much harder in the economic climate of the 1970s. TUC official policy in the early period of Labour rule (1974-1976) was that collective agreements should only seek the maintenance of real wage rates, not increases, except in cases of lower-paid workers (including gendered pay discrimination). Indeed, the wage policy adopted by the TUC in these years was largely egalitarian, advocating that the most wage restraint be exercised by higher paid workers. However this soon generated dissatisfaction among higher-skilled workers who then stopped restraining their wage demands. The big problem was that in the context of a fragmented and now ‘radicalized’ labor movement, the TUC’s advocacy of wage restraint was next to useless.

The Labour government, in coordination with the TUC, tried in three separate ways to elicit the cooperation of the unions: first through social policy expansion and industrial relations gains in 1974; second on the basis of an appeal to the potentially egalitarian effects of wage restraint in 1975; and third with the promise of limited tax cuts for the poor in 1976. Each effort failed to substantially bring down nominal wage increases and thereby inflation. The result was intense pressure on the currency, rising unemployment and deficits, and ultimately a humiliating IMF bailout in 1976. This experience marked a key turning point in British politics. Gradually, the idea that Keynesian expansion could solve unemployment problems was undermined, ‘full employment’ was tacitly abandoned, and the Labour government was forced to adopt elements of austerity beginning in 1975. The crisis also coincided with the emergence of a more assertive New Right discourse attacking the welfare state as promoting laziness and ‘scroungers’.

Despite these pressures, unemployment benefits initially managed to escape cuts under Labour. As has been noted, unemployment benefits had fallen behind pension benefit rates in

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567 In the words of one Treasury official, “The only give and take in the [social] contract was that the government gave and the unions took.” Ibid. It is clear that the TUC tried initially to restrain wages but was unable to. Ibid. p. 234-235.
568 As Mares writes (p. 202), “By 1974, the influence of the general council of the TUC over individual unions was its nadir. In the 1974 bargaining round, the exhortations of the central leadership of the TUC to additional restraint had no impact on the strategies pursued by affiliated unions. The pay settlements adopted were extremely high. According to a survey of 77 wage settlements (covering around 8 million workers), the average wage increase of the period was 32 percent. By December 1974, it was widely accepted that the social contract had failed.” See also Taylor, 1993, p. 234-235.
569 Mares, 2006, p. 203.
570 Clasen, 1994, p. 121. For below see Ibid., p. 115-124.
relative terms for several years, in part due to the emphasis placed on pensions by the TUC. However growing unemployment in 1975 and 1976, along with the activism of the Child Poverty Action Group (CPAG), pushed the Labour government to upgrade unemployment benefits faster than before to try to lessen the gap. Crucial in this respect was the success of CPAG in bringing the TUC on board with these measures; with rising unemployment the issue gained in salience for the unions and they began to push for improvements to benefits (and formed a working committee with the government to work this out). It is interesting to note, though, that TUC support for unemployment benefits applied to the basic flat-rate benefits: both the TUC and CPAG had little interest in expanding the scope of the ERS system. The former appeared indifferent while the latter was actually opposed to expanding it since such benefits would not be received by the poorest. Consequently, over the course of the 1970s, no legislative changes were made to the ERS program and there were never more than 20 percent of unemployed claimants in receipt of the ERS.

By the time the TUC had begun to take a serious interest in unemployment benefits in the late 1970s, economic and political pressures for austerity in the field of social security had grown very strong, not least with new discourse of ‘scroungers’. Previous government reports on the subject of welfare and social insurance benefit abuse or fraud had found that it was a very limited phenomenon, but this did not stop ‘scroungerphobia’ from becoming a powerful line of attack for the Conservatives. When the benefit improvements fought for by CPAG and the TUC were announced in 1976, there was intense scrutiny of the move in the media and the Conservatives claimed that improvements to social benefits had made the difference between wages and ‘the dole’ too small, hurting work incentives. Thus began a prolonged period of unemployment benefits coming under attack. Even the Labour Party backed away from indexing benefits to average earnings again and they strategically used the ‘scrounger’ discourse to justify a lack of initiative in the field, which in truth broader austerity had imposed on them. In order not to unduly anger the unions, however, the government was hesitant in making any sweeping cuts. When Labour lost power to the Conservatives in 1979 after the ‘Winter of Discontent’, though, Thatcher would have no such inhibitions. In sum, the period in the late 1960s and 1970s, when most other Western European countries had dramatically improved the coverage and generosity of their unemployment benefit system, saw only a very modest expansion in the UK, in large part because there was no concerted pressure for it on the part of the union movement.

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571 Ibid. p. 118. If anything, the ERS system was used to legitimate inadequate increases in flat-rate benefits during the early years of Labour rule in the 1970s, since the ERS would automatically ‘top up’ benefits for the unemployed. Ibid. p. 119.
Thatcherism Once More: From Unemployment Insurance to Social Assistance

The reforms to social security under Thatcher profoundly reshaped the unemployment compensation system. Between 1979 and 1988, the Conservatives passed 38 measures which affected unemployment compensation directly or indirectly: the vast majority of these were punitive to those receiving benefits.\textsuperscript{572} Thatcher had taken power determined to dramatically diminish the role of the state in the economy and to reverse relative British decline through tax cuts and social policy reform which would in her view spur hard work, innovation and accumulation. As she put it, her main intent was “to change Britain from a dependent to a self-reliant society – from a give-it-to-me to a do-it-yourself nation; to a get-up-and-go instead of a sit-back-and-wait-for-it Britain.”\textsuperscript{573} This New Right approach to the welfare state meant that the reform of unemployment benefits was driven not just by the need for temporary ‘efficiencies’ in the face of budget pressures but more fundamentally by a desire to compel people to work through the ‘stick’ of destitution. The mentality was clearly aligned with the ‘scroungerphobia’ that had been whipped up in the late 1970s by the Conservatives and others on the Right. Prior to its early reforms, and without the support of empirical data, the Thatcher government maintained that “there is evidence of a good deal of voluntary unemployment affecting the whole country”.\textsuperscript{574} What all this meant in policy terms was that reducing recipients’ benefit rates and limiting the number of people eligible for them was not merely tolerated but often desired, since this would guarantee ‘making work pay’.

There were three main components to the Thatcherite reforms: (a) eliminating the ERS; (b) reducing the value of flat-rate benefits and increasing means-testing; and (c) restricting eligibility for benefits. The first of these was achieved very early in Thatcher’s rule, in 1980, with her second Social Security Act of that year.\textsuperscript{575} As has been noted above, the ERS had never been a widely received benefit (on average 10-15 percent of all unemployed claimants) and it was not a particularly generous either in comparative perspective (with most people receiving a supplement of 15 to 30 percent of former earnings). This meant that there was not a large constituency that would have been intensely affected by the change and, as I have argued, the unions and poverty groups were not especially attached to the ERS. In the context of Thatcherism it is questionable what effect their opposition would have had in any case, but previous interest in and support for the scheme from these groups

\textsuperscript{572} Atkinson and Micklewright, 1989.
\textsuperscript{573} Quoted in Rueda, 2007, p. 204. See also Clasen, 1994, p. 144.
\textsuperscript{574} Clasen, 1994, p. 146. At the same time, by setting aside millions to uncover supposedly widespread fraud, the government propagated the image that many recipients were ‘gaming the system’.
\textsuperscript{575} For below, see Ibid. p. 147-148. And Atkinson and Micklewright, 1989.
likely would have made it more difficult to make the change. As a result, the legislation passed with very little protest, both inside and outside of Parliament (and this was the case with most of the reforms). The UK thereby became the only country in Western Europe without an earnings-related component to unemployment benefits.

The second component of Thatcher’s reforms, reducing the generosity of flat-rate benefits and increasing means-testing, was accomplished in a number of changes that spanned the 1980s. There were two main legislative changes that accomplished this and two more subtle, ‘non-decisions’. In terms of the actual legislative changes, they consisted of making benefits taxable (in 1982) and reducing then eliminating the ‘child additions’ that had previously accompanied unemployment benefits (in 1980 and 1986, respectively). The other ‘changes’ are captured in Jacob Hacker’s concept of drift: “changes in the operation or effect of policies that occur without significant changes in those policies’ structure.” In this sense, Thatcher’s non-decisions effectively diminished the value or coverage of unemployment benefits. Two such ‘non-decisions’ were particularly influential: effectively indexing benefits to retail prices alone (while doing away with mandatory indexation) and failing to lengthen the duration of benefits. The former meant that between 1978 to 1988 flat-rate insurance benefits for a single person had fallen 20 percent relative to average earnings. The latter resulted in an increasing number of benefit recipients being subject to means-testing, as national insurance contributions became less stable in the context of high unemployment and as more recipients exhausted their flat-rate insurance benefits due to much higher rates of long-term unemployment. In short, the Thatcher administration tacitly accepted and promoted the ‘residualization’ of unemployment compensation, pushing ever larger numbers onto means-tested social assistance (see Table 4.9 below).

Finally, Thatcher’s governments effectively blocked a large number of people from receiving unemployment benefits. Again, this was accomplished through a number of small changes. For example, students were made ineligible for benefits during vacation periods in 1986 and 16 and 17 years olds were barred from receiving any kind of benefits in 1988 (except in very rare cases). More

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576 Moreover, in the context of budget austerity there appeared to be a utilitarian logic to the change: given that ERS was received by those with more stable work histories and that these better-off would receive a higher benefit, the ERS should be eliminated because budget resources should be devoted to those most in need. This was, after all, the dominant ‘residualist’ logic that largely governed the UK welfare state, along with most of the other Anglo-Saxon countries. Esping-Andersen, 1990.
577 For below see Atkinson and Micklewright, 1989; and Rueda, 2007, p. 204-205.
581 See Atkinson and Micklewright, 1989, again.
importantly, the required contribution record for UB was doubled from a one year reference period to two years (25 weeks of contributions in both years), making it more difficult to qualify for benefits. Furthermore, those with insufficient contribution records for full UB but who had previously been given partial benefits (of \( \frac{3}{4} \) or \( \frac{1}{2} \) normal rates) were no longer entitled to any UB. These changes, of course, interacted with the ‘non-decisions’ discussed earlier in shifting more of the unemployed onto the means-tested system. Finally, the administration of benefits and recipients was made more stringent and punitive: the ‘availability for work’ requirements were stiffened and the maximum disqualification periods for breaching these requirements were lengthened from 6 to 13 weeks in 1986, and then to 26 weeks in 1988.

Despite these various reforms, spending on the unemployed increased over the course of the early 1980s due to the massive increase in number of unemployed. What should interest us, though, is spending per unemployed individual and here it is clear that Thatcherism implied profound retrenchment (see Table 4.7). In a simulation comparing the generosity of the UB system pre- and post-Thatcher, Micklewright and Atkinson find that only one in five recipients gained from the changes whereas the remainder lost out, many significantly so. Indeed, as Table 4.8 shows, many of the unemployed simply stopped receiving benefits under the new system.

**Table 4.7: Spending on Unemployment Benefits in the UK**

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<tbody>
<tr>
<td>UB Spending as Percent of GDP</td>
<td>1.213</td>
<td>2.065</td>
<td>0.723</td>
<td>0.874</td>
<td>0.328</td>
<td>0.256</td>
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<tr>
<td>Unemployment Rate</td>
<td>5.71</td>
<td>11.3</td>
<td>6.9</td>
<td>8.6</td>
<td>5.5</td>
<td>4.6</td>
</tr>
<tr>
<td>UB Effort</td>
<td>0.212</td>
<td>0.183</td>
<td>0.105</td>
<td>0.102</td>
<td>0.060</td>
<td>0.056</td>
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**Table 4.8: UK Unemployment Benefit Recipiency Rate**

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<tbody>
<tr>
<td>Recipiency Rate</td>
<td>0.89</td>
<td>0.94</td>
<td>0.91</td>
<td>0.76</td>
<td>0.77</td>
<td>0.72</td>
<td>0.56</td>
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Note: The recipiency or ‘take up’ rate is the proportion of the officially unemployed not receiving benefits. Source: Brusentsev and Vroman, 2007.

These Tables also show that the transition of power to John Major in 1990 did not mark a substantial break with Thatcher’s approach towards the UB system. If anything the system became

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582 There were a few measures that worked to the advantage of some UB recipients under Thatcher, such as a change in the rules that allowed a ‘dependent spouse’ to claim a National Insurance ‘addition’ to basic flat-rate benefits. However these favorable changes were very few in number and easily outweighed by the reforms I have detailed above.

583 Ibid.
even less generous and the recipiency rate dropped to new lows, as the drift effects of Thatcherism became apparent in the residualization of the system. As Table 7 illustrates, the proportion of people receiving contributory or non-means tested benefits declined substantially in these years. The culmination of this trend was the introduction of the Jobseekers Allowance (JSA) in 1996, which merged the formerly separate means-tested Income Support benefits (social assistance or welfare) with the contributory UB system detailed above. This change implied retrenchment in several ways: it made contribution-based benefits (CB JSA) equal to income-tested or -based benefits (IB JSA), it halved the maximum duration for contributory benefits from a year to 6 months, it eliminated all remaining dependant ‘additions’ from contributory benefits, and reduced benefit rates by 20 percent for those aged 18-24.

In short, the once three-tiered unemployment compensation system that existed in the 1970s (with the ERS, flat-rate UB, and social assistance [IS]), had been reduced to essentially a one-tier benefit program. As I will show, this made it easier subsequently to lump all the unemployed together in terms of political posturing and for active labor market policy, with those with long work histories being largely indistinguishable institutionally from those with long spells of joblessness and welfare recipiency. What it also meant was that the rates of benefits fell to very low levels, given the tensions noted above between flat-rate benefit systems and work incentives. This was particularly the case since labor market reforms under Thatcher had gradually abolished Wage Councils, union power, and other factors that held wages up at the low end of the labor market, meaning that benefit levels had to decrease yet further to maintain work incentives. In fact, what this wage polarization required was the implementation of various ‘in work’ benefits or tax credits that would ‘make work pay’, and it motivated a stricter monitoring of recipients in terms of job search. Thus, for example, new recipients were required to sign a ‘Jobseekers Agreement’ that would lay out the steps they would follow to find work and their progress would be checked by an Employment Services official on a biweekly basis. These measures only expanded under New Labour, as I detail below.

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585 Financing for the means-tested and contributory JSA remained separate however, with the former being financed from general taxation and the latter being financed from National Insurance contributions. Ibid. p. 32.
586 Clasen, in De Beer, 2010. From 2002 onwards this was overseen by Jobcentre Plus which merged Employment Services and the Benefit Agency that had previously been in charge of unemployment benefits and other cash transfers.
Table 4.9: Beneficiary rates of UB or Job Seekers Allowance (benefit recipients as a percent of registered unemployed), 1980-2005

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<tbody>
<tr>
<td>UB or JSA (contributory)</td>
<td>48</td>
<td>31</td>
<td>28</td>
<td>30</td>
<td>24</td>
<td>14</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>IS or JSA (means-tested)</td>
<td>40</td>
<td>53</td>
<td>60</td>
<td>60</td>
<td>69</td>
<td>73</td>
<td>75</td>
<td>72</td>
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New Labour, the New Deals and the ‘Activation’ of Benefits

Similar to the case of industrial relations and employment protection, the Labour Party underwent a significant transformation in its stance towards the welfare state in the mid-1990s following a fourth successive electoral defeat in 1992.\textsuperscript{587} The Party’s Commission on Social Justice, set up in the aftermath of the 1992 election, came to advocate a welfare state much more focused on returning people to work through ‘activating’ benefits and investing in education and training. This was naturally quite compatible with some Western European visions of social democracy, but it could also be seen in a more American, ‘workfarist’ light: welfare benefit recipients would have \textit{rights but also responsibilities}, including mandatory training or work in public schemes. The inspiration for the programs indeed came from both sources.\textsuperscript{588} This mantra of ‘rights and responsibility’ was of course famously called the ‘Third Way’ and made the official ideology of New Labour. In truth, a workfarist vision had already been introduced to an extent under the Conservatives, who had introduced mandatory training for youth in 1988 and in 1996 had begun in certain test areas to make work placement counseling mandatory.\textsuperscript{589} As it turned out, given the strict spending limits placed on the new reforms, this more coercive element was to dominate in the New Labour reforms. They did however invest more in training, counseling and education (or ALMPs) than the Conservatives had, as I document below.

Central to the New Labour vision was the desire to shed the ‘tax and spend’ image that was attached to the Party. In order to do so convincingly, Gordon Brown promised prior to the 1997 election that Labour would stick to the Conservatives’ current spending levels for its first two

\textsuperscript{587} For below, see Cebulla, 2005; Rhodes, 2000; Clasen, 2007; and Driver, 2008.

\textsuperscript{588} Advisors to Clinton and experts familiar with the American welfare reform experience were key proponents of the new vision of ‘welfare responsibilities’, and in opposition Blair as well as Brown visited the US administration frequently. But academics close to Blair such as Richard Layard were also influential, and Layard drew heavily on the Scandinavian experience with job creation programs and other ALMPs to urge a greater ‘activating’ component to the welfare state and UB. Cebulla, 2005.

\textsuperscript{589} The Labour Party had officially opposed the introduction of the JSA in the mid-1990s, but did not commit to repealing it if elected. Of course, as it turned out, they left it in place and in fact accelerated its implementation. Clasen, 2007, p. 37.
While arguably successful electorally, this meant that early reform efforts were highly constrained in the resources they could mobilize to ‘activate’ the unemployed and reduce poverty. However from New Labour’s perspective this constraint was turned into a virtue, as the new “Welfare to Work” reforms would aim to achieve savings largely by reducing the number of JSA claimants (both through re-employment and disqualification). In practice, this meant that benefit rates were not substantially improved and the balance between ‘rights and responsibilities’ tilted heavily towards the latter. This was apparent in the much-heralded New Deals that Labour introduced in 1998 and 1999, which focused on portions of the population over-represented among the unemployed.

The first of the New Deals was applied to the young unemployed (18-25), followed by the long-term unemployed, and then lone parents, the disabled, those over 50, and partners of the unemployed. These New Deals required that after 6 months on JSA recipients would be given a personal adviser who would be tasked with helping job search activities.\footnote{Driver, 2008.} If a job had not been found within four months of this meeting, recipients would be offered participation in one of four options: a six-month voluntary sector job; a job on an environmental task force; a subsidized job with one day of training per week; or full-time education for those without a full prior basic education. If the recipients refused these options, they could have their benefits cut or lose access to benefits. In general, the mandatory training and work search provisions were applied at first most strictly to the young unemployed and least strictly for lone parents and the disabled (for whom the New Deals were in fact voluntary), with the rest standing somewhere in the middle.

It is unclear just how successful these programs were at activating the unemployed, since their introduction and implementation coincided with an upswing in economic activity that would have reduced the number of JSA claimants in any case. Evaluations conducted in the mid-2000s suggested that participation in a New Deal scheme increased the chances of finding work by around 5-7 percent.\footnote{Driver, 2008, p. 55.} However, the fairly sharp drop in the number of JSA recipients along with falling unemployment over the course of the first term of New Labour allowed the government to claim that its policies had been central to re-employment success (see Table 4.8). This perceived success led to limited pressure for further reform in New Labour's second and third terms, as the economy grew consistently from 1997 onwards.\footnote{Interview with Jonathan Hopkin, LSE.} As we know now, this economic growth was highly
problematic in a range of ways, but this does not change the political dynamics of complacency that it produced: with unemployment at low levels and the budget in surplus, it was difficult to pressure the New Labour governments to do much that they did not want to do.

Regardless, it was clear early on that New Labour had no serious desire to re-establish an earnings-related component to unemployment benefits or sharply increase the generosity of contributory benefits, nor was there any significant pressure from the TUC or other groups to do so. As we have seen, the TUC had never been particularly committed to the ERS in any event but the TUC position in the late 1990s was also that there were many other areas of policy that were of much greater priority, even within labor market policy. For example, addressing the worst forms of poverty through targeted programs, implementing and then increasing a national minimum wage, getting the long-term and young unemployed back into work, and establishing public child care and various ALMPs to facilitate re-entry to the workforce were all seen as more important than increasing benefit generosity or re-expanding the role of the contributory system (including an ERS-type benefit). In a sense, mitigating the ‘worst effects of Thatcherism’ was seen as the political priority of Labour and the TUC bought into this view. In this respect, the TUC considered itself to have won some significant policy achievements early on, in particular the introduction of a national minimum wage (albeit at a lower rate than they desired) and the expansion of ‘in work’ tax credits that helped subsidize the wages of the low paid. The TUC was also largely on board with the New Deal programs, though they expressed skepticism about the quality of the jobs being offered to the unemployed.

This policy stance on the part of the TUC basically continued through the second and third New Labour terms. As is evident from the Warwick Agreement in 2004 and the demands they put to the Labour Party in 2008, the unions were never centrally concerned about raising the generosity of benefits substantially or expanding the contributory system. In the Warwick Agreement, the main concessions won from Labour were in other policy areas, such as pay equity, industrial relations, pensions, industrial policy, employment protection, and slowing public sector reform. A similar

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594 Interview with TUC official, September 2010.
595 Ibid. This is also evident in the main demands of the TUC prior to the 1997 election, which said nothing about improving unemployment benefits. Instead, they highlighted five other areas of desired improvement: the rights of those in small businesses; the right to paid holidays;equal rights for part-time workers; minimum wage legislation and time off for parents. EIRO, 1997, “TUC launches pre-election campaign”.
596 Ibid. See also Driver, 2008, p. 53-54; EIRO
meeting at the University of Warwick in 2008 again focused on other areas of policy, most prominently industrial relations reform.\(^{599}\) This is not to say that the TUC was unconcerned about the level of benefits or that they opposed increasing them; in fact, when Labour did occasionally do so they were supportive of the changes and urged further improvements.\(^{600}\) But it seems fair to say that this was never a central priority for the TUC.

Granted, it is not clear what difference it would have made had it been a priority. As explained in the section on employment protection, the TUC and its affiliate unions had been largely sidelined by the leadership of New Labour and there was little inclination to give them renewed power.\(^{601}\) As Robert Taylor suggests, “it became increasingly apparent between 2001 and 2005 that under Blair’s public policy agenda for labour market reform and employment relations the trade unions were to play only a small and rather marginal role”.\(^{602}\) The priorities of New Labour lay elsewhere, as their spending patterns showed clearly: when the fiscal constraints of Brown’s pre-election pledge expired in 2000 and public spending began to increase again, the main targets for spending by far were health and education.\(^{603}\) Also notable was the investment in the ALMP options associated with New Deal programs, such as training or subsidized jobs. As Table 4.10 shows, New Labour did in fact increase the resources devoted to ALMP substantially per unemployed, though comparisons with Western Europe continued to be unfavorable in terms of spending levels. In the end, spending on the Social Security budget was kept roughly steady over most of New Labour’s rule, thanks in large part to falling unemployment.\(^{604}\) While spending on unemployment benefits (JSA) dropped to a very small fraction of the budget, this was partially offset by rising housing benefit payments, which often accompanied the means-tested benefits (e.g., IB JSA). Indeed, New Labour’s strategy to tackle poverty largely bypassed increasing the generosity of unemployment benefits and instead focused on raising the minimum wage, child benefit rates, and ‘in work’ tax credits (such as the 1999 Working Families Tax Credit), while also reducing unemployment and initiating various targeted schemes (such as Sure Start) that provided services to poor neighborhoods. To its credit, the strategy was partially successful: from a high of 21 percent of households living in poverty in the mid-1990s the number dropped to 16 percent in 2005.\(^{605}\)

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\(^{599}\) EIRO, 2008, “Labour Party gives little ground to unions in policy review.”
\(^{600}\) Interview with TUC official, September 2010.
\(^{601}\) Taylor, 2005.
\(^{602}\) Ibid. p. 190.
\(^{603}\) Driver, 2008.
\(^{604}\) Clasen, 2007, p. 35-36.
\(^{605}\) Driver, 2008, p. 56.
Table 4.10: ALMP Spending Controlling for Unemployment Levels

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<tr>
<td>UK ALMP/Unemp</td>
<td>0.086</td>
<td>0.053</td>
<td>0.074</td>
<td>0.047</td>
<td>0.056</td>
<td>0.109</td>
</tr>
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Note: The figures represent the percent of GDP devoted to each percent of unemployment. Figures close to 1 would indicate a substantial commitment to the unemployed. Source: OECD.

Understanding UB Change in the UK

The relative weakness of unemployment benefits in the UK over the course of the post-war period is theoretically ‘over-determined’ in the welfare state literature. There are a range of theories that could be used to account for its historical frugality: the absence of consistent Left party government (PRA); a residualist tradition of social support (Esping-Andersen); an inability of the union movement to deliver wage restraint (Mares); the prevalence of general skills and strong employer resistance (VOC); and the insulation of Insiders from unemployment (Rueda).606 There is something to these various theories but as this chapter has argued, they miss a central ingredient in a convincing account: the nature and preferences of the British labor movement. Especially the first three alternative theories listed above do not really address the limited interest of the labor movement towards establishing a generous, earnings-related system, as was found in most Western European countries. For example, the PRA view that limited left-party government was the main cause of weak UB fails to account for the fact that for a crucial portion of the postwar period, in the late 1960s and 1970s, when many other welfare states expanded the most, Labour was in power consistently. Moreover, it was not as if the labor movement was pushing strongly in the direction of the ERS and the Labour Party rebuffed these demands due to its weak electoral position; as was made clear, it was the Labour Party that introduced the ERS more or less independently of union pressure (it originated in fact in a Conservative administration). Likewise, the view that the UB system was deeply rooted in residualist tradition doesn’t account for the fact that a move towards earnings-relatedness was made. Traditions could have been broken, as they were in other welfare state fields and in other European countries (e.g., Sweden; Chapter 5). That the ERS was so limited and tentative is largely because the labor movement did not press it further. As was made clear in the discussion of the Social Contract, the TUC had a great deal of influence on Labour

606 See, respectively, Huber and Stephens, 2001; Hall and Soskice, 2001; Esping-Andersen, 1990; Mares, 2006; Rueda, 2007.
Party policy in the mid-1970s, yet there was no push to expand the contributory and earnings-related scheme. It seems it simply was not a priority, despite the rising unemployment of the period.

To be sure, some of the theories noted above try in their own way to account for the lack of pressure from the labor movement to set up a potentially generous system of UB (i.e., an earnings-related system). The two contending theories that have been most discussed in the present chapter, the Insider-Outsider view and VOC theory, can be taken to provide just such an explanation. In the case of Insider-Outsider theory, the view might focus on the relative insulation of Insiders from the threat of unemployment and the relatively low level of unemployment for much of the early ‘Golden Age’ period of welfare state expansion. This interpretation is flawed in a number of ways. First, as I have argued in the section on EPL, UK Insiders were relatively unprotected compared to their Western European counterparts throughout most of the postwar period (who also often faced very low levels of unemployment up to the mid-1970s) and yet they failed to demand the generous unemployment compensation system that the latter achieved. Further, as unemployment began to rise in the late 1970s and certainly in the 1980s, the union movement did not push vigorously for UB reform or the expansion of the ERS system. In fact, TUC opposition to the Thatcherite reforms was quite muted. As Jochen Clasen writes, the “interesting question is how [Thatcher’s] government was able to introduce legislation against ‘not more than ritual protest’ inside, and a lack of activity and public concern outside of Parliament. For example, it was not until three weeks after the start of the Committee meetings [on the Social Security Acts of 1980, including the abolition of the ERS] that the TUC made a presentation to the Secretary of State. Its main concerns were the clauses which concerned strikers and occupational pensioners… The limited protest [of the TUC and CPAG] demonstrated that social security claimants, and the unemployed in particular, lacked any powerful group which had the ability or will to oppose policy changes more forcefully in the interest of the unemployed.”

Second, even when most ‘Insider’ protections had been stripped away by the mid 1980s and 1990s, though more accurately union protections, the labor movement continued not to press strongly for a new, expanded ERS system. As Rueda himself notes, “the degree of ‘Insiderness’ that remains after Thatcher is open to question”; yet as I have suggested expanding UB and re-establishing a dominant contributory, earnings-related system were never a priority for the TUC in

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relation to New Labour.\textsuperscript{608} I will have more to say on this shortly below, however for the time being it is notable that Rueda takes this absence of ‘Insiderness’ as an explanation for why ALMPs were expanded under New Labour. But curiously he does not apply the same logic to UB. It is telling that one of the unique predictions he claims his theory can offer in the case of ALMPs is somehow inapplicable for another ‘Outsider’ program, unemployment benefits.\textsuperscript{609}

By contrast, the VOC argument would suggest that British unions did not press for generous, earnings-related benefits since the country’s weak training regime meant that workers did not invest heavily in industry- and company-specific skills and thus did not demand commensurate income protection (i.e., their ‘general’ skills would allow them to shift employment easily in the case of redundancy).\textsuperscript{610} I find this explanation problematic and insufficient for a couple of reasons.\textsuperscript{611} For one, the early postwar period is full of examples in which employees (and union members) fought strenuously to maintain or protect their jobs with industrial action and ‘restrictive practices’, suggesting that they certainly felt their skills to be specific or not easily transferable.\textsuperscript{612} Indeed, the sharp rise of long-term unemployment in the 1980s (to a level higher than more skill-specific economies such as Germany at the time) suggests that many of the industrial workers ‘shaken out’ by Thatcher’s deep recession had a very difficult time becoming re-employed.\textsuperscript{613} Moreover, certainly at the start of the postwar period, many of the tasks being undertaken by the majority of the union movement were the same as those in comparable jobs on the European continent (e.g., truck drivers, port workers, miners, assembly line production workers, etc.). It is true that better vocational training arrangements in Western Europe eventually created distinct production processes and more specific-skill compositions, as argued by Torben Iversen, but it is not clear that a majority of workers were affected by this early in the postwar period.\textsuperscript{614} And yet it was during this formative postwar period, I have argued, that the distinctiveness of the British UB regime fully emerged; and this regime was susceptible to harsh retrenchment due to the dominance of a residualist flat-rate system, the divorce of the unions from UB administration, and the absence of

\textsuperscript{608} Rueda, 2007, p. 144.
\textsuperscript{609} Rueda, 2007, p. 168-169.
\textsuperscript{610} See for example Iversen, 2005.
\textsuperscript{611} For an excellent recent critique of this VOC view, see Streeck, 2011.
\textsuperscript{612} This is evident from the account of Taylor, 1993.
\textsuperscript{613} Clasen, 1994, p. 169. In the late 1980s, around 40 percent of the unemployed had been out of a job for longer than a year, whereas the figure was 30 percent in Germany. Ibid.
\textsuperscript{614} Iversen, 2005.
corporatist institutions which could have allowed the unions to trade wage restraint for mitigating welfare state cuts, as they did elsewhere.615

These last three points thus constitute the core of my argument about the evolution of UB in the UK, at least when combined with an understanding of the fragmentation of the union movement. A decentralized trade union movement divorced from UB administration never provided the leadership or impetus to develop a generous, earnings-related system, and the subsequent entrenchment of a mostly residual flat-rate system meant that very few middle class people had a clear stake in generous UB, making it relatively easy politically to cut benefits. As well, given the inability of the unions to deliver sustained wage restraint, expansionist welfare state agendas inevitably ran up against the stunted, ‘stop-go’ pattern of British postwar growth, limiting the generosity of other benefits and programs and which consequently became prioritized over UB improvement. As a TUC official put it poignantly, the TUC never pushed New Labour strongly on the question of expanding contributory benefits because there were so many other areas that needed attention or expenditure, including addressing dire poverty.616 These dynamics meant that an already relatively modest system of UB in the 1970s was cut deeply in the 1980s and 1990s and remains well below the generosity of other West European systems. Moreover, the spread of a vast low-wage segment in the British labor market associated with the weak performance of manufacturing (and facilitated by retrenchment) has led to strict limits on the generosity of benefits within the flat-rate system.617 Any substantial improvement of benefits would exacerbate work incentive problems for those in this low-wage segment and this has led to the proliferation of ‘in work’ benefits, more targeted anti-poverty programs, and stricter conditionality and activation. In turn, this has pushed the new Conservative-Liberal Democrat coalition to announce an overhaul of the welfare/JSA system in order to unify these proliferating programs into a coherent structure that preserves ‘work incentives’.618

**Section V: Conclusion**

Labor market politics have clearly differed in the UK compared to most of Western Europe. This has resulted in very different labor market policies on such things as employment protection

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615 There are other problems with this VOC account that I detailed in Chapter 2 but these require a broader, more sustained comparative perspective than I can provide here.
616 Interview with TUC official, September 2010.
618 “Tories hail radical benefits overhaul”, *Guardian*, November 11, 2010. “Welfare Reform: Poverty Trapped”, Editorial, *Guardian*, October 6, 2010. Given the deep recession of the past few years and the massive deficits it has created, though, the planned reform is likely to imply considerable retrenchment when it is introduced in 2013, meaning yet more suffering for Britain’s unemployed.
legislation and unemployment benefits, with the former having quite weak labor market protections relative to the latter. Central to these differing outcomes has been the nature of the trade union movement. In much of North-Western Europe, relatively centralized union movements entered into coordinated bargaining arrangements, participated in the administration of social security benefits, and were integrated consistently in corporatist bodies that gave them a regular, institutionalized voice in welfare state policy making. The practice of doing these things effectively broadened the perspective of the union movements to focus not merely on immediate union members’ concerns, but to also consider the interests of the working-class in a much more encompassing way. In a sense, the nature of union preferences and political behavior changes in these ‘inclusive’ political economies, as argued in Chapter 2. Moreover, their participation in coordinated wage bargaining means that politicians have strong macroeconomic incentives to listen to them in these other areas.

In the UK and other Anglo-Saxon countries, the nature of union organization and political behavior has been different. In these ‘exclusive’ political economies, decentralized or fragmented union movements have not been able to deliver wage restraint in any sustained way and they have not been integrated consistently into corporatist policy arrangements. Combined with their limited or non-involvement in the administration of social policy, this has focused most of their political attention elsewhere, to areas of direct concern. This was especially so it appears in the UK, where the precarious legal position that the unions occupied meant that unions were mainly concerned in the postwar period with retaining their ‘legal immunities’ and freedom to independently negotiate wage agreements. Moreover, the absence of well-established or regularized peak-level corporatist negotiation meant that political demands on the part of unions in relation to the welfare state needed to be made mostly as an ‘interest group’ in the traditional pluralistic way: lobbying and protest. This form of political influence meant, however, that political pressure would tend to be focused on areas of highest, short-term priority for union members: wage gains, industrial relations law, employment protection, and to a lesser extent pensions and health care. In addition, the distinctive relationship between the Labour Party and the unions has reinforced this interest-group approach to politics on the part of the TUC (with the partial exception of the mid-1970s and early 1980s). As suggested by Robert Taylor, “For the most part, [British] union leaders wanted Labour’s politicians to keep their noses out of their industrial affairs and in return they were happy not to

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interfere in what they regarded as political questions… For their part, the Labour party’s leaders were not keen to be overdependent on trade union support.\textsuperscript{620}

The ultimate product of such dynamics in the Anglo-Saxon countries was a residualist form of welfare state with benefit systems targeted at the poorest.\textsuperscript{621} Certain areas of policy that benefited the middle classes were established on universalist terms, such as health care and to a lesser extent public pensions, but other areas in social security have operated mostly on a residualist basis (e.g., unemployment, sickness, disability insurance), while employment protection has been based mostly on collective agreements. It might be expected that these targeted benefit systems would best alleviate poverty and thus effectively cushion a lack of employment. However this ignores the political dynamics associated with them. As argued by Walter Korpi and Joakim Palme: “Because marginal types of social policy programs are directed primarily at those below the poverty line, there is no rational base for a coalition between those above and those below the poverty line. In effect, the poverty line splits the working class and tends to generate coalitions between better-off workers and the middle class against the lower sections of the working class, something which can result in tax revolts and backlash against the welfare-state.”\textsuperscript{622}

Many of these arguments are not entirely new, to be sure, but they do make clear the central importance that the UK’s trade union movement has played (or failed to play) in the development of the distinctive British welfare state. Furthermore, this depiction of British welfare state politics resonates (distressingly) well with the backlash against the welfare state being encouraged by the Conservative-Liberal Democrat coalition currently in power. In the face of massive deficits, there is intense pressure for retrenchment and this will likely weaken the already meager protections for insecure workers. As I noted to begin the chapter, the expectations placed upon JSA recipients have intensified and the coalition has announced an overhaul of the welfare system that is likely to mean a more punitive system welfare provision, whatever the merits of simplifying the system.\textsuperscript{623} Much as in

\textsuperscript{620} Taylor, 1993, p. 132-133. This vision of the Labour Party may come as a surprise to some, given the dependence of the Party on union contributions and votes. But careful scholarship has shown that the nature of the party-union connection was much more ‘arms-length’ in postwar Britain relative to most Social Democratic party-union relationships in Western Europe. See for example, Minkin, 1992, for the classic statement of the ‘arms-length relationship’ thesis. See also Hyman, 2001, 2003; and Upchurch, Taylor and Mathers, 2009.

\textsuperscript{621} Esping-Andersen, 1990.

\textsuperscript{622} Korpi and Palme, 1998, p. 263. This also holds to an extent in the case of employment protection, however in reverse: those who are in strong labor market positions and well protected through collective agreements (i.e., voluntarism) have no strong incentive to establish statutory forms of EPL that would protect everyone at a high level. Certain base level statutory protections may be desirable and achieved, but much beyond that has not been a high priority in ‘segmentalist’ labor markets. Thelen, 2001.

the Thatcher regime, the Conservative Minister in charge of welfare reform, Iain Duncan Smith, has
turned to familiar claims about the laziness of the unemployed to help justify the changes.\textsuperscript{624} The
coalition has also proposed reforming employment regulations, such as introducing a fee for
bringing claims to an employment tribunal and doubling the amount of time of continuous
employment needed to be make an unfair dismissal claim (from one to two years).\textsuperscript{625} A new era of
Thatcherite retrenchment thus likely lies ahead for the UK and one of the least secure workforces in
the advanced industrial world will become even less secure than before.

\textsuperscript{624} “Iain Duncan Smith tells unemployed they should get on the bus to find work”, \textit{Guardian}, October 22, 2010.
\textsuperscript{625} “Employment tribunal reform under debate”, EIRO, 2011. Both changes will naturally lower the number of claims
made and reduce the compensation available to workers in cases of redundancy or firing. Predictably these changes are
supported by the business community (CBI) and opposed by the TUC. In the British political system, though, it is
unlikely that the TUC will get its way as long as the coalition remains in power.
Chapter 5:  
Encompassing Unionism and the Evolution of Labor Market Policy in Sweden

“Swedish employees have one of the highest rates of union membership in the world. Total union membership easily exceeds the combined membership of all the political parties. The unions and their private management counterpart are more than mere interest groups in a particular area. They are powerful social actors whose scope of concern and influence has become almost as broad as that of any political party.” –Hecló and Madsen, 1987, p.19
Section I: Introduction

In popular discourse Sweden is famous for its generous welfare state and for the low levels of inequality and poverty it has achieved. Indeed, Sweden also holds a special place in discussions of the welfare state in academic settings. In academic work the country has become synonymous in many respects with social democracy, and its development and fortunes are watched closely both by those who celebrate and those who reject the social democratic project. Largely because of this intimate association, theorists that have tried to explain the emergence, nature and prospects for social democracy have often focused on Sweden. It is, in a sense, the prototypical case of social democracy. There are a number of good reasons to treat the country in this way: it has roughly double the population of the other Scandinavian countries, all of whom are usually most associated with social democracy; among the Western countries it has had a social democratic party in power most consistently in postwar era, including a spell of uninterrupted social democratic government from 1932 to 1976; and it has often been at the frontier of social policy innovation, even in relation to the other prominent examples of social democracy in Scandinavia. Perhaps most relevant to this thesis, though, is the fact that the country has long had the kind of strong, encompassing labor movement that is associated with social democratic regimes. As such, it furnishes an excellent case to investigate the impact of such ‘encompassing unionism’ on labor market policy.

Despite this, it is also important to keep in mind that Sweden’s experience is only one possible manifestation of such unionism and that the other countries with similar movements have had distinctive trajectories of labor market policy. A careful analysis of Sweden’s particular trajectory can however suggest why countries with similar movements have arrived at somewhat different policy outcomes in the two areas that concern us here, Employment Protection Legislation and Unemployment Benefits. The first three chapters of the thesis have outlined how and why these policies differ across the advanced West, but I provide in Table 5.1, 5.2 and 5.3 again a brief comparison of policy outcomes in the cases of unionism most similar to Sweden: Belgium, Denmark, and Finland. Nevertheless, the primary aim of this chapter is not to compare the cases of encompassing unionism, except to the extent that this can be done implicitly. Instead the aim is simply to understand the evolution of labor market policy in EPL and UB in Sweden through the framework developed in Chapter 2.

626 In political science, for example, the following seminal works have taken Sweden as their main point of departure in relation to social democracy: Stephens, 1979; Korpi, 1983; Esping-Andersen, 1990; Pontusson, 1992; Stephens and Huber, 2001.
Encompassing Unionism, Labor Market Policy, and Competing Theoretical Accounts

The argument I advance in this chapter is that the evolution of labor market policy in Sweden can best be understood by appreciating the unique organization and orientation of the country’s labor movement. In part because of its intimate connection to the dominant Social Democratic Party (SAP), the labor movement developed an outlook when the party was in power from the 1930s onwards that was largely reformist and socially integrative and which sought to mitigate the potential ill-effects of its bargaining on the economy. This eventually led it to accept and embrace centralized bargaining with employers, and this bargaining was conducted in a pragmatic and growth-friendly manner for much of the early postwar boom (e.g., including the delivery of wage restraint and industrial peace). In return, the movement was granted unprecedented influence over government and had many of its policy goals enacted, including many that originated

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627 See for example Mares, 2006, Ch. 3.
within it. Also crucial to the development of the labor movement itself, and thereby labor market policy, was its direct involvement in administration of UB. The Ghent system, where unions effectively run the UB funds, provided not only a highly effective recruitment mechanism for the unions and thus generated a very high rate of unionization, but also integrated the margins of the labor market into the movement and consequently created an ‘encompassing’ policy outlook on the part of the unions that prized generous, effective support for the unemployed. Given this broad outlook, when structural change and the threat of unemployment became more pronounced in the 1960s and 1970s the unions pressed for a highly protective and inclusive system of employment protection legislation that would protect all workers and not merely union members. Notably, in the context of VOC theory, this was resisted strenuously by employer representatives but to no avail. In addition, the labor movement pressed in this period for a highly generous, earnings-related UB system that would attract members and would support the majority of unemployed workers (e.g., through inclusive eligibility conditions and heavy state subsidization). Strikingly, this was on top of unsurpassed investment in Active Labor Market Policies (ALMP), which had existed since the early postwar period and which helped the unemployed remain connected to the labor market. The result of this push on the part of the labor movement was a highly protective system of labor market policy that emerged mostly in the 1960s and 1970s and which still largely exists.

As the Tables suggest, however, there have been some important reductions in the level of labor market protection offered by the Swedish state since the late 1980s. These retrenchments mostly followed upon a very deep economic crisis in the early 1990s, which opened a window of opportunity for groups pushing neoliberal policy solutions. But the roots of this change run deeper than simply a ‘crisis moment’ in the early 1990s. They can also be traced to the 1970s and early 1980s, when employer groups became hostile to many aspects of the ‘Swedish model’, especially after a somewhat radicalized union movement had nearly succeeded in achieving policy measures that would steadily transfer ownership of companies to the unions (i.e., the ‘wage-earner funds’ debate). As a result of this unique and embittering experience, Swedish employer representatives became highly neoliberal in outlook and have often pushed for a dismantling of the various labor market protections established in the 1960s and 1970s. To date they have only achieved partial victories in this struggle, though, testament to the continued power of the unions and to the popularity of the various protections. In addition, the labor movement began to fragment in the period after 1980, as tensions between public and private sector unions grew and the relationship

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with the SAP weakened, in part due to the inability of the labor movement to deliver the same kind of wage restraint that it had previously. These developments thus also set the stage for deep recession and retrenchment in the 1990s, though again even after them Sweden had a relatively protective system of labor market regulation compared to most other rich democracies.

This explanation of labor market policy evolution in terms of ‘encompassing unionism’ challenges, implicitly or explicitly, a number of competing theoretical accounts. It challenges in part the emphasis placed on the prolonged dominance of the SAP in some Power Resource accounts. What is crucial to the development of labor market policy is not primarily partisan dynamics but rather the nature of the labor movement: it was the labor movement that was the central actor in pushing for more extensive labor market protections, and SAP hegemony in Sweden simply made it possible for the labor movement to get most of what it desired politically. As I document, many of the policy innovations introduced by the SAP were first pushed for by the dominant labor confederation, the I.O. Revealingly, in other countries with encompassing unionism such as Denmark, where Social Democratic partisan hegemony was not nearly as pronounced, there still developed highly protective systems of labor market policy. In general, though, my main aim in this chapter is not to critique these variants of PRA, since the Varieties of Unionism view I advance does not deny the past and continuing role of partisanship.

Instead, this chapter is mostly devoted to critiquing the VOC and Insider-Outsider accounts of labor market policy. My critique of the VOC view consists of showing that employers have never been committed proponents of labor market protection through either EPL or UB and that they have in fact been staunch opponents of them for much of the postwar period. This conflicts with the VOC prediction that employers will be favorably disposed to strong EPL and UB in Coordinated Market Economies. In terms of Insider-Outsider theory, its prediction of limited union concern for Outsider policy such as UB and ALMP in the context of strict EPL is similarly inaccurate in Sweden. As should be clear from what I have said above, union representatives have often been the central proponents of Outsider-oriented policy, even after the achievement of strong EPL, and it is largely to their strength and political dedication that its generosity in Sweden is owed. Moreover, Insider-Outsider theory’s prediction of minimal partisan differences on the question of Outsider policy is also inaccurate, despite the undeniable movement of the SAP in the direction of a more neoliberal, Third Way outlook in the past 20 years. The party’s movement in this direction is only relative to a

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629 Pontusson and Swenson, 1996; Upchurch et al., 2009.
630 See for example Huber and Stephens, 2001.
previously quite strident and expansive social democratic outlook however. Important differences
remain in relation to UB between the SAP and the so-called ‘bourgeois parties’ of the political Right
in Sweden.

The chapter proceeds as follows. Section II explains the rise of ‘encompassing unionism’ in
Sweden and charts briefly the broad contours and trajectory of Sweden's postwar political economy,
in order to give some context for the material in Section III and IV. Section III then traces in detail
the evolution of employment protection legislation in Sweden in relation to the theoretical account I
have sketched above. Section IV does the same for unemployment benefits. Section V concludes
and looks briefly at the future of encompassing unionism in Sweden.

Section II: Political Economy of Modern Sweden

The Emergence of Encompassing Unionism

As Chapter 2 explained, ‘encompassing unionism’ as I use it here is composed of four
main elements: a high rate of union membership; a centralized or highly coordinated labor
movement; a relatively cooperative approach to industrial relations and union involvement in
corporatist bodies of institutionalized consultation and negotiation; and a labor movement
characterized by a high level of the unemployed being integrated within it. In this specific sense,
encompassing unionism was only fully consolidated in Sweden in the postwar period. Still, as I
demonstrate below, important preconditions and components of this type of unionism were
established earlier, around the turn of the 20th century and in the interwar period. While the
‘cooperative’ element of encompassing unionism was briefly challenged in the 1970s by a more
radical current, this quickly subsided in the 1980s. During the 1980s the centralization of bargaining
was also challenged, though, and significant decentralization took place. Yet this was only relative to
a previously very high level of centralization and bargaining has remained coordinated between
different union groups for most of the period since (with a brief exception around the early
1990s).  
Encompassing unionism has thus dominated the country’s modern history and largely
persists today, but has faced increasing challenges in recent decades.

