

NEW SOCIAL RISKS, SOCIAL POLICIES, AND DUALIZATION IN THE  
CONTEMPORARY WELFARE STATE

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A dissertation submitted to the faculty of the University of North Carolina at Chapel Hill in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the Department of Political Science.

Chapel Hill  
2012

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## **Abstract**

ALLISON E. ROVNY: New Social Risks, Social Policies, and Dualization in the Contemporary Welfare State.

(Under the direction of John D. Stephens)

In recent years, much attention has been given in the welfare state literature to the presence of new social risks in postindustrial political economies and the growing divide between those deemed to be insiders and outsiders. In fact, the term “new social risks” arguably signifies one of the defining areas of contemporary research on welfare state adaptations in advanced affluent democracies. In this dissertation, I examine how the various “worlds” of welfare provision—specifically, social policy tools—affect the well-being of new social risk groups, and whether we are indeed witnessing an emergence of labor market and welfare state outsiders. I investigate the determinants of outsidership expressed as single parent income, child poverty rate, and youth unemployment. I analyze the effects of social policies on the likelihood of being poor among low-skilled populations. I find that social policies such as active and passive labor market policies, family policies, and government daycare spending are effective at combating new social risks. Employment protection legislation may impede low-skilled young people from escaping poverty. Lastly, this dissertation considers the case of Germany and probes the extent to which a divide between labor market insiders and outsiders has cemented there over time, whether the welfare state (via taxes and transfers) exacerbates or ameliorates this dualism, and indeed, whether labor market dualization—an individual-level phenomenon—translates into dualization of the welfare state—a phenomenon that is necessarily measured at the household level.

To Jan and Martin Morris

## Acknowledgments

Any completed dissertation is a reflection of the input and support of so many people, and this one is no exception. I could not begin an acknowledgments section without starting with my parents, Morris and Mary Elizabeth, who from the moment I came into this world have shown me unconditional love, joyous belief in my potential, and unbounded enthusiasm and support for my endeavors. To them I give my most absolute thankfulness, and on them I base my model of how to be a teacher, in the classroom and everywhere else. To my brother Jeremy, I thank you for continuing to believe in your little sister's spark, and for encouraging me to keep going. To my extended family, you all have shaped me immeasurably—and Annaliese, you are a star for sending me encouragement throughout the years. I am indebted to John D. Stephens for his intellectual acuity and his generosity. To many in academia, all of whose input and support I cannot name here, I owe a huge thanks, but these stand out: Liesbet Hooghe, Gary Marks, and Milada Vachudova for their friendship and personal interest; David Brady; Helen Connolly at LIS; and Lenka Rovna for your caring support. To friends from the Chapel Hill years, thank you for putting a smile on my face now whenever the words “graduate school” are uttered. For research funding, I thank UNC's Center for European Studies and the Berlin Program. Thanks to the Centre for European Research (CERGU) at the University of Gothenburg, Sweden, for a warm welcome. But my biggest and most profound gratitude I save for my love, Jan, who generously makes everything not only possible, but also simply better: you are my guiding and inspiring light. To my sweet son Martin: thank you for giving me the purest sunshine every day. I adore you both and dedicate this effort to you.

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## 1 Introduction

With the change of social and labor market policies in the 21st century to emphasize activation of citizens into the labor force, the welfare state has become a prominent venue for analysis of the differential capacity of different groups to fit into the “employment as social protection” scheme, and of different welfare state regimes to encompass the evolving structure of social risks. Women have become an important focus of contemporary welfare state studies, as this demographic group was previously underrepresented in the labor market, as were young adults. The nexus between state, market, and family has become a defining feature of social policy analysis. However, we know that not everyone has equal access and attachment to employment, and different welfare state regimes face varying levels of increasing social stratification. This is particularly true of unskilled segments of the population, who face greater obstacles to secure employment in today’s “knowledge-intensive services” economy. In my dissertation, I examine those groups who are considered to be on the periphery of the labor market—those with unstable and weak employment links—and the capacity of the welfare state to shelter them from social disadvantage.

In the first chapter, I analyze indicators of “outsiderness” using three dependent variables that have been established in the literature as representing particularly vulnerable groups: 1) youth; 2) single parents; and 3) children in poverty, both overall and in single-mother families. I examine the effects of important welfare state features—active labor market policies (ALMP), passive labor market policies (PLMP), employment protection legislation (EPL), family policies and daycare, sick-pay and

unemployment benefit generosity, and union density—on these outsider groups. This chapter conducts macro-level, pooled time-series analyses across 16 OECD countries over time, from 1990-2004.

The second chapter uses a combination of micro- and macro-level data and thus employs multi-level statistical regression analyses. I analyze the effects of social policies on the likelihood of being in poverty for three “new social risk” groups: young low-skilled women and men, and older low-skilled men. I use Luxembourg Income Study (LIS) micro-data and macro-level policy data centered around the year 2004.