Although the specific Swedish variant of encompassing unionism emerged in distinct
political and economic conditions, some of the larger forces or conditions shaping it were shared by
other Northern European countries and this explains a similar type of unionism in these countries.

The explanation I provide for its emergence, therefore, is partially applicable to these other countries. There are three main components to my explanation. First and foremost, as I have noted above and emphasized in Chapter 2, the presence of a Ghent system of UB was crucial to the development of encompassing unionism. Most Western European countries had some variant of the Ghent system in the early part of the 20th century, but many ended this arrangement following the Second World War. There is little careful research to explain why some European countries continued with Ghent arrangements in the postwar period whereas others abandoned them in favor of corporatist or fully state-run systems. What is clear though, as I show in Section IV, is that the Swedish labor movement valued its control over UB administration, in large part due to the selective incentives for membership that such control offered. What is also undeniable is the future role that Ghent systems would play in encouraging high levels of unionization and changing the dynamics of labor market politics, as I have argued in Chapter 2 and 3, especially from the 1950s onwards.

The second part of my explanation of encompassing unionism in Sweden is the unique timing, speed and nature of its industrialization. Sweden experienced a very rapid and late industrialization in the context of a highly literate and homogenous population. This meant a number of things that are relevant here. Foremost, it meant that the Swedish labor movement that emerged quickly in the late 19th century was not heavily influenced by older craft union traditions, which tended to be more liberal in orientation, but was instead heavily influenced by the socialist and social democratic ideology that was spreading at the time. Moreover, given the timing and speed of Sweden’s industrialization, the process of democratization was intimately bound up with the emergence of the union movement from the start, and this created a tight linkage between the Social Democratic Party

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632 Western, 1997, Ch. 4.
633 For a brief analysis of this question, see Rothstein 1992; and Toft, 1995. What is known is that Ghent systems were pushed most assertively by either Labor or Liberal parties in the interwar period, either because their organizational principles were conducive to union strength (with whom Labor parties were aligned) or because they fit with a vision of voluntary self-insurance favored by Liberals. Partisanship alone, though, cannot explain why for example Labor parties chose to move away from such systems in countries like Norway and The Netherlands in the immediate postwar period, whereas others stuck with them. Likely this institutional choice had something to do with the ability of union-run funds to provide sufficient insurance coverage, which Labor parties sought to achieve in the postwar period. Since they had been insufficiently supported by the state during the interwar period in several European countries, perhaps the choice was made that compulsory, state-run systems would in these cases best achieve broad unemployment insurance provision. In fact, the experience of the Great Depression and the major pressure it put on union-run funds (due to high unemployment) convinced a number of other labor movements that they no longer wanted any part of UB administration. Crouch, 1999. The Swedish labor movement clearly felt differently, and valued the role it played in recruiting new members and keeping them in contact with existing ones.
634 The studies that find a significant role for Ghent systems in encouraging high union density are numerous, including Rothstein, 1992; Western, 1997; Scruggs, 2002; Rie, Marx, and Horemans, 2011. To my knowledge, though, very few studies have then used Ghent systems to directly explain policy outcomes, as I do. For one example, see Huo, 2009.
635 Kjellberg, 2000, p. 606-607.
and the main unions. This served to firmly establish the mentality of the ‘two wings of the labor movement’ in Sweden, wherein the unions and the SAP had different tasks but maintained very close contact. As well, because the Swedish state in this period was not highly repressive in relation to the union movement, the latter developed an ideology that was largely reformist in outlook rather than revolutionary, as in some Continental countries and in Southern Europe. Meanwhile, the homogeneity of the Swedish population, both religious and ethnic, facilitated a broad class-based appeal and orientation, and along with high literacy rates contributed to the rapid expansion of the union movement in the late 19th century. By the turn of the 20th century, then, the Swedish labor movement was relatively strong numerically and closely bound up with the SAP in its push for universal suffrage, which it was to achieve immediately following WWI. Lastly, another important effect that Sweden’s unique industrialization had was the high level of concentration of ownership in export-oriented industry it created. As I illustrate below, this facilitated coordinated action on the part of employers which served to centralize labor market relations in Sweden, and this centralization is a key feature of the Swedish labor movement.

The third major force explaining the emergence of encompassing unionism in Sweden was the presence of labor shortage in the period around the turn of the 20th century. Between 1821 and 1930 around 1.2 million Swedes migrated to the US, from a population base of around 5 million in the 1890s. This was one of the highest rates of emigration per capita in Europe during the period. When combined with a relatively rural population and the speed at which the country industrialized, this meant that employers faced repeated labor shortages in the late 19th and early 20th century. The tight labor market strengthened the bargaining position of workers and, in the context of strong union organization, led employers from an early stage to seek a coordinated response to union wage demands in order to prevent being played against one another (whipsawing) and having wages grow excessively. ‘Excessive’ wage growth was particularly worrisome for Swedish employers since the

636 The main industrial union, Metall (1888), was founded the year before the Social Democratic Party (1889) and the SAP subsequently became the main coordinating center for local unions until the Party recommended the foundation of a central union confederation in 1897-1898. Ibid.
637 Huber and Stephens, 2001, p. 117.
638 This feature of Swedish development is made clear in Peter Swenson’s (2002) highly detailed account of the country’s industrial relations system and the political effects that it had. Ronald Rogowski’s (1989) seminal book Commerce and Coalitions also suggests such a pattern in Sweden, though he takes the high rate of emigration in the early 20th century to suggest that perhaps labor was not scarce. On the other hand, he notes that “the massive emigration itself may, by diminishing the workforce and removing precisely its most mobile elements, have contributed in [Sweden and Norway] to a subsequent ‘bottle-neck’ in the supply of labor. In various ways, people behaved as if labor was scarce.” (p. 85) Thus, as Swenson suggests (p. 77, 80), emigration was a powerful force for scarcity, and not inconsistent with it (the wealth and relative advancement of the ‘New World’ could beckon despite relatively tight labor markets).
country’s small economy was highly export-dependent, and because at that early stage other international producers were much more efficient relative to late-industrializing Sweden. Ultimately this dynamic led to a highly centralized pattern of wage bargaining and very strong central organizations representing both employers and unions/employees.

The primary means by which employers enforced wage discipline was the multi-employer and especially multi-industry lockout, which was used to confront what they saw as overly militant wage demands from union rank-and-file. Lockouts worked by throwing large segments of a union’s members out of work and thus quickly draining their strike funds that were used to compensate members during industrial disputes (this was at the time a central benefit of union membership). If coordinated properly, such lockouts could swiftly bring the unions back to the negotiating table with more ‘reasonable’ demands. Coordinated multi-employer and multi-industry lockouts were required in conditions of labor shortage, though, since in localized industrial disputes union funds could often withstand lengthy shutdowns of production. As well, employers in a lockout could potentially lose ground to other non-unionized rival employers, or employers not involved in that particular lockout might poach their best labor, and thus individual or even industry-based lockouts were quite risky. In short, employers faced a collective action dilemma: be beaten in individual negotiations or struggle to contain wage growth collectively. This pushed employers both to develop an official policy of indiscriminate lockouts, where all employers would have to shut down production regardless of whether they were unionized or not, and to create the strong employer associations that could enforce them. By simultaneously shutting down all production the employers could shift the balance of bargaining power back in their favor and prevent getting ‘picked off’ one at a time.

Somewhat ironically, this very practice served to strengthen the nascent union movement. This happened in two ways. First, employers’ resort to mass and indiscriminate lockouts often pushed workers into unions, since during lockouts the union provision of lockout compensation

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640 Swenson, 2002, p. 73-76. For the general argument I present below, see Ibid. Ch. 4 and 5.
641 Olson, 1965. The analogy to union organization is of course all too clear.
642 Swenson, 2002, p.75-76. Arguably these lockouts were successful, or simply possible, given a high level of industrial concentration in Sweden in this period, which facilitated such coordination. This distinguished Sweden from a number of other countries in Europe, including the major industrial centers of Britain, Germany and the US. See Ibid. p. 77-78. The central employers’ organization, SAF, collected dues from its affiliate employers in order to provide strike insurance funds for them during industrial disputes (which were common, given labor shortage, and thus the funds were needed for each individual company –otherwise they would be ‘picked off’ by whipsawing tactics). However the SAF could withhold these funds or levy fines if individual employers broke ranks in terms of wage agreements or if they ceded managerial control and these powers gave the SAF the ability to coordinate lockouts. This is analogous to how the LO gradually gained centralized control over the wage bargaining of its affiliates: control over strike insurance funds.
was an important source of insurance for workers. Second, it forced, or assisted, the union movement to replicate the kind of centralized or coordinated control that employers had set about achieving in their ranks. Strikes or wage demands that risked inciting a massive employer lockout were severely frowned upon by the central union leadership because of the damage they could do to union finances and strength. Central to my argument here, this dynamic meant that militant or syndicalist rank-and-file currents in the labor movement were gradually suppressed and marginalized, since they were often the ones to incite these highly damaging lockouts. This contributed to the emergence of the ‘socially integrative’ or ‘cooperative outlook’ in the labor movement that I have previously noted. In addition, the centralization of the movement through the lockouts facilitated the delivery of wage restraint that I emphasize in my theoretical account in Chapter 2. Gradually the LO gained control over the majority of unions’ strike/lockout funds, such that it could decide which strikes to support and which to push into conciliation (or even enforce significant union concessions), and this gave it a major role in its affiliates’ bargaining as well as national political affairs.

I should make clear that this process did not work itself out rapidly or smoothly. As the work by Peter Swenson makes clear, these developments were intensely contested and suffered frequent setbacks, such as the major general strikes and lockouts that took place in the 1900s and 1920s. Indeed, sizable portions of the labor movement and employers’ groups resisted these moves toward centralized control and conciliation with the other side. Many employers even until late in the interwar period still harbored a desire to ‘smash the unions’, while syndicalist currents remained in the labor movement throughout. Nevertheless, gradually and haltingly these currents of thought were marginalized in their respective organizations, culminating in the Saltsjöbaden agreement in 1938 between the LO and the main employer association, the SAF, which represented a ‘historical compromise’ between capital and labor.

The above account should also make clear that the high rates of industrial disputes or work stoppages were not primarily the result of an especially militant union movement but instead a product of employers’ unique response to tight labor markets. The common references to a highly ‘confictual’ industrial relations climate in early 20th century Sweden thus miss an important element of the historical record, which was the gradual consolidation of social democratic or ‘cooperative’

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643 From a syndicalist standpoint, it ‘forced’; from a social democratic standpoint, it ‘assisted’.
644 Ibid. Ch. 4 and 5.
645 “On average each year between 1919 and 1938, fully one third of workers involved in disputes were either locked out by employers, or else drawn into “mixed disputes” –where responsibility was hard to establish.” Swenson, 2002, p. 74.
tendencies in the labor movement through these large scale industrial conflicts. By providing the rationale and motivation for centralized control of strike funds on the part of the LO, the big industrial conflicts of the period served to strengthen the social democratic actors in the labor movement going forward (and were acknowledged to do so at the time).

The Political Economy of Postwar Sweden: Consolidation and Restructuring of the Swedish Model

The Saltsjobaden agreement proved to be a watershed moment in Swedish industrial relations. By establishing mutual recognition on the part of employers’ and employees’ main representatives, it consolidated the broad cross-class compromise that had been emerging since the early 20th century. This created a highly cooperative industrial relations climate in the postwar period, especially since the labor movement was keen to provide its ally, the ruling SAP, with wage restraint and labor peace in order to encourage rapid growth and better re-election prospects. In return for this ‘labor quiescence’, the SAP introduced in the immediate postwar period some of the central pillars of the Swedish welfare state: universalistic child allowances, sickness cash benefits, and basic pensions.646 It also introduced the National Labor Market Board in this period, which was charged with coordinating the local employment offices and supervising the unemployment insurance system. Crucially, the SAP continued with the strict price controls of the war era and initiated a broad tax reform in this period, both of which reassured the labor movement that its wage restraint would not be for nothing: dividend payments were discouraged, thus fostering re-investment, and a highly progressive system of taxation was created, in line with the egalitarian aims of the LO and favoring the bulk of its membership.

While the LO in the early postwar years was keen on delivering the wage restraint that the SAP requested, there were limits to how much it could or would offer it in the context of full employment. This became clear after the LO urged its affiliates to accept wage freezes in 1949, 1950 and 1951 in the interests of economic expansion and SAP success.647 Although most unions complied with the request for the first two years, when the LO reluctantly made a similar recommendation in 1951 many unions refused to go along. The result was a sharp rise in wages during 1951 of around 7.5 percent in real terms (or 15 percent in nominal terms). While this wage explosion was in part spurred by strong international demand connected to the Korean War, it showed just how tight the Swedish labor market was and how problematic attempts at voluntary

646 Mares, 2006, p. 85.
647 See Ibid. p. 86-88, for what follows.
wage restraint would be if left up to the many different affiliate unions. In effect, LO’s exhortation of wage restraint alone could not be relied upon to deliver labor quiescence, and doing so consistently would likely cause deep tensions within the labor movement. In particular, having to become the sole enforcer of wage restraint would likely alienate many affiliate unions and fundamentally change the very responsibilities of unions from ‘fighting for higher wages’ to ‘permanently adapting wage demands to SAP needs’. This realization forced the LO to reconsider its stance on the question of voluntary wage restraint, and this reconsideration led to the formulation of the famous Rehn-Meidner model.

The Rehn-Meidner model is named after the two main LO economists who developed it, Gosta Rehn and Rudolf Meidner. It was presented in a policy document to the 1951 LO Congress, *Trade Unions and Full Employment*, and was subsequently adopted as official LO policy. Recognizing the limits of unilateral wage restraint on the part of the LO, they advocated a more restrained macroeconomic policy on the part of the SAP to curb wage pressure and to shift the burden of wage moderation onto the state and employers. Instead of engaging in general or ‘indiscriminate’ fiscal policy to stimulate domestic demand and full employment, as in classical Keynesianism, the Swedish state should provide weaker and more targeted stimulus, specifically to areas of the economy not likely to contribute to inflation and in ways that would encourage labor mobility (i.e., an ‘active labor market policy’). In place of domestic demand, wage restraint in the export sector would ensure international competitiveness and allow Sweden to rely upon international markets for strong aggregate demand. Additionally, the model was centered upon a ‘solidaristic’ wage policy of ‘equal pay for equal work’, a long-time policy goal of the LO. In practical terms what this policy meant was that unproductive firms would have to pay roughly equal wages to their more competitive rivals, both within and across industries. However this would put enormous pressure on unproductive firms to either increase productivity or go out of business, and the solidaristic wage policy would thus speed the process of industrial restructuring. As explained by Karl Ove Moene,

“While wage inequality operates as though high-productivity firms were taxed and low-productivity firms were subsidized as wages adjust to local conditions, wage compression works in the opposite way: it is as though high-productivity firms were

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648 On the Rehn-Meidner model, see for instance Ibid., p. 87-93; Huber and Stephens, 2001, 127-131; Upchurch et al., 2009, p. 37-39; Moene and Wallerstein, 2008. There is some evidence that important parts of their ‘model’ were already around in Swedish policy circles and that employers representatives were very much onboard with their main recommendations. See Swenson, 2002, Ch. 12. Nevertheless, it has become standard practice to give them the bulk of the credit for the model, presumably because of how important it was to win over the union movement with the plan (and because they articulated the model most systematically), and thus I continue with the standard characterization.
subsidized and low-productivity firms were taxed. As a result, wage equality implies that inefficient firms close down earlier as newer and more productive firms enter – contributing to the process of structural change that Schumpeter called ‘creative destruction’.  

Such a system would of course inevitably produce temporary dislocation and unemployment for workers, though, as people shifted from inefficient to efficient firms. Consequently what was needed from the state, argued Rehn and Meidner, was effective support for such displaced workers in the form of an ‘active’ labor market policy that would facilitate them back into work quickly. After some initial hesitancy with the plan, the SAP eventually decided in the mid-1950s to endorse it and provide the requisite complementary policies: restrictive fiscal policy along with extensive ALMP and generous social housing to facilitate labor mobility.  For instance, in the span of four years, from 1955 to 1959, spending on ALMP more than doubled.

In the meantime, for the model to work as desired, wage restraint and a gradual compression of wages needed to be achieved. The only way to do this was to centralize wage negotiations even further and to bring all union affiliates under the umbrella of the wage deal signed in the exposed sector. While most of the LO supported this centralization in principle, the metal workers’ union Metall and the construction workers’ union were resistant, since their wages were generally higher than those of other workers and thus their wages would be most squeezed by ‘solidaristic bargaining’. At the insistence of the main employers’ organization (SAF), though, concerned as they were with international competitiveness and the danger of another wage explosion as in 1951, negotiations were centralized after 1955. Between 1951 and 1955 relatively weak growth had moderated wage gains, but with strong growth in 1955 it became clear that there was danger of a wage explosion once more. Following 1955, then, wage negotiations became extremely centralized: first the LO and SAF would negotiate a wage agreement for the coming year and then the rest of the unions, including the white-collar confederation (TCO), would follow along with (ideally) minor deviations. Officially, this procedure was supposed to allow lower-income union members to gradually gain at the expense of higher earners, as these groups were partially exempt from the

Swenson, 2002, p. 276-277. As I demonstrate below in the case of EPL and UB, much of the impetus behind the reform and expansion of the Swedish system of labor market protections came from the union movement, not the SAP. This is also the case in terms of Rehn and Meidner’s advocacy of an ‘active labor market policy’. In fact, Per-Edvin Skold, the SAP finance minister at the time, initially reacted to their report by calling it “the dumbest thing I’ve read”! Ibid., p. 276.
Mares, 2006, p. 92-93. ALMP spending would remain high for decades, thus setting Sweden apart from almost all other industrialized countries in its commitment to ALMP. See the tables in Chapter 1.
baseline wage increase negotiated by LO-SAF. However in practice this did not always come about due to the prevalence of ‘wage drift’ in higher wage sectors: i.e., local wage agreements above the national baseline. Once again, in the context of very tight labor markets and solidaristic bargaining, such wage drift was very difficult to contain, given employers’ desire for labor peace and need to hold and attract the best possible workers with higher wages.

Despite these strains within the system, centralized bargaining proved very effective at generating rapid growth and industrial restructuring in the decade or so after 1955. Once the SAP had fully bought into the Rehn-Meidner model and provided the appropriate accompanying policy, the system functioned roughly as it was intended, though wage compression never proceeded as far as some in the LO desired. This period in the 1960s “marked the high point of social democratic hegemony.”653 Wage moderation was consistently delivered by LO, economic growth was strong, and the welfare state expanded rapidly throughout. Government expenditure as a percentage of GDP increased from 30 percent in 1960 to 44 percent in 1970, while social spending grew from around 16 percent to 25 percent in the same period.654 Indeed, this decade is when the classic corporatist “political exchange” outlined in Chapter 2 had its clearest expression in Sweden: i.e., labor quiescence traded for welfare state expansion.

However the system began to experience growing tensions and instability in the late 1960s. The Rehn-Meidner model was challenged from different directions within the labor movement itself. On the one hand, frustration grew within the LO over the modesty of existing gains in wage compression, in large part because of continued widespread ‘wage drift’, and over the powerlessness union members felt in the workplace in the face of employers’ absolute managerial control (explained below in the section on EPL).655 There was also discontent with the degree of wage restraint exercised by the LO, which was seen as being excessively acquiescent in relation to employers. On the other hand, various white-collar and professional unions (e.g., SACO) began to challenge the wage deals negotiated by the LO on the grounds that their wage growth was too weak given the growing tax burden that fell disproportionately on them.656 In a direct challenge to LO policy, they sought to sign independent wage agreements that would commit to wage moderation along LO lines but only once tax increases had been factored in. More generally, the Rehn-Meidner model was running into difficulties in the late 1960s as the competitive position of the country’s

653 Upchurch et al., 2009, p. 38.
654 Mares, 2006, p. 95-96.
656 Mares, 2006, p. 96-98.
traditional export sectors deteriorated and as jobs became scarcer in them as a result of heightened rationalization and industrial restructuring. Instead of jobs emerging rapidly in other sectors to replace these lost jobs, though, as had happened for most of the postwar period, employment in private industry began to fall and full employment was only assured by a growth in public sector jobs (and participation in various labor market programs).657

In response to these various challenges, a commission was created in the late 1960s to chart a sustainable wage bargaining system going forward, with a representative from each of the major labor market organizations: the LO (Claes-Erik Odhner), SAF (Karl-Olof Faxen) and TCO (Gosta Edgren). The commission, known as the ‘EFO group’ after the last names of the main participants, recommended that future central wage agreements should be based on the competitive position and productivity growth of the export-sector. The Chairman of the LO, Arne Geijer, had earlier favored involving the state in wage bargaining through an “incomes policy”, but his position was ultimately sidelined.658 With small modifications, the EFO recommendations were embraced by the LO and were put into practice in the wage bargaining round of 1969. However, the three-year wage deal that was signed in that round turned out to be a highly restrained or moderate one, in part due to uncertainty about the turbulent international economic environment, and this prompted several unofficial or ‘wildcat’ strikes in 1969 and 1970.659 There were a range of motivations behind these strikes, some of which were local and ‘qualitative’. But the main one was a frustration with what was perceived as ‘excessive’ wage restraint on the part of LO from the rank and file. This frustration was especially pronounced given that workers saw employers increasing direct investment abroad in this same period, and thus there was a sense that those highly productive firms that had benefited from solidaristic bargaining and wage restraint were not holding up their side of the bargain.660

In international terms, the strike wave in Sweden at the turn of the 1970s was rather muted.661 However it demonstrated to the labor movement leadership and their political allies the extent of disenchantment with the current arrangements. This subsequently pushed them to advocate more strident reform proposals in the areas of employment protection, social insurance, worker codetermination, and even ‘economic democracy’: establishing ‘wage-earner funds’ that would gradually transfer ownership of companies to the unions through a yearly issuance of new,

657 Pontusson, 1987, p. 16.
658 This stance is striking when compared to the position of the TUC in Britain at the same time which strongly, even vociferously, resisted state incomes policy. See the UK case study.
661 Olsson, 1991, p. 32.
union-designated stock. Unable to deliver significant and steady real wage increases, as it had previously, and in the face of intensifying industrial restructuring, it appears that the LO and TCO decided to try to compensate and shore up internal support through more ‘qualitative’ improvements such as those mentioned above. As I detail in the sections on employment protection and unemployment insurance, these improvements proved to be substantial, and not to the liking of the employers. What was most contentious for employers, however, was naturally the wage-earner fund proposal. This struck at the heart of the historic ‘class compromise’ that underpinned the Swedish model in the early postwar years. Curiously, some of the major proponents of the wage-earner funds, including Rudolf Meidner, thought that a properly designed reform might in fact prove acceptable to employers.\footnote{See Pontusson, 1987, p. 17-18. See these same pages for what follows.} In this sense, important elements of the plan kept in accordance with the labor movement’s longstanding pragmatism: the gradual transfer of ownership would only affect newly created wealth and would encourage wage restraint and worker cooperation at the firm level by integrating them into ownership and ensuring that ‘excess’ profits obtained through wage restraint would benefit them as well. Indeed, employer representatives’ initial response to the proposals was guarded, if skeptical. Yet quite quickly, as the LO’s push for the plan intensified in the late 1970s, employers turned staunchly against the idea and dashed the initial hope for cross-class dialogue. This episode proved to be a crucial moment in class relations, as employer groups subsequently became highly neoliberal in outlook and sought to undermine the Swedish model in various ways.\footnote{The radicalization of employer groups in a neoliberal direction is usually traced to the period surrounding the debate over the wage earner funds from 1978 to 1982. See for example, Pontusson and Swenson, 1996, p. 230.}

In the meantime, as these various reforms were passed under the SAP’s waning hegemony, the bargaining system experienced deep fractures and stopped delivering the kind of consistent wage restraint it once did. There were two main forces that generated these problems.\footnote{See for example Mares, 2006, p. 100-104; Olsson, 1991, p. 29-35; and Pontusson and Swenson, 1996, p. 232-235, for what follows.} The first was the growing clout within the labor movement of public sector workers. After being given full rights to bargain collectively and strike in 1965, public sector workers gradually began to constitute a larger and larger part of the labor movement as the welfare state expanded rapidly during the 1960s and 1970s. For example, from an 81 percent share of total union membership in 1950, the LO’s share dropped to 64 percent in 1980, thus making union coordination much more difficult. Moreover, public sector workers often started at a lower wage rate in the late 1960s relative to the private sector unions and thus they sought to increase wages faster than the former desired in the early 1970s. In
part, this wage differential was due to wage drift being far more pronounced in (wage-based) manufacturing than in the (salary-based) public sector: according to one estimate it was three times higher. For their part, private sector LO workers resented the better social policy benefits received by the public sector unions and the limited ‘rationalization’ and dislocation they faced, given that they were not exposed to international competition. Higher wage drift, in their eyes, was their reward for increased productivity and the workplace sacrifices they may have made for it, and thus attempts to compensate public sector workers through automatic ‘wage-drift guarantees’ were unfair. As a result of these mutual resentments, tensions grew in intensity in the early 1970s as the public sector unions refused to go along with the LO-led wage guidelines. The result of this inter-union rivalry was wage growth that exceeded what the EFO approach would have recommended and inflation rates rose to relatively high levels (though not compared to many other Western countries during this period; Sweden’s inflation was middling for most of the turbulent 1970s).

High wage growth was also spurred by another force: growing taxation. As tax rates rose through the 1960s and early 1970s to pay for the expanding welfare state it was difficult for many union members to make progress in real, after-tax disposable income, especially as higher inflation pushed them into higher tax brackets. This pushed many of them to seek higher wage increases to compensate for the lost take-home pay of taxes. Initially, as I noted, this issue bothered mostly white-collar and professional unions. But shortly after 1970 members of the LO also began to complain of the problem. This prompted a shift in the LO’s position, who now sought to control, along with TCO and SACO, the growth of marginal tax rates and to take tax rates into account during wage negotiations. Thus various deals in the mid-1970s were worked out between the unions and the SAP to try to provide modest tax relief in return for wage restraint. Yet again, though, these efforts were initially frustrated by the inability of the LO to deliver fully the wage restraint it promised: once more in 1975 and 1976 the public sector unions negotiated independent wage deals above what the LO recommended and wage drift reached a postwar peak in tight labor markets.

Not coincidentally, the SAP lost power for the first time in the postwar period in 1976, with a coalition of centrist and right parties forming a government under the Center Party’s Thorbjorn Falldin. In part this was a response to ongoing problems in the economy, but it was also connected

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666 Cameron, 1984. These tensions between private and public sector unions also impinged on the preferences of employer groups for centralized bargaining. When public sector unions demanded compensation for wage drift in the private sector, especially in engineering, a significant part of the purpose of centralized bargaining for employers, i.e., national wage restraint, was weakened or lost. Pontusson and Swenson, 1996, p. 234.
667 For below, see Mares, 2006, p. 100-104.
to skepticism about the wage-earner funds the SAP had begun pushing. Tellingly, though, government policy did not change dramatically during the six year tenure of the ‘bourgeois’ coalition: welfare state expenditure remained high and most programs were not subjected to serious retrenchment or reform. Instead, tax changes were introduced that shifted costs in a more regressive direction (e.g., an increase in value-added tax from 18 to 23 percent) and public deficits grew rapidly as the government shied away from cuts.  

This hesitancy to cut programs was a product of three things: very narrow parliamentary majorities, which made austerity dangerous; high levels of public support for the welfare state; and the government’s dependence on the cooperation of the unions, especially the egalitarian LO. The last point is of course especially revealing in the context of Varieties of Unionism. When unions were depended upon to provide wage restraint, and had proven in the past that they could deliver it, governments had strong incentives to tailor policy to be acceptable or tolerable to the main union confederations. This is precisely what occurred in the late 1970s, when the LO managed to re-establish its control over wage developments and deliver wage restraint in the context of devaluations that fostered Swedish competitiveness.

However this renewed control over bargaining on the part of the LO remained highly contested in the following years, and eventually this led to a deep crisis in the ‘Swedish Model’. By 1980 strains between the different union confederations had emerged again and employers grew much stiffer in their resistance to union policy demands. Perhaps more importantly, engineering employers had begun to challenge the central bargaining authority of both the SAF and LO. From 1983 onwards, the engineering employers’ representative, VF, succeeded in gradually decentralizing bargaining by splitting off from the centralized negotiations of LO and SAF. VF’s frustration with centralization, of which it had once been a central proponent, was the result of intensified wage leveling beyond what it had envisioned or desired, both within and across industries. Intra-industry wage leveling had not previously bothered them in the early postwar context, but with the rise of new post-Fordist production techniques they began to see small wage differentials within firms as a

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668 See Ibid. p. 104-105. The government also chose to subsidize several declining industries that were being hammered by international competition. Huber and Stephens, 2001, p. 241.
669 In a 1980 survey, 57 percent of respondents agreed with the statement that “considering the public benefits provided by the government, taxes are not too high.” Ibid.
670 Wage restraint is still required in the face of devaluation because bargaining actors can simply seek to compensate for lost purchasing power internationally with higher nominal wage claims, thus ‘eating up’ the competitiveness benefits of devaluation.
671 Pontusson and Swenson, 1996.
hindrance to productivity improvements.\textsuperscript{672} Wage leveling across industries, meanwhile, bothered them to the extent that wage increases in the public sector kept putting upward pressure on wages in the private sector, as workers in the latter tried to maintain the wage differentials that existed in their favor. In short, centralized wage bargaining had ceased to work in the way that VF had envisioned it. Consequently, in 1982-83 VF broke off from the central bargaining and negotiated its own deal with Metall by offering the latter a range of industry-related concessions (e.g., reduced working hours and improved protection during restructuring and temporary dismissal).\textsuperscript{673} Given Metall’s own frustration with the public sector unions, and the industry’s relatively high wages, tempting it out of central bargaining was not as difficult as it might otherwise have been.

Thus while a number of central wage agreements were signed in the remainder of the 1980s, the specific constraints they imposed on lower levels of bargaining became progressively weaker. Decentralization thereby arguably contributed to rising inflation, even as overall real wage moderation was achieved, and the state was increasingly required to intervene in central bargaining to achieve acceptable macroeconomic outcomes.\textsuperscript{674} The phenomenon of inflation alongside real wage restraint was also in part a product of financial liberalization during this period, which set off a consumer and real estate boom in the late 1980s and pushed up consumer and asset prices in the process. Yet the inflation soon began to undermine the competitiveness gains that had been achieved by devaluations in the early 1980s. These devaluations had been orchestrated by the SAP after it regained power in 1982, as they sought to follow a “Third Road” between neoliberal austerity and classical Keynesianism: wage moderation and competitiveness would be achieved through fiscal restraint and by devaluing the Swedish kroner. For a while this strategy seemed to work well, generating moderate growth, low unemployment and balanced budgets. The Swedish welfare state had also expanded to its peak size during this period, and provided some of the (if not the) most extensive social services and generous social insurance programs in the West. However beneath the surface, all was not well. In particular, Swedish manufacturers had begun to lose international market share rapidly in the late 1980s as inflation and non-wage labor costs ate into their cost competitiveness: for example, between 1988 and 1991 they lost 17 percent of their international

\textsuperscript{672} The new techniques required that workers be highly motivated on their own, such as in ‘team work’, and this pushed firms to increasingly adopt pay schemes that were non-uniform and tied to productivity improvements. This shift in production techniques was represented in the decline of traditional piece-rate incentive systems to new forms of bonuses and profit-sharing. See Ibid. p. 235-239.
\textsuperscript{673} Mares, 2006, p. 113-114.
\textsuperscript{674} Ibid., p. 114-115.
market share. This also accelerated the foreign direct investment of Swedish firms into Continental Europe, which had been increasing steadily since the 1970s.

When the world economy headed into recession in 1990, then, the Swedish economy entered into a crisis unprecedented in the postwar period. The downturn was compounded by the bursting of the consumer and real estate bubble of the late 1980s and by the foolish decision of Sweden’s main political parties, including SAP, to defend the value of the kroner in international markets. This decision to defend the kroner was tied to an embrace of a more ‘non-accommodating monetary policy regime’ on the part of the SAP and the other bourgeois parties, which saw continual devaluations as inappropriate in the new globalized era. In other words, price stability (low inflation) would be ranked above full employment to establish the Swedish currency’s credibility. However, as the industrial relations system struggled to adjust to this new regime, the decision served to substantially exacerbate the slump and resulted in a major contraction of the Swedish economy of 6 percent, as well as a massive increase in unemployment from 1.8 percent in early 1991 to 9.8 percent in 1994.

As I have noted above, and as I detail below, this deep economic crisis provided a window of opportunity for major retrenchments to the welfare state, especially in the context of an electoral defeat for the SAP in 1991 that brought in another ‘bourgeois’ coalition. In the face of large deficits, significant cuts were made to all of the social insurance programs (old-age, unemployment, sickness, and disability insurance), as well as health spending, housing subsidies, and so on. Many of these cuts were accepted by the SAP, although they were not as enthusiastic in their commitment to them as the parties of the Center-Right (see Section IV). The deep cuts soon brought about a public backlash, however, and the elections of 1994 brought the SAP back to power once again. Despite significant pressure from the LO and other unions to reverse many of the cuts, the SAP held firm in most policy areas, continuing the policies put in place by the Center-Right coalition. There were a few notable exceptions, as I document in the section on UB, but in general the SAP was keen to prove its ‘fiscal discipline’ after having tarnished its image as an effective economic manager in the run-up to the crisis.

A return to growth in the late 1990s and consecutive electoral victories for the SAP in 1998 and 2002 contributed to a gradual re-expansion of the welfare state, but only very gradually and timidly. Even after the significant cuts of the mid-1990s, Sweden still had one of the most generous

675 Ibid.
676 Upchurch et al., p. 45.
welfare states in the world, so this absence of strong re-expansion needs to be put in context. Nevertheless, a portion of the timidity of the SAP should be seen as the result of its gradual distancing from the LO over the course of the late 1980s and 1990s, as it gradually accepted some neoliberal or ‘Third Way’ ideas. While informal ties remained quite close between the ‘two wings of the labor movement’, by the mid-1990s the SAP had ceased to rely upon the unions to the same extent as in the early postwar period, both in direct financial ways and because growing bargaining decentralization, the non-accommodating monetary regime, and higher unemployment rates undermined the possibility and necessity of corporatist ‘political exchange’. Thus, although the LO continued to push for a stronger re-expansion of the welfare state following the crisis and a more complete repudiation of the bourgeois coalition’s reforms, the SAP resisted these overtures to a large extent. As I demonstrate, this is particularly clear in the case of unemployment benefits and employment protection for temporary workers, where Sweden is no longer nearly as generous or strict, respectively, as it once was (and despite LO pressure for re-expanded labor market protections).

In this broader trajectory for the labor movement, the election of a Center-Right coalition in 2006 under the leadership of the Moderate Party’s Fredrik Reinfeldt simply intensified the modest political marginalization of the LO and TCO occurring under the SAP. Once again, though, this ‘marginalization’ must partly be placed in proper context. For one, any ‘marginalization’ of the union movement can only be very partial or constrained, given that union membership rates still amount to between 70 and 80 percent of all workers and the unions remain respected actors in Swedish politics. In addition, the Reinfeldt-led coalition was able to get into power and win re-election in large part by reconciling itself to an extensive Swedish welfare state, in a way that the Center-Right parties clearly had not in the early 1990s when they attempted a radical overhaul. It is true that there have been important and controversial reforms in the area of unemployment benefits under Reinfeldt, for instance, as I document. However, so far, there has been no attempt to overhaul the employment protection system, as major employer organizations have been pushing for intensely, and many other features of the welfare state have been only mildly reformed.

Understanding and explaining this curious divergence in policy outcomes under Reinfeldt, as well as the broader trajectory of labor market protections in Sweden, is the task of Section III and IV, to which I now turn. What should be clear from what I written above, though, is that the

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679 Allern et al., 2007.
Swedish labor movement has been at the center of Swedish politics; that its preferences have mattered a great deal in the evolution of the welfare state; and that its varying ability to engage in corporatist ‘political exchange’ is crucial to understanding the rise of, and recent challenges to, the Swedish welfare state and its protective labor market regime. In the next section I set out this argument in the case of EPL, while the following section does so for UB.

Section III: Employment Protection Legislation

Early Developments

National legislation on the question of employment protection did not emerge until relatively late in Sweden (see Table 5.4). This delay can be largely explained with reference to the foundational agreements or ‘compromises’ made between the LO and SAF in the first decade of the 20th century. As I noted in Section II, rapid Swedish industrialization in the late 19th century had produced a powerful trade union movement in the context of tight labor markets and this presented a tricky challenge to employers keen to keep wages down. Not only was the movement strong but it was also relatively unified, represented by the founding of the dominant LO in 1898. Moreover, the union movement was explicitly political: in 1902 the LO organized a general strike in favor of universal suffrage. That same year, employers responded to this growing union power and assertiveness through the creation of both VF and the SAF. Soon employers began to organize lockouts to confront the growing union movement and to contest the whipsawing tactics that were being used against them to raise wages. These lockouts proved to be quite successful. The first two major lockouts, in 1905 and 1906, thus produced historic compromise agreements: the Engineering Agreement and the December Compromise, respectively. These compromises consisted of the employers acknowledging the unions’ right to organize and bargain, as well as the central representational legitimacy of the LO, in return for unions’ recognition of employers’ total managerial authority, particularly in relation to hiring and firing. In other words, employers could hire and fire at will, and this precluded the possibility of ‘closed shops’. This was the biggest concession on the part of the union movement, and it was obviously crucial to securing the compromise agreement.

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681 What follows draws upon Kjellberg, 2000; Van Peiipe, 1998; and Swenson, 2002.
682 It is little surprise, then, that it came to be increasingly challenged by the unions, once their legitimacy was in little doubt and they were politically stronger. Emmenegger, 2011, p. 280.
The December Compromise shaped developments in the field going forward, given the political importance of its two signatories. While a number of attempts were made to introduce general legislation on hiring and firing rules in the interwar period, none of any major substance succeeded in passing. There were some collective agreements signed outside of the SAF-LO arena that introduced the requirement of ‘reasonable grounds’ for dismissal, but the SAF successfully maintained a firm stance among its affiliates against incursions on absolute managerial authority (the famous “paragraph 23” of the SAF charter). As a result, even the Saltsjobaden agreement between LO and SAF in 1938 introduced only minor, procedural limitations on dismissals. Under the terms of the agreement, employers would have to announce dismissals in advance to the unions and if the unions wished, consultations would take place, including potentially a conciliation procedure before the bipartite Labor Market Board. Apart from this minor constraint from 1938 onwards, though, employers were free to hire and fire as they wished in the first half of the 20th century, as the labor market organizations dominated the ‘policy space’ in a quite liberal way.

The Emergence of the Employment Protection Act (LAS)

To be sure, this liberal employment protection regime fit well with the Rehn-Meidner model that was implemented in the early postwar years. As I have noted, the model was premised upon high levels of labor mobility, as workers from declining or obsolete firms and industries would be shifted into successful, high-productivity areas of the economy as solidaristic wage bargaining squeezed the former. Partly as a consequence the LO did not strongly challenge the basic compromise of Saltsjobaden in the early postwar years, and naturally neither did the SAP. In the early 1960s, however, frustration began to grow with the high levels of mobility demanded of workers in the Rehn-Meidner set-up. A number of societal changes contributed to this rising frustration: growing female employment and dual-earner couples; increasing homeownership; and falling wage differentials (as per Rehn-Meidner). Each change, in obvious ways, made workers less willing to move around for the sake of industrial restructuring. This dissatisfaction was most pronounced in manufacturing, which had experienced the most dramatic and sustained restructuring. Thus a more radical current emerged in the labor movement that criticized the form of the Saltsjobaden compromise, not only on the left (as in Communist currents) but also from the center (as in the Liberal People’s Party and the TCO’s calls for ‘industrial democracy’). Seeing itself

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685 What follows is based on Emmenegger, 2011.
being squeezed on both sides, the LO and the SAP began to push for stronger restrictions on employers’ hiring and firing prerogatives.

At first the LO pushed for job security provisions through collective bargaining. They achieved some limited successes on this front. In 1964, the original LO-SAF agreement of 1938 was amended so that employers had to now present ‘reasonable grounds’ for dismissal and give roughly two weeks’ notice. As well, dismissal conflicts could now be submitted to the Labor Market Board for binding arbitration. However it soon became clear that employers were not willing to give up their managerial prerogatives in collective bargaining much more than that. Following the strike wave of the late 1960s, then, which constituted a clear challenge to the traditional union hierarchy, the LO and TCO started pressing for public legislation on employment security. Employer groups were strongly opposed to this fundamental rupture of the Saltsjobaden compromise but soon realized that they would have to moderate their opposition in the face of an overwhelming majority in parliament that supported such measures. While they attempted to use managerial prerogatives as a bargaining chip in negotiations over the Employment Protection Act of 1974 (LAS), the changes that were introduced in the Act went well beyond what they were prepared to accept and thus they resented it from the start. Two things of theoretical relevance should be emphasized here: the emergence of strong EPL in Sweden came about in spite of concerted employer resistance (pace VOC), and that the push for the legislation was initiated from within the labor movement (thus suggesting the necessity of understanding union preferences, as in Varieties of Unionism).

It is clear that the LAS “marked a turning point in the history of Swedish labour law.” No longer were labor relations to be regulated merely through collective agreements between the social partners; the state had intervened and intervened decisively on the side of the unions. Table 5.4 shows this clearly in a comparative context. Moreover, the legislation applied in principle to the entire labor market, protecting union and non-union members alike. The political history of Swedish employment protection since 1974 has thus centered on the contestation and renegotiation of the

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686 Again, see Emmenegger, 2011, and Van Peijpe, 1998, for what follows.
687 Since the TCO was a proponent of employment protection legislation, political parties in the center of the political spectrum in Sweden tried to gain its support by also supporting legislation (e.g., Liberal People’s Party). As argued by Emmenegger, 2011, p. 283, “Mostly representing the growing group of middle-class swing voters, the TCO increased its political influence considerably in the 1960s. However in contrast to the LO, the TCO was politically neutral. Consequently, centrist parties tried to accommodate the TCO by supporting its political demands.” In this sense, partisan dynamics were clearly relevant, as in traditional PRA, but these must be seen within the context of, or centrally connected to, the dynamics of the labor movement itself.
689 Indeed, officials at employers’ groups long for a return to the pre-1974 situation (Interview with SN official).
basic LAS framework. Given this, one must carefully examine the original framework to understand later changes and their politics.

The Employment Protection Act (LAS)

There are a number of important features of the LAS for our present purposes. First, LAS assumes that employment for an indefinite period of time is the normal type of employment, the so-called “permanent contract”. In order to ensure this, the act stipulates very limited conditions in which fixed-term contracts are acceptable. There are two specific cases in which a permanent contract, with all its attendant protections (as described below), is not required: (a) when the character of the labor requires it (e.g., seasonal work in agriculture or tourism); and (b) for vacationing workers (substitutes) and trainees.\(^{690}\) This part of the LAS almost immediately provoked employer criticism as being too restrictive, and as we will see it has become an object of recurrent political contestation and controversy.

Second, following upon and embellishing the practice established in collective agreements in 1964, LAS requires that employers provide a ‘just cause’ for dismissals. In cases of redundancies, or ‘economic dismissals’,\(^{691}\) generally the judgment of employers is heeded; however the employer must try to prevent such redundancies and account for the reasons behind the decisions leading to those redundancies (which the National Labor Court will assess the validity of). Third, in the case of

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\(^{690}\) EIRO, 1997, “Collective agreements limiting temporary employment unaffected by new statutory rules.”

\(^{691}\) This is contrasted to dismissals on ‘personal’ grounds, the other major category of dismissals, where the worker has done something egregious such as theft or has a record of absenteeism and so on.
redundancies, the *seniority principle* is embedded in LAS (or “last in, first out”). As well, the employer is required to seek alternative employment for now-redundant workers within their own enterprise, and the onus is on the employer to investigate the possibilities for such a transfer. Moreover, they must give priority to workers laid-off through redundancy if new employment becomes available within a year after dismissal (*right to return*). Once again, as we will see, these guidelines have proved controversial and frequently have been criticized by employers’ groups, particularly the seniority principle.

Fourth, LAS requires employers to notify labor market authorities of any projected redundancies affecting at least five workers,\(^692\) and to *consult* the unions on all important changes in the enterprise, such as mergers and dismissals (this does not apply however to so-called ‘personal’-type dismissals, i.e. individual dismissals for misconduct). General guidelines for *notification periods* are set down in LAS based upon length of work and age. A minimum period of one month is required for all workers, and depending on age and work history for the employer in question, a maximum of 6 months can be required. The inclusion of age as a factor determining notification period was intended to capture the fact that it may be harder for older workers to find new jobs.

Fifth, under LAS workers can seek two types of redress for dismissal in violation of the above conditions: *annulment* of the dismissal and *compensation*. If the employer refuses to reinstate the worker after losing the Labor Court trial, then they must pay up to 16 months wages for those working less than 5 years at the company, and a fixed rate of 32 months wages if the worker has worked there longer than 10 years.\(^693\) Layoffs are also permitted, which do not terminate the legal connection between employer and employee but required that the employers, prior to 1985, provide income assistance along with unemployment insurance; since 1985 employers must cover the whole cost of income replacement.

Finally, although the LAS rules are quite broad they are not exhaustive or exclusive: many provisions relating to dismissals are still contained in collective agreements. In this way, many of the provisions in LAS are ‘half mandatory’ or ‘semi-dispositive’, that is they can be deviated from if negotiated collectively and if the deviations have been approved at the ‘central’ level of negotiations for a branch of industry (though this latter requirement is often delegated to local unions).

Employers attempted to make these deviations negotiable at a local level without the consent of the

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\(^692\) Employers intent on cutting 5 to 25 jobs are required to inform the County Labour Board at least two months in advance, four months for dismissals of 26 to 100 jobs, and six months for more than 100. This is intended to give local job centers enough time to start finding jobs for those dismissed. EIRO, 2003, “Thematic feature”.

\(^693\) Other compensation arrangements beyond the basic ones for illegitimate dismissal are presumably contained within collective agreements; see below.
central unions after the passage of the LAS; however the union movement, particularly the LO, resisted this. In the 1990s a slight modification was made, as explained below.

Contestation and Reform of the LAS

The LAS represented a fundamental shift in labor relations in Sweden. Not only did the state intervene in matters that had previously been left to collective agreements between representatives of organized labor and employers, but it did so in a way that considerably strengthened the union position. As such, as we have seen, employers’ groups opposed much of the LAS from the outset. In fact, their defeat in this arena and others (such as ‘co-determination’ legislation in 1976), as well as the wage-earner fund debate, spurred many employers and wealthy individuals to begin to set up think tanks to reverse the tide of Social Democratic hegemony and the high taxes, generous welfare state, and strong worker protections that it had brought about. However, at the time, the employers were in no position to reverse the legislation. For although the SAP was out of power from 1976 to 1982, the ‘bourgeois’ coalition of that period saw it as important not to challenge the achievements of the Social Democratic hegemony. Indeed, there was little appetite for challenging the LAS among the centrist parties and the coalition was concerned strategically “to prove Social Democratic propaganda against them [as being strongly anti-welfare state] to be incorrect.” Furthermore, as I have noted, the coalition remained dependent upon the wage cooperation of the LO and TCO to deliver respectable economic growth, and the unions were in no mood for revisions to the recently-passed LAS. The incursion of neoliberal ideas, retrenchment pressures and employer assertiveness would have to wait until considerably later, in the early 1990s, to make much of an impact on employment protection measures, and the welfare state more broadly.

Nevertheless, there was one minor change in this area under the watch of the non-socialist coalition, in 1982, at the end of its tenure. As noted previously, one of the first parts of the LAS to come under significant employer pressure was the rules restricting fixed-term work. While in practice these could often be sidestepped through collective agreements with unions in particular sectors, many unions were unwilling to accept deviations and thus employers were wary of hiring workers when they had temporary positions to fill. An amendment of the LAS changed this to an extent by expanding the situations in which fixed-term contracts could be concluded. On top of the two cases mentioned above, temporary contracts could now be concluded: (c) for six months over a

694 Interview with SN official.
697 EIRO Database 1997 “Collective agreements limiting temporary employment unaffected by new statutory rules.”
period of two years, in cases of unexpected peaks in workload; and (d) for a probationary period of six months. Further statutory changes to the employment protection system desired by employers did not occur for the rest of the 1980s, though, as the SAP held firm on the LAS framework.

As I described in Section II, the early 1990s were a period of profound economic crisis in Sweden. The disorientation of the crisis was worsened by the decision of the SAF to simply cease engaging in centralized bargaining starting in 1990. This was followed up in 1991 by the SAF pulling all of its representatives from corporatist state bodies or agencies. It also spent a great deal of money in the election year of 1991 trying to influence public debate in a neoliberal direction. This was consistent with its pattern of gradually increasing spending on opinion formation, which had started in the early 1980s. Partly as a result, the ‘bourgeois’ coalition that won the 1991 elections, and led by the Center Party’s Carl Bildt, was the most neoliberal of the postwar period (and arguably since, too). Sensing a moment to reconstruct the Swedish model in a fundamental way, the Bildt coalition appointed the Lindbeck Commission to investigate the sources of Sweden’s economic malaise in late 1992. The Commission recommended several changes to employment protection legislation, such as increasing the flexibility with which employers could hire temporary workers, changing seniority rules and reducing firing costs.

After its publication in 1993, two of its EPL recommendations were taken up by the coalition. First, the maximum duration for fixed-term contracts and for trial periods was lengthened from 6 to 12 months. Second, employers were enabled to exempt two employees from priority rules (e.g., not be required to fire two new people who they would otherwise have been forced to fire on seniority grounds). Some of the more dramatic proposals of the Commission relating to scrapping seniority rules altogether, which were supported by employers, were not enacted as they were seen to be too controversial. A third important change that was made during the tenure of the Bildt coalition was the overturning of rules that had practically made temporary work agencies (TWAs) illegal. Sweden thereby became one of the most liberal countries in regards to their regulation in the

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698 Pontusson and Swenson, 1996.
700 The Commission was led by Assar Lindbeck, an economist and co-author of the influential Insider-Outsider Theory of Unemployment (with Dennis Snower), that we have seen in Chapter constituted a major inspiration for David Rueda’s theory. Bjorklund, p. 153.
OECD. TWAs proliferated in this environment but still only represented a small fraction of the labor market a decade later.

Excluding this last change, the legalization of TWAs, the Social Democratic government that came to power in late 1994 immediately repealed the changes mentioned above in January of 1995. The changes had of course been strenuously opposed by the LO, and the SAP campaigned in 1994 to repeal the changes. Despite this victory for the unions, though, the ties between them and the SAP had gradually begun to fray in the 1980s and increasingly so in the 1990s. No longer could the party be simply considered the political arm of the labor movement. Partly as a consequence, 1996 and 1997 saw the introduction of legislation that allowed for collectively agreed upon deviations from the seniority principle, transfer requirements and the limited conditions on fixed-term work set out in the LAS without the required consent of the central labor market organizations (as had been the case before). Essentially this change allowed for local union branches to agree to a range of exemptions from the LAS, including fixed-term contracts in a whole range of situations, if the employers were able to ‘convince’ them of the employment benefits of such a deviation. This effectively introduced another category of fixed-term work: (e) an ‘agreed’ term of at least a month, with a maximum of 5 workers in such a situation. Due to the limit of 5 workers, the change mostly benefited smaller companies. The length of these “agreed fixed-term” contracts was limited though to no more than 12 months in three years, or 18 months total, in new enterprises.

The unions, again particularly the LO, were incensed by these changes, as they saw the potential for employers to bully certain weaker local branches to adopt changes with the threat of lost jobs. Union representatives talked about withdrawing financial support from the Social Democrats and unions protested outside the parliament. In addition, the central union confederations began looking into changes to internal regulations so as to prevent local branches from deviating from the LAS. Even though the SAF and other employer groups had been pushing for a complete elimination of the statutory seniority rules (Section 22 of the LAS) these relaxations

701 Holmlund, 2006, p. 124. In 1991 private employment agencies (TWAs) were legalized though they still required authorization from the National Labour Market Board to operate. From 1993, this authorization was no longer required. EIRO, 1997, “First collective agreement for blue-collar workers in temporary agencies.”
704 Of course, this development mirrored ongoing changes between unions and labor or social democratic parties across the advanced industrial nations. See Allern, Aylott and Christiansen, 2007.
constituted at least a small victory. Ultimately, and the SAF was quite explicit about this, all such rules regulating dismissals and conditions of employment should be concluded at the workplace or local level (i.e., decentralized).\textsuperscript{708} Such demands were far beyond what the Social Democrats were willing to consider, however, and the ‘bourgeois’ parties were hesitant to endorse this position publicly.

Partly due to the liberalizations regarding fixed-term work described above, such employment grew in the 1990s while permanent employment contracted sharply with the recession.\textsuperscript{709} From 1990 to 1996, permanently employed workers declined from 3.6 million to 3 million while temporary contracts increased from about 400,000 to 500,000. Thus, by 1997, some 13 percent of the workforce was employed in a temporary job. This figure was to remain roughly constant over the next decade, though this conceals the fact that over this period an increasing proportion of such contracts were precarious, ‘casual’ or on-call jobs.\textsuperscript{710} Most of these temporary workers were women and youth and the vast majority of casual work was performed by women.\textsuperscript{711} The move towards temporary work prompted the unions to attempt to settle collective agreements for these temporary workers, to maintain their employment security, and in 1998 the first contract was concluded for white-collar workers (with blue-collar workers following in 2002).\textsuperscript{712} The agreement established the same terms of employment for temporary workers as for permanent ones, except obviously that the employment protection and the amount of work was not guaranteed from month to month.\textsuperscript{713}

Despite continuing high unemployment and only a gradual recovery from the deep recession of the early 1990s, the SAP was able to win the elections of 1998. However given a significant slide in their support (an 8 percent drop to 36.6 percent of the popular vote) and the refusal of the Center Party to enter into a partnership, as they had from 1994-1998, they were forced to govern in cooperation with two left-wing parties, the Greens and the Left Party.\textsuperscript{714} This more tenuous grip on power led to the Social Democrats losing votes on the seniority rules of the LAS in 1999 and 2000,

\textsuperscript{708} Ibid. Kent Brorsson, head of the labor law department at SAF, stated at the time that “SAF’s policy is that bargaining should take place at the workplace, preferably between the employer and the individual employee.”
\textsuperscript{709} In terms of quantitative indicators, these reforms led to the OECD changing Sweden’s overall strictness of temporary employment EPL from a score of 4.1 in the late 1980s, one of the strongest in the OECD, to 1.6 in the late 1990s, which was about average. OECD, 2004, Chapter 2.
\textsuperscript{710} EIRO, 2003, “Fixed-term employment remains high.”
\textsuperscript{711} EIRO, 1997, “No dramatic rise in temporary employment expected.”
\textsuperscript{712} EIRO, 2005, “Young people and immigrants employed in temporary work agencies have good chances to receive proper jobs, survey shows.”
\textsuperscript{713} EIRO, 1997, “First collective agreement for blue-collar workers in temporary agencies.”
\textsuperscript{714} EIRO, 1998, “Government forced to cooperate after election setback.”
which put back in place the exemption of two employees from the “last in, first out” rules in companies of 10 employees or less. The defeat of the Social Democrats on this bill required the cooperation of five other parties: the Green Party, the Conservatives, the Liberals, the Christian Democrats and the Center Party.\textsuperscript{715} As in other areas of dismissal law, this weakening of seniority rules was quickly denounced by the union confederations and supported by the SAF.\textsuperscript{716} Furthermore, the Social Democrats were defeated by the same group of parties on the question of a ban on industrial action against small companies such as sole traders and family firms. Similar to the seniority rules, this ban had been put in place in 1994 under the ‘bourgeois’ parties as well, and had been overturned in 1995 by the Social Democrats.\textsuperscript{717} While not directly related to employment protection, this issue of industrial action was another case in which the unions’ position was being challenged, given that their capacity for industrial action against individual companies not following broadly-agreed-upon employment practices was a powerful tool in bringing companies into line.\textsuperscript{718}

This period also produced a government commissioned study by the National Institute for Working Life on the regulations governing temporary work. Given the growth of this area of “atypical” work, and despite the spread of collective agreements in this field, the study was intended to analyze the extent to which current provisions protected temporary workers from abuse.\textsuperscript{719} Already in 2001, the government produced a memorandum in line with EU Directives proposing “legislation banning discrimination against part-time workers and workers on fixed-term contracts, in terms of pay or other employment conditions.”\textsuperscript{720} For instance, part-time employees working under 40 percent of normal time were often excluded from occupational pension schemes. A worker who claimed discrimination would simply be required to present the relevant facts to the labor market authorities and from there the burden of proof would fall on the employer.\textsuperscript{721} Attempts had been made by the government to have these rules set out in collective agreements between the social partners; however employers resisted these pressures, in part by pointing out that it wasn’t possible

\textsuperscript{715} EIRO, 1999, “Parliament orders changes in redundancy rules.”
\textsuperscript{716} EIRO, 2000, “Government defeated on change in redundancy rules.” The unions reasoned that the possibility of deviation from the LAS in terms of dismissal already provided employers with sufficient flexibility, that the new rules would created increased scope for ‘arbitrariness’ in dismissals, and that employees in smaller companies already had lower employment security to begin with. By contrast, the SAF applauded the change as much needed flexibility, but its representative emphasized that the changes were actually minor and not sufficient to address inflexibility in the Swedish labor market. Ibid.
\textsuperscript{717} EIRO, 2000, “Parliament approves ban on industrial action against small companies.”
\textsuperscript{718} Interview with SN official.
\textsuperscript{719} EIRO, 2000, “Annual Review for Sweden.”
\textsuperscript{720} EIRO, 2001, “Government proposes legislation to implement EU Directives on part-time and fixed-term work.”
\textsuperscript{721} Ibid.
to implement EU Directives in collective agreements since they didn’t cover all workers. The government was thus forced to propose legislation, which came into force on July 1st, 2002.

The government commission reported in November 2002, shortly after the Social Democrats had won yet another national election. The SAP had improved their position slightly, gaining about 3 percent in national vote share (moving to 40 percent), and once again formed a government with the support of the Left Party and the Greens. In its report, the commission urged a number of legislative reforms. First, it suggested that restrictions of fixed-term work based upon ‘objective’ reasons (concerning the nature of the work) be removed from the LAS in favor of a category of ‘fixed-term-at-will’ contracts which prevented abuse of fixed term employment through *time limits*. The current system, they argued, had become unwieldy due to the complexity of determining when the ‘objective’ conditions obtained (by 2002 there were ten separate ‘conditions’). Thus these ‘objective’ criteria should be abolished and a time limit of 18 months during a 5 year period was proposed in its place. Second, various measures encouraging the transition from fixed-term to permanent contracts were suggested, such as giving fixed-term workers preference for new permanent contracts after 6 months, as opposed to the current 12 months, and making employers pay a small charge for not offering fixed-term workers permanent contracts after the initial 18 month period. Finally, better protections for workers on parental leave were proposed, such as mandating that a dismissal notification period not begin until the worker’s return from leave.

The social partners reacted initially with some skepticism to the proposals. Indeed, they were in fact united in criticizing the proposal to move up the time frame for fixed-term workers to gain preference for permanent contracts from 12 to 6 months, though for quite different reasons. The union representatives thought that this would merely encourage shorter-term contracts, whereas employers groups felt that this would make firms too wary of hiring fixed-term workers, thus hurting both sides. Further, while both social partners generally accepted the idea of a ‘fixed-term-at-will’ contract in principle, they disagreed over the lengths that these should be allowed to run and whether there should be limitations on their successive use. Predictably, employers sought longer periods of allowance and fewer limitations on successive use, and unions the opposite. Partly as a result of these disagreements, it wasn’t until 2006 that the Social Democrats managed to pass most of the reforms proposed by the commission. According to the reforms, there were now simply three

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724 Ibid.
725 Engblom, 2008.
categories of legitimate fixed-term work: (a) fixed-term-at-will contracts, with a 14 month limit in 5 years, including a probationary period of 6 months, with the same employer, and different forms of fixed-term work were considered cumulative; (b) substitute employment where a fixed-term employee replaces someone who is temporarily not working (to deal with long maternity/paternity leaves, etc.); and (c) contracts for those over 67. As well, the proposals for better protection of workers on parental leave were adopted.

Almost as soon as these reforms were passed, however, the Social Democrats lost the 2006 national election badly, and a Moderate (Conservative) Party-led coalition took power under Fredrik Reinfeldt. This proved to be a stunning loss for the SAP, as they registered their worst percentage of the popular vote ever, and this in the context of a strong economy. The new center-right government moved quickly the next year to alter the 2006 reforms more along the lines employer groups had pushed for previously. Seasonal employment was added to the potential list of fixed-term contracts; the time limit for fixed-term-at-will contracts was increased from 14 to 24 months in a 5 year period; and different forms of fixed-term employment were made non-cumulative. As argued by Samuel Engblom, these changes effectively allowed companies to use fixed term workers almost the entire 5 years on fixed-term contracts, and then to roll it over and do it again in the next 5 years. As such, these changes obviously drew trade union criticism. They were just as clearly supported by employers’ organizations. Nevertheless, despite these notable changes, the Moderate government has up until now resisted strong employer pressure to make more fundamental changes to Swedish labor law in relation to permanent contracts and the LAS. Throughout this period from the late 1990s, then, very little legislative change has occurred in terms of rules governing permanent contracts, which remain quite strong. Table 5.5 presents the trajectory of EPL in Sweden according to the standard OECD indicators, differentiating between regular and temporary contracts.

Table 5.5: EPL in Sweden, Regular versus Temporary Workers, 1985-2008

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<tbody>
<tr>
<td>Regular EPL</td>
<td>2.9</td>
<td>2.9</td>
<td>2.86</td>
<td>2.86</td>
<td>2.86</td>
<td>2.86</td>
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<tr>
<td>Temporary EPL</td>
<td>4.08</td>
<td>4.08</td>
<td>2.08</td>
<td>1.63</td>
<td>1.63</td>
<td>0.88</td>
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<tr>
<td>Total EPL</td>
<td>3.49</td>
<td>3.49</td>
<td>2.47</td>
<td>2.24</td>
<td>2.24</td>
<td>1.87</td>
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726 Ibid.
727 Ibid.
Understanding EPL Change in Sweden

How are we to understand this policy history in relation to Varieties of Unionism and the other major theories evaluated in the thesis? The broad outlines of any adequate interpretation seem clear. First, unions have from the start of the 1960s pressed for higher levels of protection, such as specific rules on consultation, longer notification periods, ‘just cause’ requirements overseen by labor boards, seniority rules, and so on. Once they achieved these to a significant extent with the LAS, they have fought vigorously to protect these gains. While initially opposed to the expansion of fixed-term work, more recent efforts seem to be aimed rather at ensuring relatively equal working conditions for such workers so as to eliminate a potential source of ‘social dumping’ or ‘underbidding’. Nevertheless, union representatives still express the desire that the vast majority of workers be covered by permanent contracts.\(^{728}\) This is roughly consistent with all of the theories evaluated in the thesis, though the strength of union concern for the position of fixed-term workers is striking in the context of Insider- Outsider theory. It was not the union movement that pressed for, or calmly accepted, the growth of fixed-term work but instead it was employer groups at the forefront of this push, as well as Sweden’s center-right parties.

Second, the SAP has for the most part been allied with the union confederations in terms of limiting changes to LAS, and of course it was largely responsible for bringing it into being. It took the crisis of the early 1990s to shake the SAP’s strict attachment to the original LAS framework, as they have subsequently accepted fixed-term contracts and bargaining decentralization as normal and legitimate (in contrast to the LO and other union groups). These last two changes are evident in their acceptance of the liberalizations of TWAs, the fixed-term-at-will legislation, and the changes they introduced in 1997 to allow for greater possibilities for deviation from the LAS at the local level. Even here, however, the acceptance of fixed-term work has tended to be premised on the assumption that it will not become widespread, that the conditions of those workers are not worse than those of permanent employees, and that a transition to permanent work is to be encouraged in various ways. This is evident, for instance, in the struggles over fixed-term EPL in the 2000s that I described above.

Third, on the other side, it is just as clear that employers have long opposed strengthening employment protections.\(^{729}\) They were resistant to the LAS from the start and have tried to weaken it ever since. This has been done fairly openly, particularly since the early 1990s. The intensity of

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\(^{728}\) Interview with LO official.

\(^{729}\) All of this so far is consistent with the Power Resources Approach to welfare state evolution, as in Korpi, 1983; or Korpi, 2006.
their demands appears to abate during periods of Social Democratic government, but even in 1999 they put forward a blueprint for what they would like the dismissal system to look like, and in it they proposed drastic changes. They urged the repeal of the three main Acts that govern industrial relations, the LAS (or EPA), the Co-Determination in the Workplace Act of 1976, and the Trade Union Representatives Act. The SAF advocated that these be replaced by two new Acts which would be far less intrusive. One act, governing employment contracts, would allow them to freely choose when to offer fixed-term or permanent contracts, would limit the maximum compensation in dismissals to 12 months pay, and do away with ‘just cause’ and seniority rules as well as lay-off pay requirements in cases of work shortages. The other act, governing collective employment, would reduce employers’ responsibility to negotiate with unions before major decisions take place (instead notification would be sufficient), would severely constrain sympathy industrial action by unions, and the bipartite Labour Court would be abolished. In an interview with an SN official in September of 2009 (the employers’ group that was created by the merger of the SAF and the smaller Federation of Swedish Industries in 2001) it was clear that this remained the basic stance of the employers. What irks employers most in the current system are seniority rules and ‘just cause’ requirements that are too strictly interpreted. These bothered especially smaller firms, since bigger firms often had the resources to deal with compensation payments or could effectively transfer employees within the firm. For companies with less than 20 employees, which accounts for about 90 percent of the SN’s member firms, the LAS provisions constituted serious nuisances. By contrast, the priority for the bigger companies was changing industrial action rules, in particular: (i) limiting sympathy strikes, (ii) making mandatory that industrial action be ‘proportional’, and (iii) that non-union firms be exempted from industrial action. An SN official seemed to acknowledge that a complete re-writing of the dismissal system along the lines of the 1999 position paper was unlikely, but that the SN hoped a re-election of a ‘bourgeois’ coalition in 2010 might open the door for significant changes. Even here, though, the SN recognized the difficulty of getting any EPL reform passed when it comes to permanent contracts. This realism has been brought about in part by the virtual absence of major permanent-contract dismissal law reform under the current Moderate-led coalition.

Employers have pushed hard for changes in this area, but their usual allies in the right-wing parties

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730 EIRO, 1999, “Employers advocate radical changes in employment law.”
731 Ibid.
732 Interview with SN official.
733 Ibid.
have not taken up their challenge. In fact, in many respects it is the central area in which employers want reform, but yet they have been unable to effectuate it.\footnote{734}{Interviews with officials at IF Metall and SN.}

This is of course due to the very cautious stance taken by right-wing parties on the issue. They seem very wary of even touching it, for fear of massive union disruption and electoral losses. In the early 1990s this happened as well, despite the publication of the pro-reform Lindbeck Commission report and the ‘crisis opportunity’, when a number of the more controversial proposals in the report were never followed up on. To be sure, the ‘bourgeois’ parties have been far more likely to countenance changes to employment protection than have the Social Democrats, but most of these have related to fixed-term employment. This is in part because, as was noted in several interviews, the LAS regime remains quite popular, with some giving the support level at about 70 percent.\footnote{735}{Interview with officials of IF Metall, TCO, and SN.} One must also imagine that many of the right-wing parties’ constituencies are themselves protected by the LAS arrangements and are thus unwilling to give them up (given that it covers all permanent workers save managers and a few other small groups). The desires of employers and managers, which make up a smaller numerical fraction of party support, are sidelined in this context, despite their considerable sway among right-wing think-tanks, in the media, and as sources of political financing. In effect, the potential gains of reforming core employment protections, either economic or political, have never approached the costs or risks inherent in the strategy for center-right parties.

We can understand why employment protection reform is so difficult by grasping the nature of the system’s operation in practice. The LAS effectively provides a baseline negotiating position between labor market representatives. In many circumstances, employers desire considerably more flexibility than the LAS provides. To achieve this flexibility, then, employers must bargain over the content of dismissal rules and provide various side-payments to unions for concessions (otherwise they will face the high compensation costs required by the courts). This explains why collectively agreed-upon deviations from the LAS are so important and widespread, as well as why the unions are so steadfastly opposed to legislative modification: to modify the LAS would be to weaken the unions’ negotiating position, around which a whole range of working conditions such as wages, working hours, workplace safety and so on depend.

If one looks at industrial relations on a firm-level, frequently there is satisfaction on the part of both labor and capital. A study of managing directors at Swedish firms in 2003 showed that around 80 percent of these people thought that the “cooperative climate” with trade unions was
 Trade union officials touted these types of figures in interviews as evidence that there was sufficient flexibility in the system. Certain studies seem to back them up. One that was conducted in the late 1990s found that only a quarter of all workplaces adhered to the principle of seniority completely; in the rest, deviations had been negotiated from this principle, so-called “contracted listings”. These contracted listings lay out alternative methods of deciding upon dismissals and any dismissal that follows this method cannot be challenged for annulment or compensation. However, these deviations (i.e., flexibility) come at a cost for the employer, as employers’ groups naturally stress: concessions in terms of training expenses, transfer with wage benefits, and so on, must be made. The law is after all largely on the side of the unions. Therein resides the source of intense disdain that employers have for the LAS system, at least at peak levels. To abolish part or most of the LAS framework would be to dramatically strengthen their negotiating position and weaken that of the unions. It is no wonder then that conflicts over employment protection seem to be so straightforwardly zero-sum between the social partners. This also makes it clear why the VOC view that suggested considerable cooperation and agreement between the social partners in a coordinated market economy such as Sweden misses a major part of the actual politics. There is often cooperation at the firm level, it is true, but meanwhile a pitched battle exists between union and employer groups over the whole content of the dismissal system. In this sense, just because employers have never had sufficient political clout to dismantle the LAS system does not mean they have not wanted to. Formulating a theory of variation in EPL in terms of employer preferences, as in early VOC work, thus makes little sense.

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736 EIRO, 2004, “Study finds good employer-union cooperation in companies.”
737 Interview with officials at IF Metall union.
739 It was suggested in an interview at IF Metall that many actual employers do not resent the current dismissal system, whereas the employers’ groups do. They hypothesized that many who represent employers in these (research) bodies are more influenced by deregulatory neoliberal ideology than the actual employers. What I have written above may contribute to explaining the disjuncture in another way. Actual employers have become used to the concessionary negotiations around dismissals, and thus not prone to express deep dissatisfaction (nor wanting to for fear of industrial tension), but the employers’ groups see the need to fight the system as whole so as to strengthen employers’ hands and reduce the need for ‘costly’ union concessions.
Section IV: Unemployment Benefits

Early Developments

Compensation for unemployed workers began in Sweden in the late 19th century when voluntary insurance funds were established by unions in particular workplaces or industries. These funds provided temporary relief for workers if they were terminated through redundancies, and they were financed completely by the workers themselves. The funds served two major purposes for the unions. First, they provided unions with some ability to limit downward wage pressures in recessions, by creating a ‘reservation wage’ and fostering solidarity among workers. Second, they kept unions in contact with members during these downturns, and thus stabilized membership numbers and made further recruitment easier. In the ensuing years these voluntary insurance funds gradually expanded, especially in the years around WWI. However the funds were mostly concentrated among the better-paid, skilled employees who were least likely to face unemployment. This was due to a classic dilemma in private insurance provision: those most in need of it, the unskilled and poorer-paid, would be the most expensive to cover and yet these were the people who would not be able afford the high costs of insurance. As a result, there were frequent demands on the part of the LO that the state begin subsidizing these schemes to make them affordable to a wider number of workers.

The question of unemployment insurance provision, and the form it would take, was thus the most “hotly contested [issue] between the labor movement and the bourgeois parties in the 1920s.” Efforts by two minority SAP governments to introduce a Ghent system in the 1920s failed because of the opposition of the bourgeois parties (and employers). The bourgeois parties and employers favored the ‘relief’ system initiated in 1918 which often sent the unemployed off to harsh, distant ‘relief-work’ camps where, in lieu of dispensing benefits, they would be paid for work but far below union rates. If workers refused to work at these camps, they would be forced to apply for means-tested ‘poor relief’ from the state (social assistance), and this constituted the bulk of social spending in the early postwar decades. This ‘relief’ system limited union control of wages and allowed employers to follow a deflationary approach during recessions. In fact the system could

740 Much of what follows is drawn from Bjorklund, Holmlund, Haveman and Hollister, 1991, Ch. 11. See also Rothstein, 1992.
even be used to force the unemployed to strike-break, thus weakening the unions’ bargaining position further. Naturally, the unions intensely opposed this system and pressed their SAP ally to bring about a more union-friendly arrangement, and ideally a well-subsidized Ghent system.\footnote{This preference was not universal within the labor movement, and in a revealing way given my broader theory: Syndicalist and Communist currents opposed a Ghent system. Swenson, 2002, p. 256; Rothstein, 1992, p. 49. The mainstream of the labor movement fully came on board with the Ghent plan in 1930, after being convinced that it would help union recruitment. Ibid.}

A Ghent system was finally achieved in 1934 in the context of relatively high unemployment, when some of the funds were threatened with bankruptcy, as the SAP-led government began to subsidize the union funds for about 50 percent of their expenses.\footnote{Bjorklund et al. p. 113, suggests a 40 percent subsidy, whereas Rothstein, 1992, p. 50, claims that it was a 50-50 split.} However the passage of the legislation depended on a compromise with a section of the Liberals, given the SAP's minority position, and this forced the Social Democrats to make a number of concessions on the form of the Ghent system. For instance, the benefit level was set very low; eligibility criteria were highly restrictive; non-union members would also be allowed to join the subsidized funds; and employers were freed from any specific contributions.\footnote{Rothstein, 1992, p. 48.} In addition, the legislation made it difficult to use the funds in the case of union boycotts and other industrial disputes, thereby limiting the system’s contribution to union ‘militancy’. Despite these concessions, employers were as determined as before to prevent the legislation’s passing and “tried to suffocate it with a seamless blanket of criticism.”\footnote{Swenson, 2002, p. 254.} On the other side, the reform was not nearly as substantial as the unions had hoped. One union journal went so far as to call the new legislation “A pathetic little rat”.\footnote{Ibid. p. 246.} This was because in return for the partial state subsidy, the state gained considerable power over the systems of regulation adhered to by the funds (i.e., eligibility requirements, benefit levels, disbursement in industrial disputes, etc.). Yet certain unions were wary of losing their autonomy in administration, especially in the context of only meager benefit rates, and this led to limited union take-up of the subsidy in the interwar years.\footnote{For example, some independent union funds differentiated unemployment benefits on the basis of the length of union membership, in order to encourage and consolidate membership. The new law proscribed this practice, however, making some unions hesitant to join the state-subsidized system. Ibid. p. 256. See also p. 258.} Only when the SAP enlarged the subsidization of insurance funds in 1941-42 did the large metalworkers’ union sign up, and it would take further reforms to the system in 1954 and beyond to significantly expand the system’s coverage.

\footnote{Ibid. p. 256; Rothstein, 1992, p. 49. The mainstream of the labor movement fully came on board with the Ghent plan in 1930, after being convinced that it would help union recruitment. Ibid.}
The emergence of a generous postwar UB system

As noted in Section II, the unions and the SAP decided to stick with this system in the postwar period, in contrast to many other European countries. Thus an unemployment insurance system of voluntary state-regulated funds emerged but, importantly, they continued to be administered by the unions. Unions could thereby use the funds to attract members, even if technically the receipt of benefits was not conditional upon union membership: administration of the funds gave unions the ability to make union membership beneficial. Both the interpretation of whether an unemployed recipient was in fact ‘actively looking for a job’ (as was required) and control over the kinds of jobs that were offered to recipients allowed the funds leeway to provide preferential treatment to union members, given that neither were susceptible to strict, detailed state regulation.\(^751\) In Olsonian terms, then, unemployment benefits provided ‘selective incentives’ to join a union. Indeed, as Bo Rothstein shows, this was explicitly why the Swedish unions and the SAP favored retaining the Ghent system.\(^752\) It is also no wonder that this arrangement proved conducive to the growth of union density in the postwar period in Sweden and the other Ghent countries.\(^753\)

Yet for this to happen in a substantial way, the system required greater subsidization, more generous benefits, and more lenient eligibility conditions. This is precisely what occurred in the two and half decades following 1950, and especially from the 1960s onward. Before this period the Swedish system of UB was somewhat underdeveloped. The reasons for the delay in the development Swedish Ghent system are complex, but a major factor was the relative emphasis placed on ALMP and public job creation in the country’s labor market strategy.\(^754\) As I outlined in Section II, ALMP not only fit extremely well with the Rehn-Meidner model pursued from the 1950s onwards, but the model itself developed upon a tradition of such active measures in the first half of the 20th century (such as the quasi-Keynesian policies adopted by the SAP in 1930s). Moreover, ALMP was supported throughout the late interwar and postwar period by employer groups such as the SAF,

\(^751\) Interview with Erica Carroll, September 21, 2009. See also Rothstein, 1992, p. 40. A key part of unemployment insurance schemes is that they must have some reference to “suitable jobs” for the recipient if they are to enforce the activation side of UB. But this means that “what constitutes a suitable job must be decided for each and every individual seeking support from the insurance scheme. This can be done only by granting a considerable measure of discretion to the ‘street-level bureaucrats’ that are necessary to manage the scheme. As can easily be imagined, these questions are very delicate, and who has the power to decide them is a matter of paramount importance for both unions and workers.”

\(^752\) Rothstein, 1992, p. 46-51. See also Olson, 1965.

\(^753\) This connection is widely noted in analyses of union growth and development. See for example, Rothstein, 1992; Western, 1997, Ch. 4; Scruggs and Lange, 2002; and Clasen and Viebrock, 2008.

\(^754\) Olson, 1987, p. 21.
who appreciated the labor mobility it generated.\textsuperscript{755} This obviously facilitated ALMP expansion and allowed it to act as a substitute for generous UB. (To be clear, extensive ALMP constitutes a clear social commitment to labor market ‘outsiders’, and thus the Swedish labor market system provided comparatively strong support for ‘outsiders’ in this period, even if not in the form of UB.) A second reason for delayed expansion was the low rates of unemployment that prevailed in the early postwar period, which lessened demands for generous unemployment compensation. Again, this second consideration interacted with the presence of extensive ALMP, such as temporary work and training programs, which provided transitory assistance between jobs in the tight postwar labor market.

A final important reason for delayed UB expansion was that the early Swedish welfare state reforms were dependent upon a coalition between the SAP and the Agrarian Party: the famous ‘red-green’ coalition. This coalition meant a number of important things in terms of the shape of the welfare state, such as an emphasis on universalistic social benefits.\textsuperscript{756} In the context of UB, the ‘red-green’ coalition mattered because it led to the adoption of flat-rate benefits initially, as in the other social insurance schemes. Yet the flat-rate system had a couple of significant drawbacks for the unions. On the one hand, a flat-rate system would by its very nature be difficult to make generous for most workers. If the flat-rate benefit was set at a level that provided a replacement rate of 60 percent, say, for an average wage worker, that same benefit would equal a much greater replacement rate for the lowest paid. This would potentially create substantial work disincentives, though. As a result, benefit levels would have to be set quite low in a flat-rate system (as they were initially in Sweden).\textsuperscript{757} This in turn meant that a flat-rate system could only provide limited benefits to higher earners and this weakened considerably their incentives to join a union fund (and/or become union members). It is no surprise, then, that the LO and other union representatives such as the TCO pushed consistently and vigorously for an earnings-related system, and not only in unemployment insurance but also in other areas of social insurance such as pensions.\textsuperscript{758}

\textsuperscript{755} Swenson, 2002, Ch. 12.

\textsuperscript{756} Esping-Andersen, 1990, and Huber and Stephens, 2001, p. 117-118. Curiously though, and tellingly, this ‘universalism’ did not apply in the case of UB, where coverage was not close to universal in the early postwar period. This was because of the attachment of the LO and the SAP to the Ghent system for strategic reasons. Rothstein, 1992.

\textsuperscript{757} This is particularly the case for unemployment benefits, as opposed to sickness, disability and pension benefits, because in the latter cases the potential for benefits to impinge on work incentives are considerably less. This also explains why employers could be supportive of generous benefits in other areas of social insurance, but so consistently opposed to unemployment benefit generosity. See below.

\textsuperscript{758} Huber and Stephens, 2001, p. 119-120.
The achievement of an earnings-related UB system, along with higher levels of state subsidy, occurred in the mid-1950s. Gradually over the course of the 1950s the replacement rate for benefits rose substantially, from an average of 45 percent or so to nearly 70 percent. Similarly, the share of UB fund expenses paid for by the state rose from around 50 percent to nearly 60 percent. This increased commitment to UB occurred alongside an even more substantial rise in ALMP and public housing spending, as the SAP bought into the Rehn-Meidner model (see Section II). The achievement of an earnings-related system also coincided with LO’s push for a much stronger second-tier of earnings-related public pension (known as the ATP, or “General Supplementary Pension”). After a period of bitter partisan struggle the pension reform was passed by the SAP in 1959, and this helped consolidate a new ‘wage earner alliance’ between the LO and the TCO in favor of a system of generous, earnings-related social transfers. As I have emphasized, the achievement of strong replacement rates in the various social insurance programs made the expansion of the welfare state much more relevant for middle and upper-middle income earners. This subsequently allowed the SAP to lessen its dependence upon the political support of the Agrarian Party (now the Center Party), and in turn the Center Party and the Liberals began to recognize that opposing the expansion of a generous welfare state was a losing political formula, as the TCO joined the LO’s expansionist agenda.

In part because of these partisan and union dynamics, a period of extremely rapid welfare state expansion followed the 1959 pension reform. This was also the heyday of the ‘Swedish model’, as the unions delivered consistent wage restraint in centralized bargaining between the LO and SAF, economic growth was strong, and unemployment remained very low. In short, corporatist ‘political exchange’ enjoyed its clearest expression. With this economic growth came rapid industrial restructuring, though, and as I argued in Section III this began to cause worker dissatisfaction with the Rehn-Meidner model, in particular with the ‘mobility’ it demanded. Not only did this generate pressure to introduce EPL, given rising homeownership and dual income families, but it also generated increased pressure from the unions on the SAP to provide better compensation to the unemployed who were unwilling or unable to move about for work opportunities: i.e., a more generous unemployment insurance system. This pressure led to a host of reforms in the late 1960s and early 1970s that increased the value of benefits, eased eligibility conditions, lengthened benefit

759 Carroll, 1999, p. 140; Bjorklund and Holmlund, 1991, p. 113. See these two sources for the figures below. It must be noted that the replacement rate figures from Carroll are not particularly detailed, though, so some caution should be exercised. Details on the transition to an earnings-related system are also somewhat sketchy.
760 Mares, 2006, p. 91-93.
duration, and increased yet again the subsidization of the union insurance funds. From the mid-1960s to the mid-1970s, the state subsidy rose from around 60 percent of fund expenses to around 75 percent.\textsuperscript{762} Available data also indicate that the effective average replacement rate of benefits was increased to about 75-80 percent, from just below 70 percent.\textsuperscript{763} In addition, the maximum duration of benefits was doubled from 30 to 60 weeks in 1968.\textsuperscript{764} Lastly, in 1974 a system of unemployment assistance was established called KAS, or the ‘cash benefit assistance’ program. KAS was intended to cover those workers who were not a part of unemployment insurance funds (UIFs), or who did not meet the eligibility requirements of the UIFs, but who remained active in the labor market.\textsuperscript{765} Naturally this significantly expanded the effective coverage of the UB system.

The result of these reforms was an increasingly extensive system of unemployment insurance with comparatively generous replacement rates. For example, during the 1970s state subsidization continued to increase to around 90 percent of costs, and union membership expanded along with it (see union density figures below).\textsuperscript{766} In obvious ways, state subsidization made membership cheaper and thus more attractive to workers. I briefly sketch the main contours of the system in the late 1970s and 1980s below, then, in order to better understand the status quo that the retrenchment reforms of the 1990s and 2000s sought to alter.

\textit{KAS and the UI System Prior to the 1990s Reform}

Despite the introduction of the KAS system, the unemployment insurance funds maintained the most prominent role in the system in 1970s and 1980s. The KAS system was considerably less generous than the UI system and thus workers still had an incentive to join insurance funds. To receive the benefits administered by the UIFs a worker had to fulfill a number of requirements. These UIFs were normally run along sector or industry lines, in line with the union administering them.\textsuperscript{767} Workers had to meet: (a) a ‘membership requirement’, wherein an employee needed to be a member of the UIFs or paid membership for at least 12 months prior to the claim; (b) a ‘work requirement’, wherein an employee had to have worked a minimum of 5 months during the last 12

\textsuperscript{762} Bjorklund and Holmlund, 1991, p. 113.
\textsuperscript{763} Carroll, 1999, p. 140; Scruggs, 2004, online. As I noted above, these figures are only rough ones and should not be taken as definitive. It is clear, nevertheless, that benefits became much more generous from the mid-1960s to the mid-1970s especially. See Bjorklund and Holmlund, 1991, p. 131. The figures in Bjorklund and Holmlund suggest an even larger jump in the value of benefits than what I suggested in the text.
\textsuperscript{764} Mares, 2006, p. 96.
\textsuperscript{765} Bjorklund and Holmlund, 1991.
\textsuperscript{766} Ibid. p. 113.
\textsuperscript{767} The sketch below is mainly drawn from Ibid. Ch. 11. In the 2005 there were 37 UIFs. Clasen and Viebrock, 2008.
months;\textsuperscript{768} (e) a ‘job search requirement’ or ‘basic condition’, where the employee had to be registered at an employment office as seeking work and be willing to accept a ‘suitable’ employment offer. As I noted, in these funds benefits could be received for a maximum of 300 working days (or 60 weeks) for workers under 55; for those over 55 the maximum was 450 working days.\textsuperscript{769} The top replacement rate was around 90 percent however, since there was a ceiling placed on the benefits an employee could receive, many workers did not achieve this rate. Benefits were thus progressively distributed with higher income workers effectively having a lower replacement rate. Nevertheless, for an average income, blue-collar worker the marginal replacement ratio was about 75 to 80 percent in this period, as noted. The corresponding figure for a white-collar worker was around 50 to 60 percent. An increasingly small portion of these benefits were financed by membership fees from employees, with the vast majority paid for by the state. Of this state contribution, 65 percent was financed through a payroll tax on employers and the remainder was paid for out of general tax revenues.\textsuperscript{770} Furthermore, UB income was made taxable in 1974 and for most of the period in question 5 waiting days was required before receipt of benefits.\textsuperscript{771} Finally, participation in one of the various active labor market programs tied to the employment offices, such as training or public works employment, could renew eligibility in the system, thereby making it relatively easy to stay within the system over a long period of time (the so-called ‘endless carousel’). The eligibility requirements for KAS were somewhat lighter.\textsuperscript{772} Naturally the ‘membership requirement’ above did not apply, as the purpose of KAS was to cover those without fund membership. In terms of the ‘work requirement’, 5 months of either work or participation in a labor market training program in the past 12 months, as in the UIFs, or 12 months of full-time school (with a qualifying period of 3 months for school leavers), was required for eligibility. As for the ‘job search requirement’, this was basically the same as for unemployment insurance: registration at an employment office and acceptance of ‘suitable’ work. As a result of these lesser requirements, and to maintain employees’ motivation to continue entering the union-affiliated UIFs, KAS was considerably less generous than the insurance system. Thus KAS had a top replacement rate of about 37 percent for poorer workers, and this declined to about 15 percent for higher earners.\textsuperscript{773} The

\begin{footnotesize}
\begin{enumerate}
\item\textsuperscript{768} Hagglund, 2009, suggests in contrast to Bjorklund and Holmlund, that from 1989 to 1994 the work requirement was in fact 75 days (at least 3 hours a day) in 4 months during the last year.
\item\textsuperscript{769} These timelines were arrived at with extensions in 1968 and 1974, Ibid. p. 112.
\item\textsuperscript{770} Ibid.
\item\textsuperscript{771} This was overturned in 1989 and then reinstated in the early 1990s.
\item\textsuperscript{772} Bjorklund and Holmlund, 1991, 117.
\item\textsuperscript{773} Ibid. 134.
\end{enumerate}
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duration of benefits was relatively similar to the UIFs, though. The maximum benefit period for KAS was 150 days for younger workers; those who were older than 55 could receive them for 300 days and those over 60 were entitled to 450 days. Initially, KAS recipients constituted about 14 percent of the unemployed, compared to about 45 percent receiving UIF benefits, and with the remainder receiving no compensation. In other words, KAS made up roughly a quarter of all recipients. As UIF coverage increased in the 1980s, though, the percent of the unemployed receiving KAS fell to around 7 percent in the late 1980s, while the percent receiving UIF benefits rose to 69 percent, and the percent receiving no benefits fell from 41 to 24 percent (i.e., one in ten recipients were in the KAS system). In comparison to most other systems, a recipiency ratio of 76 percent was quite high. Partly for this reason, when combined with the generosity of benefits, Sweden’s UB Effort score is high for the late 1980s.

Big Reforms in the 1990s

The early 1990s were a period of deep recession in Sweden and gave wider currency in political discourse to trenchant criticisms of the established Swedish model. Already in the late 1980s pressure had mounted for reform of other aspects of the welfare state, such as the pension system, sick pay, worker compensation, and the public delivery of various services. However, it took the early 1990s recession and the deep holes that it punched in public finances for sufficient support to emerge for broad cuts in decommodifying entitlements. The unemployment insurance system was only one of the systems subjected to cuts under the ‘bourgeois’ or center-right coalition from 1991 to 1994: parental insurance, sick pay, and work injury insurance also faced cuts. In terms of UB, in mid-1993 the top possible replacement rate was reduced from 90 to 80 percent; employee membership contributions were increased; and the 5 day waiting period, which had been eliminated in 1989 by the Social Democrats, was reintroduced. (Similar cuts to the top replacement rates were made in the other programs named above.) Perhaps more importantly, the benefit ceiling was reduced in 1992 and subsequently held constant in nominal terms until 1998, which effectively represented a deep cut due to inflation. Finally, the ‘endless carousel’ system whereby the unemployed could re-qualify for benefits through participation in labor market training was ended

774 Ibid. 122.
775 Huber and Stephens, 2001, p. 244-247.
by setting a limit of two and a half years of benefit receipt: UI benefit receipt for 60 weeks, labor market program participation, and one final period of 60 weeks for benefit receipt.\textsuperscript{776}

These reforms were in large part motivated by attempts to reduce the costs of UB and to rectify the large and growing deficits that the UIFs faced. Indeed, as unemployment climbed towards 8 percent in 1993, it became clear that action of some sort would be needed, as the funds’ sustainability was premised on 2-3 percent unemployment. But the Bildt government tried to use the crisis to challenge the foundations of the Swedish Model, moving beyond what was ‘required’ in a strict budgetary sense. The minority bourgeois government had been able to enact these retrenchments despite resistance from the Social Democrats, in part because the latter had been willing to compromise on cuts as long as there was no attempt made to ‘nationalize’ the UIF system: i.e., doing away with the Ghent system.\textsuperscript{777} In the end, though, the center-right government did attempt to nationalize the system in the summer of 1994, with the support of employers. This proved to be the most contentious of the reforms, as one might imagine. Essentially the government was trying to take administration of UB away from the unions and thereby significantly weaken their recruiting ability. This represented a profound institutional change, and the SAP and the unions were of course staunchly opposed to it.

It is no surprise, then, that with their return to power in the fall of 1994, the SAP reversed the ‘nationalization’ of the Bildt government. Moreover, the benefit duration limits that had been enacted were also reversed, as the ability to indefinitely re-qualify for unemployment benefits through ALMP participation was restored.\textsuperscript{778} Yet despite these important moves to return to the pre-recession status quo, the SAP had nevertheless experienced a shift in outlook in relation to the unemployment benefit system, and in relation to the welfare state more generally, during the crisis period. The SAP that returned to power in 1994 was not the same party as the SAP of the 1980s. No doubt many of the retrenchment policies that emerged from the SAP government in the mid-1990s were motivated by the desire to reduce the significant deficits of those years. But the SAP had changed ideologically as well, as was evident in a sharp deterioration of relations with the LO.\textsuperscript{779} This was also clear when the informal cooperation of the SAP and the Left Party broke down over the issue of restricting benefits for youth in 1995. As a party now committed to moderate retrenchment, the SAP formed a coalition with the Center Party, the first partisan cross-class collaboration since

\textsuperscript{776} Bjorklund, 2000, p. 156.
\textsuperscript{777} Anderson, 2001, p. 1081-82.
\textsuperscript{778} Ibid.
\textsuperscript{779} Ibid. See also Galenson,
the 1970s, and this gave extra impetus to reform. Together the parties moved to further reduce the top replacement rate from 80 to 75 percent, effective January 1996. At the same time, the period for which workers who resigned from their jobs “without good cause” could temporarily lose access to benefits was extended from 20 to 45 days. Those who refused job offers several times while receiving benefits could also lose them for a time. Moreover, a new state-run insurance system called ‘Alfa-kassan’ was established in 1998, unrelated to any union, and open to workers in any sector of the economy. This weakened the connection of benefits to union membership, undermining the recruitment incentive of the Ghent system. However, in the end its impact was minor: while the Alfa-kassan system grew steadily, only 16 percent of fund members were not union members by 2005. Finally, limits to benefit duration as well as stricter eligibility requirements were put back on the table.

This last issue proved difficult to tackle for the Social Democrats. An official commission was set up to look into reforms of benefit duration; however the recommendations of the commission were opposed by both the LO and the TCO. As a result, a new commission had to be established which this time excluded the participation of the TCO and SACO, the white-collar unions. These unions had in particular opposed the first commission’s proposals to restrict benefits to university students and to tighten qualifying rules. In regards to the latter, a new requirement of at least half time work in 9 of the previous 12 months was thought to be too strict by the TCO; the prior requirement had been 5 months. The LO, for its part, opposed the proposed strict limitation of benefits to 600 days (i.e., the ending, yet again, of the ‘endless carousel’). In the end, the new commission accepted many of the unions’ criticisms and a compromise of sorts was achieved, in part due to an improving economic situation. Under the arrangement established in late 1996, the top replacement rate was raised to 80 percent once more, and workers would now have to work for at least 70 hours a month for 6 of the past 12 months. The issue of strict limits on benefit duration, in particular the ability to re-qualify for benefits through ALMP participation, was put on hold for yet another commission to investigate. Lastly, the Social Democrats also proposed fusing the KAS and UIF systems into one larger system where everyone was guaranteed at least benefits corresponding to KAS but could achieve income-related benefits through UIF membership. This

780 Jochem, p. 128.
781 EIRO, 2000, “Do benefit cuts increase the transition rate into new employment?”
782 Clasen and Viebrock, 2008, p. 442.
783 Wadensjo, Forthcoming, in Paul De Beer, ed.
784 Ibid.
785 EIRO, 1997, “Trade unions and Social Democrats agree on unemployment insurance.”
did not have a major impact on the UB system, as it merely recreated the dual system already existence. It did however make KAS subject to the administration of both the social partners, unions and employers. The delegation of KAS administration to private associations, it was argued, would make the system more “effective” and “economical.”