The third chapter focuses on the case of Germany and proposes answers to the following questions: 1) Whether there are more labor market outsiders in Germany today than there were 20 years ago; 2) Whether these outsiders are indeed worse off today than two decades ago; and 3) Whether the welfare state (via taxes & transfers) increases or lessens this dualism. I find that the answers vary depending on the operationalization of labor market insiders and outsiders, and that overall, the German welfare state is effective in narrowing the gap between insider and outsider income levels. Indeed, I show that labor market dualization does not necessarily translate to welfare state dualization, and I consider the critical differences between measurement of these concepts at the individual and household levels.

## 2 Emerging Outsiders in Contemporary Welfare States

### 2.1 Introduction

Continental Bismarckian Welfare States have undergone gradual yet cumulatively powerful transitions in social and labor market policy. In the 1970s to 80s, the dominant strategy in these countries was to combat high rates of unemployment with labor-shedding strategies—that is, policy incentives were designed to push older and less productive workers out of the labor market in order to “free up” jobs for others. However, the main policy tool in use today reflects an entirely different aim: maximum labor force participation of all those of working age. It is now generally agreed that the former labor-shedding strategy constitutes a policy failure that, rather than create jobs, led in fact to a stifling job environment: the gross non-wage labor costs grew as a result of more people out of the labor market needing social assistance, so that employment became more expensive and, perversely at the same time, the pool of public financial resources shrank, since the number of people paying into the system decreased.

In European countries today, the strategy of labor shedding and forced early retirement is looked upon as a relic of poor choice: the new goal has shifted to raising the labor market activity rate of the working age population. The focus now is on activation of the labor force: the retirement age has been pushed back, and older workers are encouraged to remain productive members of society contributing to the labor force—and thus paying into the system—as long as they can. Furthermore, requirements for receiving means-tested assistance have been sharpened: job-seekers must prove that

they are actively seeking employment in order to receive unemployment assistance. A key change of interest is the emphasis on a long-neglected labor force potential: women. Womens roles have shifted from the traditional stay-at-home wife/mother in a male-breadwinner family to active participants in their own right within the labor market. While mothers were once encouraged in the Bismarckian welfare countries to withdraw from the labor force upon the birth of a child—and thus they received steady payments over the course of three years, for example—policy-makers have now shifted to a different tactic. Governments now encourage women to reenter the job market through various tax incentives, subsidized benefits like childcare, part-time employment options, and shorter maternal benefits/leave schemes that are more strongly linked to previous employment and prior job market position. With the Lisbon Strategy of 2000, womens employment levels became an EU target for improvement: the goal was that by 2010, these rates should be at or near 60%, a rate that most European countries have now attained.

Youth represent a final category of the population that lags in activation levels: among the unemployed in Europe, youth and women are over-represented, especially in the southern European countries where labor and housing markets are tight, thus encouraging young people to live longer with their parents—and thereby exacerbating a characteristically Bismarckian welfare state problem: low fertility and population aging.

Therefore, we can expect that continental European welfare states will witness an increasing degree of social stratification: those with weaker ties to employment—employment being the emphasized primary source of welfare provision, rather than the large social state—may fall through the cracks of this new mode of “activation as empowerment.” Furthermore, the negative consequences of work-conditioned welfare will be experienced most strongly by those on the periphery of the labor market: youth,

single-parent families (especially single mothers), and by the children of those families, as witnessed by growing child poverty. In this paper, I analyze indicators of “outsiderness” using three dependent variables: 1) child poverty rate, both overall and within single mother families, measured at 50% of median income; 2) single parent median net income as a ratio to household median net income; and 3) youth unemployment rate. I examine the effects on outsiderness of welfare state features such as employment protection legislation (EPL); active and passive labor market policies (ALMP and PLMP, respectively); family policy allowances and daycare; sick-pay and unemployment benefit generosity; and union density. I conduct pooled time-series analyses across sixteen OECD countries from 1990-2004: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States.<sup>1</sup>

The differential capacity of different social policy regimes to adequately address these new social risks forms today's core social policy research agenda. While the existence of a new social risk profile has been discussed in the literature, there is a vast gap in what we know so far about the impact of policy on different societal groups, across different welfare regime clusters. The question remains of how to successfully incorporate disadvantaged groups into the workforce: this is where social and labor-market policy can come into play, and where systematic comparative research has yet to be conducted. The core research question concerns the roles of labor-market and family policies: whether they deepen inequality and add to the dualization of the welfare state, resulting in further divides between insiders and outsiders, or whether they alleviate the social risk profiles of those on the labor market periphery.

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<sup>1</sup>Due to data availability, the sample size varies according to the dependent variable used. For child poverty (both overall and in single-mother families, the number of countries is sixteen. For the single parent income ratio using Eurostat data, the number of countries, twelve, is limited to EU countries. For youth unemployment, data are not available for Australia, and thus the number of countries in the sample is fifteen.