The cumulative effect of these reforms was a significantly less generous unemployment benefit system by the end of the decade (see Table 5.1). Whereas in 1992 employees with a median income would receive 90 percent of their previous income in benefits, by 2000 they would only receive around 68 percent. This was due partly to the reduction of the top replacement rate to 80 percent, of course, but more importantly it was due to a lowered nominal benefit ceiling which had not been allowed to rise with inflation. As a result, the brunt of the retrenchment in the program in the 1990s was borne by middle- and higher-income employees. For instance, employees in the top quarter of earnings faced a replacement rate of only around 57 percent in 2000; though they had started the decade at just over an 80 percent replacement rate, not 90, given the pre-existing progressiveness of the system described above. This amounted to a roughly 25 percent drop in replacement rate. While employees in the bottom half of the income scale saw their replacement rate drop with the fall in the top rate, the 10 percent drop in the top rate was all that they experienced.

*Mild Reconsolidation and Activation*

With the return to budget surpluses in 1998 and unemployment falling in the midst of a booming economy, the Social Democrats came under pressure from union representatives and the Left to increase the generosity of unemployment benefits. In particular, there was pressure to address the benefit ceiling which had been allowed to fall considerably, as noted above. Thus, in late 1999, a range of proposals were presented by the Swedish Ministry for Industry, Employment and Communication, the ministry in charge of UB. Among them were: raising the benefit ceiling from SEK 580 to SEK 640 for the first 100 days (or 20 weeks) of unemployment; giving unemployed people an ‘action plan’ which would lay out the sphere of jobs ‘suitable’ for them, and which would widen as unemployment lengthened; have a more detailed system of punishments in place in cases of refusal to accept suitable jobs; and have limits placed on length of benefit receipt, alongside a

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786 EIRO, 1997, “Unions and business will administer new unemployment insurance.”
788 Perhaps even starker was the impact on workers at the 90th percentile of income, who now faced a replacement rate of 45 percent compared to around 67 percent in the early part of the decade. Ibid.
guaranteed job offer in the state-funded “readjustment labor market”. Ultimately all of these proposals found their way into the Social Democratic government’s bill in 2000 in one form or another. The benefit ceiling was raised, as above, ‘action plans’ were introduced, the ‘endless carousel’ was finally abolished, and specific rules were put in place to determine punishment levels in cases of refusing ‘suitable’ job offers: 25 percent cut for 40 days on the first occasion, 50 percent for 40 days the second time, and full withdrawal of benefits after the third. On paper these rules on benefit withdrawal were less strict than the rules that had existed before, which allowed fund administrators to fully revoke benefits when recipients refused suitable work even on the first such occasion. However, since such a move would cause significant hardship for the now non-recipients, frequently the officials in the funds would let several cases of refusal pass without doing anything. Thus the new rules put in place clear guidelines that were easier to follow, effectively tightening the sanctioning procedures of the funds.

What becomes clear is that this later round of reforms simultaneously increased the generosity of the system in terms of the amount of benefits recipients collected, while taking a much more stringent stance on the so-called ‘activation’ of these recipients. Instead of broad-brush retrenchment, the reforms aimed rather to encourage work along with recovering most of the income security of the pre-1990s system. As it turns out, the increases in the benefit ceiling, though significant for many unemployed, were insufficient to allow a majority to achieve the maximum statutory replacement rate of 80 percent, even in the first 20 weeks. After all, the reforms had only upped the benefit ceiling in this initial period, and benefits remained at the lower SEK 580 level after that. This motivated a second round of benefit hikes, which had been conditional on continued sound finances. In 2002, a ceiling of SEK 730 was established for the first 20 weeks, and SEK 680 for the remainder of benefit duration up to 60 weeks. This finally came close to allowing median income earners to achieve the 80 percent replacement rate, but those above this naturally fell progressively further away from the mark. At the 75th percentile of income, the effective replacement rate stood at about 65 percent (once again compared to around 80 in the early 1990s). This situation soon prompted SACO and TCO, the white-collar unions, to set up supplementary private insurance funds that would allow their members to approach the 80 percent figure. While generally applauding the benefit increases as a step in the right direction, the white-collar unions therefore criticized the

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789 EIRO, 1999, “Ministry proposes new rules on unemployment insurance.”
790 Interview with SN official.
791 See Bennmarker, Carling and Holmlund, 2005, for details.
SAP both for its delayed response and for failing to give the majority of their members the 80 percent rate. Employers, on the other hand, opposed both benefit hikes.

Restructuring and Retrenchment Once More: The Reinfeldt Government Reforms

After 2006, the four-party alliance led by Fredrik Reinfeldt quickly set out to fundamentally restructure the UB system. These reforms must be seen in the broader context of the Reinfeldt government’s agenda to ‘make work pay’. For instance, at the same time that the government set about reducing the generosity of UB and tightening eligibility, income tax cuts for employed people were introduced to make work more attractive. As well, targeted payroll tax reductions were put in place to encourage firms to hire youth, immigrants, and long-term unemployed persons (‘new start jobs’). The revenues thereby lost by the government would be compensated by savings in the UB system, thus (not so-) subtly pitting the interests of the employed against those receiving benefits.

As the government saw it, unemployment compensation was to be made “more of a short-term [transition] measure between jobs rather than an end in itself”, or “adaptation insurance.”

There were four main areas of reform, accomplished in a series of acts which took effect beginning in January 2007. First, the government moved to reduce the generosity of benefits through a range of actions: (i) the maximum replacement rate was lowered from 80 percent to 70 and 65 percent for those having collected benefits for over 200 and 300 days, respectively; (ii) the higher benefit ceiling for the first 20 weeks was reduced from 730 to 680 SEK (i.e., reversing the reform of 2002); and (iii) the reference period of wage earning which determined benefit levels was extended from 6 to 12 months. This last change affected seasonal workers most, unsurprisingly, as their ‘reference salaries’ could thus be cut by up to half, thereby undermining benefit levels. Second,

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792 EIRO, 2002, “Unemployment benefits increased.”
793 EIRO, 2000, “Government proposes unemployment insurance reform, while union launches own scheme.” Continuing the trend of increasing the activation of UB, a new state body, the Swedish Unemployment Insurance Board (IAF), was also established in 2004 to oversee the three main UI actors: the Unemployment Insurance Funds (UIFs), the Public Employment Service (PES) and the Swedish Labour Market Board (AMS). Wadensjö, 2009. The decision to establish the IAF was taken in 2002 with the thought of better supervising the PES’ enforcement of job-seeking conditions in the UI system. This new body also took over the AMS role of giving the UIFs detailed guidelines for UI disbursement. Apart from this reorganization of authority, however, the system remained very similar to what had been established by the reforms of the early 2000s until the dramatic elections of 2006, except to the extent that benefit levels had once again been allowed to fall in real monetary terms under SAP watch.
794 Interview in September 2009 with Official in the Department of Employment.
795 EIRO, 2007, “New tax incentive for employers to create more jobs.”
796 Interview with officials at IF Metal.
797 EIRO, 2007, “Decline in membership of unemployment insurance fund due to changes in system.” And “Unions criticize proposal to cut unemployment and sickness benefits.”
eligibility for UI was tightened: within the past year a recipient would have to have worked a minimum of 6 months at 80 hours per calendar month (or 480 hours in a continuous 6 month period) to be eligible, up from 70 hours a month.  

Third, the ‘activation’ of the system was increased yet again. The ability of benefit recipients to confine their job-seeking to within their occupation and “locality of residence” for the first 100 days was abolished, thus forcing a more frantic or intense search for employment on pain of benefit penalties. In similar fashion, part-time unemployed workers were now only eligible for a maximum of 75 days of benefits, compared to 300 previously. This change hit women especially, since they compose most of those working part-time. Moreover, the waiting period for benefits was increased from 5 to 7 days to once again encourage the immediate shifting from job to job. And extended benefit periods (past 300 days) were abolished, except in cases of recipients with children or when the recipient participated in a state-administered “job and development guarantee” scheme (though again now at only a 65 percent replacement rate). If the recipients had still been unsuccessful in finding employment after 450 days of participation in this ALMP scheme, then they would be “assigned an appropriate job” corresponding to their skills that is “useful for society”; an element of ‘workfare’ is quite clear in this policy.

Despite all of these significant changes, the most controversial and arguably important of the reforms was the decision to dramatically increase the membership fee contributions to the various UIFs. The average monthly contribution was upped to 350 SEK (around 35 euro) from a prior average contribution of 100 SEK, the tax deductibility of union and UIF membership fees was done away with, and membership contribution levels were allowed to vary from sector to sector based on the level of unemployment therein (i.e., the costs of the sectoral UIF in question). Prior to the changes, membership fees had been more or less even across UIFs or sectors due to a system of equalization among them: those funds with higher costs could tap an equalization fund to make up the difference between its revenues and higher costs. For instance, in 2005, the monthly insurance contribution in the cheapest fund was about 84 SEK (9 Euro) compared to 240 SEK (26 Euro) in

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799 As well, students who had previously become eligible for benefits through full-time study for a year could no longer do so, and the period omissible from the determination of the reference year, in cases such as maternity, was reduced from 7 to 5 years. Ibid.

800 EIRO, 2008, “Restrictions on unemployment benefit to hit part-time workers.”


803 Interview with officials at IF Metal.
the most expensive. This system was ended by the government and sector-based funds were made to cover more of their costs relative to others. Under the new system, the cheapest fund contribution was now 311 SEK (34 Euro), due to the rise in overall employee contributions, while the most expensive funds now had contribution rates of 656 SEK (71 Euro). The official justification for this reform, and one echoed by employer representatives, was that this differentiation of fees based on costs (i.e., levels of unemployment by sector) would encourage unions to engage in wage restraint: if unions in a particular sector did not restrain wages, unemployment would rise and UIF fees would rise, potentially wiping out wage gains. In theory, then, the differentiation would force unions to ‘internalize their externalities’. Unions, for their part, were highly skeptical that wage restraint would be induced by this measure, given that UIF membership and wage bargaining units often didn’t closely overlap, and thus the incentive system would not work in the intended sense.

The more general increase in membership fee contribution was motivated ostensibly by a desire for individuals to more accurately perceive the costs of their insurance coverage. Undoubtedly, saving government money also played a role. Direct employee contributions to the system through membership fees rose from around 10 percent of costs in 2004 to around 45 percent in 2007. In total, the various reforms meant that government expenditure on the UB system fell by an estimated SEK 1.3 billion (138.8 million euro) in 2007 and a further SEK 1.7 billion in 2008 (181.5 million euro).

Apart from reducing the costs to the government, the changes created instability in the pre-existing labor market arrangements. Benefit receipt had become much more precarious for many employees, especially part-timers and of course students. Indeed, it is important to note that the Reinfeldt reforms tended to achieve spending cuts at the expense of those more precariously tied to the labor market and with lower incomes, the opposite of the reforms of the 1990s. As well, the generosity of the system decreased not only with the nominal cuts but also as inflation ate into current (nominal) benefit ceilings.

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805 It is not clear whether the government simply stopped the equalization system operating by law, or simply did away with the obligation of UIFs to contribute to the equalization fund, and thus those with lower costs stopped paying into it.
807 Interview with SN official.
808 Interview with TCO official.
810 EIRO, 2008, “Restrictions on unemployment benefit to hit part-time workers.”
811 I thank an official at Ministry of Employment for noting this in an interview, September 22, 2009. It is surely significant that Social Democrats presided over or at least tacitly accepted many of the 1990s reforms, but a Conservative coalition imposed the later reforms. To be sure, though, this aspect of the reforms may also be a consequence of the fact that many of the possible cuts to be imposed on higher, stable earners had been ‘exhausted’ in the 1990s, leaving only more precariously employed workers as a source of expenditure savings.
Finally, and most significant, a rapid exodus of employees from the insurance funds and from unions began. In the span of a year and a half, around 500,000 individuals left the UIF system (from 3.8 million members to 3.3 million). Most of these individuals were at the poles of labor market security: a sizable group with little danger of losing their employment and another large group of poorer, more precariously employed workers who could no longer afford membership fees. This latter group was hit doubly by the membership fee reforms: their fees went up through the higher maximum rates and the differentiation of fees meant that they bore yet higher costs (since they were more costly to insure). In terms of union membership, union density fell from 77 percent in 2006 to 72 percent in 2007, the fastest decline in density since the interwar period. Similar dynamics to the exodus from UIFs explain the decline in density, as well as the fact that union membership was no longer tax deductible as of 2007.

Predictably, these changes were met with significant resistance and consternation on the part of union groups. Before the reforms had even taken effect, in December of 2006, the LO organized a nationwide protest of over 40,000 people against the government measures (the first of a few). Petitions were also circulated, with an LO-organized list numbering 250,000 signatures. It was in part such efforts, along with staunch SAP opposition and little public support, which dissuaded the Reinfeldt government from pushing through with its proposed ‘mandatory’ system, as the Bildt coalition had attempted in the early 1990s. Quite simply, the abandonment of the Ghent system was too radical a change for the government to push through, and they desisted in the attempt before it came to a vote. Nevertheless, substantial damage to the unions had been done, and the various reforms began to have the desired effect of shedding people from the UB system. From January 2007, when the reforms began, to July 2008 when they were more or less completed, the number of benefit recipients fell from 226,000 to roughly 124,000. Granted, this was a period of falling unemployment, but falling unemployment was not nearly sufficient to explain such a precipitous drop. For instance, while prior to the reforms only 15 percent of the unemployed were not

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812 EIRO, 2008, “Low unemployment leads to reduced insurance fees.”
813 Interview with Eero Carroll.
816 Interview with Eero Carroll and officials at IF Metal. It was also noted that the Reinfeldt government had previously committed itself to maintaining the 37 UIFs, and this would have caused a range of very tricky logistical or administrative problems (since mandatory system are best run with one central state body). Interview with SN official, September 16, 2009.
818 EIRO, 2007, “Unemployment rate set to increase following new statistical definition.”
members of a UIF, after them the figure was closer to 35 percent. While this was in a way what the government desired, two things gave it pause. First, the drop in union density might threaten the effectiveness of the Swedish model of wage bargaining, particularly at a time when unemployment was low and it was necessary to have unions strong enough to restrain wages. Second, many people were simply dropping out of the system altogether, and were a spike in unemployment to occur, many would not be covered by the UI system.

As hindsight now shows, it was this latter fear that was most pertinent, as the global economy entered a period of intense contraction beginning in September of 2008. However, both concerns had an impact on government policy going forward, as 2009 saw attempts by the Reinfeldt coalition to mitigate some of the impact of the reforms. On the one hand, the average membership fee was reduced by SEK 50 a month, thus making membership slightly more affordable. On the other hand, eligibility conditions were temporarily loosened: workers would only have to be members of a UIF for six as opposed to twelve months prior to losing their job, and minimum working time requirements in the reference year were abolished. These changes were only intended to be temporary however, lasting until the end of December 2009.

**Understanding UB Reform in Sweden**

The number and complexity of changes introduced to the UB system in Sweden over the past two decades is dizzying when encountered for the first time. As such, much of what is written above is merely concerned with presenting the various reforms in rough chronological order, in part because the story has not to my knowledge been carefully presented in an academic setting. Despite this complexity, though, how might we think about the trajectory of reforms in a more theoretically-informed way? Three points are worth emphasizing in this respect. First, unions in Sweden have clearly not behaved in the way Insider-Outsider theory would predict. Second, employers have not behaved as VOC would expect in the case of UB. And third, there remain important partisan differences between the bourgeois parties and the SAP, despite a notable rightward shift in SAP policy in the early- to mid-1990s. I will elaborate each point in turn.

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819 Interview with LO Official, September 21, 2009.
820 As noted by Paul Andersson and Thomas Brunk for EIRO: “If trade union density continues to fall, the Swedish labour market model may be at risk, as the legitimacy of the model is based on equal strong social partners with high organization density, giving them a clear mandate to negotiate collective agreements.”
As noted in the Introduction and in the historical narrative, unions have been staunch proponents of a generous UB system for a long time. Indeed, they were a major force in the creation of the Ghent system, despite being disappointed with the compromise that the SAP had struck to achieve it. They were also the main force behind the enactment of a more generous system in the 1950s through 1970s, pressing the SAP to adopt higher replacement rates, raise the state subsidy, and ease eligibility requirements. In return, they delivered wage restraint to Swedish governments for a substantial period of time, despite growing tensions within the labor movement that made such restraint more difficult and fragile. Largely as a result of this sustained union pressure Sweden developed a quite generous system of UB by the late 1970s and through the 1980s, all alongside unsurpassed investment in ALMP (Table 5.2 and 5.3). Ultimately, though, internal tensions within the labor movement, financial deregulation, and the shift in employer strategy in the 1980s paved the way to an economic crisis in the early 1990s that increased unemployment dramatically and spurred deep cuts to UB, despite union resistance. Subsequently the unions have yet to reverse these deep cuts, and if anything the cuts have continued in various ways.

In interviews with officials from the two biggest union confederations in the fall of 2009, the LO and TCO, it was clear that re-instating the levels of generosity and coverage of the 1980s remained an important union goal. The official goal of both confederations is an 80 percent replacement rate for 80 percent of the benefit recipients. This would entail a substantial rise in the benefit ceiling. In fact, in the long run, the LO would like to see a return to a 90 percent maximum replacement rate, but they realize that this is unlikely for now. They have also opposed the recent changes to the membership premium system, along with changes to eligibility rules. Indeed, the unions have opposed virtually all of the reforms of the recent Reinfeldt period, and complained to the SAP during its rule about inaction on the question of low and stagnant (nominal) benefit ceilings. That said, SACO, the union of professional white-collar workers, has been somewhat less opposed to the recent reforms, as many of their members have lower rates of unemployment and thus their UIF fees have actually dropped in recent years, but they too have not supported the government on the question.

The unions oppose retrenchment and reform in the system for a number of reasons. First, they maintain that it is important that workers have a strong reservation wage so as to be better able

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823 Interview with LO and TCO officials, September 21 and 16, 2009, respectively.
824 Ibid.
825 I was unable to speak with an official from SACO but this information was gleaned in an interview with a TCO official, September 16, 2009.
to search for jobs during unemployment. A low reservation wage reduces the quality of job matching, they argue, as workers jump at any job rather than waiting for one that matches their skill level. They also claim that it makes workers apprehensive for their jobs and thus more resistant to the modernization and restructuring that is needed for competitiveness. (This is no doubt a good portion of the logic behind the popular idea of ‘flexicurity’.) In addition, though, as I have made clear, unions oppose the retrenchment for their own strategic reasons: a less generous benefit system, with stricter eligibility requirements and higher membership fees, hurts their recruitment ability and thereby their ability to control wage developments. The more attractive and generous the UB system is to employees, the more likely workers will want the extra edge that union membership can bring them in terms of benefit receipt, benefit extensions and job search requirements. This was made clear in my historical narrative and it is in part why both the TCO and SACO began offering union-run top-up insurance schemes in the early 2000s.\footnote{Clasen and Viebrock, 2008, p. 447. Such action on the part of unions is almost inconceivable in a simple Insider-Outsider framework.} It is no coincidence that union density grew in tandem with the generosity of the UB system in the postwar period, despite starting at an undeniably high level, nor that the density level fell from its 1993 peak of 85 percent to 72 percent in 2007 as the various reforms have taken effect.\footnote{EIRO, 2008, “Trade unions take action to counter membership decline.” Indeed, if one looks closely at union membership numbers, they fall steadily from the 1993 peak between that year and 2000 (from 85 to 81 percent), when the bulk of the early changes occurred; then only fall very gradually from 2000 to 2003 as the system reconsolidated; and begin to drop again as the benefit ceiling was allowed to fall in real terms again post-2002. And of course the Reinfeldt reforms induced an even more rapid fall in membership after they took effect, as the figure for 2008 suggests. The slight drop in density in the early 1960s was also the product of a brief fall in the value of UB (or replacement rate). See Carroll, 1999, p. 140.} Table 5.5 shows the evolution of union density in postwar Sweden.

**Table 5.5: Union Density in Sweden in the Postwar Period**

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<tr>
<td>Union Density</td>
<td>72.1</td>
<td>66.3</td>
<td>67.7</td>
<td>74.5</td>
<td>78</td>
<td>81.3</td>
<td>80</td>
<td>83.1</td>
<td>79.1</td>
<td>76.5</td>
<td>68.3</td>
</tr>
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Employers for their part have shown nearly the opposite preferences. Their preferences have remained fairly stable since the interwar years, it appears, opposing, or at least not actively supporting, increases in the generosity and coverage of the UB system. The work by Peter Swenson makes this clear, even though his broader case is that employers were not resistant to the
development of much of the Swedish welfare state. While this is his broader case, and one that he makes compellingly in other policy areas, it is also clear that it does not work well in the case of UB. As he notes, the “SAF, it appears, never approved of unemployment insurance as much as other Social Democratic social legislation of the 1940s and 1950s and on frequent occasions called for adjustments and restraint in future revisions.” This is because UB potentially interferes with the operation of the labor market in much more direct and less favorable way, from employers’ vantage point, than ALMP and other social insurance programs. It is also clear that their resistance to the Ghent system intensified through the late 1970s and 1980s, when they began to see it as the basis of the very strong position of the Swedish labor movement. Thus in the early 1990s they supported the various reforms to the UB system, including the ‘nationalization’ of the unemployment insurance system enacted by the Bildt government. When the benefit ceilings were raised in the early 2000s they opposed this as well. They also supported the various ‘activation’ measures of this period, such as making it mandatory not to limit job search geographically and occupationally.

In terms of the recent changes, they supported the increase in membership fees and again agreed with the reduction in compensation. In general, employer representatives agreed with the raising of membership premiums because they accepted the argument that this would induce wage restraint on the part of unions (as explained above). The SN would even support abolishing the membership fee ceilings set by the Reinfeldt government, allowing fees to rise corresponding to UIF expenditure (which would hurt those most at risk of unemployment, usually lower-income workers).

As for reducing compensation levels, their position is based on the common idea that these would ‘strengthen work incentives’. As well, holding down compensation levels would force unions to set up the kinds of supplementary insurance funds that began to emerge within SACO and TCO, and this would then force members to face the full costs of their insurance (as in the wage restraint argument). It would also, conveniently, give the government scope to reduce the financial contributions of employers, who pay for a good part of UB through payroll taxes. Lastly, the SN would like to greater competition amongst funds (i.e., across sectors) so as to achieve various efficiency gains. Interestingly, though, in an interview the SN representative suggested the

829 Ibid. p. 260.
830 See Korpi, 2006.
832 EIRO, 2000, “Government proposes unemployment insurance reform, while union launches own scheme.”
833 Interview with SN official, September 16, 2009.
834 Ibid.
organization no longer officially challenges the voluntary, union-administered nature of the system; perhaps a nod in the direction of accepting the necessity of at least moderately encompassing unions to restrain uncoordinated wage claims, or simply a nod in the direction of political realism.

Finally, the policy history of the past few decades shows that significant partisan differences exist between the SAP and the bourgeois parties, in contrast to what David Rueda’s Insider-Outsider theory would lead us to expect. Tellingly, given my overarching theory, these partisan differences were less pronounced in the 1970s, since the bourgeois parties had to enter into ‘political exchange’ with the unions who were very powerful in the face of low unemployment. Thus no significant cuts took place under the governments of Falldin from 1976 to 1982 (if anything the generosity of the system increased, for example through higher subsidization).

By the 1990s, the leverage of the union movement had been reduced considerably, given high unemployment, the budget crisis, and the decentralization of bargaining that temporarily reigned after the SAF refused to continue with the practice of central bargaining in 1990 (and the related shift to a non-accommodating monetary policy regime). What followed was the most radical retrenchment witnessed in the postwar period under the Bildt government, including the attempted ‘nationalization’. In this sense, the ability of the bourgeois parties to deeply cut the UB system has depended upon a new political economic situation wherein union cooperation is no longer as required as it once was (see Chapter 1). This is also evident in the case of the Reinfeldt governments, where it was able to push through reforms that the unions intensely opposed and resisted.

The trajectory of the SAP in relation to UB is slightly more complicated. There has undoubtedly been a shift in a more neoliberal direction on the part of the SAP in the past two decades, relative to their stance prior to crisis of the early 1990s. Indeed the crisis proved to be something of a turning point in SAP policy. We can understand this shift as the result of combination of three forces. First, the foremost concern in the immediate post-crisis period of the 1990s was to rein in government spending and reduce the large deficits. Given the significant costs of unemployment compensation in this period due to the high unemployment rate and somewhat lax requalification requirements, UB became an obvious target for cuts. In this period, then, the SAP tried to cultivate an image of ‘fiscal responsibility’ to fend off political challenges from the Right and this pushed them to press for further cuts to UB (with the prodding of their Liberal coalition partners too, it must be noted). This mentality not only seemed to genuinely win over many in the SAP, but once they had achieved the image of fiscal responsibility in the later 1990s they were loath

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835 See data in Bjorklund and Holmlund, 1991, Ch. 11.
Partly for this reason, the benefit ceiling hikes in the early 2000s never met the standards striven for by the unions. Second, it was during this period that many Social Democratic parties across Europe came to accept the idea of ‘activation’, and while the SAP had already clearly bought into activation through ALMP, reform to the UB system was seen as another way of achieving this goal. Rather than being seen as mean-spirited, the reforms to UB could be sold to publics as motivated by getting people back to work; according to this New Labourist line, the reforms were not harming the unemployed but helping them. No doubt this explains in large part the nature of the reforms introduced by the SAP in the early 2000s, when this position was arguably at its most hegemonic. Important in this respect seems to be the chorus of encouraging research emerging from institutions such as the OECD suggesting that generous unemployment benefits tended to increase unemployment. Whether or not this was actually the intention or effect of the reforms, it was a powerful political idea in an era of retrenchment. Third, given the nominal benefit ceiling, the UB system was prone to what Jacob Hacker has called “policy drift”, which the SAP took advantage of to some extent. In other words, ‘non-decisions’ to allow the benefit ceiling to fall behind inflation allowed them to retrench without doing anything, and this helped the SAP cut costs without too much political blowback. The SAP adopted this approach to an extent, though of course there were the notable exceptions of 2001 and 2002, which demonstrated that the party still had some commitment to the more generous system of past decades.

Despite this movement in a neoliberal direction it is also clear, however, that the SAP has opposed the majority of the recent changes under Reinfeldt. In interviews with analysts from both employers’ and union groups in the fall of 2009 both agreed that if the SAP was re-elected in 2010 they would attempt to repeal many if not all of the new provisions. Given the election victory of Reinfeldt’s coalition in 2010, there is no way to know whether this was accurate, but the SAP’s resistance to the policies as they were implemented by Reinfeldt and careful coordination between the SAP and the LO on such matters in the lead up to the 2010 elections suggest so. It should also be re-emphasized that the recent changes were aimed much more at achieving savings by hurting

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836 Interview with Eero Carroll, September 21, 2009.
837 Clasen, 2002.
839 See for example, OECD, 1994; 2004. Chapter 1 discusses this debate.
841 As Paul Pierson made clear in his seminal studies of retrenchment, ‘blame avoidance’ can be crucial to maintaining political popularity despite cuts, and a non-decision is simple way of achieving this. Pierson, 1996; I also thank Eero Carroll for this insight.
842 Interviews with LO, TCO and SN officials, September 2009.
those precariously connected to the labor market or those with lower incomes, and this was not the approach followed by the SAP in the 1990s. Their cuts in the 1990s, while significant, achieved most of the ‘savings’ at the expense of higher-earning recipients. In this sense, significant partisan differences remain on the question of UB in Sweden, contrary to what Insider-Outsider theory predicts. As Karen Anderson described the reforms of the early 1990s, “overhauling the unemployment insurance system was highly contentious, partisan and difficult.”

This also seems to nicely describe the recent reforms under Reinfeldt. The Social Democratic party is still much more committed to societal investment in the well-being of ‘outsiders’ than the parties of the political Right, and in a fashion that is targeted to generously insuring low-income workers and those with marginal labor market attachment. As I have argued, this is no coincidence given continuing links between the LO and the SAP and the former’s continuing commitment to a generous UB system.

Section V: Conclusion

This chapter has argued that understanding the evolution of labor market policy in Sweden requires grasping the central role played by the country’s encompassing labor movement: its policy preferences and priorities, its centralization and capacity to deliver wage restraint and industrial peace, and its intimate connection with the SAP. In the case of Sweden, this is not a completely novel perspective, to be sure. Most accounts of the country’s political history have found it hard to ignore or sideline Sweden’s extremely strong labor movement. Indeed, it is no mistake that early work in the Power Resources tradition was based largely on the Swedish experience, and that the country has had a prominent place in debates over the development of the welfare state.

Nevertheless, looking at labor market policy in Sweden through the prism of Varieties of Unionism

844 There is some anecdotal evidence that commitment to UB has weakened in the past few years within the SAP and LO as a result of rising concerns over increasing immigration. Immigrants are viewed to be ‘taking advantage of the welfare state’ and popular support for more targeted policies to Outsiders such as UB has therefore decreased. What must be made clear, though, is that this possible waning in support towards Outsiders is not based upon high EPL, as in Rueda’s Insider-Outsider theory, but due to perceived cultural/ethnic differences. No doubt the success of the far right Sweden Democrats in the last election is an important indication of this current of thought. I thank Bo Rothstein for this insight in a conversation at the 2011 APSA conference in Seattle. A more careful investigation of this idea needs to be made though, clearly.
845 See for example, Stephens, 1979; Korpi, 1978; 1983; Esping-Andersen, 1990; Huber and Stephens, 2001; Baldwin, 1990; Heclo, 1974. One could even accuse early PRA work of being Sweden-centric, in the same way that VOC work has arguably focused too much on the US and Germany.
illuminates certain things about the labor movement that have been under-appreciated in other theoretical accounts.

First, it was not simply the numerical strength and centralization of the labor movement that mattered in the development of a strong system of labor market protection, though this was undoubtedly significant. What also mattered was that the labor movement was tied to a Ghent system of UB, which integrated more marginal segments of the labor market into the movement and made it particularly keen to promote policies that would support the unemployed, *for strategic as well as representational reasons.*[^846] In addition, when industrial restructuring intensified in the 1960s and generated demands for job security across the West, the encompassing nature of the movement pushed it to favor a system of employment protection that would provide nearly the entire labor market with basic elements of security. And while for various reasons the labor movement has had its political leverage weakened in the past 20 years and these protections have been challenged, this broad or expansive policy vision remains very much alive within it. To the extent that the Ghent system’s influence is acknowledged in treatments of Sweden, it is usually simply to highlight its role in generating high union density. But as I have argued, the Ghent system’s influence is more profound than this: it has contributed powerfully to a much more encompassing vision of social protection than what exists in other union movements. It is also little wonder, then, that an Insider-Outsider account of labor market policy finds little resonance in Sweden.

Second, in order to understand the challenges faced by the ‘Swedish model’ today, the partial radicalization of the labor movement in the late 1960s and 1970s must be taken into account, as well as the tensions between the private and public sector unions during that period. The wage-earner fund debate and other measures associated with labor’s ‘radicalization’ profoundly radicalized employers in the opposite direction, pushing them to challenge the basic elements of the Swedish model and to invest in shifting public discourse in a neoliberal direction. Their opposition to the systems of labor market protection initiated in the 1960s and 1970s must thus partly be understood in this context, although it is also clear that they never eagerly supported the introduction of these protections either (in the interwar or postwar years). It is for this reason that explaining the achievement of strong labor market protections in the case of UB and EPL with reference to employers’ preferences, as in some variants of VOC, makes little sense.[^847] On the other hand, the growing tensions between the public and private sector unions in the 1970s and 1980s led to rising

[^846]: For example, the ratio of employed union members to unemployed union members is 0.84 in Sweden, suggesting a considerable integration of ‘Outsiders’ into the labor movement. Huo, 2009, p. 26. See also Chapter 2.

[^847]: See for example Estevez-Abe et al., 2001.
inflation and contributed to the breakdown of highly centralized wage bargaining. Combined with the rise of a more non-accommodating monetary policy regime in the early 1990s, this weakened the labor movement’s ability to engage in corporatist ‘political exchange’ as it had before.\footnote{Mares, 2006, p. 116-126; Iversen, 1999.} This would subsequently mean that the unions’ leverage in political debates diminished and retrenchment became thereby easier. Again, as I have emphasized above, this weakening is only relative to a previously very strong position, though.

Finally, placing the Swedish labor movement at the center of the analysis makes it clear how important it has been to the evolution of especially SAP policy in the postwar period. Some accounts of Swedish politics in the Power Resource tradition therefore perhaps overstate the importance of partisanship. This is not to deny partisanship’s importance in Swedish politics. What I have said in Sections III and IV should make this clear. But given the role of especially the LO in generating the policy visions that the SAP ultimately adopted, it is clear that the impact of partisanship has been strongly conditioned by the desires of the labor movement, at very least for most of the postwar period. Arguably the Rehn-Meidner model, extensive ALMP, the ATP, the LAS and the expansion of the UB system all had their roots in the policy demands of the unions. Without this pressure and advocacy, it is unclear what SAP postwar hegemony would have resulted in, but almost certainly not in a welfare state of the same character or strength as in fact emerged. Indeed, the experience of the ‘bourgeois’ Falldin governments in the late 1970s and early 1980s, when the welfare state continued to grow, suggests that ‘political exchange’ and the unions’ encompassing political vision was at the heart of Swedish welfare state development, not simply or even primarily partisanship. The weakening ability of the unions to impose their political vision also in large part explains the recent retrenchments to labor market protection, but partisanship is only part of this story, as I have argued.
“Wage moderation is the essential element of the Dutch model. The trade unions were moderate in their pay claims and did not oppose employers’ strategies for modernization and technological innovations. With hindsight the voluntary wage restraint of the Dutch trade unions may be seen as a ‘tacit compromise’ – the government restricting itself to only a minor reduction of the welfare state in exchange for a large self-restraint among the social partners.” – Jacobs, 2004, p.28.
Section I: Introduction

In welfare state typologies, The Netherlands has often occupied an ambiguous position. In Gosta Esping-Anderson’s seminal typology, *The Three Worlds of Welfare Capitalism*, the country was placed in an uncertain position between the Conservative-corporatist type and the Social Democratic regimes. When he revisited the issue in *Social Foundations of Postindustrial Economies*, he noted that the “Netherlands remains a Janus-headed welfare regime, combining both social democratic and conservative attributes.” In its degree of social insurance decommodification and broad coverage, the Dutch welfare state resembled the Social Democratic regimes of Scandinavia. However, in other respects it was much closer to the Conservative welfare states of Continental Europe: traditionally low employment ratios and low female participation rates (familialism), as well as a strong influence of Christian Democratic parties and thought (e.g., the principle of subsidiarity). This latter point led some to suggest that the country simply be referred to as a Christian Democratic welfare state.

In the literature on Varieties of Capitalism, there is, by contrast, less ambiguity: The Netherlands is seen as a Coordinated Market Economy. Even here, though, there are elements of its political economy that are moderately Liberal, such as a relatively high level of stock market financing relative to other CMEs.

Thankfully, in the context of this thesis, categorizing the Dutch labor movement in terms of Varieties of Unionism is relatively easy: it is clearly a case of social partner unionism. It has all of the defining characteristics of such a labor movement: modest union density, strong bargaining ‘extension mechanisms’, a bipartite role in social insurance administration, and a relatively cooperative approach to industrial relations. In addition, there is little doubt that the labor movement has operated within an inclusive political economy for most of the postwar period. As such, it is a useful case in which to investigate the impact of such unionism on labor market policy. Again though, as with the other case studies, The Netherlands has its own peculiarities that make it only one possible expression of social partner unionism. Tables 6.1, 6.2 and 6.3 give a brief sense of this by outlining the main policy differences and similarities between the other cases of social partner unionism. To the extent that this chapter relates to explaining policy outcomes in these other cases, however, it is usually only implicitly; the focus of the chapter is The Netherlands.

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851 See for example Huber and Stephens, 2001; van Kersbergen, 1995.
853 Pontusson, 2005, p. 22.
Table 6.1: Unemployment Benefit Effort, 1985-2005

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Table 6.2: Outsider Effort, 1985-2005

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Table 6.3: Strictness of Employment Protection Legislation, 1985-2005

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*Social Partner Unionism, Labor Market Policy and Competing Theoretical Accounts*

What the Tables make clear is that the Dutch labor market regime has been one of the most ‘protective’ among the countries with social partner unionism, especially in terms of unemployment benefits. The regime has also been much more generous or protective to the majority of workers than what has been achieved in countries with militant and business unionist traditions, as explained in Chapters 1 and 2, and arguably even some Social Democratic regimes. The argument of this chapter is that this outcome is the product of the Dutch labor movement’s consistent and effective support for a highly protective labor market regime, and in particular its willingness and ability to trade significant wage restraint to establish and maintain it. While the initial achievement of a highly protective Dutch regime was partly unintentional and fortuitous, as I explain below, its maintenance subsequently has been very much a product of intentional action on the part of the labor movement:
most crucially, corporatist ‘political exchange’ to defend the existing welfare state. Although this political exchange has not been sufficient to prevent important cuts to the welfare state and to labor market protections, it has been more successful at preserving them than in most other countries, as the Tables suggest.

Understanding the evolution of Dutch labor market policy thus in large part requires grasping the preferences, priorities and capacities of the country’s labor movement. Its capacities are largely connected to the existence of political exchange, since in terms of membership numbers the Dutch labor movement has never been particularly strong in the postwar era. Instead, its power or influence resides in (a) its ability to deliver wage restraint to governments and (b) its integration into the machinery of the state and its institutionalized voice in policy discussions for most of the postwar period. In regards to (a), it has been able to deliver wage restraint for much of the postwar era in spite of modest union density due both to extension mechanisms, which generalized union-negotiated contracts to whole industries, and due to a relatively high level of internal centralization. As for (b), its integration into the machinery of the state connected it very closely to government policy and granted it near-veto power in policy discussions for much of the postwar period; this was represented for example in its participation in corporatist advisory agencies and its bipartite role in social insurance administration. This integration, in turn, broadened the policy perspective of the movement and has helped shape its preferences, as argued in Chapter 2. To be sure, the very decision to adopt an ‘inclusive political economy’ on the part of political elites was spurred by the dominance of a reformist or ‘socially integrative’ outlook in the labor movement in the first half of the 20th century, which made it a more plausible candidate for cooperation. Yet the decision to ‘include’ it also reinforced this same integrative current within the labor movement, by motivating it to restrain more immediate, hard-line demands to maintain its privileged place in the political economy. In short, it pushed the union movement to accept responsibility for the welfare of the economy and society as a whole and to formulate its demands accordingly.

When it came time to reap the policy rewards of its postwar restraint in the 1960s and 1970s, then, the union movement pressed for an expansion of an already quite generous and broad system of labor market protection, including continued strong support for the unemployed. In recent decades, its support for the regime established in these years has remained strong, though partisan

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854 The structure of the welfare state programs established in the 1960s, such as disability and unemployment insurance, were based upon forecasts of low unemployment and high growth rates. When these forecasts did not materialize, the welfare state expanded faster than expected. In this sense the extremely generous welfare state of the 1970s was “unintended”. Cox, 1993, 134-135. See below, Section IV.

855 Iversen, 1999, Ch. 1; Visser, 2000.
dynamics and external pressures for retrenchment have forced it to prioritize certain areas over others. In this respect, its defense of Outsider protections has not been as staunch as its defense of Employment Protection Legislation, partly due to the somewhat older and more ‘established’ character of its membership.856 Nevertheless, as I show, its support for Outsider policy remains considerable, including a willingness to trade wage restraint for reduced retrenchment in unemployment benefits, or even policy expansion in the case of ALMP.

I should be clear that the achievement of a highly protective regime did not proceed as smoothly or straightforwardly as the above depiction might suggest. In fact, while the Dutch welfare state expanded most in the 1960s and 1970s, this was a period when the unions often failed to deliver wage restraint. The absence of wage restraint in the mid- to late-1960s was partly a product of the social democratic Labor Party (PvdA) not being in power, which made their social democratic allies in the unions less willing to offer it.857 It was mostly due, however, to the extremely tight labor markets of the time, which made wage restraint very difficult.858 Tellingly, the Christian Democratic parties and the Liberals that ruled in this period continued to expand the welfare state and labor market protections, partly in order to curry favor with the former’s affiliated unions. In the 1970s, when the PvdA returned to power, the welfare state continued to expand in part as an attempt to regain union support for the wage moderation it had delivered in the early postwar years. However, the still low unemployment of the time, when combined with a partially radicalized union movement, modest bargaining decentralization, and an influx of oil wealth, prevented these attempts from achieving their desired result.859 As I describe below, the result was a deep economic crisis and along with it a crisis for the welfare state. The reaction of the union movement to this crisis, though, helped assure only a modest amount of retrenchment in the longer term. For a period of almost twenty years thereafter it delivered consistent, remarkable wage restraint in order to bring the unemployment rate down and protect its policy gains of the late ‘Golden Age’. In a sense this is the flipside of the compact of the early postwar period, which saw wage moderation exchanged for welfare state growth.860 In the era of globalization, where the balance of power shifted to employers and neoliberalism was ascendant, the wage restraint and labor peace offered by the unions became the means to prevent deeper cuts in the protective political-economic equilibrium.

856 Ebbinghaus, 2006; Rueda, 2007, p. 108.
858 Visser and Hemerijck, 1997, p. 93.
859 Ibid. p. 93-96; Rueda, 2007, p. 129.
860 Van Kersbergen, 1995, p. 130.
This account of Dutch labor market policy challenges a couple of competing theoretical accounts. On the one hand, it challenges the Varieties of Capitalism explanation of labor market policy in terms of employer preferences. It does so by showing that employers were never strong proponents of labor market protections, and to the extent that they were it was in ways that do not match up with the expectations of VOC theory. For example, in the case of EPL, small business representatives have often defended the ‘prior consent’ procedure established in the early postwar period because they feared that moving to an alternative system would be more costly to them (and not because they prized the efficiency/worker investment value of it). Representatives of larger employers, whom VOC would expect to be most supportive, have by contrast opposed the ‘prior consent’ procedure at the heart of Dutch EPL for a long time and sought to dismantle it.

Employers’ approach to unemployment benefits has also been one of opposition, particularly since the late 1970s, wherein they have sought retrenchment to various components in the system.

On the other hand, it challenges the Insider-Outsider account of labor market policy advanced by David Rueda. Rueda contends that ‘Insiders’ in The Netherlands have traded wage restraint in the past three decades to protect EPL but not UB or ALMP, since their high levels of job security gave them little incentive to support policy directed at the unemployed. Of course, by ‘Insiders’ he implicitly means the unions; it is hard to see how non-unionized, atomized workers could possibly ‘trade’ wage restraint for anything, let alone offer it. However, as I show, this prediction of union preferences is at odds with the historical record: unions have often been at the forefront of efforts to resist welfare state retrenchment, in UB as well as other areas of social insurance, and they have been willing to deliver wage restraint in order to back this up. To the extent that they have failed to prevent retrenchment this is not a result of their ‘preferences’ but their weakening clout and leverage in the context of globalization and the high unemployment/inactivity of the 1980s and early 1990s. In addition to delivering wage restraint, the unions fought attempts to weaken these areas of protection in more straightforward ways: through organizing demonstrations and industrial action; through pressuring their allies in the PvdA and to an extent the center-right Christian Democratic Appeal (CDA), the two main Dutch parties in recent decades; and through their voice on the corporatist advisory bodies. Having said this, it does appear that the unions’ support for UB has been weaker than that for EPL, as Insider-Outsider theory would expect. Yet the notion that Dutch unions (‘Insiders’) are somehow indifferent or even antagonistic to ‘Outsider’

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862 Rueda, 2007.
863 Ibid. p. 128-29.
policy due to high levels of EPL is mistaken. And given the historic ties between the bulk of the union movement and the PvdA, partisan differences remain in relation to Outsider-oriented policy between the Dutch Left and Right, as I argue in Section IV, against the predictions of Insider-Outsider theory.

The chapter proceeds as follows. Section II outlines the emergence of social partner unionism in The Netherlands and presents the broad trajectory of the Dutch political economy in the postwar period in order to give some context for the analysis of Section III and IV. Section III details the history of EPL in The Netherlands, while Section IV does the same for UB. Section V concludes by looking at the prospects for Dutch social partner unionism in the future.

**Section II: Political Economy of The Netherlands**

*The Emergence of Social Partner Unionism*

The Netherlands has long been one of the wealthiest areas of Europe, and indeed the world. Its strategically central location on the North coast of Europe meant that it became “the natural entrepot” of Western Europe in the early modern period. A great deal of trade and commerce in the period flowed through Dutch lands, allowing it to develop efficient economic institutions and giving it “economic and political importance all out of proportion to [its] small size”, including a vast colonial empire. This meant two things of relevance here: a high level of urbanization and social development, combined with late and only modest industrialization. Given its colonial empire, the economy centered on banking, trade and transport until late in the 19th century, when industrialization began to take hold. Industrialization never proceeded as far as in other Western European countries, though, largely because of this continuing role as a ‘transit economy’.

These features of Dutch economic development affected the nature of the labor movement. The late and modest industrialization meant that the union movement was concentrated among skilled workers and craftsmen for much of its gestation, and these workers were not as committed to class conflict as others. In addition, perhaps owing to the relatively laissez-faire attitude of the authorities in relation to trade and commerce, early unions were not persecuted or violently repressed by the state. In fact, the franchise was gradually expanded over the course late 19th century, such that about half of adult males could vote by 1896 and nearly 70 percent by 1914. The unions

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864 North and Thomas, 1973, p. 132.
865 See for example Visser, 2000.
866 See again Visser, 2000, for what follows.
were important proponents of this expansion, including the eventual achievement of universal franchise in 1917 for men (and in 1919, for women). These opportunities for organization and expression mitigated the radicalism displayed by the movement when it emerged fully around the turn of the 20th century. Syndicalist and Communist currents were thus marginalized within the movement early on, and this was especially so given the rise of religious-based unions. In keeping with the ‘pillarized’ nature of Dutch society at the time, Protestant and Catholic workers set up their own unions and confederations in the early 1900s (the CNV and NKV, respectively). These unions were even less radical or oppositional than the others, exemplified for example by the Catholic doctrine of ‘class collaboration’. Indeed, these unions were often set up by church organizations precisely to contest or resist the radical or socialist tendencies of officially secular unions. In practice though, as time wore on, their actions became increasingly similar to the secular unions (in part because excessive ‘collaboration’ would delegitimize them in the eyes of religious workers). The socialist unions, for their part, reacted to the religious unions by moderating their positions. As Robert Cox explains, “Without the opportunity to develop a broad, class based appeal, early Dutch socialists developed a pragmatic orientation.”