## 2.2 The new inequalities

Continental Europe and the countries of principal interest to my investigation are showing signs of consolidating a dualization between insiders and outsiders—between those in the core, stable, labor force, and those in the outside, peripheral, fringe of unstable jobs and temporary contracts (Palier and Thelen 2010). This dualization contains a gender component. Growth of atypical work has opened opportunities for women to enter the labor market; however, these “mini-jobs” (temporary jobs, not covered by social benefits) do not yield stable employment attachment for women, who fill the majority of these jobs (Esping-Andersen 2009). In essence, the expansion of the low-wage sector has increased women's opportunities for paid work, but it remains unclear whether this employment constitutes “good” jobs that reduce women's dependence on a male breadwinner. Youth and women make up a large percentage of these outsiders, characterized by unemployment and precarious, short-term, jobs. This lower social position of young adults and single women has a distinct corollary: child poverty has increased dramatically to above the OECD average (12.4%) in Germany (16.3%) and Italy (15.5%) (Chapple and Richardson 2009). Here the divide between insiders and outsiders is acutely observable, in terms of sheer numbers of youth unemployed (especially in southern Europe) and protracted duration of such unemployment, presence of temporary jobs, and the high levels of employment protection legislation (EPL), which privileges the core workforce often at the expense of those working in unstable jobs who do not easily penetrate the core labor market (Esping-Andersen 1999).

In other research (Rovny 2011), I found that EPL is a strong predictor of fertility but with a negative relationship. This finding, along with the positive correlation between family policies and fertility, is echoed in Nelson and Stephens' findings on the effects of EPL and family policies on women's employment (2008). In addition, active labor market policies (ALMP) are found to be positively correlated with both fertility



and womens employment. Thus we expect a similar relationship between EPL, family policies, ALMP and the outcomes of these outsider groups: single mothers, youth, and indirectly, child poverty. Moreover, while the concept of dualization has been suggested as institutionalized in welfare state reforms over the past decade within the realms of unemployment insurance and pensions (Palier and Thelen 2010), there has been no systematic research on dualization within family-oriented social policies.

The impact of the changing demographic conditions can be seen when examining the family. With the rise in single parenthood, we have seen a rise in the Gini coefficient in the U.S. The share of children in single-mother households ranges from a low of 5% in Southern Europe to 15-20% in the Nordic countries and North America (LIS key figures: <http://www.lisproject.org/key-figures/key-figures.htm>). Strikingly, the Nordic countries have largely avoided the consequence of children falling into poverty within single-parent households, especially when viewed in comparison with the Continental and Liberal welfare states. Welfare policies may make a crucial difference in this realm. Furthermore, as Table 2.1 and Figure 2.1 below show, when examining the prevalence of child poverty by household structure, we see that children of lone parents, and particularly of lone mothers, have a vastly increased likelihood of living below the poverty threshold than do children in two-parent households. However, this phenomenon is most severe in only two of the welfare state clusters: Anglophone, or Liberal, welfare states, and in the Continental European, or Bismarckian, welfare states. Thus we see that child poverty is greater in these two welfare state “worlds,” due to low women’s employment levels (Continental countries) and insufficient social provisions including income support and childcare infrastructure, especially for lone mothers, who comprise a critical outsider group in terms of labor market status.

Table 2.1: Child Poverty Rate by Household Structure and Welfare Regime

	<b>Lone-mother</b>	<b>Lone-father</b>	<b>Two-parent</b>
<i>Anglophone</i>	43.3	29.2	11.5
<i>Continental European</i>	33.0	12.0	5.3
<i>Nordic European</i>	9.6	5.9	2.1

Source: Gornick, J. C. and Jntti, M. 2009, in Kamerman et al. 2009.

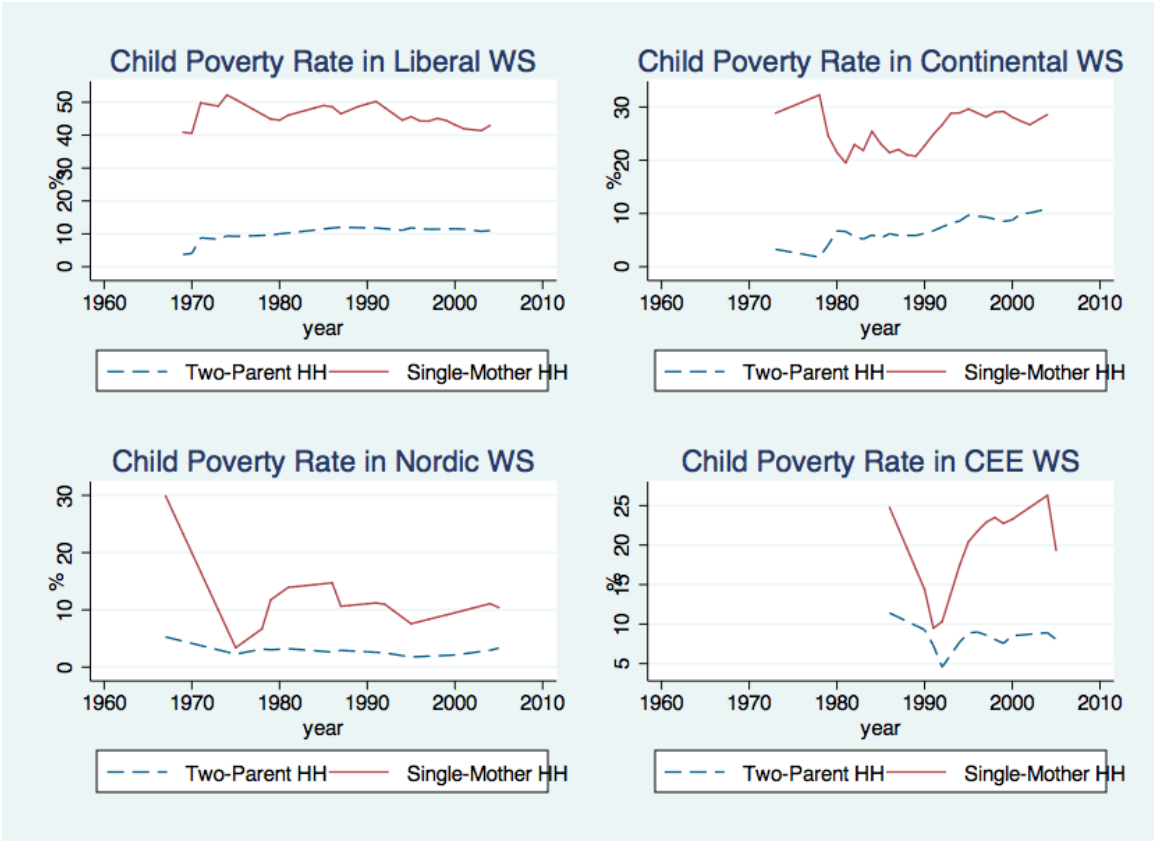


Figure 2.1: Child Poverty Rate by Household Structure and Welfare Regime  
 Source: Luxembourg Income Study data. Generated with Stata 11.1.

## 2.3 Variables hypothesized to affect outsidersness

Descriptions of the variables and their hypothesized effects on the three outsider groups are shown in Table 2.2.

### 2.3.1 *Decreased employment regulation: EPL*

Greater flexibilization of the labor market in the Bismarckian countries has meant increasing numbers of short-term contracts, agency work, atypical employment, and the creation of low-paying “mini-jobs” (Eichhorst 2007, Palier and Thelen 2009). The relationship of atypical employment to the degree of outsidersness is two-pronged. Atypical employment entails more precariousness for outsiders such as low-skilled, older workers, youth, and women. However, flexible employment (classified as “atypical,” including part-time employment) also has the potential to enable women, in particular, to remain within the labor market while caring for children. And while the existence of temporary work constitutes a “work-around” to the problem of strict hiring and firing rules (which encourage labor market exclusivity), those who possess such employment remain at risk of long-term low wages, poverty, and long-term unemployment (Eichhorst 2007).

In other words, atypical employment is in fact becoming typical: part-time and temporary contracts have been growing by 15-20% annually across the EU since the 1980s, and in continental Europe, atypical employment for women is the norm rather than the exception (Husermann and Schwander 2009). This outsider status based on atypical work is particularly obvious in continental Europe, where social insurance is based on the employment biography of the male industrial worker (Van Kersbergen 1995).

Employment protection legislation (EPL) is a passive income/job-protection policy tool that is generally seen as benefiting a core group of insiders, who maintain a solid connection to the labor market, at the expense of those on the exterior of the core labor

market who would otherwise like to penetrate the market and become stably employed (Esping-Andersen 1999, Rueda 2007). In countries with strict job protection laws and various restrictions on temporary and part-time work, a dual labor market emerges in which “outsiders” (those without stable employment) face difficulty in obtaining the secure positions enjoyed by “insiders.” The high-EPL model of privileging the core workforce yields this insider/outsider divide: the high wages and job security enjoyed by chiefly male insiders is predicated in effect on the exclusion of youth and women. It is generally agreed that stricter employment protection laws inhibit employment among youth and outsiders who are left out of protected labor schemes, and propagate the insider/outsider divide (Rueda, 2005). Therefore, I hypothesize that the stronger the employment protection levels in a country, the greater the degree of outsidersness: higher disparity between single parents’ earnings relative to the population average; higher youth unemployment; and higher child poverty rate given the more exclusive nature of the labor market, compared to those countries with lower EPL.