By the early 1900s the upshot of these different factors was a labor movement dominated by a Social Democratic union confederation, the NVV (Nederlands Verbond van Vakverenigingen), alongside two relatively large religious confederations and a rump of syndicalist and Communist unions. The NVV was led by Henri Polak, who was a central actor in the Dutch Left until his murder in 1942. Polak advocated “industrial unionism, strong internal discipline, full-time paid officials, adequate central strike funds, accurate bookkeeping, high membership contributions and sufficient provision of insurance to unemployed or disabled members and their families.” These became the principles upon which the NVV was established, and subsequently they were adopted by the Catholic and Protestant unions. The emphasis on strong central bureaucratic organization is similar to the Social Democratic labor movements established elsewhere, such as in Sweden (see

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867 Visser, 2000, p. 439-442; see also Cox, 1993, p. 66.
868 Ibid. p. 441. There were four main ‘pillars’ to Dutch society: Protestants, Catholics, liberals, and Socialists/Social Democrats. Each ‘pillar’ had its own social organizations, welfare systems, newspapers, etc. In short, these different groups coexisted as somewhat ‘silo-like’ communities, or pillars, within the larger Dutch polity. This changed to a large extent in the 1960s with secularization and other developments, as I discuss below. See Cox, 1993.
870 Cox, 1993, p. 66.
871 Visser, 2000, p. 441. The NVV was established in 1906 with the help of the country’s largest union, the ANDB, which had been founded in conjunction with the Social-Democratic Labour Party (SDAP) in 1894. The ANDB was “the first union that managed to unite workers from all trades and crafts, Jewish and non-Jewish, skilled and unskilled workers alike.” Ibid. p. 440.
872 Ibid.
Chapter 5), and it would later furnish the basis for the sustained wage restraint of the postwar years. As well, central control and coordinating capacity was paired with a ‘socially integrative’ vision of helping the unemployed and disabled. As I document in Section IV, the unions from early on were thus involved with running unemployment insurance funds, and this helped them attract members. In fact, despite the modest level of industrialization in The Netherlands the unions managed to achieve around 40 percent union density in the interwar years, a level at which it would stay for most of the early postwar years.

Thus we can see that important components of social partner unionism emerged early in Dutch society: involvement in unemployment benefit administration; moderate union density; centralized and coordinated unions and confederations, allowing a more cooperative approach to industrial relations; and a ‘socially integrative’ outlook, intent on gradual reforms for the benefit of wage-earners. It was this emerging reformist or ‘socially integrative’ orientation of the union movement that contributed to its inclusion in various state institutions around World War I, such as the tripartite Supreme Labour Council established in 1919 that advised the Minister of Labour on social security legislation. This pattern of bipartite and tripartite consultation would continue for most of the interwar period, and it facilitated the introduction of two key pieces of interwar legislation governing industrial relations that established the strong ‘extension mechanisms’ that make up the other major component of social partner unionism.

The first piece of legislation, the Collective Agreement Act of 1927, mandated that collective agreements superseded or overruled individual contracts and had to be applied to all comparable workers (*erga omnes*). Under this system, though, employers were under no obligation to bargain with the unions, and there were no strict recognition rules for unions that would give them a privileged or assured place in bargaining. Employers’ incentive to collectively bargain lay in the fact that collective agreements were legally binding and usually contained a ‘no-strike clause’, something that they were keen to achieve. Yet such clauses would only apply to those union members that participated in the negotiations and signed the agreements, and this motivated employers to include as many of the major unions in negotiations as possible. On the union side, by contrast, there was always the danger that they could be excluded from negotiations, given the absence of strict recognition rules, and this promoted bargaining moderation on their part since bargaining

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873 In comparative terms, the Dutch movement was arguably more ‘socially integrative’ from early on than the other movements that emerged as ‘social partners’ in the postwar period, and which had a greater Communist influence early on (e.g., Germany and Austria). See for example, Hyman, 2001.

representation brought a number of benefits. The second Act, in 1937, made this dynamic more broadly applicable by granting the Minister of Labour the ability to make a collective agreement binding on all employers in a sector or region if the agreement already covered a ‘substantial majority’ of employees in that sector or region (e.g., over 55 percent coverage). This would subsequently lead to a very high rate of collective agreement coverage despite modest union density, and to a high degree of collective organization on the part of employers, who desired a role in negotiating the agreements they would be subject to.

Both these pieces of legislation were put in place by the conservative Christian Protestant-Catholic bloc that reigned in the Dutch parliament in the interwar period. While in certain respects the Acts furthered union goals, such as securing the place of collective agreements in Dutch industrial relations, in many respects they also placed the unions in “an ambiguous position: on the one hand, the legal system prevents competition from the non-union sector; on the other, it takes away incentives for workers to join.” In short, what incentive was there to join a union if your wages and working conditions were be largely the same as union members, regardless of membership? Prior to WWII this did not make a big impact on membership rates, given the late introduction of extension mechanisms and the unions’ connection to unemployment insurance (e.g., the ‘selective incentives’ of a Ghent system; see Chapter 5). After WWII unions were also able to maintain membership rates, even after relinquishing sole administrative responsibilities for UB, by offering a range of services to members such as legal advice, provision of heath care and help claiming back pay. Eventually the effectiveness of these recruitment mechanisms waned, however, and this led to a drop in density from the late 1970s onwards. The Dutch movement has now very modest rates of membership in comparative terms (only around 20 percent, down from around 25 percent in 1990; see Chapter 3).

Political Economy of Postwar Dutch Society until the Era of Retrenchment

The Netherlands emerged from the Second World War in a battered state, with significant unemployment and a weakened economy. This precarious situation produced a consensus among

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875 As Visser and Hemerijck, 1997, p. 83, explain, “Unions prefer not to stand aside, because only signing unions gain the union representation rights established through collective bargaining and only they receive the annual employers’ fee in compensation for the erga omnes application of agreements. This configuration has a built-in bias towards moderation of demands, since the most radical party on either side runs the largest risk of exclusion.”
876 Visser, 2000, p. 435.
877 Ibid.
the main political parties and the dominant labor market organizations that wages would need to be held down and industrial investment encouraged in order to spur economic growth and employment. As described in Chapter 2, a basic cross-class bargain would need to be established whereby wage restraint would be delivered by the unions in return for high rates of investment by employers. In this respect, as argued by Barry Eichengreen, “The Dutch case is prototypical… In The Netherlands, the unions conceded that the fruits of all productivity increases in the first half of the 1950s should be used to finance investment. They allowed wages to lag behind productivity in the 1950s ‘so that industry could earn profits which would pay for expansion and modernization of the productive apparatus’ (from a union publication, cited in Windmuller, 1969: 350-1). A clearer statement of a wage-moderation-for-investment trade-off is hard to imagine.” In addition, ‘works councils’ were introduced through legislation in 1950, and these bodies were intended to both embody and reinforce the spirit of cooperation and trust at the firm level: worker and management representatives would be present on these councils, and they would provide a forum for management to share information about the firm’s business and to negotiate future changes. In this way workers could be sure that their wage restraint was being productively utilized.

The delivery of this significant and consistent wage restraint was also possible given the highly centralized control within, and coordination between, the main union confederations, in addition to the existence of supportive state legislation (such as the extension mechanisms and strict limitations on strikes). Centralization was long a feature of the Dutch unions and their confederations, as noted, while the war served to increase the level of coordination between the different confederations. While the union confederations had different policy visions and identities, in the postwar period “[this] pluralism never really caused any difficulties in day-to-day inter-federation relations.”

The war also increased coordination between the major unions and political and business elites, though again this did not start from scratch either. In large part this was accomplished through the experience of the government in exile during the Nazi occupation, which brought these

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879 Eichengreen, 1997, p. 45-46. As he writes, “Between 1947 and 1954, consumer prices and the gross weekly earnings of adult male workers rose in lock step –by 32 and 33 percent, respectively –this despite the fact that productivity increased by nearly 50 percent between 1950 and 1954 alone, very considerably raising capital’s share of national income”.


881 For below, see Akkermans and Grootings, 1978; Visser and Hemerijck, 1997.

groups together in London. After the war, consultations between them were formalized by the establishment of the Stichting van de Arbeid (STAR) and the Sociaal Economische Raad (SER). STAR was a bipartite body, composed of representatives from each of the main three union federations (NVV, CNV, and NKV) and from employers’ groups. Its main role was to oversee wage developments in the labor market. The SER, by contrast, was a tripartite body that included various state officials and academic experts, in addition to representatives from the unions and employers. Its mandate was similar to STAR in its concern with promoting economic growth and setting wage targets, but it also advised Dutch governments on welfare state policy. Of course, given my argument, this last point is crucial, since it makes clear how integrated and involved unions were for most of the postwar period in the process of welfare state growth. In a way, this consultation and involvement with the expansion of the welfare state served as a ‘bond’ tying them to wage moderation and the well-being of the Dutch economy. But it also, in the process, expanded their policy perspective. While both of these corporatist bodies have gone through turbulent periods and have seen their impact wane in certain respects in recent decades, they still exist today.

This corporatist arrangement and the consensus around it proved highly durable for around two decades after the war. None of the major political parties strongly challenged it, not even the Liberal VVD party. The representatives of the other major pillars also did not challenge it, of course, and in fact nurtured it: the Social Democratic PvdA; the Catholic KVP; and the Protestant CHU and ARP. In the case of the unions, as Akkermans and Grootings note, “After the first five years there was no organized opposition to it from within the labour movement.” In large part the system’s stability owed something to its success in rebuilding the country and achieving high rates of employment. Indeed, the wage restraint would last until the mid-1960s, when only its very success led to its undoing: extremely tight labor markets with male unemployment near one percent gave rise to so-called ‘black wages’ outside of official bargaining control (i.e., wage drift). It was not that the unions had suddenly decided to break with wage moderation, but instead that employers began to pay in excess of the centrally agreed-to wages in order to increase their own labor supply or attract/retain better workers. The central negotiating system was no match for the intensity of these

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883 Cox, 1993, p. 98. The occupation itself also helped serve this purpose, as when various former political leaders were interned together during the war by the Nazi’s. This helped bring them together and led to a re-evaluation of the functionality of the somewhat fractious ‘pillar’ system. Ibid.
884 These three union confederations became known as the ‘recognized union movement’ and the smaller Communist and syndicalist union groups were excluded from consultation. The Communist Party had also been sidelined in electoral politics by the early 1950s, after a brief but small jump in support after the war. Ibid.
886 See Visser and Hemerijck, 1997, p. 93; and Akkermans and Grootings, 1978, for what follows.
wage pressures, and the wage restraint of past years boiled over in the form of increases of 13 percent, 15 percent, and 10 percent in 1963, 1964 and 1965 respectively. From around 20 to 25 percent below the wages prevailing in Germany and Belgium in 1960, wages in The Netherlands were roughly at par with them by the end of the decade. This dramatic increase in labor costs put intense pressure on Dutch industrial employers, who had traditionally been established in fairly labor-intensive industries.

As it turns out, this pressure was only to intensify over the 1970s, compounded by two developments not directly related to the sphere industrial relations: ‘de-pillarization’ and an oil boom. The first, ‘de-pillarization’, contributed to the emergence of a very generous welfare state. In the old pillarized system that existed prior to the 1960s, three of the four ‘pillars’ of Dutch society, the Catholics, the Protestants, and the liberals, had wanted limited state interference in the provision of social welfare; this was indeed the ‘pillar’ idea, with relatively autonomous, segregated spheres controlled by each group (subsidiarity). The socialists, the other pillar, had by mid-century no such qualms, yet they were unable to convince the other groups to accept a strong, central state role. Consequently, the Dutch welfare state developed slowly and late, in spite of prolonged PvdA participation in government in the 1940s and 1950s. Only with secularization and the decline in religious attachment in the 1960s did this dynamic change, since it eroded the two religious ‘pillars’ and forced the Christian Democratic parties to search for votes not simply based on religious loyalty but instead on concrete welfare state commitments. Moreover, the confessional-secular divide that had weakened policy-oriented unity in the union movement was gradually overcome, and with this newfound unity the unions pushed hard for various social welfare gains. At this point the Dutch welfare state began to expand swiftly, becoming the second largest in the industrialized world in the late 1970s behind only Sweden. It should also be noted that ‘de-pillarization’ eventually led to the amalgamation of the main confessional parties (KVP, CHU, and ARP) into the Christian Democratic Appeal (CDA) in 1977. In the labor movement, this played out somewhat differently, with the Catholic NKV merging with the NVV to form the Federatie Nederlande Vakbeging (FNV), while the CNV remained separate. The FNV would become by far the dominant confederation, and is thus the center of the historical analysis in Section III and IV. The second factor, an oil boom, contributed to economic buoyancy for much of the 1970s, but it came at a cost: ‘Dutch Disease’.

887 For what follows, see Cox, 1993, Chapter 3-5; see also Jacobs, 2004, p. 21-22.
889 For example, in 1996, the FNV represented around 63 percent of Dutch union members, by affiliation, and the CNV represented just 18 percent. The white-collar, professional union confederation, VHP, represented around 9 percent.
Given the spur to economic activity and consumption produced by the oil revenues, the Dutch currency began to appreciate in these years. However, this appreciation greatly undermined the competitiveness of Dutch manufacturing.

Within Dutch industrial relations itself, another change began to undermine the system established in the early postwar years: the rise of a generation of more radical union leaders and the related emergence of significant unofficial strikes and more decentralized bargaining.\textsuperscript{890} Influenced by the quasi-revolutionary New Left atmosphere in the rest of Europe, these new union activists increasingly questioned the wage restraint and quiescence that the ‘recognized’ confederations had traditionally advocated. This rank-and-file pressure put the confederation leaderships in an awkward spot, as they were forced to decide whether to support or discourage these spontaneous revolts, or to try to mediate/co-opt them in relations with employers. Early on in the radicalization, in 1969 and 1970, the established union leaderships disassociated themselves from the unofficial strikes. As time passed this became increasingly difficult, though, and the unions began to take more assertive stances in wage and policy bargaining in order to retain their legitimacy among workers. Among these more aggressive stances were the indexation of wage rates and social security benefits to inflation, greater wage leveling, and increased participation rights within firms. Moreover, the union confederations began to use the threat of labor unrest much more explicitly to prod governments to adopt policy reforms they favored (e.g., ‘social contracting’, as in the UK). Dutch wage bargaining also became more decentralized in this period, with the introduction of more collective bargaining free of direct state and social partner oversight. STAR continued to give wage norms or guidelines, but increasingly these were challenged over the course of the 1970s, leading to rising inflation and real wages.

The combination of these developments hammered the profitability of Dutch companies, especially those in the exposed manufacturing sector. Consequently, by the late 1970s employers had significantly stiffened their resistance to wage indexation, to the unions, to the growing welfare state, and to centralized, government-influenced wage bargaining.\textsuperscript{891} However, their attempts at a counter-attack were initially stymied.\textsuperscript{892} The result was political stalemate and failed centralized wage

\textsuperscript{890} What follows is mostly drawn from Akkermans and Grootings, 1978, p. 170-71.
\textsuperscript{891} Ibid. p. 96-101.
\textsuperscript{892} For instance, when they attempted to eliminate wage indexation in collective agreements in 1977 they were forced to concede the issue by a wave of strikes; employers were similarly frustrated in their efforts to push retrenchment on the coalition governments of Den Uyl (PvdA-CDA, 1974-1977) and Van Agt (CDA-VVD, 1977-1981). Pressure in the opposite direction from the FNV and PvdA to establish “investment wage funds” from the profits of firms and thus to continue the expansion of the welfare state were likewise blocked by the opposition of employers and the right wing parties. Ibid. p. 96.
negotiations as unemployment began to grow rapidly following the oil and Volcker shocks of 1979. Given the exceptional severity of the international recession of the early 1980s, “the debate over [sic] the need of a fundamental reorientation of policies… intensified and [became] more political and public. A stream of gloomy projections of… jobless economic growth and ever rising unemployment… did not fail to make their impression.”

Coinciding with the turn to monetarism and neo-liberalism internationally, gradually a pro-austerity and employer-friendly understanding of the crisis gained ground in the early 1980s. Especially important in the Dutch case in this respect was an ad hoc commission set up in 1980 by the CDA-led government with Gerrit Wagner, the president-director of Royal Dutch Shell, at its head. While the commission membership was composed partly of experts that indirectly represented business and labor, it remained a clear signal to the social partners on the part of the government that dramatic steps needed to be taken and that the corporatist machinery represented by the SER and STAR risked obsolescence. The proposals developed by the commission were even clearer: the competitiveness of Dutch employers needed to be re-established through wage moderation, greater decentralization of bargaining with larger wage differentials, social security reform and retrenchment, disconnecting private and public sector wage contracts, and the removal of subsidies to ailing industries. As noted by Visser and Hemerijck, “With hindsight, this reads as a catalogue of the policy measures adopted over the next fifteen years.”

After a failed attempt at a CDA-PvdA coalition following 1981 elections, a CDA-VVD coalition was formed in 1982. Its aim was to push through a series of ‘no-nonsense’ austerity measures. It was in a strong position to do so not only because of the PvdA’s exclusion, but also because the unions were in a weakened position. Union membership had been falling sharply since 1978, and the high unemployment of the recession undermined their bargaining position and morale. It was in this context that the ‘Wassenaar Agreement’ of 1982 materialized, which proved to be a turning point in Dutch corporatism and industrial relations (at least relative to the polarized 1970s). With their backs against the wall, as the CDA-VVD coalition threatened to intervene with

893 Ibid. p. 98-99
894 Ibid.
895 Ibid. p. 100.
896 Ibid.
897 Ibid.
899 As Jan C. Van Ours observes: “The Wassenaar agreement marks a change in labor relations, from a period of frictions and ideological differences of opinion toward a more consensus approach in labor relations.” Van Ours, 2006, p. 135.
strict austerity wage deals, the FNV sought to salvage what it could from the situation and signed a deal with the main employers’ organization (VNO). In return for substantial wage moderation and the end of wage indexation, the unions received employer concessions on working time reduction and job sharing.\textsuperscript{900} Importantly, the agreement also helped the social partners stave off government interference in wage negotiations, a goal they both shared.\textsuperscript{901} More fundamentally, though, the agreement served to hold the Dutch corporatist system together, and allowed the unions to retain an important political role.

In effect, the ideological and political tug-of-war of the late 1970s had been settled with the unions forced to accept considerable setbacks. The arrangements that the unions and the Left favored in terms of EPL and UB came under attack and this ushered in an ‘era of retrenchment’ where they were forced to fight wave after wave of attempts to weaken these protections. Over time both areas have been weakened in important ways, as I document. However the initially ‘protective’ Dutch political economy established in the 1960s and 1970s has largely remained strong, comparatively, among the advanced industrial economies. It is the process of continuous ‘political exchange’, to which the unions committed themselves, that explains the negotiated and incremental nature of welfare state reform in The Netherlands since the 1980s, and also its somewhat modest impact. I now illustrate this argument in detail in Section III and IV.

**Section III: Employment Protection Legislation**

*Early Developments*

The first comprehensive regulation of dismissals in The Netherlands was created in 1907 with the Employment Contract Act. While the freedom of the employer to fire workers for any convenient reason was maintained, protective provisions were introduced regarding summary dismissal, notification periods, and a limit of two months for trial periods.\textsuperscript{902} Under the Act, which was incorporated into the Civil Code, a violation of any of these provisions by the employer made them liable for compensation. These provisions were quite weak, however, and did not constitute much of an impediment to employer prerogative.\textsuperscript{903} During the 1920s and 1930s the enactment of a

\begin{itemize}
  \item \textsuperscript{900} Van Vass, p. 420; Van Ours, 2006, p. 134-35.
  \item \textsuperscript{901} Visser and Hemerijck, p. 100-101.
  \item \textsuperscript{902} Van Peijpe, p. 125. Below draws heavily upon Van Peijpe, 1998, Ch. 5.
  \item \textsuperscript{903} As A.T.J.M. Jacobs points out, “Until 1940 the law on dismissals in The Netherlands was very liberal. The employer’s prerogative of dismissal was virtually absolute.” Jacobs, 2004, p. 97.
\end{itemize}
‘just cause’ provision into the Code was debated amongst experts in the academic literature and Social Democratic parliamentarians put forward proposals for its inclusion, but to no avail.

One of the first acts of the Dutch military authorities under the Nazi occupation was to prohibit dismissals without the prior consent of a government authority. The German authorities maintained this principle and it continued even with the end of the war: the requirement of prior consent for dismissals was a central part of the 1945 Extraordinary Decree on Labour Relations (BBA). This requirement was a product of the state’s desire to gain more control over the fragile postwar economy and ensure that large, disruptive layoffs did not threaten economic recovery. Ironically, given this ‘temporary’ justification, the prior consent procedure is still in operation in The Netherlands. Nevertheless the nature of the consent procedure shifted in practice after a few years as the economic situation improved. Instead of primarily considering the broader needs of the given industry, the authorities began to weigh more heavily the test of ‘just cause’ and the balance of interest between the individual workers and their employer. This culminated in an agreement between the main central organizations of employers and workers in STAR around ‘just cause’, which was incorporated officially into the Civil Code in 1953. Despite the negotiated character of this element of the system, the continued role of the wartime BBA shows how fortuitous and unplanned the foundations of the Dutch employment protection regime were.

The Dual System of Dismissal Law

Gradually this administrative system evolved and strengthened through the 1950s and 1960s into a range of consistent rules governing dismissals, as the public authority in charge of prior consent amassed cases and formed clear rules. Initially the public authority was the Director of the Regional Employment Service; it is currently the Center for Work and Income (CWI). While other Western European countries also had ‘prior consent’ procedures governing dismissals in the early postwar period, The Netherlands is now the only country in the EU to still have it. This was long the dominant path for dismissals, but another route began to be used in the 1970s which effectively

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904 Ibid, p. 126.
905 Ibid.
906 Van Arkel, 2007, p. 183-85. The amendment to the Civil Code in 1953 was preceded by extensive negotiations between the social partners and various government officials, which began in 1946 with the appointment of the tripartite Slotemaker Committee. The provision was vaguely worded but stated that an employee be given ‘equitable compensation’ if their dismissal was ‘obviously unreasonable’. This vagueness gave rise to legal conflicts between employers and workers over what constituted an ‘unjust dismissal’, but it is important to note since it gave the worker representatives the foot in the door they needed to extract better compensation agreements.
907 Jacobs, 2004, 100.
by-passed the prior consent procedure: Court ‘rescission’. ‘Rescission’ was originally designed for exceptional cases, such as when the state authority would not grant employers the permission to dismiss. However, for reasons I explore below, it became increasingly popular among employers such that it rivaled the administrative route in number of dismissals by the 1990s (hence the dual system). What is important to note about the trajectory of the system is that the administrative route only really began to be challenged by employers once structural change intensified in the late 1960s and early 1970s and their competitive position began to come under pressure. An EPL system that employers had largely acceded to when economic growth was strong, and mass dismissals were rare, became a target of intense opposition once it became clear in the late 1970s how costly and constraining it was. At that point they searched for ways to escape the administrative route, both within the existing legal system and politically through deregulatory reforms. Below I briefly sketch the main components of the employment protection system as it has existed in the administrative route (henceforth the ‘CWI’ route), before turning to the evolution of this dual system.

Understanding the CWI route is crucial if we are to understand the subsequent politics and debate around Dutch EPL. One of the most important aspects of the CWI route is that it requires extensive consultation and notification. To dismiss an individual employee in an open-ended contract, under normal circumstances, an employer must submit a written request for dismissal and explain the reasoning behind it to the public officials (formally a Director). The Director then forwards the request to the worker within a few days, allowing them the chance of a written defense. An oral hearing may be held if the Director deems it important, and the Director will consult a committee composed of representatives of both sides of industry on the issue before making their decision. On average, independent of the notification period, this procedure takes around 4 to 6 weeks. For most of the postwar period, workers were also customarily given a minimum of one month’s notice,

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908 Ibid.
909 Van Peijpe, 1998, p. 137. These requirements do not hold in the case of (a) mutual consent, (b) ‘summary dismissal for compelling reasons’, or (c) in ‘probationary or trial’ periods. In the case of (c), while these periods are limited to two months, during them the employers’ freedom to dismiss the worker is virtually absolute. Given this strict limit of two months, if employers wish to have a longer period to screen workers they are thus required or encouraged to sign a fixed-term contract, which have less protections than permanent contracts and naturally more than that of a probationary period (see below). Jacobs, 2004, p. 110-111. As regards (b), see below as well.
910 In these cases, the social partners are not supposed to always take the side of their respective side of industry, and in fact in most cases the advice they offer the Directors is unanimous and acquiescent to the layoffs in question. For instance, in the early 1990s, only 5-9 percent of the 100,000 or so dismissal requests received by the public authorities were refused (in which case the employer must usually pay workers compensation if they do not want the dismissal reversed), and 15 percent were withdrawn before a decision was taken (workers often protest dismissals for formal reasons: doing so makes receipt of unemployment benefits more likely; see Section IV). Around 50 to 60 percent of CWI requests are of this formal nature for UB purposes, Jacobs, 2004, p. 102.
with one week more of notice for every year worked, up to a maximum of 13 extra weeks. Workers over 45 years of age were given somewhat longer: they received two weeks extra notice for every year worked, up to a maximum of 26 weeks (6 months).

In the case of collective redundancies, where more than 20 employees are dismissed in a 3 month period, consultation with the union representing the workers or with the works council is required and the CWI must wait at least one month to begin processing the request, during which time no dismissals can take place. It is in this ‘waiting period’ that the employer and their employees are supposed to try to negotiate a ‘social plan’ that lays out ways to mitigate the consequences of the collective dismissal, for example in terms of funding retraining or arranging redeployment of those made redundant.\textsuperscript{912} Employers with more than 35 workers must also consult the works council before major changes to the workplace which will affect the workers, such as mergers and restructuring. If this is not done, dismissals will be nullified.\textsuperscript{913} It is important to note that in the case of collective dismissals, the notification of the CWI is mandatory.\textsuperscript{914} These requirements in the case of collective dismissals stem from European Commission-inspired legislative developments in the 1970s and the gradual enhancement of Dutch works councils’ power during that same decade.\textsuperscript{915} Especially the change in the power of the works councils, such as the exclusion of management from them, was resisted by employers. However they were unable to stop the reforms. On the other side, these reforms were just as clearly supported by the main union representatives at the time, and in fact they were the main proponents of them.

Despite these procedural hurdles, in general employers are granted permission to lay off workers in the CWI route if they have shown the diligence to explain the dismissals clearly (‘just cause’ rules). This applies particularly to ‘economic dismissals’, where market conditions have made workers redundant, but also to the other acceptable grounds for dismissal: insufficient capacity/competence, reproachable employee conduct, ‘disturbed relationship’, and sickness or disability (under strict circumstances).\textsuperscript{916} And yet there remain important ‘just cause’ constraints on employers’ ability to hire and fire within the administrative system. For one, in the case of collective

\textsuperscript{912} Jacobs, 2004, p. 111. This does not apply in the case of bankruptcies, in which case immediate dismissals are permitted.
\textsuperscript{913} Van Peijpe, p. 137.
\textsuperscript{914} Jacobs, 2004, p. 111.
\textsuperscript{915} See Ibid. p. 111; Van Peijpe, p.131; EIRO, 1997, “Amendment of the Dutch Works Councils Act: a few surprises.” In terms of legislation, the relevant document is the Notification of Collective Dismissals Act of 1976, which was inspired by a European Commission Directive on collective dismissals, which the PvdA-led government of the time applied without pause. In terms of the works councils, the 1970s also brought about a significant strengthening of their position in the context of rank-and-file pressure for more local power.
\textsuperscript{916} Van Peijpe, 1998, p. 139.
redundancies, the CWI Directors in the past applied the seniority principle unless the employer provided grounds for deviations.\textsuperscript{917} As I document below, the dominance of the ‘last in, first out’ rule has weakened over the past couple of decades, but in the postwar period it was the norm. Second, there are specific limitations in cases of illness and parental leave or when it is discriminatory (racial, sexual, religious, etc.).\textsuperscript{918} Finally, summary dismissals are tightly regulated and dangerous for employers, since they can incur large compensation duties if the courts deem them illegitimate. As the Dutch labor law expert Antoine Jacobs argues “summary dismissal is under Dutch law much more risky and complicated for employers than in other legal systems.”\textsuperscript{919}

It is also important to emphasize that employers cannot be forced to provide compensation to dismissed workers in the CWI system.\textsuperscript{920} This must be qualified by two points however. On the one hand, even with a permit from the CWI it is still possible that an employer may be forced to pay compensation to a dismissed employee if they successfully appeal the decision in the civil courts.\textsuperscript{921} However this is very rare, since CWI approval provides employers with strong legal backing (this is largely the point of it!). On the other hand, and related to this last point, the considerable procedural constraints imposed on employers through the administrative system often pushes employers to offer workers some form of ‘golden handshake’ to ensure their cooperation during the CWI procedure.\textsuperscript{922} This applies particularly to collective dismissals in larger firms, where the terms of compensation are negotiated in ‘social plans’ between the employer and employee representatives.\textsuperscript{923} As a result, compensation arrangements are common across the Dutch economy, though they vary considerably between firms and industries depending on the strength of employee representation.\textsuperscript{924}

It is these costly, procedural fetters of the traditional administrative route (see Table 6.4) that motivated a dual strategy on the part of employers in relation to the CWI system beginning in the late 1970s: (a) the increasing use of Court ‘rescission’ noted above and (b) the increasing use of

\begin{itemize}
\item \textsuperscript{917} Ibid. p. 139-140. There is also no general duty to transfer redundant workers within an enterprise, though this may be dealt with by collective agreement.
\item \textsuperscript{918} Jacobs, 2004, p. 106-107.
\item \textsuperscript{919} Ibid. p. 110.
\item \textsuperscript{920} Ibid. p. 105. This has important consequences for the politics of EPL reform in The Netherlands, as we will see: small businesses often prefer the CWI route for this exact reason, and thus have been hesitant to have it done away with.
\item \textsuperscript{921} Through several court decisions in the 1960s the precedent was established that an employee may contest the dismissal to a civil judge on the grounds of ‘manifestly unreasonable dismissal’ (Article 7: 681) if the employer did not take sufficient steps to address their future financial security. In this sense the employee challenges the consequences of dismissal rather than the actual reasons for it. Ibid. p. 103.
\item \textsuperscript{922} Ibid. p. 106. In fact, they became common from the 1960s onwards; redundancy payments were made in 80 percent of dismissals involving at least 100 workers. EIRO, 2003, “Thematic feature: redundancies and redundancy costs.”
\item \textsuperscript{923} Schils, 2009, p. 104-106.
\end{itemize}
flexible or temporary contracts where the normal obligations and constraints would not apply. In the remainder of this section I will lay out this first strategy (a), and explain (b) in the next section. What these evasive moves show is that employers increasingly chafed under the postwar Dutch employment protection regime, and sought to escape its onerous duties in the absence of deregulatory reforms to the administrative route.

The Court rescission route is based on Article 7:685 of the Dutch Civil Code which allows for employers to dissolve an employment contract on ‘compelling grounds’ or under ‘changed circumstances’. There were two features of this route that made it increasingly attractive to employers from the 1970s onwards, as structural change intensified and union-management relations became more acrimonious. First, the Court process of rescission is quick, informal and judges almost always granted the technical legitimacy of the rescission/dismissal. For example, in only 4 percent of cases are rescissions refused. Second, the court decisions cannot be appealed and this means that the process of dismissal is faster and more certain. The flipside of these advantages is however that financial compensation is almost always required from the employer. For example, the customary formula for the calculation of severance pay in the rescission route was from 1997 onwards as follows: one month’s pay for every year of service preceding an employee’s 40th birthday, one and a half month’s pay for every year between the 40th and 50th birthday, and two months pay for every year after the 50th birthday. These costs compare with average redundancy costs of 3 to 5 months pay when collective agreements set out supplementary compensation costs in the CWI route (which is about half the time), and usually even less when these are not stipulated.

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925 EIRO, 2003, “Social partners oppose proposed changes to dismissals law.” Initially this section of the Code was intended to apply to fixed-term contracts where work had ceased to be needed before the end of the contract and employers desired a way out. Jacobs, 2004, p. 104. After 1945, as legislation and administrative precedent made it increasingly difficult to fire workers, employers began to apply for the cessation of permanent contracts in the same way. This route was used mostly for three types of dismissals: when the CWI had rejected a petition for dismissal; when the worker was protected under the ‘just cause’ limitations presented above; and when summary dismissal was deemed legally risky. Employers could then petition the relevant sub-district court to dismiss the employee in question, and the court would check whether this claim was legitimate given the cited reasons. However, in contrast to the administrative CWI route, the courts would usually award the employees compensation, based on years of service, age, and employability. Ibid. p. 103-106.

926 Ibid. 104-105. Judges can adjust the customary calculation of severance pay in their assessment of individual cases, though: where the employer is deemed to be more at fault, the severance pay is increased; where the worker is considered more at fault the severance pay is reduced.

927 EIRO, 2003, “Thematic feature: redundancies and redundancy costs.” It is not clear what types of compensation practices prevailed prior to 1997, however this compensation formula seems more to have simply standardized the practice, rather than increasing or decreasing the average rate. The traditional formula seems to have been a variation on what is set out in the text above: seniority x monthly wage x correction factor. The correction factor represents the judges’ assessment of fault in the particular case, where it will be more than one if the employer is deemed mostly at fault and less than one if the employee is more responsible. Van Voss, 1999, p. 428.

928 Ibid.
Employers are thus able to choose the route for dismissal that is most efficient in terms of redundancy costs, procedural delays and hassles, and chances of refusal. Generally speaking, this has meant that in recent years collective dismissals tend to be done through the CWI system, and individual dismissals have been increasingly dealt with through the Court system, where employers prefer the smaller delays and hassle, greater certainty of acceptance, and smaller chance of drawn-out appeals. These trends are evident in the numbers of dismissals being dealt with in each system over time. In 1980, for instance, there were only 1,000 applications for dismissal by rescission, as compared to 100,000 dismissal permit applications in the CWI system. By 2002, there were 62,000 rescission applications and only 71,000 CWI permit applications. In effect, the two routes had become of equal importance in dismissals.

Table 6.4: Overall EPL Strength in Select Rich Democracies, 1960-1995

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<tr>
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Source: Nickell et al., 2002

Temporary Work, the Wassenaar Agreement and the Flexibility and Security Act of 1999

In the meantime, another avenue for evading the constraints and costs of the CWI route emerged for employers: various types of ‘flexible’ employment contracts, such as fixed-term contracts, workers from temporary work agencies (TWAs), on-call contracts, and freelance work. The trend toward more flexible contracts was universal among the post-industrial economies; however it was especially prominent in The Netherlands, in part due to the relative stringency of its EPL for permanent employees. These flexible contracts did not entail nearly the same types of

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930 Ibid.
931 Ibid. p. 100.
932 EIRO, 1997, “Flexicurity: new bills on flexibility and security at work.” According to the OECD, in the late 1980s The Netherlands had the most restrictive EPL rules for regular employees in the OECD world behind only Spain and Portugal. OECD, 2004, p. 117.
responsibility on the part of the employer either in terms of notification, consultation, or compensation as permanent contracts. In fact, in many cases they entailed no obligations at all.\footnote{Jacobs, 2004, p. 115-116.}

After the severe recession in the early 1980s, as employers dismissed large numbers of employees and unemployment shot up to over 12 percent, it became clear to employers that they needed to find cheaper ways to dismiss employees and better achieve flexibility in staffing levels.\footnote{EIRO, 2000, “Proposals to change dismissals system.”}

The experience of the deep recession furnished not only the motivation but also the opportunity for employers to increase their use of flexible contracts, as the higher rates of unemployment strengthened their leverage in collective negotiations and made workers/unions more likely to accept such contracts.\footnote{Van Vass, 1999, p. 427. A large influx of women into the labor force during this period, as gender norms shifted, increased labor supply relative to demand as well. Van Oorschot, 2004, p. 16.} Legislative reforms relating to TWAs also paved the way for the rise in flexible contracts. Starting in 1975 the strict restrictions on TWAs had been gradually weakened. The ban on TWAs was lifted in that year to be replaced by a state licensing system: it required that these agencies pay social insurance premiums, that they only send out workers to companies for the prevailing wage rate for permanent workers, and that this was done for a maximum of 3 months. This 3 month limit was later raised to 6 months, then finally up to 12 months.\footnote{Van Voss, 1999, p. 423.} From around 5 percent of total employment in the early 1980s, the share of ‘flexible’ jobs thus grew to 8 percent in 1990, to 11 percent in 1994, and up to 15 percent by the early 2000s.\footnote{Visser and Hemerijck, 1997, p. 32; Jacobs, 2004, p. 98.}

This rise in flexible contracts must also be understood in the context of the dramatic changes to Dutch industrial relations that occurred in the 1980s. The early 1980s had been a painful time for the Dutch union movement, and despite the apparent success of the Wassenaar agreement at staving off punitive government intervention, the unions had achieved the agreement only through significant concessions. In terms of their broader position in the political debate of the time, they had similarly been forced onto the defensive. For example, there was growing criticism of the dual dismissal system by large firms and right-wing economists and politicians.\footnote{Jacobs, 2004, p. 97-98; Van Peijpe, 1998, p. 128.} Social insurance benefits also began to be cut starting in 1982, as I detail below. More broadly, by 1985 the vast majority of collective agreements had ceased to have cost-of-living clauses and most employees had experienced a sizable cut in wages (on average 9 percent).\footnote{Visser and Hemerijck, 1997, p. 101; Jacobs, p. 105.} And while the average work week was
reduced to 38 hours, as agreed to in Wassenaar, part-time work (of women especially) expanded swiftly and flexible contracts began to spread steadily.

At first the Dutch unions resisted the rise in part-time and flexible work but supported the working time reduction. Later on, in the late 1980s and early 1990s, these positions reversed somewhat. In line with other European unions in the early 1980s, they saw part-time work as problematic because of the inferiority of wages, protections and benefits that these contracts provided. As well, unionization rates among part-time workers was considerably lower than for full-time workers, largely due to their lesser attachment to the labor market and thus lower incentives to organize or pay union dues. Needless to say, these concerns were only amplified in the case of temporary workers. The Dutch unions found themselves on the defensive for most of the 1980s, however, and could not successfully contain the spread of either contract type. In fact, from 1983 to 1996, around three-quarters of all new jobs were of these types. As a result, the unions’ position began to change as the decade wore on: instead of merely opposing the spread of these forms of work it was thought best to improve the conditions of these workers, and thereby limit the attractiveness of such contracts for employers (not to mention bringing better working conditions to such workers). This led to not only the promotion of various rights and benefits for part-time workers in the late 1980s and 1990s, but later to the signing of a collective agreement for temporary workers with Organization of Temporary Work Agencies in 1995, which granted them various basic rights and protections. In terms of working time reduction, the considerable wage restraint exercised by the unions in the 1980s, when combined with fewer working hours, meant that real incomes stagnated or fell for many workers. For a time the unions were able to maintain a united front on the issue and thus managed to spread work more widely than would have been possible with a full 40 hour week. But by 1987 this unity dissolved and the movement for shorter hours stalled.

On the other side of industry, large employers’ objections to the Dutch dismissal system in the 1980s were somewhat muted in part because they could often ‘relieve’ employees through the disability insurance system and early retirement schemes. Both allowed employers to shift much of

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940 Ibid. p. 103.
941 Jacobs, p. 30.
the costs of dismissal to state subsidized systems, though employers paid into these programs as well.\textsuperscript{948} When these programs were made less available to employers in the wake of social insurance reforms in the early 1990s, employers stiffened their resistance to the existing employment protection system significantly. This then helps us understand the timing and emergence of the ‘Flexicurity’ reforms of the late 1990s.

The early 1990s had brought a host of problems for the social partners. Because they had been accused of abusing the various social insurance programs, particularly disability insurance, as the number of claimants grew rapidly through the 1980s, the social partners saw their role in the Dutch political system increasingly challenged. Indeed, reminiscent of the period preceding Wassenaar, the system of corporatist dialogue was seen by many as ‘the problem’, as obstructing necessary reform, and as risking obsolescence.\textsuperscript{949} It was in this period that relations between the unions and their long-time political ally, the PvdA, reached their lowest point, with the latter fighting to establish the ‘primacy of politics’.\textsuperscript{950} Moreover, with growth sluggish during the international recession of the early 1990s, the government once again threatened in 1993 to impose national wage freezes.\textsuperscript{951} Most relevant here, there was even considerable debate in parliament over the CWI ‘prior consent’ procedure and the cabinet, a coalition of CDA and PvdA, in fact submitted a proposal to abolish the procedure entirely.\textsuperscript{952} Many from the right wing parties and employers’ groups supported this move on the grounds that it would help Dutch employers keep up with their European competitors, who faced no such procedural hurdles. However the opposition of the union confederations and many small and medium-sized businesses prevented the proposal from passing, as the PvdA relented.\textsuperscript{953}

Instead of radical reform to EPL and other areas of the Dutch economy, the social partners negotiated a comprehensive, compromise agreement called ‘A New Course’ in 1993. Keen once more to resist government interference in wage negotiations and to preserve their central political advisory role, the social partners set out to reach a ‘new Wassenaar’ which would establish the conditions for future Dutch competitiveness (i.e., wage moderation, decentralization of bargaining,

\textsuperscript{948} Cox, 1993, p. 194;
\textsuperscript{950} Van der Meer et al., 2002, p. 16-17. See the section on unemployment benefits for the reasons behind this estrangement.
\textsuperscript{951} Ibid. The ‘extension’ system, whereby wages negotiated in collective agreements in a sector were generalized to that whole sector, was also questioned forcefully by the government. Ibid. p. 16-18.
\textsuperscript{952} Van Peijpe, 1998, p. 128.
\textsuperscript{953} Ibid.; Visser and Hemerijk, 1997, p. 162.
etc.). In terms of dismissal law, the agreement laid the groundwork for what would become the Flexicurity reforms. For their part the unions officially dropped their resistance to more flexible working arrangements while the employers accepted further reductions in working time and the possibility of improving the protections of part-time contracts. After the election of 1994, when the CDA did very poorly and the PvdA formed a historically unique ‘Purple Coalition’ with the social-liberal D66 and the VVD, the government pushed forward in this direction with a proposal to reduce the constraints on dismissal for permanent contracts and hiring for temporary work (flexibility) while improving the rights of workers on atypical contracts (security). This policy proposal was submitted to the social partners in late 1995. In the ensuing year the social partners negotiated the details of this arrangement in STAR and presented their unanimous advice to the government in 1996. By 1999, two Acts had been passed, almost identical to what the social partners had agreed to in STAR: The Act on Allocation of Workers by Intermediaries (WAADI; 1998) and The Act of Flexibility and Security (FlexWet; 1999). Dutch ‘Flexicurity’ was thus born, and corporatist dialogue, in this field at least, was back on the rails. In order to salvage it, though, substantial liberalization was agreed to on the part of the unions. A close look at the two Acts illustrates this clearly.

The first Act, WAADI, abolished most of the tight rules placed on TWAs by the government permit system. Prior to WAADI, the permit system required a number of things from the TWAs: (i) that they not provide labor to companies in a labor dispute; (ii) that temporary workers’ wages equal those of permanent workers performing the same work in the company; (iii) that detailed records be kept of all labor sent out; (iv) that temporary workers could not be placed with the same employer more than once every 30 days; and (v) that labor provision only be for temporary work, and this was limited to 6 months (26 weeks). After the passage of the Act, only the first two requirements remained, and even (ii) could be deviated from if allowed by collective agreement. Essentially, TWAs were now considered regular ‘employers’, who thus began to accumulate minimum pension and working hour duties to their ‘workers’, with the exception that the first 26 weeks of employment in a serviced company created no obligations for dismissal compensation or notification. In fact, this period of ‘at will’ dismissal could also be extended if agreed to in a collective agreement, as did in fact happen in a collective agreement for temporary

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workers covering 1999-2001, which extended the period to a year. This deregulation introduced considerable flexibility into the margins of the Dutch labor market. As a result of the reforms, the OECD halved its score for strictness of Dutch EPL in the TWA sector from 3.25 to 1.63, a score that put the country well below average for coordinated market economies.

The second Act, FlexWet, was much wider in its impact. It affected three main areas: the possibilities to sign fixed-term contracts and the duties and protections assigned therein; the status of on-call workers; and the easing of dismissal constraints for employers in the case of the CWI route and permanent contracts. Let us take each in turn. Fixed-term contracts had always occupied a unique and awkward position in the Dutch labor market. As part of the compromise achieved by the social partners, the FlexWet both expanded the possibilities for such contracts and yet improved the condition of workers who were in the position of repeated fixed-term contracts. Under the new arrangement, 3 consecutive fixed-term contracts could be struck within 3 years without entailing the traditional dismissal obligations; a fourth contract, or a contract that ended beyond 3 years from the first fixed-term contract, automatically became considered a permanent one (with the associated obligations). This conversion clause offered the unions some limitation on the spread of these types of contracts, and thus the protection of such workers. Yet arguably employers gained more under the arrangement as it considerably widened opportunities for such contracts. Already comparatively liberal in its regulation of fixed-term contracts, The Netherlands became one of the most liberal in the OECD after the change, particularly so amongst other European (CME) countries. In other words, flexibility dominated security in this domain of reform.

In terms of on-call workers, which at the time accounted for 6 percent of the labor force, security dominated flexibility in the reforms, on the other hand. The legal status of such workers was usually unclear and thus not strong. It was often difficult to determine what kind of employment relationship existed between them and their employers and they could be called in for work only to

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957 Van Vass, p. 424.
958 OECD, 2009.
960 Given that they largely freed employers from the various obligations of the dual system, their use had to be curtailed if they were to be prevented from spreading wildly. Employers could have simply signed such contracts one after another with employees otherwise. Thus a rule existed in the Civil Code that stipulated that a second consecutive fixed-term contract could not be ended without the permission of the CWI and a traditional notice period. Evidently this was a very strict rule, which severely constrained such contracts and frustrated employers. The Civil Code allowed this rule to be ignored however in the case of a collective agreement. Increasingly in the 1980s, then, employers began to push this exemption on the weakened unions in collective agreements (as discussed above). Van Vass, 1999, p. 426-427.
961 ‘Consecutive’ was defined as a period of no more than 3 months between each contract. Ibid.
962 OECD, 2009.
be sent home again without pay if work was not in fact needed. FlexWet changed both. On the one hand, if an on-call worker worked three days in a week or more than 20 hours in a month, an employment contract was presumed to exist, with the attendant social insurance and (eventually) dismissal responsibilities that this entailed on the part of the employer. Similarly, the agreed number of hours of work in any month was presumed to be equal to the average for the preceding 3 months. This put the onus on the employer to meet this level of work, and to pay for the difference if not.  

On the other hand, the new Act forced employers to pay out a minimum of three hours pay in the event that no work existed after a worker came in to work. This prevented employers from dumping the whole burden of staffing level fluctuations on their employees.

The final major change of FlexWet involved the easing of procedural obstacles to firing permanent employees in the CWI system. First, the maximum notice period required by the CWI was reduced from 6 months to 4. This affected mainly older workers who had maximized their required notice periods. Notice periods were henceforth calculated on the following basis: 1 month notification for less than five years of employment at a firm; 2 months notification for 5 to 10 years of service; 3 months for 10 to 15 years of service; and 4 months for more than 15 years. Second, once an application was made to the CWI for termination, an employee becoming ill could not delay the process of dismissal (as under ‘just cause’ limitations presented above). This prevented employees from pretending illness to stall the process, apparently a common occurrence (!). Third, the time that the CWI process took was allowed to count as part of the period of notification. Finally, in cases of economic grounds for dismissal the employees in question were not required to formally object to the dismissal in order to preserve access to unemployment benefits. This last change significantly reduced the hassle of the CWI route, as most employee objections to dismissal permits were in fact on such formalistic grounds.

As should be clear, ‘flexibility’ was in many ways the dominant thrust of the changes (see Table 3). No doubt important ‘security’ gains were won for on-call workers, and for repeated fixed-term workers, however significant ‘flexibility’ concessions from the unions had been made to achieve them. Notably, some of these concessions fell directly on core workers, as in the easing of the CWI dismissal process. Others, such as the liberalization of fixed-term work and TWAs, indirectly affected the bargaining position of such workers. Thus it is not quite right to suggest, as

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963 Curiously, either of these requirements could be negotiated differently by the two parties (i.e., usually downwards), however in most cases it would have to be limited to the first 6 months and be in writing. At the very least, this motivated a better accounting of these contracts, which again improved the position of the worker.