The measure of EPL used in this paper is a composite OECD indicator that captures the rigidity of hiring and firing rules. Taken as a composite measure, EPL is expected to be associated with greater youth unemployment, since youth constitute a quintessential “outsider” category made of those who are without permanent, stable, labor market attachment. EPL is expected to exacerbate child poverty and single parent income disparity, due to the social exclusion mechanism of outsiders from the labor market. However, these findings will vary according to welfare state typology: the Nordic countries have social benefit schemes, along with strong active labor market policies, that are sufficient to prevent socio-economic exclusion of the outsiders, while these countries exhibit moderate levels of EPL.

### *2.3.2 ALMP*

Active Labor Market Policies are one facet of social policy that plays a direct role in employment levels. ALMP can be seen as having an impact on the “insider-outsider” roles in employment. Outsiders, including those who are disadvantaged in the labor market such as the unemployed, atypical workers, and excluded people (single mothers, immigrants, low-skilled, disabled) who have difficulty securing and maintaining jobs, benefit from the training, re-entry, and skills-acquisition emphasis of ALMP (Rueda 2007). We can expect that ALMP have a positive effect in lessening the degree of “outsiderness”—that is, the higher the ALMP value (measured as government spending on ALMP as percentage of GDP, divided by the unemployed population), the lower the value on the outsider dependent variables: child poverty rate, single parent median income ratio to overall income, and youth unemployment rate.

### *2.3.3 PLMP*

Labor market strategies that fall under the rubric of passive labor market policies provide income protection for those who are temporarily without market income, rather than directly promoting employability (Martin and Grubb 2001). Passive programs such as unemployment insurance and income support assist the unemployed by supplying some income stability in the event of loss of employment income. However, because these policies are passive in nature and do not actively retrain or reintegrate workers into the workforce, their outcome is mixed: they do not aim to enhance the employability of labor market outsiders, such as single parents and youth, but they assist those who are temporarily out of employment. Thus, passive labor market policies can be seen as a tool to aid “insiders,” or those who already have labor market attachment. I hypothesize that passive labor market policies will be negatively related to single parent income and positively correlated with youth unemployment and child poverty.

#### *2.3.4 Family policy generosity and childcare affordability/availability*

When examining the effects of policy and household caregiving responsibilities, three different patterns along the familialization/de-familialization continuum emerge (Saraceno 2010). Saraceno identifies “familialism by default” as characterized by a lack of publicly provided alternatives to family care and financial support. “Supported familialism” occurs when policies, usually through financial transfers, provide support to families in maintaining their caring and financial responsibilities. Thirdly, “de-familialization” characterizes policy that reduces family responsibilities and dependency. Defamilialization occurs through both state (publicly financed transfers and/or services) or market provisions (market-provided services or private social insurance). However, as Saraceno points out, these two branches of defamilialization do not share the same conceptual footing: recourse to market provisions is largely dependent on family resources, leading to families being a highly socially differentiated actor as consumers of market services. Therefore, a key point emerges: social and economic inequalities become highly relevant when defamilialization measures are to be secured through the market, as opposed to the state.

In other words, the higher the presence of familialism by default, the greater the chance that gender and social class differences will impact family care-givers. Gender and class thus interact in a stronger way when caring for the family is not taken up by state provisions, but is rather left to the family's own resources. Women with a weaker position in the labor market, due to lower skills and/or time spent out of the labor market due to childbearing and -rearing, are at a distinct disadvantage from both men and from women with higher skills, who have a stronger attachment to the solid, core, insider, labor market than do women with low skills. Furthermore, low-income families have less recourse to market-provided services because they cannot afford them, and/or they use the money they receive as child payments rather to pay for household expenses,

and stay out of the labor market, thus making an implicit tradeoff between employment and caring. Therefore, higher government expenditures on both family allowances and daycare should yield a decrease in child poverty (overall and in single-mother families). These should also yield a higher ratio of single parent income to overall income, since single parents should be more able to work outside the home when there is daycare available, and family allowances should boost income, albeit perhaps only marginally.

### *2.3.5 Union density*

The level of union density, defined as union membership as a proportion of wage and salary earners in employment, is included as a control variable. This variable offers another way of capturing potential insider-outsider dynamics, related to levels of wage inequality. There are generally lower levels of inequality among union members than among nonmembers of unions (Oliver 2008, Wallerstein 1999). Unions tend to favor wage scales that prevent firms from paying wages below a certain level, thus potentially affecting those at the bottom of the income spectrum (youth and single parents). The lower the union density, the smaller the proportion of the population that is protected by wage bargaining, and the more economically vulnerable are low-skilled workers.<sup>2</sup> In other words, where unions are strong, wage dispersion is lower, thereby affecting poverty levels.

### *Welfare Generosity*

To control for spurious effects of my main indicators, I include as a political control variable the Scruggs (2004) welfare state entitlements generosity index, comprised here of unemployment generosity and sick pay generosity measures. This index captures the

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<sup>2</sup>In the regression models, I also used the variables “union bargaining coverage” and “wage dispersion” separately, in order to test other possible measures of the insider-outsider divide. These were, however, insignificant.



overall intensity of welfare generosity and allows for testing of the effects on outsidersness of the main policy variables identified above. I also include the unemployment rate as a control variable.

## 2.4 Measurement of data and sources

Table 2.3 presents the mean values of the dependent and independent variables by country. Data on employment protection legislation (EPL) are from the OECD (Organization for Economic Cooperation and Development) annual time series. The summary index summarizes a number of sub-indices measuring the difficulty of layoff (terms of notice, severance pay, etc.) and regulations restricting the use of temporary work (Bradley and Stephens 2007). This EPL index is measured on a 6-point scale, with 0 being the least restrictive and 6 being the most restrictive (Venn 2009). The index summarizes three main areas: 1) employment protection of regular workers against individual dismissal; 2) specific requirements for collective dismissals; and 3) regulation of temporary forms of employment.

The Active Labor Market Policy (ALMP) and Passive Labor Market Policy (PLMP) variables are operationalized as public expenditure on active and passive labor market measures, respectively, as a percentage of GDP, divided by the unemployed population. Both the EPL and ALMP/PLMP variables are standard OECD measures that are widely used in welfare state studies.

Data on daycare is defined as “Public expenditure on day care/home-help services as a % of GDP,” and comes from the OECD Social Expenditure database (SOCX).<sup>3</sup> Data on family allowances are defined as, “Total expenditures on family allowances as a percentage of the countries gross domestic product,” and come from the OECD,

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<sup>3</sup>[www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure).

as provided by Gauthier (2010).<sup>4</sup> Union density, defined as union membership as a proportion of wage and salary earners in employment, comes from Huber et al. Comparative Welfare States dataset version 2010, using Jelle Visser’s union membership dataset (Visser 1997, updated).

The data on unemployment and sick pay welfare generosity come from Scruggs’ Welfare State Entitlements summary data set (2004). The unemployment generosity data is calculated as the ratio of the net unemployment insurance benefit to net income for an unmarried single person earning the average production worker (APW) wage. The sick pay measure is the ratio of the net insurance benefit for general short-term illness (not workplace or occupational illness or injury) to net income for a single person earning the APW wage.

Data for the four dependent variables come from various sources. Data on child poverty come from the Luxembourg Income Study Key Figures and cover different years for different countries. However, most countries in the sample have data points on child poverty beginning in the 1990s through approximately 2004. I use two different dependent variables measuring “child poverty”: the relative child poverty rate measured at 50% of the median income, and the child poverty rate in a single-mother family, also measured at 50% of the median income.

Data for the third dependent variable, the ratio of single-parent median equivalized net income to median household income, come from Eurostat-SILC (Statistics on Income and Living Conditions).<sup>5</sup> The fourth dependent variable, youth unemployment, comes from the World Bank World Development Indicators database. The measure is

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<sup>4</sup>OECD StatExtracts. Social and Welfare Statistics Social Protection Social Expenditure Aggregated data. (On-line: <http://stats.oecd.org/index.aspx>; accessed March 2010).

<sup>5</sup><http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>; accessed November 5, 2010.

the percentage of the total labor force aged 15-24 that is unemployed.<sup>6</sup>

## 2.5 Data Analysis

I employ random effects pooled time-series regression estimation for all models and analyze indicators of “outsiderness,” measured variously by 1) child poverty rate; 2) single-parent median equivalized net income as a ratio to overall net household income; and 3) youth unemployment. I conduct my analyses using Luxembourg Income Study (LIS) data from multiple waves; Comparative Welfare States dataset (Huber et al. 1997, updated 2004 and 2010); Gauthier Comparative Family Policy Database (2010); and OECD, Eurostat, and World Bank data across 16 OECD countries.<sup>7</sup> The countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, and the United States and the time period covered is 1990-2004.

Beck and Katz (1996) and others have argued for the inclusion of country dummies in order to deal with omitted variable bias. Plmper et al. (2005: 3304) in their recent treatment of this issue have countered that inclusion of country dummies does much more than eliminate omitted variable bias. It also: (1) eliminates any variation in the dependent variable that is due to time invariant factors such as difference in constitutional structures; (2) greatly reduces the coefficients of factors that vary mainly between countries; (3) eliminates any differences in the dependent variable due to differences at time  $t$  in the time series; and (4) completely absorb(s) differences in the level of the independent variables across the units (1996). Elaborating on this last point, they argue that if one hypothesizes that the level of the independent variable has an effect on the

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<sup>6</sup><http://data.worldbank.org/indicator>; accessed November 18, 2010.