Wolfgang Ochel does, that the “consensus between the social partners was reached because EPL reforms did not deteriorate the position of incumbent [core] employees”. It did do so, though not dramatically. That the Flexicurity changes took such a form suggests the weakened position of the unions, the ‘Outsider-regarding’ behavior of the unions, and the neoliberal tenor of the period. This last point is clear since these changes were brought about by a coalition led by the PvdA, traditionally a party content with the strong EPL system (in fact, a major force in its development). Indeed, in its efforts to achieve the Flexicurity reforms, the Purple Coalition had also promised restive employers and its neoliberal coalition partner, VVD, a government-appointed committee to investigate a fundamental reform of the dual system. Thus, under the chairmanship of former labor law professor Max Rood in 1999, the struggle to reform the employment protection system began once more.

Table 6.5: EPL in The Netherlands for Regular and Temporary Contracts, 1985-2008

<table>
<thead>
<tr>
<th>Type of EPL</th>
<th>1985</th>
<th>1993</th>
<th>2001</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>2.73</td>
<td>2.73</td>
<td>2.12</td>
<td>1.95</td>
</tr>
<tr>
<td>Regular Contracts</td>
<td>3.08</td>
<td>3.08</td>
<td>3.05</td>
<td>2.72</td>
</tr>
<tr>
<td>Temporary Contracts</td>
<td>2.38</td>
<td>2.38</td>
<td>1.19</td>
<td>1.19</td>
</tr>
</tbody>
</table>

Source: OECD 2009.

The Politics of Employment Protection after Flexicurity

The Rood committee, made up of various labor law experts, issued its recommendations in November of 2000. In its report, the committee recommended that The Netherlands finally do away with the administrative ‘prior consent’ procedure. It argued that the CWI system was unnecessary given the current industrial relations climate, that it deviated too sharply from other European countries and that it was inappropriate that an administrative ‘third party’ interfere with the civil law relationship between employer and employee. These matters should be left to the contracting parties and the civil courts, it reasoned. In place of a prior consent procedure, employers should be required to hold internal hearings on dismissals, where consultation and negotiation

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965 Ochel, 2008, p. 15. Nevertheless it is true that most permanent employees did not suffer serious weakening in their employment protection (see OECD, 2009), and surely this is part of why it was able to be passed, as Ochel stresses.
966 Interview with SP parliamentarian, October, 2009.
967 Below draws upon: EIRO, 2000, “Proposals to change dual system”, and EIRO, 2003, “Social partners oppose proposed changes to dismissals law.”
would take place, and could be taken to court if the employee found the reasoning behind the termination unsatisfactory. If the courts agreed with the employee that the dismissal was ‘unreasonable’ then the employer would be liable for compensation and/or nullification. The debate over the Rood recommendations is illuminating in terms of the policy preferences of the different actors, but also in terms of the politics surrounding EPL reform. I spend some time analyzing it for this reason.

Initially, the employers’ organizations responded positively to the proposed changes, though many small and medium-sized employers reacted more cautiously.\textsuperscript{968} Even the trade unions seemed resigned to some change to the administrative system; however they still wanted to retain a form of ‘preventive’ or prior consent system. When the report was released in late 2000 it was sent to the social partners in STAR for evaluation. It was hoped that they could sort out the details of a new system as they had with Flexicurity a few years before. Instead they argued for two and a half years with nothing to show for it. Thus in its 2003 response STAR rejected many of the claims of the Rood committee report, among them that the Dutch system was too out of sync with other EU systems of dismissal law and that a state administrative body was an inappropriate adjudicator.\textsuperscript{969}

The main sticking point for the unions and many small and medium-sized enterprises was that doing away with the ‘prior consent’ procedure would result in “trading complexity for legal uncertainty”.\textsuperscript{970} As noted above in passing, the prior consent process was often practical in that it protected employers from long, damaging wrongful dismissal cases. In the proposed Rood system, though, the dismissal would precede the court ruling ascertaining its legitimacy, since the ‘internal hearings’ would not be considered the final word. This would mean not only that an employer would face considerable legal uncertainty and potential costs, but also that the dismissed employee could be stuck in a period of prolonged limbo following dismissal. For smaller businesses the prospect of having to resort frequently to costly legal counsel was unattractive relative to the slower but cheaper option of the CWI. Furthermore, STAR expressed particular concern that those in a weaker labor market position might not have the funds or institutional support (i.e., union representation) to successfully press their claims in court. In this sense, the court route might be too risky an undertaking for poorer workers, and they simply would not make a claim. For all of these reasons, STAR recommended leaving the dual system unchanged, effectively ending the

\textsuperscript{968} EIRO, 2000.
\textsuperscript{969} EIRO, 2003. In regards to the latter, the unions were not strongly attached to having a state body oversee a ‘prior consent’ procedure; however attempts to come up with an alternative body between the social partners foundered.
\textsuperscript{970} Ibid.
government’s attempt to change the system in the near future. In sum, the continued consultative role of the unions, and their ability to play the smaller employers off against the large employers, allowed them to rebuff the fundamental reforms proposed by the Rood report.

The period of wrangling in STAR over the Rood recommendations also coincided with a period of renewed political contestation over the role of the social partners in Dutch society, and particularly the unions. In late 2000 the leader of the neoliberal VVD, Geert Wilders, along with several prominent economists, requested an investigation into the ‘representativeness’ of the trade unions. This was partly a continuation of the concerns raised about social partner management of social security in the early 1990s. However questions were also raised about the dominance of union members in works councils and about the ‘extension’ system whereby collective agreements negotiated by unions were applied to entire industries. It did not help matters that as union density began to fall once more in the early 2000s the union movement started to fracture as the FNV, CNV and MHP competed for dwindling members. This initiated a long, fierce debate inside parliament and in public discourse. Naturally the unions staunchly defended their role and place in Dutch society. Indeed, some important surveys seemed to back up their position. A study ordered by the Minister of Social Affairs and Employment at the time found that 85 percent of the labor force felt that their ‘interests were in good hands with the unions’. Although the Dutch unions only constituted a quarter of the labor force at the time, down from 35 percent in 1980, collective agreements negotiated by them covered roughly the same percent of the work force that trusted them, 85 percent. In the course of the debate the CNV made a point of noting this: what would happen if the unions stopped negotiating agreements for this large segment of the labor force, would they enjoy their new position? What would happen to the ‘consensual Polder model’, with its industrial peace and wage restraint? The FNV for its part suggested looking at the representativeness of the employers’ organizations, which also rarely included a majority of the firms in various industries.

These points seemed to hit their mark at least for employers groups, who remained relatively silent during the debate. For many, this revealed their attachment to several of the institutions and

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971 EIRO, 2000, “Annual review for The Netherlands.”
972 EIRO, 2001, “Union representativeness under debate.” That unions were mostly composed of older and male workers was also of course pointed out by their critics.
973 EIRO, 2003, “Competition mounts between trade unions.”
974 Ibid.
975 Van Ours, 2006, p. 144.
976 EIRO, 2001, “Union representativeness under debate.”
practices developed in the Polder model. Later surveys found that most employers supported the extension of collective agreements, for instance, though a sizable minority did not.\textsuperscript{977} Part of their fear was that doing away with the extension mechanism would make the “terms and conditions of employment… a much greater factor in competition between companies [and] employers’ representatives would not appreciate this sort of ‘anarchy’.\textsuperscript{978} This, at least, was the perspective of most of the established, ‘incumbent’ firms that made up the main membership of the employers’ groups.\textsuperscript{979} As well, the employers had come to appreciate the largely cooperative behavior of the unions since Wassenaar. The unions had, after all, long delivered relative industrial peace as well as an annual average of only 0.5 percent real wage increases over the 1980s and 1990s.\textsuperscript{980} Such concern for competitiveness and stability by the unions was not going to be thrown away lightly for the unknown promise of neoliberal reform.

Therein likely resides another reason for the absence of a major push on the part of employers for fundamental dismissal law reform in the wake of the Rood committee’s report. When combined with divisions amongst employers over the form it should take, it is perhaps little surprise that the efforts at dramatic reform came to nothing. Nevertheless serious struggles between the social partners remained over many other matters: the form and degree of central bargaining, the details of dismissal law, and social insurance reforms (for this last, see the next section). In terms of dismissal law, struggles over the details of the contemporary dual system emerged as well, distinct from the clash over the Rood report. The PvdA-led coalition in 2001 introduced a host of measures to improve the position of employees’ vis-à-vis their employer: a right to refuse Sunday work, expanded parental leave rights, and policies fighting discrimination on the grounds of disability and age.\textsuperscript{981} Most relevant here were further measures to give fixed-term workers greater rights. This was largely the transposition of an earlier EU directive which defined more clearly the equal treatment of fixed-term employees. It also set out responsibilities for employers to hire such workers for permanent contracts if positions opened up. Employers criticized the move as breaking with the spirit of Flexicurity by improving security without doing the same to flexibility, but the legislation passed anyway.\textsuperscript{982}

\textsuperscript{977} EIRO, 2004, “Most employers positive about extension of collective agreements.”
\textsuperscript{978} EIRO, 2001.
\textsuperscript{979} Incumbent firms benefited from the relatively uniform employment conditions created by ‘extension’ since new firms were limited in the amount they could use cheaper wages and so on to get a foothold in the industry. EIRO, 2002, “Debate over viability of collective bargaining system.”
\textsuperscript{980} Van Ours, 2006, p. 144.
\textsuperscript{981} EIRO, 2002, “New legislation enhances employment rights.”
\textsuperscript{982} Ibid.
When the Purple Coalition fell in 2002 to be replaced by a series of center-right coalitions led by the CDA, an opportunity for reform or retrenchment once again appeared to open. In the second such coalition, the CDA under Jan Balkenende joined with the VVD and D66 to form a government. Together they put forward a host of proposals for industrial relations reform in July 2004, coinciding with the release of a similar document by the main employer representative VNO-NCW. There was considerable overlap in the two documents. The VNO-NCW policy paper proposed reforms in a number of areas: a return to the wage moderation of the 1990s, lowering the minimum wage, decentralizing several aspects of collective bargaining, simplifying and deregulating works council rules, reducing the stringency and specificity of working condition legislation, lengthening the average work week back to 40 hours, encouraging workers to work longer into old age, making dismissal law more flexible and cheaper, and retrenching social security by various means. On virtually every point the government sought similar things as the VNO-NCW, indeed in some cases even more stridently so. These policy positions thus suggest a much more ‘neoliberal’ mindset on the part of employers than that expected by VOC theory.

In the case of dismissal law, the VNO-NCW suggested capping potential severance pay at one year’s salary and eliminating the seniority principle as the default rule in redundancies. The government, meanwhile, proposed far more drastic changes. It sought to emulate the Danish system of employment protection which in most respects was far less onerous than the Dutch system. For instance, in the Danish system employees only develop a claim to dismissal compensation after 12 years of service, and only one month’s pay at that stage. Furthermore, the government sought to have compensation payments deducted from unemployment benefits, while relaxing the application of the seniority principle. These proposed changes would have constituted a major easing of dismissal regulations. Not surprisingly, the union confederations reacted with hostility to the various proposals, including the suggested changes to dismissal law.

Given the weakness of the union movement at the time, with its declining membership, internal disputes and precarious financial position, the Balkenende government thought that it could push through many of the reforms despite union opposition. In fact, several politicians in the governing coalition openly questioned the need for the ‘consultation and consensus’ of the Polder model. However when it came to implement the changes, the government faced stiff resistance,

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983 EIRO, 2004, “Employers and government propose industrial relations reform.” The main employers’ organizations from the postwar period, the VNO and NCW, merged in 1995 to form the VNO-NCW. Van der Meer et al., 2002, p. 21.

most of it organized by the unions. On the one hand, large scale industrial action was planned if the government chose to go ahead with its agenda. On the other hand, major political demonstrations were planned throughout the country and the unions distributed thousands of pamphlets criticizing the government’s plans. The day before the budget was to be tabled in late September, 2004, 30,000 people demonstrated against the government in The Hague. When the government attempted to press ahead with a somewhat watered-down set of reforms, the unions organized a massive day of action on October 2nd, when around 300,000 people demonstrated in Amsterdam. Largely as a result of this wave of opposition, the government was forced to backtrack on several key measures.

Of particular relevance here was the revision of the proposal to deduct severance pay from unemployment benefits. The initial legislation sought to encourage dismissed workers to look for employment sooner by limiting the amount of unemployment benefits that they could receive. The government argued that too often workers would wait until their dismissal compensation had run out before searching for work. In order to avoid this, they proposed a new system where a worker that was awarded dismissal compensation would have their unemployment benefit level cut immediately to 70 percent of their last earned wage (subject to the ceiling on benefits that affected all workers). Furthermore, if the compensation payment was large enough, it was possible that the worker would be ineligible to receive any unemployment benefit at all. Naturally these changes would save the government considerable expense, which it was keen on doing in its drive for austerity. However, the negotiations between the government and the unions resulted in a significantly scaling back of such changes. For example, instead of the initial legislation, workers were allowed to keep the equivalent of one year’s pay without having anything deducted from their benefits; only anything beyond this would be subject to the rules of the initial proposal.

In this area at least, the revision constituted an important victory for the unions. Not only had the government backed down on far-reaching changes, but any future changes to the system

986 It was noted by an FNV official that the Dutch do not typically demonstrate or protest a lot, and that any large scale demonstration should be interpreted (and is) as a sign of considerable discontent in the population. Interview with FNV official, October 2009.
987 EIRO, 2004, “Government to deduct dismissal compensation from unemployment benefits.”
989 EIRO, 2004, “Government to deduct dismissal compensation from unemployment benefits.”
990 It must be noted, though, that employers’ groups were not supportive of the plan to deduct benefits either, since it would have made employees much less prone to cooperate in dismissal proceedings. Ibid.
were to be decided in consultation with the SER. The lesson drawn at the time from the intense confrontation between the unions and the government was that the latter could not afford to sideline or ignore the unions. Despite their declining memberships and the intense criticisms of parties such as the VVD, the unions were still a force to be reckoned with in Dutch politics. As a result, a relative stalemate emerged on dismissal law. While the CDA-VVD-D66 coalition continued pressing for reforms to the dismissal law system, it was not able to achieve major reforms before it fell in September 2006. It did manage to replace the seniority principle with the so-called “mirror principle” or “age balance principle” in March of 2006, however this was not a major change, nor was it intensely contested by the unions. This effectively broke the workforce up into several distinct age groupings to which seniority rules would then apply, thus mitigating the extent to which younger workers were disproportionately laid off in collective dismissals.

When the center-right coalition was replaced by a centrist coalition between the CDA and PvdA, the chances of fundamental reform dwindled even further. Although the CDA continued to press for reform, the PvdA was generally content with the current system. In order to try to resolve their differences, they appointed yet another committee, this time under the leadership of Peter Bakker, a Dutch CEO. When it reported in June 2008 it again proposed doing away with the ‘prior consent’ procedure in favor of a system whereby employers would be responsible for paying a dismissed employees’ salary for up to 6 months after the dismissal, and to assist them in finding new employment. The idea was that this would encourage employers to invest in training for their current and former employees to speed their potential transition from job to job. In return, the dismissed employee would be monitored in their work search, and only if they showed sufficient diligence would they be eligible for social security benefits following the 6 month period.

Once again, the social partners reacted cautiously to this proposal. Employers feared that the costs of the new system would be excessive, while the unions questioned some of the assumptions on which the report’s recommendations were based, such as a situation of near full-employment. In the end, the social partners basically ignored the recommendations of the committee moving forward. Instead of dramatic reforms, again they opted for small changes: in a secret summer agreement between the VNO-NCW and the FNV they agreed to limit compensation payments to

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993 EIRO, 2008, “Broad consensus for proposals for changes to dismissal law.”
994 It should be noted that the committee was not merely concerned about dismissal law, but looked at numerous areas, including training, pensions, and raising the retirement age. I focus on the parts of the report most relevant to employment protection naturally. For the reasoning behind the recommendations, see Bovenberg and Wilthagen, 2008.
one year’s pay where the employee’s annual income surpassed Eu75000. For all those earning less than that amount (i.e., 90 percent of the labor market), the current arrangements would continue to apply. This agreement was later approved by the Minister of Social Affairs and Employment, Piet Hein Donner, and passed through parliament by the governing coalition. Reportedly, what the unions received in return was effectively the cessation of the debate over dismissal law in the PvdA-CDA cabinet in power for the remainder of its time in office.

Understanding EPL Change in The Netherlands

Understanding this trajectory of Dutch employment protection in a theoretical way requires first specifying clearly the preferences of the main actors. There are two key sets of actors in this respect: the social partners and the political parties. I will begin with the social partners. As the narrative above sought to demonstrate, the unions were a major force behind the enactment of strong employment protection in the postwar setting and for resisting most attempts to weaken it subsequently. The unions only began to soften their opposition to temporary or ‘flexible’ work when it became clear that the increase of such work in the 1980s was not likely to be reversed. At that point they sought to achieve what they could in the situation, both to extend various protections to such workers and to limit the spread of the contract type through conversion clauses. While the unions supported the Flexicurity reforms, their support must be understood in part as a defensive move and one that was accepted with some hesitation. This perspective continues in the union movement, in that they have become concerned with the recent spread of TWAs that do not fully abide by the rules governing them. Indeed, a representative of the FNV suggested that the unions did not oppose the official form of the Flexicurity reforms but have instead been bothered by the implementation of the regulations, which have not always been strictly followed (or “misused”).

995 EIRO, 2008, “Social partners agree on dismissal law.”
996 Despite the apparent deadlock of employment protection politics in The Netherlands, the subdistrict courts, which award compensation in the court rescission route, adjusted the amount of compensation to be paid in late 2008. For every age category, the amount paid for each year of service was reduced somewhat. For example, a 52 year-old who had worked 30 years for the same employer would now receive 27 months’ compensation instead of 37. Given the timing of the changes, in the midst of the fall crash of 2008, the political parties and unions were not pleased. The changes, it seems, were formulated with the boom years of the mid to late 2000s in mind, but introduced just when that type of labor market was disappearing.
997 Interview with FME official, October 2009.
998 Interview with Brian Burgoon, September 2009.
999 EIRO, 2008, “Increasing numbers employed through fraudulent temporary work agencies.”
1000 Interview with FNV official, October 2009. The official suggested that the other union confederations shared similar concerns and positions in relation to EPL, though that minor differences existed on certain issues.
This applies particularly to the application of the rules or collective agreements to foreign-born workers and youth.

Nevertheless, the unions have shown the willingness to compromise on the issue of ‘flexible’ labor and demonstrated other-regarding behavior in their acceptance of the trade-off between easing permanent contract protections and enhancing temporary worker security. Admittedly, the trade-off has not been a large one, in the sense that no major easing of EPL restrictions for permanent contract workers was undertaken with FlexWet. And the unions have staunchly resisted any attempt to overhaul the dismissal law system, as we have seen, despite occasionally appearing open to the possibility of change.\(^\text{1001}\) Yet it is noteworthy that they have periodically supported changes to the dismissal system which impinge on ‘core’ workers in the hopes of preserving the overall system of protection, as seems to be the case in the recent move to cap severance costs and with the earlier embrace of the ‘mirror principle’.\(^\text{1002}\) Also notable is that their reservations about alternative systems often hinge on the implications they have for marginalized workers or those without strong representation, suggesting a fairly inclusive vision of job security.

Large employers’ groups by contrast have long sought to weaken existing employment protections. This is not to say that they oppose every aspect of the current system or that they want to move to an Anglo-Saxon, “hire and fire” system.\(^\text{1003}\) They explicitly do not. They do, however, want to cut down considerably on the costs and constraints of the Dutch EPL system. For example, although they consider the ‘mirror principle’ a welcome change from the previous ‘last in, first out’ rule applied by the CWI, many would like more freedom to dismiss employees in cases of redundancy on the basis of ‘competence’, since the mirror principle is still only a modification of a seniority system that does not allow for dismissal selection on such grounds.\(^\text{1004}\) Many employers also chafe at the various procedural constraints on firing, such as notification periods and achieving CWI approval.\(^\text{1005}\) Moreover, while in principle the CWI procedure does not require high levels of compensation, the ‘social plans’ that usually accompany collective dismissals in this route mean that

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\(^{1001}\) Ibid.

\(^{1002}\) As noted above, it is unclear that the unions received much in return for the deal in the summer of 2008 with the VNO-NCW to cap severance payments apart from easing the pressure that exists from right-wing parties and others to restructure the entire dismissal law system. However, an official at the FME argued that the cap on severance payments applied mainly in cases of individuals being dismissed and that in collective redundancies the unions were often able to negotiate social plans for their members that exceeded the cap. In this sense, it was mostly symbolic. Interview with FME official, October 2009. In the case of the ‘mirror principle’, it is not clear that this was even considered a ‘sacrifice’, since the FNV official suggested that they had fully embraced the new rule and may have even proposed it. Interview with FNV official, October 2009.

\(^{1003}\) Interview with FME official, October 2009.

\(^{1004}\) Ibid. Presumably selective dismissal with the court rescission route is the simplest, though costly, way to achieve this.

significant compensation is frequently paid out. It is for this reason that larger employers have increasingly opted for the court rescission route, since at very least the process is faster and more certain.

The survival of the administrative route has been secured, again as noted, in part because smaller firms are able to avoid the costly compensation that accompanies ‘social plans’ (given that unions are often weaker or non-existent in such firms). This has meant that the unions have been able to play the employers’ groups for small and medium-sized firms, MKB-Nederland, off against the main employer confederation dominated by larger firms, the VNO-NCW, in settings such as STAR and SER. As is evident in the wrangling over the Rood recommendations, for instance, this has proved a very effective tactic. It is significant then that the two employer confederations forged an alliance in 2005, limiting the feasibility of such a strategy in the future. Despite their wariness at eliminating the CWI route, small and medium sized enterprises would certainly like to see the costs of firing fall by other means, though, including shorter notice periods and so on.* They do not seem opposed to reducing the protections of dismissal law except to the extent that doing so would open them up to greater potential costs.

Still, it is telling in the context of the Varieties of Capitalism perspective that the large employers have been most supportive of dramatic EPL reform. Given that it is these firms that would tend to benefit most from the institutional set-up of a coordinated system in the VOC view (with the investments in workers that longer-term employment relations imply), their eagerness for reform belies the ‘interests’ attributed to them in VOC. Furthermore, employer opposition to the costs of the Dutch system has steadily grown over time. Partly this is a product of reforms to the disability insurance system that made firing older workers more difficult, but even more prominent is the concern about the costs Dutch firms must incur relative to their international competitors. In this context, it is increasingly the competitive threat of China and other developing countries that worries them, not just their old adversaries in the West. Again this contrasts with the VOC prediction that global economic integration will lead to greater institutional diversity, as firms seek to shore up their “comparative institutional advantages”.

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1006 EIRO, 2005, “Major employer organizations forge an alliance.”
1007 Hassel, 2008. Note the contrast to Swedish employer preferences between large and small firms, as well. See Chapter 5.
1008 Interview with FME official, October 2009.
1009 Ibid. This perhaps also explains the difference in opposition to the dual system between the MKB-Nederland and the VNO-NCW: the latter is more directly exposed to such competition.
1010 Hall and Soskice, 2001.
been modest not so much ‘because of’ but rather ‘in spite of’ the political positions taken by employers.

Nevertheless, it is striking that employers have tended to keep relatively quiet during periods of intense contestation over the corporatist set-up prevailing in The Netherlands, including the arrangements of employment protection. In the context of the debate over the Rood recommendations in the early 2000s, for example, they were not extremely vocal in their opposition to the existing arrangements. Indeed it is striking that the employers have often been more modest in their reform proposals than the right-wing parties that are usually their allies, even actively opposing planned changes by center-right coalitions (such as deducting UI benefits from compensation in 2004). This is certainly a peculiar scenario for an observer from the Anglo-Saxon world, where business is very rarely outflanked by the main right-wing political parties in zeal for neoliberal reform. It is here that a VOC view is likely useful, in that many employers recognize the benefits they receive from a coordinative arrangement, especially labor peace and wage restraint, and do not wish to upset the unions unduly through dramatic neoliberal reforms. Employers’ groups that must negotiate with unions on a continuing basis do not want to antagonize the unions excessively, for fear of disrupting the political-economic equilibrium of the moment. Certainly this equilibrium has shifted in a neoliberal direction over the past 30 years, a direction they largely support, but pushing too hard in that direction can lead to disruptive conflict, as witnessed in late 2004. Given the penchant for consensual-type politics in The Netherlands, and the continuing support that the unions receive from a significant section of the electorate, EPL reform has thus had to be incremental and negotiated. It appears that employers’ groups are cognizant of this and have acted accordingly in putting forward their policy proposals.

This dynamic has meant that much of the impetus for EPL reform has come from the various political parties of the Dutch political system, particularly those on the right and center-right. In terms of those parties in favor of significant dismissal law reform, the VVD stands out as the most outspoken. The social-liberal D66 also has shown support for changes, though not as stridently so. The CDA, for its part, has increasingly pushed for fundamental reform. As the long-time pivot in the Dutch political system, its shifting outlook has played an important part in spurring the debate along. In the early 1980s its conversion to a more neoliberal stance set the stage not only for various reforms to social security but also for its joint proposal with the PvdA in the early 1990s to abolish the ‘prior consent’ procedure altogether. It appears that of the two the CDA was keener on the change, since after that proposal had stalled and the elections brought the PvdA to power
with the Purple Coalition, the push for eliminating the CWI route dissipated and the more incremental change of Flexicurity was adopted. With the CDA kept out of power for nearly a decade, the main push for reform came from the VVD inside the Purple Coalition during that period. Once back in power in 2002, however, the CDA again became the major force behind the reform of the dismissal law system. Not only did it propose various far reaching changes in this period, including emulating the Danish system, but certain concrete reforms took place, such as the ‘mirror principle’. But for major public and union opposition, their proposed changes would likely have gone through. When their attempts at reform were stymied and they were compelled to govern once more with the PvdA after 2006, it was a CDA minister, Piet Donner, who broke the taboo on cabinet discussions of dismissal law in 2007, nearly causing the coalition to fall as a result.\footnote{1011} Thus from a relatively ambivalent actor in relation to EPL in the 1970s to a champion of far-reaching reform, the CDA position has evolved considerably over time.

The same can be said of the PvdA, though it seems of late to have reverted to its original position of defending the current system. The PvdA was instrumental in consolidating the strong system of employment protection that emerged in the postwar period. It was at the forefront of efforts to introduce various ‘just cause’ provisions into the system, to implement supplementary requirements for collective dismissals, to strengthen the works councils, and more recently to grant part-time workers similar protections to permanent contract workers. Indeed for most of the postwar period, it was seen as the unions’ main ally, especially the FNV.\footnote{1012} This began to change in the late 1980s, though, culminating in their cautious support for the overhaul of the dual system in the early 1990s. Relations with the unions had reached their nadir during this period, as the PvdA struggled to wrest control of social insurance administration from the social partners. This was in large part due to the PvdA’s conversion to a more neoliberal outlook from the late 1980s. In fact, in many ways the Dutch Labor Party was the first to embrace the ‘Third Way’ or ‘New Laborism’.\footnote{1013} After several years of being shut out of government in the 1980s, during the CDA-led Luebbers cabinets I and II, the PvdA decided that its traditionally social democratic stance needed to change (see next section).\footnote{1014}

\footnote{1011} Interview with SP official, October 2009.
\footnote{1012} Interview with Kees Van Kersbergen, September 2009.
\footnote{1013} Interview with Kees Van Kersbergen, September 2009, and SP official, October 2009.
\footnote{1014} That is, a social democratic stance more in line with the pattern of ‘Conservative’ welfare-states, with its emphasis on passive benefits and not overly concerned with women entering the workforce or ‘activation’ more generally. This contrasts of course with the Scandinavian tradition of social democracy.
As the PvdA shifted towards the center of the spectrum, however, in the late 1980s and early 1990s, those Leftists disaffected by the shift began to move to a renamed Socialist Party (SP), to the left of the new-look PvdA.\textsuperscript{1015} For a time this centrist strategy was successful for the PvdA, as they led the Purple Coalition for most of the 1990s and into the new century, in the process passing the Flexicurity reforms. Governing from the center had its downside, though, as the SP began to gain support at its expense on the Left. Over time this meant that the SP emerged as a serious force in Dutch politics in the early 2000s, winning 9 seats in 2002 and a stunning 25 seats in 2006, becoming for a time the third most popular party in The Netherlands behind the CDA and PvdA. No longer could they be ignored by the PvdA, and it appears that the party began to tack back towards the Left. There also seemed to be a dynamic whereby the party supported welfare state reform while in power but opposed it when out of the governing coalition.\textsuperscript{1016} Opposing the reforms of the first Balkenende cabinets proved a popular stance, and the PvdA subsequently dug in their heels on dismissal law reform when joining with the CDA in 2006 to form government. Once again this appears to be a nod to the strong opposition voiced to such a change by the SP and the PvdA’s need to compete with it on the Left (and in the unions). As a result, the party whose support was likely required for any major overhaul of dismissal law was back on the side of the current system during the Balkenende governments; the policy consequence was relative stalemate.

Thus the general picture is one of gradual, stunted reform, with most core protections left intact and flexibilization on the margins compensated in part by basic measures to improve ‘outsider’ security. The main reductions in employment protection have happened not so much because of legislation but through employers increasingly evading the strictures of the dual system through flexible contracts. Where VOC has something to contribute is perhaps in its understanding of the functionality of this ‘two-tiered’ EPL reform.\textsuperscript{1017} Arguably this strategy of “selective and shielded deregulation” noted by Torben Iversen can preserve the insurance functions of employment protection required to induce investments by (especially) manufacturing workers in ‘risky’ firm- and industry-specific skills that CMEs depend upon.\textsuperscript{1018} Where these types of skills are not required as in much of the service economy, where flexible contracts are more prevalent, the protections of a strict EPL regime need not operate. While this VOC understanding can help explain the nature or “functionality” of the changes, it has more difficulty explaining the intense partisanship

\begin{footnotes}
\item \textsuperscript{1015} Interview with SP official, October 2009.
\item \textsuperscript{1016} Ibid.
\item \textsuperscript{1017} Ochel, 2008.
\item \textsuperscript{1018} Iversen, 2005.
\end{footnotes}
behind them. What legislative changes that have emerged have been pushed for by right-wing parties and employer groups, and they have often pushed for more dramatic deregulation (though the latter have often been cautious not to push too forcefully for fear of inducing widespread industrial unrest). For the most part attempts to weaken dismissal law have been resisted by the unions and Left parties, and the unions have been successful in preventing radical changes in part through their voice in the SER and STAR and through their ability to cause economic dislocation with industrial action. Tellingly, legislative reforms weakening EPL have come about following periods of union weakness, where unions were forced to change their stance (e.g., in the early 1990s and late 2000s).

As should be apparent, though, the unions have wielded considerable influence in this area, disproportionate perhaps to what their weak membership figures might suggest is possible. This should make one cautious about making estimates of union strength on the basis of just membership numbers, as explained in Chapter 2. Instead, one must take into account the amplification of this basic ‘power resource’ through corporatist institutions of social dialogue and the extension of wage agreements, both of which give unions considerable veto power. Once this is noted, it should be clear that dramatic employment protection reform has not happened largely because unions and the Left have been successful in resisting it, not because employers have been ambivalent on the question. To the extent that there has been ambivalence on the part of employers, it is due to the idiosyncratic legacy of the dual system, which has made small businesses wary of change (not those larger firms most plugged into coordinative arrangements). The continuous, patient struggle on the part of employers to weaken EPL and the willingness of unions to trade ‘insider’ gains such as higher wages and employment protection for maintaining a more inclusive system of protection both belie the assumptions of VOC and Insider-Outsider theory, respectively. Rather, the policy history fits better into a Varieties of Unionism framework, or simply a traditional Power Resources understanding, which sees social partner unions as concerned with the job security of most workers, but not in an absolute or inflexible way.
Section IV: Unemployment Benefits

Early Developments

Unemployment insurance arrangements began in The Netherlands in the second half of the 19th century. As in other European countries, they started as funds organized by unions to provide for their members during spells of unemployment. Initially they were funded solely by the union members themselves, through contributions deducted from their pay. Since this arrangement meant that very few workers would receive benefits, given the costs of insurance and limited union membership, gradually local governments came to subsidize the funds (i.e., a Ghent system) and to set up unemployment ‘assistance’ funds themselves. Following the First World War the central government became involved in subsidizing the insurance funds as well as the unemployment assistance schemes. In addition, employers began to pay into unemployment insurance schemes for employees that were temporarily laid-off. While these arrangements provided for a basic level of protection for certain workers, overall the level of generosity and coverage was quite low and the union funds ran into serious financial problems during the Depression of the 1930s.

As a result, following WWII there was pressure to adopt a new system of unemployment insurance. This pressure emerged in part from the recommendations of the Van Rhijn Commission report, which was written during the war by exiled Dutch leaders in London. It advised that the contributory, corporatist organization of social security be reformed in the direction of a more universalistic, Beveridge system. However opposition from the Catholic and Protestant parties, who favored a more corporatist system with limited state involvement, and of employers, prevented the full adoption of the Van Rhijn suggestions. Thus in the Unemployment Insurance Act of 1949 a dual structure was put in place that preserved the industry-related funds previously paid into by employers but also bolstered a more general unemployment insurance system that covered all private sector employees. The former were only contributed to by employers and employees of the given industry, and only they were eligible for the more generous but very short-term benefits

1019 For what follows below, see Vijlbrief, 1992, p. 66-68; and Carroll, 1999.
1020 Unemployment assistance differs from unemployment insurance in that they are usually paid at a flat-rate (unrelated to previous income) and means-tested. Ibid.
1021 By Bismarckian is meant a contributory insurance scheme that pays out earnings-related benefits and is tied to employment in particular industries (and thus is confined to certain wage-earners). A Beveridge system is more universalistic in the sense that benefits are open to all who work (coverage is universal) and are set at a flat-rate. Ibid.; Cox, 1993, Ch. 4; Van Kersbergen, 1995, p. 129; and Visser and Hemerijk, 1997, p. 124.
1022 For an explanation of these political positions, see Cox, 1993, Chapter 3.
1023 The unemployment insurance system for a long time covered only private sector employees; civil servants had their own system of compensation for unemployment. This changed in the 1990s. Vijlbrief, 1992, p. 69.*
(40 days) that were paid out. For those not working in those industries or for those whose short term benefits had expired, another insurance system was established (the WW). Employers, employees and the central government contributed to this system and the maximum duration of such benefits was 130 days. Both systems granted benefits at a relatively generous 80 percent of previous income, largely because the system was premised on a one income, male-breadwinner family model, which naturally necessitated a higher replacement rate. For those who did not constitute the sole ‘breadwinner’, the replacement rate was 70 percent. This clearly reflected the ‘Conservative’ welfare state pattern as depicted by Gosta Esping-Andersen, in that the setup was premised upon the traditional family division of labor.

Meanwhile, direct union control of such funds, as in a Ghent system, was abandoned after the war. The difficult experience of managing such funds in the 1930s had made the unions wary of continuing to do so, even though relinquishing direct control meant losing a valuable recruitment tool. Instead, the social partners ran this system jointly through the various Industry Insurance Associations (IIAs) which also governed the other social insurance programs such as sickness and disability insurance, and which the state oversaw and set the basic rules for (e.g., contribution levels, eligibility requirements, etc.). For different reasons, this setup initially suited both employers and the unions. Employers, for their part, felt that a direct administrative role could help them better control the costs of social insurance, relative to a presumed ‘expansionist’ bureaucracy. For the unions, joint administrative control would grant them considerable power over the evolution of such benefits and the possibility of dispensing them in generous (perhaps even selective) ways. It also meshed well with the ideological stance of the Christian unions which at the time supported the idea of ‘subsidiarity’, or control at the lowest possible level of centralization, so as to withstand the influence of the state in its traditional spheres (as in pillarization).

**The Emergence of a Generous UB System**

As I noted in Section II, the early postwar years were marked by significant wage restraint, low unemployment and rapid economic growth. Under the Red-Roman coalitions of the Social

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1025 Esping-Andersen, 1990. Thus, interestingly, the Catholic KVP supported a more generous UI system, along with the PvdA, given its attachment to the traditional family model.
1027 Cox, 1993, p. 68-70. There were 26 such IIAs, until 1995.
1028 Visser and Hemerijk, 1997, p.122-123; Van Kersbergen, 1995, p. 128-131. The socialist unions, the NVV (precursor to FNV), initially opposed this corporatist model but after consistently losing the battle within the union movement on the question (to the Catholic and Protestant unions), they resigned themselves to it.
Democratic PvdA and the Catholic KVP the Dutch welfare state grew quite slowly however, despite the introduction of the Unemployment Insurance Act in 1949 and a generous, universalistic pension reform in 1957. To a large extent, conflicts over the nature of the administrative structure and the resistance of the Protestant and liberal parties hindered expansion.\textsuperscript{1029} As the prosperity continued into the 1960s, though, the conditions for expanding social insurance appeared. This was in part the culmination of the tacit “bargain between labour and capital and between the social democrats and the Catholic movement… of full employment and the expansion of social policy in exchange for labour quiescence and wage restraint.”\textsuperscript{1030} As social partner unions, the Dutch labor movement was able to leverage its past provision of wage restraint and its place in national wage bargaining into significant policy gains, as it repeatedly pressed in SER and STAR to have social insurance benefits improved or maintained.\textsuperscript{1031} Expansion was also the product of de-pillarization and secularization, though, as the popularity of confessional parties fell swiftly and forced them to search for new sources of votes. This led them to increasingly support welfare state expansion as a means to win votes and maintain their hold within the union movement, which was in the process of moving farther to the Left.\textsuperscript{1032} Thus under a coalition with the Liberal VVD in 1964, the confessional parties passed the Unemployment Relief Act, which both eliminated the differentiation of benefits between breadwinners and non-breadwinners (all would now get the 80 percent replacement rate) and created a new, national unemployment assistance system (WWV) which provided benefits for two years (as opposed to 130 days). These benefits were not means-tested and were granted at 75 percent of a worker’s last earned wage.\textsuperscript{1033} Both changes meant that the costs of the programs increased considerably, though this would only really be felt in later decades when unemployment became much more frequent and longer in duration. This was a period, after all, of effectively full (male) employment. In this sense, the high level of generosity of the system was partly unintentional, as I alluded to in the introduction.

The 1960s also saw the introduction of a generous new disability insurance system (WAO). Established in 1967, the new system was based on the idea of ‘social risk’: injuries sustained outside

\textsuperscript{1029} Cox, 1993, Chapter 4.
\textsuperscript{1030} Van Kersbergen, 1995, p. 130. See also Visser and Hemerijk (p. 121): “The postwar wage restraint policy was successful in creating a low cost export base for Dutch manufacturing products. At first, wage costs and social provisions were held back in support of the policy. Later, its success provided the basis for expansion of social policy legislation. This was the promise for which the unions and their members had willingly exercised restraint.”
\textsuperscript{1031} See for example, Woldendorp, 2005, p. 274-304.
\textsuperscript{1032} Van Kersbergen, 1995, p. 133; Cox, 1993, p. 165.
\textsuperscript{1033} Ibid. p. 131; Visser and Hemerijk, 1997, p. 126. This expanded coverage to 100 percent of employees, making it one of the first countries to achieve this. Carroll, 1999, p. 136.
of a work environment that hampered working ability also qualified one for disability benefits. Moreover, work beneath one’s previous ‘abilities’ was not required on the part of recipients and the definition of ‘disability’ was often interpreted loosely. Naturally this considerably expanded the potential scope of the program. Lastly, contributions for the scheme did not vary by industry and benefits were set at 80 percent of former wages, as in unemployment insurance. That payment did not vary by industry had important implications since this removed the incentive of industry associations, who were put in charge of administration, to strictly police the system and limit claimants. This program is noteworthy in the context of UB because it became a prominent contributor to what would later be called a ‘crisis of inactivity’.

By the 1970s, then, the unemployment benefit system took the following form. Eligibility for unemployment insurance (WW) depended on having worked a minimum of 130 days in the past year, while eligibility for unemployment assistance (WWV) was guaranteed if one qualified for WW. As well, one had to be involuntarily unemployed, registered at an employment office, and willing to apply for and accept ‘suitable jobs’ or enter into educational programs. In terms of benefit duration, WW benefits lasted only 6 months, while WWV lasted 2 years. The generosity of benefits depended largely on previous income: 80 percent of prior income for WW and 75 percent for WWV, with a fairly high maximum benefit ceiling for both. Partly compensating for this generosity, though, was the fact that benefits were taxed as regular income, which meant that in practice the system distributed benefits progressively. As well, there was a floor placed under benefit levels: benefits would be topped up if they did not meet the ‘social minimum’, defined as 70 percent of the minimum wage for a single individual and 100 percent of the minimum wage for a single earner family. Given the relatively egalitarian distribution of income at the time, with the minimum wage roughly 80 percent of the average wage, this was an important element in ensuring a generous system. In addition, starting in 1974 the minimum wage, and thereby social security benefits, were indexed to wage developments in the rest of the economy, preventing either from falling far behind.

1034 For below, see Visser and Hemerijk, p. 126.
1036 A ‘suitable job’ was defined on the basis of the unemployed’s level of education, work history, age previous income, and residence. Visser and Hemerijk, 1997, p. 126.
1037 Technically, the first 6 months of benefit receipt was divided between 8 weeks of unemployment pay and eighteen weeks of unemployment insurance, as per the ‘dual system’ of benefits mentioned above. However there was no real difference in benefits and thus the distinction was only administrative. Vijlbrief, p. 70.
the general standard of living (and pushing up costs). As before, the financing of the system was achieved in part through the social insurance contributions of employers and employees and in part by state funding. As costs rose in the late 1970s, however, it was increasingly the state that was called upon to finance WWV benefits, setting the scene, along with other programs, for persistent budget deficits. Perversely, the growing social insurance charges often only reinforced the absence of wage restraint in the economy, as workers tried to compensate for rising contributions deducted from their wages with higher wage growth.

**Dutch Disease and the Reforms of the 1980s**

By the end of the 1970s the passive social insurance system of The Netherlands had become very generous and extensively used relative to the recent past (see Table 6.6). But this coincided with a period of economic turmoil, as rising social charges, wages, and the appreciating Dutch guilder all undermined the profitability of non-oil Dutch exporters. The crisis of profitability pushed many industries and firms to the brink, forcing them to lay off large numbers of workers. Such ‘rationalization’ meant that the number of claimants of both unemployment and disability benefits grew quickly, as employers often used the disability system to rid themselves of employees who otherwise would have been difficult to fire in the dismissal system. From around 108,000 unemployment benefit claimants in 1972, to 236,000 in 1980, the number jumped to 659,000 in 1984 at the height of the recession’s impact. Meanwhile, the number of ‘disability’ claimants followed a similar trajectory, from 229,000 in 1972 to 685,000 in 1984. Naturally these developments had a profound impact on the ‘dependency ratio’, which measures the number of employed people relative to benefit recipients (excluding pensions). From 14.8:1 in 1970 the ratio fell to 5:1 in 1980 and 2.9:1 in 1985.

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1038 This change took place under the PvdA-led coalition of Den Uyl, arguably the most left-wing cabinet of the postwar period. Rueda, 2007, p. 128-129.
1039 Visser and Hemerijnk, 1997, p. 128-129.
1040 Ibid.
Table 6.6: Average UB Replacement Rate in Selected OECD Countries, 1975-2002

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<td>Denmark</td>
<td>66.3</td>
<td>79.1</td>
<td>75.7</td>
<td>70.2</td>
<td>66.7</td>
<td>61.9</td>
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<tr>
<td>Germany</td>
<td>69.2</td>
<td>69.1</td>
<td>66.5</td>
<td>66.4</td>
<td>64.4</td>
<td>65.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>89.2</td>
<td>87.5</td>
<td>86.9</td>
<td>76</td>
<td>76</td>
<td>77.4</td>
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<tr>
<td>Sweden</td>
<td>81.4</td>
<td>83.3</td>
<td>82.2</td>
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<td>76.3</td>
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<tr>
<td>UK</td>
<td>57</td>
<td>54.6</td>
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The stress on government finances rose apace. Until 1979 the budget deficit never exceeded 5 percent of GDP, yet by 1983 it had grown to over 10 percent.\(^{1041}\) Already in the 1970s this problem had been noted and successive governments of left and right had tried to get expenditures under control. In the relatively polarized atmosphere of the 1970s, though, none were able to do so, in large part because with the indexation of benefits to wage developments most increases in expenditure were out of their control. It was in this context that the Wagner commission issued its report, as we have seen, and one of its central messages was the need for austerity/retrenchment. The ‘no nonsense’ austerity government of Ruud Lubbers (CDA-VVD; known as Lubbers I) set about doing this immediately after taking power in late 1982. In the sphere of policy of interest here, it first limited the indexation of social security benefits (unemployment, disability, and sickness) to 1 percent, effectively a significant cut as inflation was running near 6 percent at the time.\(^{1042}\) This put additional pressure on the unions, not coincidentally, to deliver on the wage restraint they had promised with Wassenaar; if they failed to do so, they would be further reducing the value of benefits. The Lubbers government followed this strategy in 1984 with a small (nominal) benefit cut and then in 1985 with a freeze, after the unions had shown the required restraint and dropped inflation down to around 2 percent.\(^{1043}\) Ironically, once it became clear that only limited cuts could be achieved through limiting or freezing indexation, given the significant wage moderation and low inflation offered by the unions, the government decided to reduce the replacement rate for all social security benefits from 80 to 70 percent in 1985.\(^ {1044} \) These decisions coincided with austerity measures in a range of other areas, including pay cuts to public servants, and jointly provoked some of the largest postwar demonstrations in Dutch history, many organized by the unions.\(^ {1045} \)

\(^{1041}\) Ibid. p. 130.  
\(^{1042}\) Green-Pedersen, 2002, p. 96.  
\(^{1043}\) Ibid. and http://www.indexmundi.com/netherlands/inflation_rate_(consumer_prices).html.  
\(^{1044}\) Ibid.  
Despite these protests the CDA-VVD coalition remained intent on pushing through its retrenchment measures and began to plan for a more complete reorganization of the social insurance system: so-called ‘system change’. It justified the need for these changes mostly with reference to the country’s economic woes, which it said demanded firm and fundamental reform, but it also sought to use the CDA’s earlier reputation as a ‘caring’, progressive party of welfare state expansion to soften its image. After most of its reforms had been passed, it promised that if it were to win the following election further cuts to social insurance would be minimal. Employers, for their part, urged the government to cut even deeper into social security: in its submission to the SER in 1984 the “employers came out in favor of reducing the benefit levels of all social security to subsistence levels.” In fact, the detailed research conducted by Jaap Woldendorp on the policy struggles inside SER suggest a constant pressure on the part of employers to weaken the generosity of social insurance, including UB.