<sup>7</sup>Countries and years in the sample are limited by data availability. See footnote 1.

level of the dependent variables (for example, the level of unemployment on the level of child poverty), a fixed effects specification is not the appropriate model. If a theory predicts level effects, one should not include unit dummies. In these cases, allowing for a mild bias resulting from omitted variables is less harmful than running a fixed effects specification (1996: 334). I hypothesize effects in the levels of the independent variables on the level of the dependent variables at time  $t$ . In addition, variation in several of the independent variables, including the critical policy variables, is primarily cross-sectional. Thus, it is clear that fixed effects estimation or the inclusion of country dummies is not appropriate in this case (cf. Huo et al. 2008).

## 2.6 Results

The results of the models are presented in Table 2.4. The models produce both expected and unexpected results. While EPL is significant in two of the models, its sign in one of the models of child poverty is the opposite of that expected. EPL would be expected to capture the insider-outsider divide that pits the economic well-being of the core insiders with stable employment against that of the outsiders, who have precarious employment; thus we would expect that EPL is correlated with an increase in child poverty, based on adequate family resources that prevent poverty coming from the earners in the family. This expectation is indeed borne out in the model of single parent income. EPL's indication of outsidersness is captured when looking at its effect on single parent median income in relation to the population's household median income: a two-standard deviation increase in EPL results in a 13.4% decrease in the single parent income ratio.

As hypothesized, family allowances are a strong predictor of decreasing child poverty, with these effects being most dramatic in a single-mother family. For a two-standard deviation increase in family allowance spending, the child poverty rate within single

mother families decreases by 9.5 and 11.4 percentage points in the two models, but by only 1.3 percentage points for overall child poverty. This is a strong indication that combating child poverty within single-mother homes is strongly advanced by family allowances.

Similarly, government daycare spending is a strongly significant predictor of child poverty (in a negative direction), as well as of single parent income (positive direction). Moving two standard deviations on the daycare spending measure yields a 5% decrease in child poverty of single mothers, and a 2% decrease in overall child poverty. Moreover, a two-standard deviation increase in daycare spending results in an 8.4% increase in the single parent income ratio. Family allowance expenditure shows a comparably strong negative effect on child poverty, particularly in a single-mother family. Taken together, government spending on daycare services and family allowances provides a significant mechanism for ameliorating child poverty, both overall and in single-mother households, in addition to bolstering single parent income.

Union density has significant effects on the dependent variables, but presents some interesting implications. While greater union density is associated with lower child poverty (a two-standard deviation change in union density yields a decrease in overall child poverty of 4.5 percentage points), it is associated with an 11-13% increase in youth unemployment. Since union density captures the extent to which insiders are unionized within a country, this finding may reflect that youth are unable to penetrate the core group of union insiders, and thus higher union density is associated with an increase in youth unemployment. However, this would also suggest that since child poverty decreases with increased union density, parents are either able to be covered in union representation and thus maintain their jobs and income attachment, or that there are other mechanisms at play that are associated with higher union density—such as within Nordic, family-friendly, welfare regimes—that lead to lower child poverty outcomes.

Notably, union density has no significant impact on the child poverty rate within single mother families, which may suggest that single mothers are not adequately represented by unions or that their income levels are not affected by higher union membership.

The effects of welfare state generosity as measured by unemployment benefits and sick pay correspond to expectation: they are correlated with a decrease in single-mother child poverty and youth unemployment, and an increase in single parent income. Child poverty is decreased by up to 6.2%, and youth unemployment by 7.4%.

Government expenditure on passive labor market policies is also a significant predictor of the dependent variables. Similar to union density, the results suggest multiple interpretations. While passive labor market policies are aimed mainly at providing income maintenance to those without work—i.e. unemployment insurance—these measures will be targeted at those who are temporarily separated from employment. Unlike active labor market policies, passive labor market policy measures are not aimed at integration or activation of members outside the core workforce, but rather supporting those who have already secured a job position. Given this logic, it follows that passive labor policy measures would not diminish child poverty in families on the periphery of the labor market. Indeed, an increase in passive labor market policy measures is associated with an increase in child poverty and a decrease in single parent income. Using the two-standard deviation measure, an increase in PLMP yields an 8.2% increase in child poverty of single mothers and a 1.4% increase in overall child poverty. Similarly, the increase in PLMP yields a 10.7% decrease in the single parent income ratio. Strikingly, government expenditure on active labor market policies reduces youth unemployment by 4.9 percentage points, making an important case for the effectiveness of these policies in integrating this underrepresented segment of the population into the labor force. Contrary to hypothesized effects, active labor market policies do not show a significant impact on child poverty levels or single parent income.