To be sure, his evidence also suggests that many were in agreement with these arguments, especially those in the unions and in the PvdA. Both opposed the cuts that the government was making, suggesting that the burden of the economic turmoil was not being shared fairly. Initially this led both to strongly oppose virtually all of the Lubbers cuts, and the unions maintained this stance long after. After a couple of years, however, the PvdA began to temper its resistance and acknowledge the need for some retrenchment. For instance, instead of the cut to a 70 percent replacement rate, the PvdA in 1984 proposed 75 percent. The party also did not guarantee that benefits would become indexed again if it formed government, even though this was one of the retrenchments it opposed most in the early days of the Lubbers government. Part of the problem was that the PvdA knew it would be difficult to govern without the CDA. Consequently, if it opposed the government too stridently it would have little hope of participating in a government in the future: this was the dilemma between vote- and office-seeking that parties in proportional representation electoral systems often face. Thus with time its oppositional, polarizing position began to change to one more in line with the retrenchment process. This trend was sealed with the victory of the CDA-VVD coalition in 1986 (Lubbers II), despite PvdA vote gains at the expense

1046 Ibid.
1051 This was known as the ‘polarization strategy’, followed most clearly in the 1970s, where the PvdA had attempted to establish through firm Left positions the electoral conditions for governing without the support of the Christian Democratic parties (and later CDA).
of the VVD. In spite of the unpopularity of many of the retrenchment measures, the CDA had managed to convince the electorate that the changes were in fact necessary given the economic situation and that the worst was behind them.1052

This set the stage for its ‘system change’ of unemployment benefits in 1987, which sought more to change the structure and financing of the system than to reduce its generosity. First, the reform brought about the merging of WW and WWV benefits into one system. This meant that the tax financing from the state was removed from the program, since the state had previously helped pay for WWV; and employers and employees were left to fund the entire system.1053 Second, a new system determining the duration of extended benefits was put in place, allowing for a longer period of benefit receipt but making this dependent upon age and/or a longer term of work. In order to be eligible for extended unemployment benefits (the old WWV) one now had to have worked three out of the past five years (‘three-out-of-five’). Beyond this the duration of benefits was determined by the previous work record. After the base level of six months of receipt, one could receive an extra 6 months of benefits for every 5 years ‘worked’, up to a maximum of 4½ years of benefits.1054 ‘Work record’ was counted in a peculiar way, though. An individual’s official work record equaled the ‘actual’ work record of the past five years plus a ‘fictive’ work record which was simply one’s age minus 23.1055 In this way older workers were given much longer benefits, irrespective of their actual work record, as long as they met the ‘three-out-of-five’ rule; younger workers were effectively given shorter benefits. Older workers were also favored in the system in that anyone becoming unemployed after 57½ was eligible for benefits until they turned 65 and they were not required to search for alternative employment to maintain eligibility.1056

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1052 Rueda, 2007, p. 192. Desire for further retrenchment among the electorate also dropped as the economy began to grow again and the ‘crisis atmosphere’ receded. This led the CDA to tone down its emphasis on retrenchment. Cox, 1993, p. 182.

1053 It also appears to have meant that all benefit recipients would begin at the 70 percent replacement ratio, instead of starting at 80 percent for the first six months (WW) and then dropping to 70 percent thereafter (WWV), as had been set by the 1984/5 reform.

1054 Vijlbrief, 1992, p. 70-71. Once these benefits were exhausted, recipients would be shifted onto the means-tested, social assistance system, which disbursed benefits at 70 percent of the minimum wage. If one did not meet the ‘3 out of 5’ requirement, one could receive a year of follow-up benefits at 70 percent the minimum wage, not means-tested, prior to being moved to the means-tested social assistance system.

1055 Schils, 2009, p.? says that the starting age on which this calculation is based is 18 not 23. To be figured out.

1056 This was part of the early-retirement trend, which sought to open up more positions for younger workers. As well, it was a nod to the reality of longer-term unemployment for older workers. Van Oorschot, 2004, p. 18.
resulting influence in policy form. Finally, eligibility rules were tightened somewhat, such that 26 weeks of work in the year preceding unemployment was now required.

Alongside these changes, the Lubbers II government also began reforming the structure of the disability insurance system. These reforms were milder, though, and mostly involved a stricter distinction between ‘disability’ and ‘unemployability’, with benefits for the latter being more stringently applied and less generous. Together it was hoped that these various changes would significantly reduce the costs of the programs, both in terms of numbers of claimants and cost per claimant. In the case of unemployment benefits, the reforms were largely successful in this respect, dropping spending on unemployment benefits from 3.3 percent of GDP in 1985 to 2.5 percent in 1990. Yet the number of claimants remained stubbornly high, dropping only from a post-recession peak of 660,000 in 1984 to 538,000 in 1990. Even here, the modest reductions in claimants was more the product of the return to economic growth than of the reforms, and the drop in claimant numbers masked the fact that many of them had shifted to social assistance due to an increase in long-term unemployment. The reform to disability insurance proved even less effective, however, as claimant numbers continued increasing despite the economic growth: from 685,000 claimants in 1984 to 758,000 in 1989. Consequently, the stabilization of social expenditures that had been achieved after 1985 by the Lubbers cabinets came partially undone once more as the recession of the early 1990s hit.

The ‘Crisis of Inactivity’, the Purple Coalition, and the Reforms of the 1990s

In the run-up to the elections in 1989, the CDA stated that it had no preferred coalition partner, in contrast to the previous two elections when it had campaigned more or less explicitly with the VVD as its partner. This was a clear message to the PvdA: that they could form the next government together, provided that the PvdA further soften its criticisms of the retrenchment course. For the CDA, a coalition with the PvdA would give it increased legitimacy (or political ‘cover’) should it embark on further retrenchment, particularly in terms of the disability system. On

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1059 OECD, 2006 (SOC-X Files).
1060 Ibid. p. 129, 136.
1061 It should be noted, though, that claimant numbers would have likely been going up even with a steady unemployment rate due to the sharp increase in the participation rate (employed people as a percentage of those of working age). This was almost entirely a product of the influx of women into the labor force that pushed the participation rate up from just over 50 percent in 1980 to around 60 percent in 1990. OECD, Employment Statistics.
1062 Below draws upon Green-Pedersen, 2002, p. 102.
the other side, the PvdA was eager to prove that it was ‘fit to govern’ and able to make tough decisions, and thereby return from political isolation and impotence. Accordingly the PvdA shifted gears and muted its criticisms of the previous Lubbers policies. This was the culmination of a trend initiated by its election of the moderate, former trade unionist Wim Kok as leader after the 1986 election, an early signal of its conversion to a more ‘Third Way’ outlook.\footnote{See for example, Clasen, 2002.}

Following the 1989 election, then, the CDA and PvdA formed a coalition under Lubbers (the Lubbers III cabinet). In return for accepting the broad outlines of the previous Lubbers policies, the PvdA was given the concession of re-indexing social insurance benefits for 1990, 1991 and 1992.\footnote{Green-Pedersen, 2002, p. 102-103. They had not been indexed from 1982 to 1989. As Visser and Hemerijk write: “partial restoration of the linking mechanism [indexation]… had been an important political precondition for the acceptance of government responsibility [for the PvdA].”} In a nod to the need for cost curtailment and fighting ‘inactivity’, though, the indexation of benefits was made conditional in 1992 upon an inactive/active ratio (I/A) measuring the number of benefit recipients as a share of the employed.\footnote{Visser and Hemerijk, 1997, p. 141.} If the I/A exceeded the chosen level of .86, the indexation of benefits would be stopped. Similar to the benefit freezes of the early 1980s this gave the unions a motivation to deliver wage moderation: wage moderation would presumably lead to employment growth, which would lower the ratio, and thus preserve the generosity of the social insurance system. Indeed, the need for limited wage growth, not rising above inflation plus productivity growth, was explicitly set out in the Conditional Linking Act.\footnote{Green Pedersen, 2002, p. 102-107.} The exchange of wage moderation for the maintenance of social insurance generosity could hardly be clearer, in sharp contrast to Rueda’s claim that this did not happen in the case of programs such as unemployment benefits.

Shortly after taking power again, Lubbers also tried to prepare the ground for an overhaul of the disability system, proclaiming provocatively that “The Netherlands is sick”.\footnote{Visser and Hemerijk, p. 144; EIRO, 1997, “Controversy surrounds social security financing.”} This coincided with a stream of independent and government reports suggesting what many had already known, that the social partners and medical profession had been abusing the system: they had used the system to avoid dismissal costs and to create more secure, passive transfers than was possible in the unemployment insurance system.\footnote{Visser and Hemerijk, p. 118.} As the disability claimant figures noted above should indicate, the system had become detached from the actual level of disability in the economy; working conditions had gotten no worse in The Netherlands and yet the numbers in the program kept rising inexorably, to a rate nearly twice that found in other European countries.\footnote{Visser and Hemerijk, p. 118.} After a period of
intense internal debate, the CDA-PvdA coalition introduced a range of changes to the WAO system in 1992 and 1993 in an attempt to stop this trend and reduce costs.  

Crucial for PvdA support of the measures was that the changes be grandfathered. The CDA grudgingly agreed. Nevertheless, this PvdA support came at the cost of frosty relations with the unions, who had fiercely resisted attempts to reform the disability system. In this period, as noted, the relations between the PvdA and the FNV reached an all time low and the unions organized massive protests against the changes. It also cost the PvdA many votes in the 1994 elections. Two dynamics explain the support of the PvdA for the reforms, despite their deep unpopularity with a major base of the party’s support. On the one hand were strategic political calculations. If the PvdA had not supported the CDA’s desired reforms, the government would have fallen and it would have ‘proven’ that the party could not make the ‘tough’ reform decisions to improve the economic future of the country. This not only would have hurt the party’s image as competent economic managers, which it had spent the late 1980s trying to cultivate, but it would also have pushed the CDA back into coalitions with the VVD, again relegating the PvdA to possibly a long spell of political opposition. On the other hand, there was an emerging ideological consensus on the need to become a more ‘active’ society. The decision to overhaul the disability system was thus also the product of a shift towards emphasizing labor market participation rates instead of the unemployment rate (e.g., the adoption of a guiding I/A ratio). While the unemployment rate had begun to fall from 12 percent in 1984 to around 7 percent in the early 1990s, the participation rate remained low, at around 60 percent. A consensus gradually emerged that in order to continue providing a generous welfare state the participation rate had to be raised: it would simultaneously raise revenue and lower expenditure and thus put the welfare state on a more sustainable fiscal course. Naturally the PvdA had some affinity for this idea, given that the argument could be seen in a social democratic light (as in Scandinavia). It could also, of course, be turned into an argument for straightforward retrenchment, with the generosity of welfare state programs being the main culprit.

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1069 Ibid. p. 142-43. First, they created financial incentives for employers to minimize the number of people in the disability system: wage subsidies for employers who hired partially disabled workers and financial penalties for contributing a higher number of disability claimants than their industry average. Second, the eligibility criteria were tightened considerably and benefit levels and duration were reduced, especially for those under 50. And third, medical re-examination of existing recipients was mandated and those partially disabled workers who were forced to actively search for work by the 1987 changes would now have to accept any ‘normal’ job, not just ‘appropriate’ to their skill level, etc. As it turned out, the reforms had the desired effect and claimant numbers began to drop steadily thereafter.


1072 OECD, Employment Database. Even this was a considerable improvement over the rate of 53 percent in 1980, owing to increased female employment (mostly part-time), yet it lagged far behind other generous welfare states such as Sweden which had achieved up to 80 percent participation rates prior to its deep recession in the early 1990s.
behind ‘inactivity’; such was no doubt the view of the VVD and parts of the CDA. Given its malleability, then, it is not hard to see how a ‘consensus’ was able to be formed around it.\textsuperscript{1073}

As it turns out, this shared understanding and its ‘activating’ orientation in policy allowed for the formation of the ‘Purple Coalition’ after 1994 elections, bringing together for the first time the PvdA and D66 from the Left and the VVD from the Right. The CDA had suffered a crushing defeat in the election, due to the ‘WAO affair’, internal divisions and an overly austerity-minded approach to pension benefits in particular.\textsuperscript{1074} Its support had dropped from a dominant 35 percent of votes to 22 percent, a large enough drop to give the PvdA first place despite that party’s similarly large electoral loss, from 32 to 24 percent. The two liberal parties in the election, the D66 and VVD, had meanwhile both won major gains. The irony was that in order to by-pass the central ‘pivot’ of the Dutch party system, the CDA, a very centrist coalition of right balancing left had to be formed.

True to recent form the PvdA’s slogan in the election had been ‘jobs, jobs and more jobs’. It also had focused the electorate’s attention on its popular leader Wim Kok and presented its least left-wing election program in several decades.\textsuperscript{1075} Part of that program was a promise to continue the restructuring of the welfare state, though it made its coalition agreement with the VVD conditional on not tampering with the level and duration of social security benefits.\textsuperscript{1076} Instead, the bulk of the reforms were to be aimed at tightening eligibility conditions, activating the benefit systems, introducing active labor market policies (e.g., training, wage-subsidies, etc.), and reducing the role of the social partner in social security administration.

This orientation resulted in the following changes to the unemployment benefit system. First, eligibility conditions were made more stringent. 26 weeks of work out of the past 39 weeks were now required to receive benefits (the old formula was 26 weeks in the past 52). Furthermore, in order to be eligible for income-related benefits one had to have worked 4 out of the past 5 years. If one only met the first condition, a non-means tested flat-rate benefit of 70 percent the minimum wage would be given for 6 months. This was arguably the most important change to the system and it reduced costs by around 5 percent, the second most significant retrenchment to benefits next to the replacement rate change to 70 percent in the mid-1980s.\textsuperscript{1077} Partly compensating for this was that the booming Dutch economy of the late 1990s, helped along by continued wage restraint, ‘allowed’

\textsuperscript{1073} Arguably all hegemonic ideas have a great degree of malleability, or are inherently ‘contested concepts’.
\textsuperscript{1074} Green-Pedersen, p. 105.
\textsuperscript{1075} Ibid. p. 105.
\textsuperscript{1076} Visser and Hemerijk, p. 147.
\textsuperscript{1077} Green-Pedersen, p. 75.
the government to re-index benefits from 1995 onwards (based on the I/A). \(^{1078}\) Second, the work search requirements were enforced more strictly (activation). \(^{1079}\) Finally, and related to this last change, the administration of social security benefits was transferred in 1995 from the 26 bipartite IIAs to five new government-approved administrative offices, the *Uitvoeringsinstellingen* (UVIs). \(^{1080}\)

Thus the social partners were now largely excluded from the administration of benefits, and their role in the system reduced mostly to one of advising the government through the SER and STAR. As I show below, this facilitated further reforms to the system, though the unions remained a strong oppositional force.

*The ‘Dutch Miracle’ and the Balkenende Reforms*

On the strength of the booming economy and falling unemployment the Purple Coalition regained power in 1998 comfortably. The CDA’s criticisms of the government were muted in part because the coalition had followed policies similar to those it had itself put in place previously. In addition, the budget deficit had also been brought under control, a traditional CDA concern. Nevertheless, the new coalition (Kok II) was divided internally on a range of topics, as the VVD pushed for various neoliberal reforms beyond what the other two parties were willing to consider. The coalition even broke apart briefly in mid-1999, only to be re-formed over the summer.

Indicative of the differences within the coalition was a spat over forcing benefit recipient mothers with young children to work or enter into educational programs. \(^{1081}\) The VVD supported making this mandatory even for those with children under 5; however the other two parties only wanted

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\(^{1078}\) They had been frozen from 1993-1995 because the I/A ratio had been too high.

\(^{1079}\) Previously, work search rules that imposed financial penalties on non-compliant recipients had been applied leniently by the administrative bodies. Under the new law, adopted in 1996, the sanctioning of non-compliant recipients became mandatory, penalties were nationally codified, and administrative bodies were policed in respect to their implementation. Rueda, p. 165; Van Oorschot, 2004, p. 19. In the years preceding the change, the percentage of recipients sanctioned was between 10 to 15 percent; after the change this figure jumped to 35 for a few years before trending downwards again (presumably as recipients ‘learned the lesson’). Van Ours, 2006, p. 146.

\(^{1080}\) EIRO, 1997, “Controversy surrounds social security financing”; Visser and Hemerijk, p. 149; Green-Pedersen, p. 74-76; Schils, 2009. The earlier tripartite body (SVR) that oversaw the system also had its tasks divided between two new bodies, the state-run *College van Toezicht Sociale Verzekeringen* (CSTV) and a new tripartite National Institute for Social Insurance (LISV). Later, in 2000-02, the Purple Coalition restructured administration once more after a prolonged internal debate, partly privatizing reintegration services (with an advisory role given to the social partners) and replacing the UVIs with two public bodies with no social partner involvement, the CWI and the Social Security Agency (UWV). Schils, 2009; EIRO, 2000, “Cabinet and social partners reach compromise on new social security structure”.

partial work search and education obligations for parents even after children had reached the age of 5.\(^{1082}\)

Foreshadowing the positions they would take in later debates on social security, the VNO-NCW supported the VVD line whereas the FNV was supportive of exempting parents from these duties. Indeed in mid-1999 the VNO-NCW proposed an overhaul of the unemployment benefit system, once again urging that benefits be reduced to a subsistence level (social minimum) while somehow allowing employees to purchase their own individual insurance.\(^{1083}\) The specifics of the plan were not spelled out but the organization hoped to set the tone for future discussions of social security reforms. When such discussions arose the following year, the VNO-NCW also pushed for shortening the duration of benefits and tying them more closely to an individual’s actual work record.\(^{1084}\) As was explained above, unemployment benefit duration was based partly on work record (‘4 out of 5’) but also on the recipient’s age, since this constituted their ‘fictive’ work record. Thus the VNO-NCW supported a proposal introduced into parliament by the Secretary of State for Social Affairs that suggested eliminating the concept of ‘fictive’ work record from the calculation of benefit duration. In its place, only the actual work record would be taken into account; this would effectively shorten the duration of benefits for many workers, particularly older ones. Both the VVD and CDA also supported the idea, while the other political parties and the FNV were strongly opposed to the change. The latter reasoned that the change would actually worsen the incentive structure of the benefit system: if an older recipient was to find a job shortly after starting benefits, but then lost that job soon after, their ensuing benefits would be very short. Consequently these workers would be very wary of taking up employment soon after becoming unemployed, in effect undermining many of the various ‘activation’ measures introduced over the past years. Partly as a result of such concerns, the measure did not pass under the Purple Coalition; it had to wait until Balkenende II.

In part this is because the Dutch welfare state debate turned to other issues from 2000-2002, as we have seen, specifically the ‘representativeness’ of the social partners and the reform of the dismissal system. Moreover, the unemployment rate continued falling through 2001, as did the

\(^{1082}\) They also wanted these duties to be complemented by increased provision of childcare. The opposition parties (CDA, GroenLinks, SP), meanwhile, wanted a full exemption from such duties for parents with children under the age of 12. Ibid.

\(^{1083}\) EIRO, 1999, “Employers push for fundamentally new social security system.” Of course, the moral hazard problems associated with such an individualized social security system would likely be insurmountable!

\(^{1084}\) EIRO, 2000, “New proposal to reduce influx of disability and unemployment benefit claimants.”
number of benefit recipients, easing pressure on the social security system.\textsuperscript{1085} Indeed in certain respects this was arguably the height of the ‘Dutch Miracle’, with unemployment falling as low as 2 or 3 percent and the participation rate reaching 74 percent. (The large percentage of part-time workers in the economy meant that this overstated the actual level of full employment, but this was still impressive.) After the international recession of the early 2000s began to be felt in terms of higher unemployment in 2002 and 2003, though, pressure began to mount again for continued retrenchment. This coincided with the start of the Balkenende cabinets. In certain ways it marked a new type of retrenchment effort, much more driven by ideology than one ‘justified’ by a situation of economic turmoil. Between 2001 and 2008 the unemployment rate never surpassed 5 percent and yet the politics of retrenchment continued. In an effort to deal with the looming recession and re-balance its budget, the Balkenende II cabinet (CDA-VVD-D66) introduced an austerity-minded programme after forming a government in early 2003.\textsuperscript{1086} Once more, this proposed course divided the social partners, with the employers largely supportive and the unions vigorously opposed. Over the course of the year the social partners and the government worked to find a compromise arrangement that would lessen the amount of proposed cutbacks to WW, WAO and early retirement provisions. By the fall they had achieved this, and yet again it was wage moderation that was exchanged for watering down the proposed cuts: this time a temporary nominal wage freeze for 2004 was offered.\textsuperscript{1087}

Yet the respite from the proposed cuts was brief. In 2004 cuts to WW were put forward again, tightening threshold eligibility conditions and deducting severance pay from unemployment benefits, as I noted in the context of EPL reforms.\textsuperscript{1088} Of the two, the deduction of severance pay was clearly a bigger change and its severity both angered and galvanized the unions and the Left parties accordingly. This became the context for the showdown between the unions and the government in late 2004 that was described earlier, which forced the latter to backtrack substantially.

\textsuperscript{1085} OECD, Employment Statistics Online; CBS: Netherlands Statline (de Beer email).

\textsuperscript{1086} Balkenende I was scandal-filled and short-lived, in large part due to the inclusion of the controversial List Pim Fortuyn party. When it broke down and new elections were called, the CDA and PvdA dominated in terms of votes and seats (winning 44 seats and 42 respectively). Discussions took place for a CDA-PvdA coalition however the two parties were unable to come to an agreement partly on account of the CDA’s desire for significant retrenchment. (There were also personal animosities between the two leaders and divisions over Iraq.) EIRO, 2003, “Annual Review of the Netherlands”.

\textsuperscript{1087} Ibid. The proposed cuts for WW involved raising the eligibility threshold (see below), limiting the indexation of benefits, and abolishing the non-means tested, year-long follow-up benefit. Only the latter appears to have gone through. EIRO, 2003, “New government to make social security cutbacks.”

\textsuperscript{1088} The eligibility change involved increasing the recent period of work required from 26 of the past 39 weeks to 39 weeks of the past 52 (deducting severance pay was described earlier). EIRO, 2004, “Annual Review for the Netherlands”.

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on deducting severance and its WAO reforms.\textsuperscript{1089} In the tripartite ‘autumn agreement’ that followed the political and industrial unrest of the year, only a vague commitment to wage restraint was achieved by the government in return for its about-face; such was the price of calming the situation for Balkenende, who had infuriated the unions with his strident positions and even angered the employers’ groups by doing so.

Despite this setback the Balkenende cabinet pushed forward with more reforms to WW in 2005 and 2006. First, it finally made the change from the ‘fictive’ to the actual work record in calculating benefit duration in 2005.\textsuperscript{1090} Clearly the impact would be felt most by older workers, whereas the earlier eligibility reforms had hurt younger workers. Second, in 2006 it sought to create a slightly more generous but much shorter-term benefit system. It did so by abolishing the two-tiered benefit system of an earnings-related benefit and a lower flat-rate benefit, leaving only the earnings-related benefits in place. In the first 2 months of receipt the replacement rate was raised from 70 to 75 percent; thereafter the replacement rate fell back to 70 percent. On the other side, though, the basic duration of benefit receipt, if one did not meet the ‘4 out of 5’ rule, was reduced from 6 months to just 3. In 2006 this change affected about one-fifth of all recipients, and thus cut the duration of their benefits in half. As well, the maximum receipt of benefits was set at 38 months, down from 5 years.\textsuperscript{1091} The justification no doubt was to spur the unemployed to make a quicker, in an attempt to emulate the Danish system, albeit at a lower level of generosity and duration.\textsuperscript{1092} When the PvdA entered into government with the CDA and the small Christian Unie Party following the late 2006 elections, no further major changes were made to the system up until 2009. However none of the earlier Balkenende reforms were reversed either, even though the PvdA had opposed some of them when in opposition along with the Socialist Party.

\textit{Understanding Unemployment Benefit Reform}

Understanding the reforms to UB described above in a theoretical way requires first identifying the positions taken by the various political-economic actors in the Dutch system. In terms of the social partners, the division between them on the question of UB should be clear from the narrative above. Employers have for a long time embraced a much less generous idea of social insurance provision than the unions. As far back as 1984 the employers were pushing in the context

\textsuperscript{1089} EIRO, 2004, “Tripartite ‘autumn agreement’ covers broad social reform agenda”.
\textsuperscript{1090} Schils, 2009; Interview with Paul De Beer, October 2009.
\textsuperscript{1091} Ibid. This appears to mean the end of the old system whereby workers could receive benefits up until 65 if they had become unemployed after 57½.
\textsuperscript{1092} Interview with Paul De Beer, October 2009.
of the SER for benefits at a very low level.\textsuperscript{1093} Moreover, they have supported nearly every subsequent reform to the benefit system: efforts to curtail the generosity and duration of benefits, as well as the tightening of eligibility requirements, have all met with approval from the main employers’ organization, the VNO-NCW.\textsuperscript{1094} Recently the employers were forced to take over the financing of unemployment benefits entirely for the first 6 months, and naturally the employers were not happy about this move.\textsuperscript{1095} Nevertheless the vast majority of the retrenchment-oriented changes have been accepted by them, even if they would have occasionally liked them to go further. One of the few times when the employers did oppose the planned cuts was when Balkenende II tried to deduct severance pay from unemployment benefits. The logic of this position was that this change would have made employee cooperation in dismissals far less likely and thus rigidified the labor market.\textsuperscript{1096} Indeed, this is the overarching desire expressed by employers’ representatives: that the labor market is made more “flexible.”\textsuperscript{1097} The contrast between this position and the position imputed to them by VOC, one of defending the existing core labor market institutions of the CME, should be clear. In terms of arriving at a ‘flexible’ labor market they are somewhat pragmatic, though, accepting that changes along the lines of the Bakker report, and perhaps increasing the generosity of benefits, might be feasible but only if combined with significant dismissal law reform. So far such compromises have not been workable, however, due to what an employer representative at FME referred to as ‘a strong presence of SP-minded unionists within the FNV’\textsuperscript{1098}

On the union side, this description might accurately sum up their position. Many in the trade unions continue to have a Socialist Party outlook on the welfare state, seeing its gradual dismantling since the 1980s as something to be at least partly, if not largely, reversed.\textsuperscript{1099} This is indeed the traditional stance of the FNV and to a lesser extent the CNV. It was evident in the strong stance the unions took against most of the early reforms, such as de-indexing basic benefit levels and cutting the replacement rate, when they organized protests and pushed the PvdA to oppose them as well. The elements of this position are also clear in the way in which they have often exercised wage restraint as a means to limit the drop in benefit value, as shown above, or to forestall various reforms (as in 2003). Surely trading the wage increases of employed members to support Dutch

\textsuperscript{1093} Cox, 1993, p. 190.
\textsuperscript{1094} Interview with FME official, September 2009.
\textsuperscript{1095} Ibid.
\textsuperscript{1096} EIRO, 2004, “Government to deduct dismissal compensation from unemployment benefits”, and “Government plans for 2005 meet fierce resistance.”
\textsuperscript{1097} Interview with FME official, September 2009. Ibid.
\textsuperscript{1098} Ibid.
\textsuperscript{1099} Interview with SP official, October 2009, and FNV official, October 2009.
competitiveness (and employment growth) and thereby maintain the benefit levels of those who are not employed, many of whom are not union members, is an example of ‘Outsider-oriented’ activity.\textsuperscript{1100}

Largely as a result of these union efforts, the Dutch unemployment benefit system remains very generous in comparative terms (see Table 6.1 and 6.6). For instance, in 2007, its average replacement rate for both the initial stage of unemployment and for longer spells of unemployment was well above the OECD average.\textsuperscript{1101} This rate has fallen more than others over time, perhaps, but this is because it started from a much higher level. More significant than replacement rate change is probably recipiency or ‘take-up’ rate change, but it has been difficult to get firm statistics on this (let alone comparative ones). Still, UB Effort remains one of the highest among the rich democracies (Table 6.1). Curiously, the figures for UB Effort suggest that the system has become \textit{more generous} over time, though we know from the policy record that this is not the case. What explains this disconnect? The most likely explanation is that the Effort figures reflect the gradual elimination of the disability insurance alternative to unemployment. Workers who in the 1980s would have been made redundant through the WAO system were increasingly pushed into straightforward unemployment by the reforms to WAO of the 1990s; the increase of these types of workers among the unemployed meant a rise in UB spending per unemployed, despite less generous benefits and stricter eligibility conditions (e.g., since the workers who would have been pushed from WAO to WW were often probably well-established workers with strong work records). The extent to which this is the case remains a matter for future research, though.\textsuperscript{1102}

Nevertheless, the failure of the unions to \textit{more} successfully protect the UB system from clear instances of retrenchment, alongside their relative success at protecting core EPL, inevitably raises doubts about the depth of their convictions on the question of UB. It is especially troubling that some of the biggest changes have occurred in the realm of tightening eligibility conditions, which tend to hurt workers with inconsistent or marginal labor market connections (e.g., women, youth,

\textsuperscript{1100} Precisely the problem in many Southern European countries with severe Insider-Outsider dynamics has been a lack of wage restraint alongside strict EPL and meager or uneven social insurance systems, resulting in high levels of unemployment and little sharing of the economic burden. See Chapter 1 and 7.


\textsuperscript{1102} It is also possible that the lengthening of benefit receipt on the part of older workers in the late 1980s has added to the costs of UB, or that transitions between employment has become less ‘voluntary’ (i.e., more due to dismissals than to quitting) and this has increased the take up of UB.
and immigrants). Additionally, the one major recent instance of union protest over WW reform mostly involved the deduction of severance pay from benefits and was thus an employment protection change too. The change would also clearly affect workers with a long tenure most, and have less of an impact on peripheral workers with few provisions for severance pay. That similar protests were not organized around the tightening of eligibility, for instance, is thus arguably revealing from an Insider-Outsider standpoint. As a result, some Dutch academics have suggested that the resistance of the unions to the WW reforms has been surprisingly muted. \(^{1104}\)

What explains this difference in intensity of opposition? The most straightforward explanation involves the Insider-Outsider perspective: unions care more about EPL because most members are securely employed as a result of it, and thus worry less about insurance for unemployment. \(^{1105}\) There is undoubtedly something to this, and not just in the Dutch case. Unions have across Western Europe generally been more successful at preventing core EPL reduction than they have at mitigating social insurance retrenchment. \(^{1106}\) What is problematic in the Insider-Outsider formulation, however, is the suggestion that as a result of strong EPL unions are basically indifferent if not actually opposed to generous UB (in direct contrast to the expectations of Varieties of Unionism and PRA). It is this aspect of the theory that is mistaken in the case of social partner unionism, as I hope to have shown in the historical narrative. Social partner unions have been vocal and often active opponents of UB retrenchment, both politically and in corporatist dialogue, and they have backed this resistance up through their willingness to deliver wage restraint. In this sense, a failure to prevent cuts should be distinguished from ambivalence towards them. An interview with an FNV official revealed that it has been very difficult to change the course of the reforms when most of the ruling political parties and employers are onside. \(^{1107}\) Under such circumstances, the FNV can only operate “at the margin”, trying to water down the reforms or achieve temporary respites from change.\(^{1108}\)

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\(^{1103}\) That said, all aspects of the system have been profoundly changed (generosity, duration, administration, financing and eligibility). Van Oorschot, 2004, notes significant problems of take up or recipiency with those on temporary contracts especially. Reliable, consistent figures on recipiency rates are hard to come by, for a number of reasons, but most suggest that the rate has declined over the past decades (as was intended with the reforms). Interview with Paul De Beer, October 2009.

\(^{1104}\) Ibid.; Interview with Brian Burgoon, September 2009.

\(^{1105}\) Rueda, 2007, p. 24-25.

\(^{1106}\) Ochel, 2008.

\(^{1107}\) Interview with FNV official, October 2009.

\(^{1108}\) For instance, the mild increase in replacement rate for the first two months set out in the 2006 reforms was seen as a token gesture towards appeasing the opposition of the unions, allowing them to claim that something had been won. Interview with Paul De Beer, October 2009.
Furthermore, the traditional ally of the union movement, the PvdA, has often been pushed by the unions ‘behind the scenes’ since the latter have not wanted to publicly undermine them. This has begun to change, however, as the PvdA has frequently disregarded the advice of the unions in recent years. Consequently, the FNV has of late been far more willing to make joint cause with the various opposition parties on the Left (SP and GroenLinks) and even with those sympathetic on the Right.\(^{110}\) Perhaps the broader point is that in order to have maintained its place in the ‘political establishment’ the unions have had to abandon a consistent stance of ‘no!’ to social insurance retrenchment, much as the PvdA did in the late-1980s, and as the unions did with the Flexicurity rules in the early 1990s.\(^{110}\)

This brings us to the crux of the issue, the relative consensus among the PvdA, CDA and VVD on an ‘activating’ social security system. It took over a decade to form but once it crystallized in the late 1980s and early 1990s the path of reform was largely set.\(^{111}\) Prior to this, the PvdA had opposed changes to the social security system quite vigorously. Once it became apparent that their only route back to power was through accepting the Lubbers course, the PvdA tacked towards the center and began to accept various reforms to the social security system. Indeed it initiated some important social insurance reforms in the Purple Coalition.\(^{112}\) The ‘activating’ reforms fit conveniently with their new ‘jobs, jobs, jobs’ mantra and the desire to cut the budget deficit.

Despite this similar overarching orientation of ‘activation’, the nature of the changes pushed for by the different parties varies though. The main changes to WW put into place by the PvdA have been in terms of eligibility, work search requirements, and administration. Such changes fit far more clearly into a notion of ‘activating the unemployed’, while not appearing to trample on their well-being if they abide by the spirit of the rules. This fits better with a Social Democratic outlook than a neoliberal one, and remains an important difference between the PvdA and the right wing parties (see also below on the question of ALMP). There appears to be less of an attitude in the PvdA that

\(^{110}\) Interview with FNV official, October 2009.
\(^{110}\) While this stubborn stance has been largely taken (successfully) in the case of employment protection, it has been possible perhaps due to the centrality of the ‘prior consent’ system, since any change to it would mean a complete overhaul of the system. By contrast, the unemployment benefit system has been weakened bit by bit, in a far less comprehensive and sudden a way than EPL reform would require. This has probably inhibited the possibility for organizing large political campaigns or demonstrations around it. Of course, organizing large demonstrations around the interests of the unemployed has never been easy in any context, as anti-poverty activists can attest.
\(^{111}\) As Visser and Hemerijk, 1997, p. 157, note: “between 1987 and 1991 a major change in thinking did take place [about unemployment, inactivity, and labour market policy], which led to new approaches, in terms of instruments, objectives and institutions.” See also Section V, where I discuss the rise of ALMP.
\(^{112}\) This strategy was maybe not immediately ‘necessary’, as the German Social Democrats took a much longer time to come around to a ‘Third Way’ stance (the late 1990s). Regardless, pressure in this neoliberal direction was bound at some point to become overwhelming if the PvdA had continued out of power to the CDA-VVD for an even longer period of time than the six years it had already experienced.
the generosity of benefits is the main problem than in the CDA and VVD, who have enacted or supported cutbacks in all aspects of the program (generosity, duration, eligibility, work search, etc.). The PvdA has fairly consistently opposed reductions in the generosity of the benefits, in the Purple Coalition and beyond, and criticized the changes implemented under Balkenende II that pushed some of their mid-1990s ‘activating’ reforms even further in a neoliberal direction. When it rejoined the CDA in government after 2006, however, it did not move to reverse the changes, again perhaps indicating limited opposition. Yet neither was retrenchment deepened. The PvdA is thus likely best seen as a moderating influence on the pace of unemployment benefit retrenchment, often preventing the deeper cuts desired by the CDA and VVD but unable or unwilling to trade its political capital to reverse the direction of reforms.

Partisan differences therefore clearly remain between the Dutch Left and Right on the question of unemployment benefits, contrary to the assumptions of Insider-Outsider theory. Partisan participation in government is simply more likely to result, after 1980, in a fairly steady level of protection, rather than an increasing trend as was the case in the early postwar period (see Table 6.6). It must be remembered that the Purple Coalition was a balance between Right and Left, not a government of the Left on its own, and thus in effect a roughly Centrist government. The retrenchment of the Purple Coalitions must at least partly be seen in this light. They must also be seen in the context of an increasing commitment to active labor market policies (ALMPs) on the part of that coalition, most of which was pushed by the PvdA (see Section V and Table 6.2). These were resources dedicated to finding the unemployed jobs and were intended to partly compensate for the tighter eligibility and work search conditions being pushed through at the same time. This is clearly ‘Outsider-oriented’ behavior on the part of the PvdA but is not captured by a narrow focus on unemployment benefits, despite its very intimate connection to them in this case.

As should also be clear, the CDA and VVD have pushed for retrenchment far more vigorously than the Left or Center-Left, pushing ideologically for more cuts even in the early 2000s when the ‘crisis of inactivity’ was well past, and were mainly held up in 2003 and 2004 by the action of the unions in concert with the partisan Left. These partisan differences are less stark than in the past, admittedly, but they remain. In fact, there is a remarkable similarity between the recent retrenchment dynamics and those of the expanding welfare state of the 1960s. As was explained, the

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1113 Rueda, 2007, Ch. 2.
1115 Ibid. p. 174. Additional jobs for long-term unemployed workers, a key part of the Purple Coalitions ALMP strategy, were “financed through related savings in social security benefits and partly through a contribution from the government.”
expansion of the Dutch welfare state occurred once the Christian Democratic parties bought into the idea. There was effectively a convergence between them and the PvdA, leaving the VVD to get in line (as it duly did; much welfare state expansion occurred under its rule with the Christian Democrats in the 1960s).\footnote{Van Kersbergen, 1995, p. 133.} Expansion ensued. In the late 1970s and early 1980s, the parties began to diverge again and a political tug-of-war over the course of the welfare state resulted. When the CDA under Lubbers finally bought into the idea of retrenchment in the early 1980s, retrenchment ensued, because the PvdA could only ever hope to join government if it abided by the trend. The Dutch are still arguably on this path today, although the recent electoral collapse of the CDA in the 2010 elections may portend a different dynamic in the future.

In this sense, the retrenchment of unemployment benefits must be seen against the background of the broader movement in the direction of retrenchment: those programs with the least powerful constituencies are likely to face the deepest cuts, and the beneficiaries of unemployment benefits are unlikely to be powerful politically.\footnote{See Pierson, 1996; and Rueda, 2007, p. 16.} That they have not been cut further in The Netherlands than this simple logic would suggest indicates that more powerful groups have to an extent taken up this fight on their behalf, in order to preserve the conception of social justice and economy embodied in a generous welfare state. As has been argued, these groups include most importantly the unions and to a lesser extent the PvdA.\footnote{In the context of efforts to develop an effective employment service, Visser and Hemerijk note that unions had interest in one given their interest in full employment and because they “perceive themselves as protectors of an equal distribution of employment and its fruits, and as defenders of a decent and fair level of social security.” p. 168 (emphasis added).}

**Section V: Conclusion**

*The Shift to ALMP*

Up to this point very little mention has been made of ALMPs or the recent shift of resources from UB to ALMP. Integrating ALMP into the picture only reinforces the perspective advanced herein. As Chapter 1 explained, ALMPs are composed of various measures to help the unemployed find new employment, including training, work search assistance, ‘job pools’, direct job creation, and subsidized jobs for those with poor labor market prospects. In this way they differ from the ‘activation’ efforts of successive Dutch governments in the realm of social insurance, which make it harder to get benefits and make work search requirements more demanding. Put somewhat awkwardly, ALMPs are the ‘carrot’ leading towards labor market activity next to the ‘stick’ of

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activation measures (at least as that latter term has been used here). For a long time the postwar Dutch political economy lacked a coherent, effective system of ALMP; hence their partial neglect in the historical narrative above.\footnote{Visser and Hemerijk, 1997, Ch. 7.} This was partly a product of the very low unemployment rate of the 1950s and 1960s, which made such programs appear superfluous. It was also arguably a product of Christian Democratic influence and that tradition’s stress on passive benefits. As unemployment worsened through the 1970s and especially the 1980s, though, pressure mounted for the establishment of a more effective system.

By the 1990s finally considerable resources began to be devoted to this area. This was of course part of the movement towards a more ‘active’ Dutch society. In our context this development means that the picture of UB retrenchment must be tempered by an appreciation of the compensating resources devoted to the unemployed through ALMPs. Table 6.2, and 6.7 below, makes this clear. Indeed, the increase in ALMP expenditure of the Purple Coalition was explicitly seen as compensation for the stricter eligibility and work search requirements being imposed on benefit recipients at the time: job creation schemes (so-called ‘Melkert-jobs’, named after the PvdA minister of Social Affairs and Employment at the time Ad Melkert) and job subsidies were to be financed largely “through related savings in social security benefits”.\footnote{Visser and Hemerijk, 1997, p. 174.} While the effectiveness of the programs has sometimes been challenged, there is no doubt that the increased investment did ameliorate the employment prospects of many traditional ‘outsiders’ (e.g., long-term unemployed, immigrants, and youth).\footnote{See for instance, Van Ours, 2006, p. 144.}

Table 6.7: ALMP Effort in The Netherlands, 1985-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>ALMP Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-89</td>
<td>0.13</td>
</tr>
<tr>
<td>1990-94</td>
<td>0.20</td>
</tr>
<tr>
<td>1995-99</td>
<td>0.28</td>
</tr>
<tr>
<td>2000-02</td>
<td>0.62</td>
</tr>
<tr>
<td>2003</td>
<td>0.43</td>
</tr>
<tr>
<td>2004</td>
<td>0.28</td>
</tr>
<tr>
<td>2005</td>
<td>0.28</td>
</tr>
</tbody>
</table>

Source: OECD.

These observations are most relevant to our evaluation of the Insider- Outsider perspective, which is skeptical about the commitment of unions and Left parties to these sorts of programs. David Rueda, for example, suggests that there is little evidence of partisan differences in the area of ALMP in Dutch politics. To support this contention, he notes how expenditure on ALMP as a share of GDP rose fairly consistently over the 1980s and 1990s, despite the differing partisan...
compositions of government.\footnote{Rueda, 2007, p. 159-160.} What this observation obscures, however, is that during this period the unemployment rate trended steadily downwards, dropping particularly in the mid- to late-1990s, just when the PvdA-initiated programs were emerging. In this sense, the ‘need’ for extensive ALMP was falling when the PvdA entered government but investment in them grew anyway, thus increasing the intensity of investment per unemployed person (ALMP Effort). Table 6.7 shows this starkly. In an interview with an FNV official, it was also clear that the unions had tolerated the 1995-1996 reforms to social insurance and UB partly because of this greater commitment to ALMP, and that the unions were always pushing for more investment in the system (especially training).\footnote{Interview with FNV official, October 2009. Rueda claims that the social security reforms of the mid-1990s were instead the product of a political agreement between the PvdA and Insiders (unions) trading an employment protection status quo for the social security cuts (p. 194, fn. 8), yet he provides no evidence for such a conjecture.} True to form, when the PvdA was left out of government and the unions were under attack again in public discourse, Balkenende I and II cut back on ALMP spending despite now mildly rising unemployment (and thus sharply reducing ALMP Effort). This trajectory belies the Insider-Outsider view of limited partisan effect, throwing yet more doubt on its general accuracy. Instead, the approach of Varieties of Unionism, which sees Left parties and union representatives as concerned about the plight of labor market Insiders and Outsiders in countries with social partner unionism, resonates far more with the Dutch trajectory of ALMP.

\textit{Social Partner Unionism and the Future of the Dutch Welfare State}

This chapter has argued that understanding the evolution of labor market policy in The Netherlands requires grasping the central role played by the country’s social partner unionism. Appreciating the influence of social partner unionism is important for three reasons. First, the capacity and willingness to deliver wage restraint on the part of the labor movement has been central to the evolution of the Dutch labor market regime, something that has been far less pronounced or consistent in other movements. As I explained, the industrial peace and wage moderation exhibited by the Dutch labor movement in the early postwar years facilitated the expansion of a set of highly generous social insurance schemes, many of whose full (potential) costs only became clear in the 1970s when unemployment began to rise. In part, these programs continued to expand even with rising unemployment during that decade because the early postwar experience suggested that the unions could be counted on to deliver wage restraint to ease their burden (e.g., the attempts at explicit ‘social contracts’ in the late 1960s and 1970s). When it became clear that they could no
longer do this as effectively as in the past, due in part to modest union radicalization and an oil boom, these programs came under attack and the welfare state entered into crisis. The unions’ response to this crisis, after some initial hesitancy and resistance, was however to re-commit to the wage restraint of earlier decades in order to re-establish strong employment rates, ‘competitiveness’ and the fiscal basis for the welfare state.

While the early years of ‘wage restraint’ following Wassenaar were arguably the product of simply a high unemployment rate, subsequent restraint near the end of the 1980s and in the 1990s were very much the product of conscious decisions by the unions, and this allowed them to resist deeper cuts to various labor market protections. It should also be noted that the large influx of women into the labor market during this period greatly eased the pressure on wages, since largely stagnant male earnings could be supplemented by a spouse’s ‘second’ income. Thus the wealth of Dutch families continued to rise steadily from the 1980s onwards, even as wages grew very slowly. But in committing to sustained wage restraint, the unions (a) made themselves more relevant politically, by encouraging the renewal and continuation of ‘political exchange’; and (b) put the welfare state on a stronger fiscal foundation by dramatically increasing the rate of employment (both in terms of ‘activity’/employment rates and unemployment rates). For instance, a mid-1990s report by the Dutch Central Planning Bureau (CPB) estimated that most of the recent job growth had been a product of wage moderation, as Dutch employers’ labor costs fell relative to their Western competitors. In the CPB’s words, it was “Holland’s single most important weapon in international competition.”1124 Not only had it helped restore the profitability and competitiveness of export-oriented Dutch industry, but the lower wage costs had allowed employers to keep on larger numbers of employees, amplifying the job-intensity of growth.1125 Other union movements that have been less willing or able to deliver such sustained wage moderation have found that their welfare states and labor market protections have come under more significant pressure in recent decades.1126

Second, the perspective of Varieties of Unionism suggests some of the reasons why the Dutch labor movement has behaved in this generally quiescent way, and why its policy perspective is much broader than more cynical interpretations of unions suggest. From early on in its history, as I showed, the Dutch labor movement was reformist, pragmatic and centralized. Especially crucial was

1125 Ibid. p. 27-28.
1126 On the one hand, where they have been unable to deliver wage restraint, due to decentralization for example, they have been much more easily marginalized by governments. On the other hand, where they have been unwilling to do so, they have found the welfare state under sharper attack due to higher unemployment and weak competitiveness, resulting in a tighter fiscal situation.
its centralization. A high degree of centralization within the movement not only allowed for the delivery of wage restraint in the postwar period, and thus its powerful capacities, but it also contributed to reinforcing a more ‘socially integrative’ vision and thus ‘Outsider-oriented’ preferences. The movement’s leadership, placed in the heart of the state apparatus through the consultative bodies of SER and STAR, came to see its interests as largely coterminous with that of the country as a whole. A central, institutionalized place in the state structure, alongside strong centralized control within the movement, allowed the union leaderships to consider and act upon the interests of those that were not strong in economic terms, both within their ranks and beyond. For a variety of reasons, union leaders at the heads of their movements are generally better able to see the ‘bigger picture’, and if they are securely in place and have control over the rank-and-file they can adopt courses of action that best further this broad vision. Centralization thus helped overcome the sectionalism that plagued other movements, especially in the context of only modest union density. It is for this reason that in one of the seminal texts on Dutch industrial relations, John Windmuller noted that “the most striking feature” of postwar unionism in The Netherlands was its “underlying sense of responsibility for the welfare of the nation as a whole… showing itself after the war in many different way – wage restraints, participation in innumerable public and semi-public institutions, an exceedingly low rate of conflict, acceptance of stringent economic controls, and the imposition of discipline in labour’s own ranks.” The 1970s marked a departure from this mould, with a modest decentralization and radicalization that challenged the previously cooperative spirit of Dutch labor relations. But enough of the central control and ‘integrative’ ideal remained in the movement that by the mid-1980s it could largely return to its earlier stance in the face of deep economic and political crisis. This is not to say that social partner unionism has been completely ‘other-regarding’ since the 1980s, nor was it previously, as should be clear by what I have said above (e.g., the abuse of the WAO system, only modest resistance to tightened eligibility conditions, UB rules favoring older workers, etc.). But relative to a commonly-held view that ‘unions are only out for themselves’, the behavior of the Dutch movement is divergent, and this is reflected in the broad public trust of them in opinion surveys. It is thus no coincidence that The Netherlands has over

1127 As I discuss in the UK case study, those at the main union confederation, the TUC, were often well-aware of the weaknesses and irrationalities of action of the broader labor movement, but were unable to do anything about them given its highly decentralized structure.
1128 Quoted in Visser, 2000, p. 429.
1129 EIRO, 2003, “Competition mounts between trade unions.”
time developed some of the strongest, most generous labor market protections in the West, or achieved very low rates of poverty, for that matter.\textsuperscript{1130}

Finally, if the source of strong and generous labor market protections in The Netherlands is its social partner unionism, then alternative theoretical accounts are in need of rethinking. Early versions of VOC saw employer preferences as an important source of labor market policy, but as I have shown Dutch employers have for a long time sought to substantially dismantle the protections built up in the 1960s and 1970s. Seeking to explain the Dutch labor market regime in terms of employer preferences, and especially its continued strength, is consequently implausible. To the extent that VOC has something to contribute, it is to show how the centralized and coordinated arrangements established in the early postwar period have been consistent with strong economic performance and have thus tended to mitigate vociferous employer resistance. But we should be clear about exactly what is going on: employers value the labor quiescence and high quality labor delivered by coordinated arrangements, not particularly the labor market protections that have accompanied it. As long as labor quiescence continues, employers have no strong objection to sharply reducing the generosity or strictness of labor market protections, especially since much of this protection is extended to those who do not require it for functionalist, ‘skill investment’-type reasons.\textsuperscript{1131}

For its part, Insider-Outsider theory fails to see how unions could be committed to strong ‘Outsider-oriented’ policy in the context of strict EPL. The Dutch case shows how centralization and ‘inclusion’ can foster this broader vision, even in the case of modest or weak union density, where the labor movement is far from ‘encompassing’ in membership terms. Granted, the Dutch unions have in certain respects become less ‘Outsider-oriented’ as time has passed, due to a partial ‘exclusion’ by the political parties and to growing decentralization. Yet this should not obscure that the movement remains the most prominent and organized defender of labor market protections, and indeed the welfare state. It is arguably because of this continued commitment to Outsider protection that important differences remain between the main Dutch parties, given the historically close ties between the FNV and PvdA. Insider-Outsider theory’s expectation of minimal partisan differences in the case of UB and ALMP are therefore not borne out. To the extent that partisan differences have become more muted it is because of the dynamics of The Netherlands’ ‘pivot

\textsuperscript{1130} The Netherlands had lower poverty rates during the 1990s and early 2000s than all other Western countries, except the Scandinavian countries (where encompassing unionism is strongest). It had only slightly higher poverty rates than these countries, however. See OECD data online.

\textsuperscript{1131} For similar reasons, VOC accounts that stress specific skills (e.g., Iversen, 2005) as the source of strong labor market protection misdiagnose the nature of labor market politics, as I explained in greater detail in Chapter 2.
system’, where the CDA for a long time was indispensable in Dutch government. This pushed the other parties to soften their policy differences in the hopes of forming stable coalitions with it. As I have shown, though, this convergence on Outsider policy has only been partial; important differences remain and the policy history reflects this.
Chapter 7: Conclusion

“Struggles over policy –over what the government actually does for and to its citizens –are almost always long, hard slogs. They involve drawn-out conflicts in multiple arenas. They involve extremely complicated issues where only full-time, well-trained participants are likely to be effective… Inevitably, organized groups are crucial actors –and often the crucial actors– in these fights.” –Hacker and Pierson, 2010

“I find enough holes in [Torben Iversen’s VOC] account to bet that a rival explanation based on class politics and distributive struggles can still provide a credible alternative...” –Herbert Kitschelt, 2006
Section I: A Restatement

This thesis has sought to explain variations across the rich democracies in two major areas of labor market policy, employment protection legislation and unemployment benefits. It has made an argument that the central proximate determinant of national variation is the nature of the labor movement in each country: its numerical strength, degree of internal coordination, ideological traditions, and type of integration into social insurance administration. In order to establish this case, it has drawn upon both quantitative evidence, such as correlation and regression analysis, and qualitative historical material, including interviews and process-tracing in three separate case studies (The Netherlands, Sweden and UK). In making this argument, it has challenged two influential theories of labor market policy, Insider-Outsider theory and Varieties of Capitalism. To a lesser extent, it has also challenged the traditional, partisanship-oriented variant of Power Resources theory. While there is no doubt that the view I have put forward, what I term ‘Varieties of Unionism’, draws strongly upon each of these different theories, and especially Power Resources, it nonetheless suggests that important components of all three alternatives are flawed.

The basic building blocks of Varieties of Unionism are easily stated. They can be summed up in three simple propositions:

1. Individual voters are not usually well aware of policy specifics in areas such as employment protection legislation and unemployment benefits, and thus their impact on the policies adopted is likely to be very limited or weak.

2. Unemployed individuals will be especially weak in the policy process. The unemployed frequently lack the financial means to pursue political campaigns; the unemployed see their condition as temporary and thus see little point in organizing politically; and the unemployed are highly heterogeneous.

3. In such conditions, only organized groups will be effective at achieving strong legislative protections for atomized workers, including both the employed and unemployed. While ultimately these protections will be instituted by political parties, it is the pressure placed upon these parties by societal groups that will largely determine (a) what share of ‘scarce’ budgetary or societal resources will be devoted to the unemployed and (b) the nature of the employment protection regime. Historically, union movements have been by far the most important organized societal group fighting on behalf of workers politically. The nature and effectiveness of this political action by national labor movements will thus be crucial in determining cross-national policy variation.

The first two of these propositions seem fairly straightforward, yet their implications have not been fully appreciated in the comparative political economy literature (as I argue in Section II).
In terms of the first claim, there is a wealth of evidence showing that individual voters have, at best, only a modest understanding of the policy specifics in any given area. In the US, where polling data is most abundant, respondents consistently get major policy questions wrong. For example, in one poll around half of Americans thought that foreign aid constituted one of the top two federal government expenditures, when in reality it only consumes about one percent.\footnote{Hacker and Pierson, p. 109.} Granted, voter myopia will not usually be as pronounced as this, but the fact that it can become this bad on such a simple issue is surely revealing. As Jacob Hacker and Paul Pierson maintain, “This is the dirty little secret of our profession. Among political scientists, that most voters are woefully ignorant about politics is completely uncontroversial, and has been for decades. The survey evidence on this subject is overwhelming.”\footnote{Ibid. p. 109-110. As a simple test of this idea, the reader can simply ask friends if they know how strict their own national regulations are regarding unfair dismissal, or how generous their unemployment benefit systems are, both in absolute terms or relative to other countries. They will likely have serious difficulty with such questions. Even professional political scientists not in CPE will have a hard time with such questions (and perhaps even some within it!).} To be clear, this is not to impugn the intelligence of voters. It is simply to recognize the limited time or concern they may have to carefully investigate each different policy area. In fact, given our systems of representative democracy this is often quite understandable.

The second claim is arguably even less controversial than the first. Political scientists have long known that the poor have little voice politically, and the unemployed are for the most part simply one subset of the population that is temporarily in this group.\footnote{Again, data from the US is instructive. Recent research from Martin Gilens suggests that the policy opinions of the poor matter very little in the policies that are ultimately adopted, and possibly not at all. For example, “when the opinions of the poor diverged from those of the well-off, the opinions of the poor ceased to have any apparent influence: If 90 percent of poor Americans supported a policy change, it was no more likely to happen than if 10 percent did.” Referenced in Ibid. p. 111-112.} They will consequently have little political power themselves. Perhaps more to the point, there are very few if any groups that have ever been organized to represent the unemployed as ‘the unemployed’. It is true that there are various anti-poverty coalitions or NGOs in many countries, and these organizations can at times have some influence on policy. But such groups are usually aimed at helping those ‘beyond’ unemployment benefits, such as those that are on social assistance and/or out of labor force altogether. If this is true, then we should expect that their influence on the two policy areas in question here to be limited at best.

It is the third proposition that is likely to be most contested, and of course this is the crux of the matter. It might well be recognized that the first two claims are accurate, yet maintained that the unemployed and/or atomized voters can still find effective representation in political parties, especially reformist Social Democratic, Labor or Christian Democratic parties. There is no doubt
that there is a fair bit of truth to this. The poor and the unemployed have often been looked after reasonably well in the postwar period, at least relative to early 20th century capitalism, and this sometimes despite the absence of strong, organized societal groups fighting on their behalf. Basic standards of justice and decency in different societies, as well as the desire for self-insurance on the part of the ‘middle classes’, have been able to bring about most of the elementary social insurance functions of the welfare state. In this sense, there is something of a baseline of social insurance provision, including unemployment benefits, which the state will always provide in modern democratic societies. Similarly, certain basic standards of procedural fairness in dismissal will always be implemented in rich democracies. Yet the claim made by Varieties of Unionism is that cross-national variation in labor market protections on top of this baseline will be determined mostly by the type of unionism present in a country. In terms of change over time, the relative (temporary) leverage and strength of union movements will be important, but here the partisanship of government will likely matter more than in cross-national differences, as will fiscal/budgetary and labor market conditions.

Why are union movements so central in the policy story? Put simply, it is because they are by far the most powerful organized group that can fight on behalf of atomized workers. Unions have a number of advantages over other potential advocates for the commodified and the marginalized. First, they have much greater financial revenues that can be put to political uses. Since most union dues are deducted automatically and are a condition of membership, unions are able to leverage their provision of ‘selective benefits’ for members in the workplace into substantial financial resources that can be used for political campaigns. Of course, this is often a source of great irritation to those on the political Right, in practical political terms (e.g., making unions a powerful opponent) and in terms of the ‘individual liberties’ of workers, but there is no denying the fact of the procedure and its potency. Second, given the large numbers of workers which have historically been associated with unions, union movements have been able to deliver large numbers of volunteers to partisan political campaigns. In a way, this is a manpower variant of the first ‘power resource’. Especially when money was (arguably) less important than volunteers in the political campaigns of the early postwar period, this was a major asset. Union members could be employed in get-out-the-vote campaigns or in door-to-door solicitation and this could tilt close electoral battles in the direction of labor-friendly politicians. Third, given their direct, intimate and continuous contact with members, unions can function as bodies for political education and debate that help engage individuals and crystallize their understanding of their political and economic interests in ways that other organizations can rarely
match.\textsuperscript{1135} It is little wonder, in this respect, that in surveys of attitudes to redistribution and other welfare state issues, union membership almost always constitutes a statistically significant contributor to more reformist/welfare statist positions.\textsuperscript{1136} Finally, and perhaps most importantly, unions and union movements have had a major impact on macroeconomic outcomes in the postwar period, for better or worse. Be it in terms of inflation, industrial conflict, productivity, or unemployment, the behavior of unions can have important effects on macroeconomic outcomes, or at least on short-term trends. This is not to say that they are completely responsible for such outcomes or that to the extent that they are responsible that this is some easy ‘voluntary’ choice on their part, not deeply conditioned by existing market conditions and institutional structures inherited from the past. Still, the significant potential macroeconomic impact they can have has often made governments of various partisan stripes wary of upsetting them or losing their cooperation, and this has meant their political voice has stood out above many others’, even at times those of employers (which crude Marxist theory would expect to always be predominant).\textsuperscript{1137}

In each of these different respects, though, union movements across the rich democracies have varied considerably in their capacities. Membership rates have varied widely, the political mobilization of volunteers for electorally competitive parties has varied, and the ability of union movements to deliver relatively favorable macroeconomic outcomes for friendly partisan incumbents has varied. These features of union movements are captured in the first two components of my ‘Outsider-oriented Unionism’ variable: union density and centralization. Union density corresponds fairly closely to the raw financial and manpower resources at hand to union movements, while centralization is a good proxy for the ability of union movements to behave in macroeconomic ways that are tactically (and often economically) advantageous. Indeed, both of these features of union movements have long been recognized as major sources of union power politically, and as having a clear impact on welfare state politics. The seminal statement of this view is probably by David R. Cameron in his 1984 article, “Social Democracy, Corporatism, Labour Quiescence and Representation of Economic Interest in Advanced Capitalist Society”.\textsuperscript{1138} Other work in the early Power Resources tradition also suggested a very similar view.\textsuperscript{1139} Where this thesis

\textsuperscript{1135} It is possible that unions can play this educational role so powerfully because some members are compelled into at least some political engagement by their chosen place of work, and this broadens the scope of people union debates affect. Those who might otherwise ‘tune out’ do not have this option to the same extent in union circumstances.
\textsuperscript{1136} See for example, Kitschelt and Rehm, 2006.
\textsuperscript{1137} Or perhaps even some variants of structuralist pluralism, such as that by Lindblom, 1977.
\textsuperscript{1138} Cameron, 1984. He presents an index in the article of the “organizational power of labor”, which is a combination of union density rates and centralization.
\textsuperscript{1139} See for example, Stephens, 1979, and Korpi, 1983.
has departed somewhat from these earlier statements is in integrating a theory of union movement preferences and priorities.

Union movements that have been integrated into the policy-making process in an institutionalized way (corporatism) and given a role in social insurance administration have thereby broadened their policy perspective to include not merely issues of immediate pertinence to themselves but also more carefully considered issues that affected the broader population. To be sure, issues of immediate (member) interest still command a great deal of attention and priority from such ‘included’ union movements. And conversely, ‘excluded’ movements have not just been ‘out for themselves’ either, contrary to popular depictions of unions on the Right in Anglo-Saxon countries especially. For example, in terms of the latter point, even in countries with relatively apolitical union traditions such as the US and UK, union movements were often at or near the forefront of efforts to establish better public health care and pension systems for all workers. In the case of unemployment benefits as well, ‘excluded’ union movements have still sought to establish a basic reservation wage through decent benefit provision, if only to mitigate intense wage competition from the unemployed. Yet in the spectrum between self- and other-regarding activity and perspective, ‘included’ movements have fallen much more toward the latter pole than ‘excluded’ ones; even when relatively small membership numbers (e.g., Netherlands) would have suggested a much less ‘encompassing’ political vision than some numerically strong excluded movements (e.g., Britain and Italy), or than the very strong, numerically encompassing unions of Scandinavia.¹¹⁴⁰

In ‘excluded’ movements, by contrast, their status as political outsiders, whether chosen by them or not, has served to narrow the political perspective of union leaders to questions of more immediate interest. Without the organizational security of institutionalized consultation, union leaders were prone to getting as much as possible in narrow terms for their members, with limited regard for others, in part since it was unclear whether such opportunities would be available again to them. Perhaps more important in this regard, as political outsiders with no institutionalized role at stake, there was less incentive for union leaders to make the kinds of political and economic concessions necessary to keep the country’s political economy stable, especially when economic turbulence hit from the late 1960s onwards. The result was political and economic behavior that was sometimes highly unpopular, and this subsequently reinforced their political outsider status and weakened their policy leverage. An obvious example of this was the British case, but it could also be applied to a host of other excluded movements such as Italy and the US. ‘Included’ movements did

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¹¹⁴⁰ A famous statement of a similar view of the effects of ‘inclusion’, or corporatism, is Visser and Hemerick, 1997.
not perform un-problematically in the turbulent 1970s either, it must be acknowledged, but their behavior during this period and after meant that they were able to retain their political and public standing in ways favorable to continued policy influence. Stronger and/or more broadly-enjoyed labor market protections were the upshot, as the evidence in Chapter 3 suggests.

In the area of unemployment benefits, and Outsider policy more generally, the nature of unions’ administrative ‘inclusion’ is also crucial. An institutionalized bipartite role is important in broadening the scope of day-to-day union concern to unemployment benefits and granting some degree of veto power to union movements, but the Ghent arrangements give unions an even more direct stake in the generosity/effectiveness and coverage of Outsider policy. Most significantly, a generous and accessible unemployment benefit regime can dramatically increase the membership numbers of union movements, as individual workers seek to best protect themselves from the threat of unemployment. This gives the unions a strategic rationale for politically supporting a generous UB system. In addition, such a system integrates the unemployed and the precariously employed into the labor movement and this gives them a direct and potentially significant voice in the major confederations. It may well be true that they are still somewhat marginalized relative to ‘core, employed’ members within the movement, yet at least they will have a seat at the table. This is in sharp contrast to many excluded union movements, where very few of the unemployed are union members. As I have contended, this will have an impact on the policy outlook and priorities of the labor movement, with a discernible impact on Outsider Effort. Most writing in comparative political economy (CPE) on the Ghent system has focused on its union membership effects but failed to note the impact it will have on policy outcomes. The perspective advanced here does so and integrates it centrally into a theory of labor market policy.

The view I have presented has also suggested that the two indicators of a union movement’s capacities, density and centralization, can have important effects on the policy preferences of union movements. Since union movements will operate on roughly democratic principles at the confederation level, the more the movement is unified and substantively coordinated at that level the more weak labor market segments within and among affiliate unions will have influence in labor movement politics. After all, “the vote is by far the most equally distributed of all political resources.” This applies as much within union movements as outside of them, and it is largely for this reason that higher levels of union centralization are strongly correlated with lower levels of wage

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inequality across sectors and occupations (for example). Centralization will also limit inter-union factionalism and competition, the latter of which will tend to push union leaders to be maximalist in their political and economic stances (and sectionalist in their ambitions), for fear of being unseated or replaced by those who adopt such short-termist, ‘populist’ stances. This internal disunity will thus tend to weaken support for gains that come in the future (such as wage restraint for growth) and for gains that fall to others (such as generous Outsider policy). For their part, higher rates of union density will mean that, on average, a greater share of confederation members are subject to the danger of unemployment and this will increase support for strong Outsider protections within the movement. This is because, all else equal, the more traditionally secure workplaces, such as those in manufacturing and the public sector, have usually been organized at a higher rate than less secure workplaces; an increase in union membership will mean that the latter will tend to be better represented in union politics. Even more to the point, union movements that see their membership numbers as weak or dwindling and their position in the political economy as under threat will focus more intensively on defending the existing gains they have won for their members. It is not hard to see that this is an overarching trend among Western union movements in the past half century: the 1960s and 1970s brought growing strength, assertiveness and political ambition on the part of most union movements, yet subsequent decades have seen a gradual (if not headlong!) retreat from the transformational rhetoric and broad ambition of that earlier period.

As I showed in Chapter 2 and 3, when combined, these various considerations help explain a very large portion of the variation in both areas of policy, unemployment benefit generosity and employment protection legislation. Moreover, Chapter 2 and the case study chapters showed how these patterns of union variation often had deep historical roots, and how this history helped connect the various cases into distinct clusters of unionism: business, militant, social partner and encompassing. While the overlap between each cluster and labor market policy outcomes was not perfect or complete, the typology of unionism nevertheless captured the central differences in policy remarkably well. In this sense, history and politics do not behave randomly, and the generalizing explanatory ambitions of social science are a worthy and fruitful undertaking.

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1144 As Hacker and Pierson write in the context of the US: “As unions shifted from confident involvement in politics to embattled defense of their ever smaller pocket of the workforce, they also ceased to be able, or always willing, to play the role as champions of the broad middle class they had carved out in their heyday. Desperate to regain membership, often torn by internal factions, and increasingly focused on the one place it continued to have strong success—the public sector—the labor movement came to look more and more like just another interest group, and an embattled interest group at that.” p. 142.
Section II: Implications for Comparative Political Economy

If what I have said above is accurate, what does this mean for the study of comparative political economy? The most important implication of my work for CPE is that the “individualist turn” of the past decade or so needs to be fundamentally rethought, at very least in the case of labor market policy. Much of the work produced in CPE over this period has tried to link the ‘macro’ political outcomes of welfare state politics to the ‘micro’ orientations and preferences of individuals. As I discussed in Chapter 2, Insider- Outsider theory is one example of this. David Rueda, and others who have followed in his footsteps, have used survey data to establish the relative policy preferences of different individuals or social actors and then tried to use this to explain policy variations. On the basis of sometimes quite small differences in stated policy preferences, theories are constructed about why certain countries have weak UB policy or not, or why partisanship has ceased to matter, etc. A similar move was made in the context of VOC theory with the work by Torben Iversen. Using survey data, Iversen tried to establish that workers with ‘specific skills’ were more likely to support social insurance than those with ‘general skills’, and thus that differences in national skill compositions could explain a big part of variations among countries in the generosity and form of social insurance. Again, this view was presented and critiqued in Chapter 2.

Without critically reviewing this material and its claims again here, suffice it to say that the perspective I advance suggests that they are usually looking in the wrong place to explain national policy variations. Individual voters are frequently ill-informed about the policy questions they are being asked in surveys; the questions they are asked are often only proxy questions about the policy area under review; the survey analysis does not sufficiently ‘endogenize’ the responses (e.g., by taking account of the existing welfare state the respondent is reacting to); voters cannot just vote on one policy dimension, and this will greatly complicate the transmission of opinions into policy in any given area; and the negotiation and renegotiation of policy will take place among people that have only a quite tenuous connection to ‘popular opinion’, especially in relatively obscure policy areas where there may be little political blowback in one direction or another even after controversial decisions. Ironically, it is sometimes unions that can mobilize this ‘popular blowback’ in more obscure policy areas, but again this leads us back to their importance. Other organized groups can do this too, of course, such as environmental NGOs in policy fields relating to the environment, etc.

1145 The term “individualist turn” comes from Pontusson, 2011, p. 656.
1146 See Rueda, 2007.
1147 See Iversen, 2005.
But in the policy areas at issue here, there are very few other groups apart from unions that can do this effectively. What is striking in the recent work on American politics by Hacker and Pierson is that the burgeoning of NGO advocacy groups in the past 30 years has not really produced many strong bodies to represent the poor or the lower middle class. They write,

“As organized labor declined in clout, the growing bevy of advocacy groups formed a powerful new liberal force – for a certain kind of liberalism. These groups proved skilled lobbyists on the issues they cared about, such as environmentalism, women’s rights, and civil liberties. And yet, they almost never focused their attention on the economic issues that most powerfully affected the working and middle classes. The result was a boon for the postmaterialist causes of more affluent liberals, but it left traditional material causes with only a handful of energetic backers… The authors of a recent comprehensive study of lobbying marvel at ‘the relative paucity of issues relating to the poor and to the economic security of working-class Americans’ on the lobbying agenda of even public interest groups.”

In short, as I contended above, there has not been a consistently effective alternative to unions as defenders of the interests of those lower-middle class and working poor most likely to need effective Outsider policy. Other countries may be less pronounced in this particular tendency than the US; however it is likely only a matter of degree. Consequently, expecting that varieties of unionism will not be a central issue in national variations of UB and Outsider Effort (i.e., the extent to which unions are powerful ‘allies’ of the unemployed) is mistaken. And indeed, the correlation and regression analysis of Chapter 2 and 3 certainly suggests as much.

When policy outcomes are the dependent variable of our research, the power, strategies and preferences of organized interests will matter a great deal, especially in areas of policy that are less publicly visible. This was long appreciated, and indeed still is in many studies of public policy. Yet it has been downplayed or missed in much ‘individualist’ work in CPE. A number of recent works have challenged this “individualist turn” and this thesis is simply one among them. Pepper Culpepper’s work on corporate governance has emphasized this point, for instance. So has Alan Jacob’s work on the politics of long-term policy investment in democracies. And Hacker and Pierson have been explicit about it in their study of rising American inequality, as the quote to start the chapter shows. This does not mean that ‘individualist’ work in CPE is useless or always wrong, of course. But it should be clear that its explanatory claims are likely to need significant pruning.

1149 Culpepper, 2010.
1150 Jacobs, 2011.
Another implication of the work in this thesis is that VOC accounts that emphasize employer preferences and the role of specific skills are much less important in national policy variations than previously imagined, particularly in areas of policy that serve to ‘decommodif[y] labor. Arguably the two policy areas I have looked at are where VOC considerations should be most evident given (a) employers’ quite direct stake in policy such as EPL and UB and (b) the fact that the logic of specific skill insurance will be clearest to individual workers in these policy areas. In regards to (a), though, employer representatives have not been supportive of strong and broadly-based labor market protections, as the case studies showed, and certainly they have rarely taken the initiative in establishing or expanding them. What employers have encouraged and valued in CMEs are the coordinated bargaining systems that have moderated wage growth in the export sectors, along with cooperative and peaceful industrial relations wherein workers agree to steady technical change in return for the training to adapt to it.\footnote{Tellingly, when centralized bargaining ceased to deliver the kind of wage restraint it had once achieved, employers grew increasingly hostile to even this element of CMEs and pushed for progressively greater decentralization of bargaining. See the Sweden case study. Also telling is that in another CME with now a weak, ‘excluded’ and decentralized union movement, Japan, labor market policy towards Outsiders has not been very generous relative to other CMEs. See Pontusson, 2005b.} As I have argued, it is these features of the labor movements in CMEs that have encouraged stronger labor market protections, \textit{not} employer preferences: such movements have been politically ‘included’ and have developed the broad policy perspective and ambition associated with ‘inclusion’, administrative involvement and internal centralization.

Employers would ideally like to retain the quiescence and cooperation of coordinated union movements \textit{without} the costly systems of employment protection and unemployment benefits that have emerged, and which are generalized beyond spheres where they may play a functional role in skill development. As a result, there are very few instances where employers’ representatives have opposed retrenchment to UB or to EPL in the past 30 years, at least in the case studies here.\footnote{For other case studies, see Emmenegger, 2010, and Emmenegger and Marx, 2011. These two articles show very clearly that employers’ representatives have not supported strong job security regulations historically in CMEs (even Germany).} Given their historically very strong labor market protections, the two case studies of CMEs I have investigated are surely crucial test cases of the VOC view. That being said, there \textit{are} some policy areas where it has been plausibly argued that employers were central to, and encouraging of, welfare state development and labor market protections (at least initially): sickness and accident insurance, active labor market policy, and early retirement schemes, among them.\footnote{See for each area of policy, respectively: Mares, 2003b; Swenson, 2002; and Ebbinghaus, 2008.} However, these areas of...
policy have been much less decommodifying; employment protection legislation and unemployment benefits are thus not among them.

In the case of (b), such skill-based accounts have already been addressed to an extent by my comments regarding the importance of organized interests. Yet the problems with the VOC account of skills go even deeper than this. This is evident in a recent, powerful critique of the empirical foundations of the VOC account of skills by Wolfgang Streeck.\textsuperscript{1154} Streeck demonstrates that VOC theory has applied an overly simplistic and inaccurate conception of skills in its parsimonious account of labor market politics. What has set CMEs apart from LMEs for the most part in terms of skills, argues Streeck, is that the former have developed effective vocational and on-the-job training systems that give many workers \textit{high levels of functionally flexible occupational skills}. Indeed, this was usually the explicit aim of such training systems when they were expanded in the postwar period, with the cooperation of both unions and employers. These training systems would allow workers to move from job to job within the firm and indeed between firms as well. The paradigmatic case was Germany, as Streeck explains:

Like wage setting, unions and employer associations jointly administered a complex “web of rules”… licensed by the state and under its watchful eye. Together, in tripartite cooperation, they ran and kept current a national system of occupations and occupational training profiles that, through publicly supervised examination and certification of acquired skills, allowed for, in principle, unlimited mobility of workers in nationwide sectoral labor markets. Moreover, unlike the Anglo-American world, employers were obviously prepared to invest large sums of money in the skills of their workforces, and in broad and therefore widely transportable skills to boot, while trade unions not only tolerated general upskilling but pressed incessantly for broader and better training of, ideally, all workers in their domain. As a result, German firms could benefit from an almost unlimited supply of high skills as well as from unmatched flexibility in the deployment of labor on the shop floor.

What Streeck therefore shows is that the VOC depiction of occupational or vocational training in CMEs as developing narrow or specific skills actually misses much of their broad substantive content.\textsuperscript{1155} Indeed, if anything, the craft union traditions in certain Anglo-Saxon countries created

\textsuperscript{1154} Streeck, 2011.

\textsuperscript{1155} As Streeck writes, “Especially from the 1960s onward, there was also a continuous broadening of occupational skill profiles, which was achieved by merging neighboring occupations and sharply reducing their overall number. Furthermore, all three parties involved kept pressing for training standards to be upgraded, including a strengthening of the “theoretical” content of training as provided above all by vocational schools (“dual system”). While employers were seeking high skills, a flexible organization of work made possible by polyvalent workers, as well as worker and union support for industrial change, unions strove to maximize their members’ employment and earning opportunities by enhancing the portability of their personal work skills in the absence of formal job entitlements.” Ibid. p. 10-11.
even more skill specificity than the vocational training model of many CMEs, given the prevalence of narrowly defined work descriptions and other ‘restrictive practices’. The sharp, dichotomous distinction between ‘specific’ and ‘general’ skills in VOC makes little sense as a result. At the same time, argues Streeck, VOC glorifies the general applicability of formal, tertiary education in ways that are convenient yet implausible. Much university and college education in the Anglo-Saxon world is only tenuously linked to employment in different occupations, and thus a fair bit of such education produces workers with ‘general skills’ only in the sense of very little usable, specific skills at all. But if this is true then it is not clear how such ‘skills’ can really be deemed ‘portable’ (and thus ‘general’) since they are only the most basic of skills (e.g., reading comprehension, writing, work discipline, etc.). Why someone working in the service sector with minimal ‘usable, specific’ skills would feel any less need for social insurance protection is not clear then, says Streeck. Where Anglo-Saxon training systems do generate high levels of usable skills, such as in postgraduate training systems, these are often quite specific skills and only ‘portable’ in the sense of portable geographically (e.g., computer engineers, civil engineers, etc.).

Indeed, a re-evaluation of Iversen’s survey analysis by Herbert Kitschelt and Philipp Rehm suggests that once a variable capturing blue-collar and basic service sector work is included (e.g., menial tasks and little workplace authority, or in other words the traditionally-defined ‘working class’), Iversen’s results lose almost all of their significance. Instead, it is blue collar and menial service sector work that is associated with high preferences for stronger social insurance protection, including UB, and the ‘specific skill’ measure of Iversen’s is only weakly correlated with preferences for stronger social insurance on top of this. The account by Iversen must then implausibly claim that relatively minor differences in policy preferences on the part of atomized individuals, combined with

1156 Streeck writes: “Anglo-American [skill] deficiencies were widely considered a historical legacy of both craft unions and their restrictive practices, as well as of the response of employers to them. Faced with union indifference or resistance to the expansion and modernization of industrial training, employers had early on embarked on a strategy of de-skilling which given the circumstances, could not but be identical with de-unionization, especially with the breaking of craft union control over work organization (Braverman 1974). Where unions were weakened or eliminated, apprenticeship disappeared and on-the-job training was reduced to firm-specific training, while the acquisition of more generally usable, portable skills was relocated in a vast and rapidly growing industry of vocational schools and community colleges. One of their attractions was that the skills they presumably imparted on their students appeared more “academic,” which made them more socially prestigious… By the end of the twentieth century, however, it had become apparent that what people learned and paid for in the classrooms of the new training industry was often no less narrow and job- or firm-specific than traditional skills. Coordination between training in schools and on the job was scant, except where school curricula were “customized” to the specific needs of a major local employer, which they often were. At the same time, in manufacturing firms as in the growing service sector, a de-skilled work organization, after decades of Bravermanian separation of execution from conception, drew on general skills mostly in the sense of no particular skills and relied below the managerial level on what is called in German Jedermannsqualifikationen (everyman’s skills)...” Ibid. p. 11.

1157 Kitschelt and Rehm, 2006.
only modest differences in the sectoral compositions of Western workforces, can explain the fairly substantial policy differences between countries outlined in Chapter 1 and 3.

In sum, there is accumulating evidence that the basic causal mechanisms posited in VOC theory to explain variations in labor market policy are problematic and that its functionalist, rational-choice account has gained widespread credibility mainly through spurious correlation. There are many other aspects of VOC theory that are pertinent and useful, I should make clear, such as its emphasis on the importance of coordinated bargaining for export success, the very different mindset of employers towards unions in CMEs, the importance of different financing systems on industrial behavior, and so on (see below). But its account of labor market policy is deficient, as I have argued throughout the thesis. Perhaps even more damaging to VOC than its various deficiencies is that there is another quite straightforward account of labor market policy, Varieties of Unionism, which (I submit) can provide a viable theoretical alternative.

Section III: Extension of the Varieties of Unionism to Other Areas of Policy and Potential Future Research

What are some of the other areas of policy that might be usefully explored given the perspective advanced here? I can think of a preliminary list of four different areas to which the theory could be extended: social assistance, sub-national labor market policy variation, labor market policy in the developing world, and public pensions. I will take each in turn.

Social assistance, or welfare, is the public compensation provided to individuals without employment, irrespective of their work histories or their current participation in the labor market. In this respect, then, social assistance will tend to be given to the most marginalized in society, such as those not in the labor market and those with weak or intermittent employment histories. Indeed, by its very design, social assistance will often be targeted at the most marginalized in society: i.e., through means-testing. Only those below a certain level of net wealth are usually able to qualify for such benefits. What will be interesting to see is whether Varieties of Unionism match up in any consistent way with the relative generosity of social assistance and/or its effectiveness at preventing poverty. Will social assistance rates be more generous in countries with higher levels of Outsider-oriented Unionism? If so, why does this obtain, and how consistently? As I have noted in passing above, unions and union movements have cared about effective unemployment benefit systems at least in part to set a reservation wage and mitigate intense competition from the unemployed. If
social assistance is aimed at individuals mostly outside of the labor market, should we expect the same level of commitment and advocacy on the part of unions? My intuition would be that my indicator of Outsider-oriented Unionism will have a somewhat weaker relation to social assistance generosity for this reason. Moreover, the index I have developed puts an emphasis on UB administration that would likely only be tangentially related to social assistance policy. Nevertheless, if we adopted a different measure of union commitment and orientation, would we arrive at more accurate predictions of welfare policy? One indicator of the possible importance of different unionisms to social assistance is that my index of Outsider-oriented Unionism is clearly related to lower levels of relative poverty. Figure 7.1 presents this relationship below. Not all of this relationship between Outsider-Oriented Unionism and lower poverty rates will necessarily operate through social assistance policy, though, even if there is a causal relationship between the two in the first place. It might operate through UB and ALMP, for example, or it could be related to the greater wage compression that higher membership and more centralized union movements have brought about (both components of Outsider-oriented Unionism, of course). This wage compression might pull some of the ‘working poor’ out of poverty and allow government transfers directed towards them to be higher without risking the potential damage to work incentives. This is mostly speculation, however. Clearly this is an interesting avenue for future work.

**Figure 7.1: Outsider-Oriented Unionism and Relative Poverty Rates, 15 Western Countries**

Source: Poverty figures are drawn from the OECD and measure relative poverty rates at the 50 percent of current median income cut-off level (i.e., the number of people below this threshold).
Another area to investigate the impact of unions on labor market policy is simply to look at variations within federal countries, such as the US or Canada or Germany. To the extent that labor market policy is determined at the sub-national level, such as some important elements of unemployment insurance in the US, it may well be that union strength matters to the ultimate policy outcome. Having said this, it is also clear that basically only one aspect of different ‘unionisms’ will be able to vary in such circumstances: union density. Things such as administrative involvement, ‘inclusionary’ vs. ‘exclusionary’ political economies, rates of centralization, and ideological traditions are all unlikely to vary much, if at all, within countries. In this sense, the impact of union density variation alone is likely to be limited. Nevertheless, investigating whether this is in fact the case, or whether subtly different patterns of union engagement across sub-national units matter to policy outcomes, is also an interesting avenue of future research.\footnote{For two recent analyses of such questions in the Canadian context, see Haddow and Klassen, 2006; Haddow, forthcoming.}

Perhaps more plausible as an extension of the theory here would be an analysis of labor market policy in a number of developing countries with legalized union activity and basic data on the protections I have discussed here. In a way, the theory developed here would expect that the pattern of labor market policy in these countries would resemble the Southern European cases of dualism and meager Outsider policy. This is because union movements have almost always operated in ‘exclusionary’ political economies in such countries and have rarely possessed the leverage associated with tight labor markets to have been able to push through substantial expansions of the welfare state and labor market protections. As well, given their marginalization and frequent repression in developing countries, it is likely that most Southern union movements have historically had quite militant traditions. Investigating whether there are certain conditions wherein Southern union movements can break beyond this mould would be thus very interesting. As I pointed out on the first page of this thesis, though, limited basic spending data and significant uncertainty about the actual enforcement of existing labor market protections would make comparative research very difficult. It is little wonder, given this, that research in this field has remained underdeveloped.

Finally, the theory developed here likely has some pertinent things to say regarding public pensions. In particular, it might be able to account for variations in not only public pension generosity, which has been the traditional focus of CPE pension research, but also for variations in the extent to which current public systems are ‘funded’ and/or generationally equitable (e.g., based upon plausible actuarial principles). We can think of a simple two-by-two box or matrix to capture
these different possible pension outcomes: on one axis a measure of pension generosity and coverage (high vs. low) and on the other a measure of generational equity capturing the extent to which earlier generations funded the public pension liabilities owed to them (funded vs. unfunded). Of course, in reality systems would range on a continuous spectrum between high and low generosity and between generationally equitable and inequitable funding arrangements. We might expect to see an impact of the different types of unionism on pension systems because most extensive, public systems emerged in the early postwar decades when labor movements were near the peak of their political influence.\footnote{Myles, 1984; Huber and Stephens, 2001.} While union influence may have declined since, we should still expect to find the residues of that earlier period in the pension systems of today, as well as in the processes of reform that have unfolded since the 1980s, considering that unions have certainly not been completely sidelined in most Western countries.\footnote{See for example, Myles and Pierson, 2001.}

Indeed, my hypothesis would be that different pension systems, in terms of current generosity and generational equity, would match up in ways fairly consistent with the typology of unionisms that I set out in Chapter 2. For example, in countries with militant unionism, the capacity and desire to deliver wage restraint in the crucial decades of welfare state expansion was so weak that most of the political rewards that could be offered to unions were in the form of far-away promises that shifted the burden of costs into the future. This might have led to fairly generous but highly inequitable funding arrangements generationally, as in Southern Europe. By contrast, in countries with business unionism, unions have tended to achieve pension security through collective agreements and occupational arrangements rather than through public pension provision, either because of limited political power, or preferences toward private support, or a combination of both. Thus these countries’ public systems will be more meager in their generosity, but partly because of this weakness they will impose smaller generational funding burdens. Social partner unionism has likely been more successful in setting up generous and funded public pension systems, but again there will likely be cross-national variation on the basis of the kinds of factors noted above: high union membership and organizational centralization will foster a more encompassing, long-term perspective on the part of union movements, and this will mean more funded systems and/or the facilitation of subsequent reforms that could improve the generational equity of pension systems. Because of these dynamics, we might expect that encompassing union movements will be most successful in achieving a balance between current generosity and equitable funding arrangements.
Considering the major demographic shift underway in the rich democracies as the ‘baby boomer’ generation retires, achieving solid answers to these questions is clearly of interest to both social scientists and the general public. As such, I plan on doing some of this research myself in the future.

Section IV: Economic Crisis and the Future of Labor Market Policy: The Continued Relevance of Varieties of Unionism?

Since 2007 the world has entered into a prolonged period of economic and financial crisis. While the crisis became most apparent after the spectacular failure of Lehman Brothers in September 2008 and the ensuing panic that it caused, financial markets had been in serious turmoil since at least mid-2007.1161 As a result of this crisis, the revenues of Western governments have dropped sharply in many countries, especially those that had the largest real estate and asset-bubbles in the run-up to the crisis. When combined with attempts at fiscal stimulus in the face of the deep recession, this has put government budgets into significant deficit across the Western world. In a way, in order to forestall sharper drops in economic activity and the risk of debt/deflation, governments have shifted the crisis of the private sector into the realm of the public sector (as prescribed by traditional Keynesianism). However, there is now major political pressure on governments to cut their deficits, as the years pass by with no balanced budgets in sight.1162 And yet this proposed austerity may only increase the pain of the slump: falling government spending will harm short-term economic growth, American right-wing fantasies notwithstanding, and this will make it harder for governments to raise the taxes needed to pay down the debt.1163 Indeed, by reducing inflation and possibly even inducing deflation, such contractionary action may make debt and deficit problems worse by increasing the burden of debt on debtors.1164

However we see these issues, many governments are caught in a difficult place. Hemmed in by the political unpopularity of austerity and the potential contractionary impact of either tax hikes

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1161 See for example, Chinn and Frieden, 2011.
1162 For some countries, the bond markets are not putting very much pressure on governments at all. This is probably most true of the US government, which is paying very low rates of interest on its debt. Of course, the opposite is the case for Italy, Portugal, Greece, etc.
1163 The British Prime Minister, David Cameron, is finding this out firsthand. See for example, “David Cameron: our plan to cut debt is failing”, The Telegraph, November 21, 2011. Paul Krugman and many others have been hammering away at this point for some time. See Eggertson and Krugman, 2012, for example.
1164 For example, with deflation, the nominal figure of someone’s debt stays constant while their wages or income falls, leading to a greater real or actual debt than they first incurred. Even falling inflation short of outright deflation can worsen this situation, since the initial terms of the debt may be based upon the higher expected inflation. Each of these dynamics will increase relative debt costs for people and lessen their discretionary spending, which will hurt economic activity further and possibly result in a vicious, self-reinforcing cycle of debt/deflation. See Ibid.
or spending cuts in the midst of a slump, governments have been unable to make a serious dent in public deficits. Nevertheless, the massive deficits have provided windows of opportunity to make some unpopular cuts, and this is likely only set to intensify. As I noted in Chapter 1, moments of economic crisis and deep budget deficits have been almost the only occasions when substantial and sustained retrenchments have been made to unemployment benefit systems. What is particularly important in such circumstances is that governments can more successfully accomplish ‘blame avoidance’ in retrenchment: they can plausibly maintain that “hey, we don’t mind these programs, but we just can’t afford them and we need to tighten our belts”.

As this thesis has also suggested, periods of economic crisis are usually marked by high unemployment and in these situations union movements will tend to have much weaker political leverage. Their cooperation in macroeconomic terms is often largely ensured, as it were, by the threat of unemployment and their relative weakness in the labor market. As such, governments will find it easier, though not necessarily easy, to ignore their policy advice or demands. And it is here that programs not centrally related to most citizens’ interests, or without powerful political constituencies, are likely to face the greatest threat. Outsider policy is thus a naturally tempting target for austerity in such circumstances, even as the need for it arguably rises.

Given the prolonged crisis that the world economy has experienced in the past few years and the probability of continuing high unemployment as debt deleveraging takes place, is varieties of unionism still as relevant then? If most union movements face governments that are able to brush off their political demands with greater ease, will variations in their policy orientations and political capacities still matter in as consequential ways? To recall the experience of Dutch corporatism in the early 1990s from Chapter 6, will it not be easier for governments to assert the ‘primacy of politics’ and sideline the unions and corporatist dialogue? These are difficult questions. One way to answer them is simply to acknowledge their force and recognize that varieties of unionism will be less determinative in the future. In a way, this is fairly consistent with the perspective advanced in this thesis, which stressed the importance of the critical juncture during the late 1960s and 1970s when labor markets were very tight and when many labor movements were able to push through some of the major foundations of their countries’ labor market policy regimes. There is also little doubt that gradually union influence has waned in the past three decades with rising unemployment, globalization, de-unionization and bargaining disorganization/decentralization. Indeed, this has been

1165 This tendency has been seized upon by Naomi Klein, for instance, in her popular book The Shock Doctrine.
1166 The concept of ‘blame avoidance’ is central in Paul Pierson’s theory of welfare retrenchment. See Pierson, 1996.
one reason why unions and union organization have been relatively neglected in recent CPE work. As Figure 7.2 and Figure 7.3 show, this partial marginalization has (probably) caused the correlation between Outsider-Oriented Unionism and Outsider Effort to fall from the late 1980s to the early 2000s (from $r_p = 0.77$ to 0.67). From this perspective, and in answer to the questions above, it might simply be argued that the economic crisis will just be a major intensification of this ongoing trend.

**Figure 7.2: Outsider-Oriented Unionism vs. Outsider Effort, 1985-1994**

**Figure 7.3: Outsider-Oriented Unionism vs. Outsider Effort, 1995-2005**
There is much to be said for this possible response. I find it quite plausible that unions and union movements will continue to see their influence decline as the crisis proceeds, and thus for varieties of unionism to weaken in importance in policy terms. Yet I want to conclude with two reasons why varieties of unionism may still be highly pertinent in the future. First, and most straightforwardly, the theory presented here has sought to explain variations in labor market policy across the rich democracies. To the extent that all political economies face intense economic and political pressures for reform and retrenchment, the variations of countries within these parameters will still be influenced by the nature and effectiveness of unions’ political action. In countries where unions have traditions of social integration, are involved in social insurance administration, and have continued numerical clout, for example, it is likely that retrenchment efforts will be less successful in policy areas that affect Outsiders.\textsuperscript{1167} Moreover, the structures of core EPL inherited from the formative postwar years will also likely prove durable, except perhaps in extreme cases of crisis, given the broad constituencies behind them and the intense fear of dismissal occasioned by economic crisis.\textsuperscript{1168} In countries where unions have historically operated to a greater extent as lobby groups, their support for already weak Outsider policy will be less effective and committed, and it will be further eroded as their priorities shift to simply defending their existing gains/position. In this sense, union movements will continue to be as relatively effective in their promotion of different forms of labor market protection as they were prior to the crisis, and thus continue to explain variations, except that these protections will now all be much more embattled and under threat of retrenchment or deregulation. Furthermore, if currently ‘included’ union movements become politically ‘excluded’ as a result of the crisis, the theory proposed here may have some important insights to offer about what this will mean in terms of their behavior and labor market policy preferences (and thus policy outcomes).

An even more pointed response to the doubts expressed above is that varieties of unionism can likely tell us a lot about which countries will find themselves in the deepest fiscal and economic crises in the first place. Is it just a coincidence that all of the countries facing major budgetary pressures are ones that have had ‘exclusive’ political economies? If we look at the countries that have been most in crisis since the onset of recession, either political or economic, they are: Greece, Ireland, Italy, Portugal, Spain, and

\textsuperscript{1167} The analysis at the end of Chapter 3, and presented in Tables 3.7 and 3.8, suggests this kind of a conclusion.

\textsuperscript{1168} An ‘extreme’ form of crisis would likely involve the direct intervention of foreign organizations, be it the IMF or some EU-sponsored body, which pushes through radical reform/austerity measures. This is now beginning to happen in a number of European countries (e.g., Greece, Italy, etc.).
to a lesser extent the UK and (in somewhat self-imposed fashion) the US. All of them have had exclusive political economies during the postwar period. What this suggests is that countries with ‘inclusive’ political economies have often been able to broker the kind of wage restraint and budgetary compromises that have kept them out of trouble, both in fiscal terms and in terms of developing more economically sustainable, industrial economies. The others, lacking this capacity for dialogue, compromise and coordination among the ‘social partners’ and the state, have seen their economies buffeted about by economic change and have often turned to asset-bubbles and debt-based growth to move forward. The limits to this strategy are now painfully clear. As a result, their welfare states, as well as their labor market protections, are likely to come under the greatest pressure for retrenchment. What is very telling in this respect is that the three countries with ‘exclusive’ political economies that saw the largest increase in Outsider Effort in the period under analysis in Chapter 3 (1985-2005), Ireland, Portugal and Spain, are now among those countries most in fiscal crisis. In a way, it could be argued that their strong performance in terms of Outsider generosity, at least relative to other exclusive political economies, was based upon unsustainable economic foundations. And considering their lack of coordinated union movements, along with the intrinsic difficulties of ‘internal devaluation’, they are likely to experience persistently high unemployment in the medium term as they try to regain competitiveness (i.e., without the ability to unilaterally devalue their currency, due to the Euro), and this will put strong downward pressure on their Outsider generosity. In this sense, varieties of unionism might well continue to powerfully explain labor market policy outcomes across the rich democracies into the future, as the pressures for reform and retrenchment vary widely across different political economies.

As this is written in December 2011, France may be about to join the pack. The US is not facing steep interest rates to service its debts, which makes its political crises largely fabricated and self-imposed, but there is also a case to be made that it would be facing such bond punishment were it not for its ‘safe haven’ status and unique ability to print the world’s reserve currency (e.g., considering the size of its current and projected fiscal and/or trade deficits, and the recent political gridlock in Washington).

To be sure, on these kinds of matters, VOC theory undoubtedly has some important insights to offer!