## 2.7 Conclusion

In the political economies of Europe today, measures of “old risk” prevention such as unemployment insurance and sick pay exist alongside “new risk” profiles, most of which center around the persistence of inequalities not just between the sexes, but within them. As Esping-Andersen (2009) describes, the womens revolution of the 1970s has come to a stalling point: while the income gap between men and women has decreased, gaps between womens groups have increased. There are three broad challenges in the 21st century that threaten social equality: 1) How to adapt institutions to the new role of women—as breadwinners in their own right; 2) How to prepare youth for the knowledge economy, in which skills are highly rewarded; and 3) How to respond to the new demography of low fertility and an ever-increasing elderly population (Esping-Andersen 2009). As women have entered the workforce in higher numbers than in preceding decades, institutions embedded in social policies and those analyzed in this paper—childcare, family allowances, active and passive labor market policies, employment protection rigidity, union density—may need to be adapted to accommodate womens presence in the labor force and mens and womens roles in raising children.

Families arguably lie at the heart of the contemporary social risk profile, forming the locus where the three pillars of a welfare regime—family, state, and market—intertwine. The capacity to adequately cope with these risks will be unevenly distributed among citizens based on levels of education, income, and policy formulation. The new risk target group, or group most affected by the structure of new social risks, does not possess a sufficient attachment to the labor market to deal with the financial imposition that these risks imply. New risks have mainly to do with entering the labor market and establishing an enduring position in it, and with care duties that arise principally at the early stage of family-formation. In addition, many scholars have recently drawn

attention to the later risks posed to families of providing long-term care for frail, dependent, elderly (Saraceno 2010, Knijn and Ostner 2002). Individuals who are able to successfully navigate the transition to solid, paid employment, as well as those who develop strategies of care-taking using independent means, are much less likely to experience the urgency or the strain of these new social risks. Thus we see how polarization comes into the picture: new social risks pose a problem mainly to certain subsets of the population: these include youth and single parents, who often do not have available recourse to the family or the market for provision of family care services (for children and/or the elderly).

What we see from this paper's analyses is that labor market policies can and do affect outcomes of those in a disadvantaged position, namely single parents, children in poverty, and youth. While family policies (daycare and family allowances) decrease child poverty, unemployment benefits and sick pay generosity are also associated with lower child poverty and increased single parent income relative to median income. While active labor market policies do not from these analyses show significant effects on child poverty and single parent income, we know from previous research that active labor market policies are positively related to employment levels (Huo et al. 2008, Nelson and Stephens 2008). Indeed, this association is borne out in the effect of active labor market policies on youth unemployment, which is markedly decreased by these policies. In this paper's analyses, passive labor market policies were the stronger (i.e. significant in more models) of the two labor market policy indicators, indicating an outsider-reinforcing mechanism. This is evidenced by an increase in child poverty and a decrease in relative single parent income. Surprisingly, passive labor market policies do not appear from these analyses to aggravate youth unemployment, but rather they are associated with a decrease in youth unemployment. Union density, on the other hand, had the opposite effect on youth unemployment: rather than decreasing it, it is



associated with an increase in unemployment levels of this segment of the population. This finding lends support to the notion of unions as protectors of insiders who have established connections to jobs. Youth appear to belong to the outsider group who are not as able to penetrate the labor market. Further research will need to parse out the potential causal complications in this story, and how the employment opportunities for youth diverge from those of an older population. Furthermore, policies that promote the inclusion of single parents into the labor market will continue to be of utmost importance, as the welfare of their children arguably depends on it.

Table 2.2: Variable Descriptions and Hypothesized Effects on Child poverty, Single parent income, and Youth unemployment

Variable	Description	Child Poverty	Single Par. Income	Youth Unempl.
Active labor market policies	Public Expenditure as % of GDP on ALMP / unemployed population	-	+	-
Passive labor market policies	Public Expenditure as % of GDP on PLMP / unemployed population	+	-	+
Employment protection	Index of employment protection legislation	+	-	+
Daycare spending	Public expenditure on day care/home-help services as % of GDP	-	+	N/A
Family allowance spending	Total expenditures on family allowances as % of GDP	-	+	N/A
Union density	Union membership as a proportion of wage and salary earners in employment	-	+	-
Welfare state generosity	Unemployment benefits and sick pay generosity composite score	-	+	-

Sources: Eurostat; Gauthier 2010; Huber et al. Comparative Welfare States dataset; LIS; OECD; Scruggs 2004; World Bank.

Table 2.3: Mean Values of Variables by Country and Welfare Regime

	Child Poverty	Child Poverty Single Mother	Single Parent Income	Youth Unempl.	Daycare Spending	ALMP	PLMP	EPL	Family Allowances	Union Density	Welfare Generosity	Unempl.
<b>Nordic (Social Democratic) Welfare States</b>												
Denmark	3.72	8.04	0.78	10.0	1.69	0.28	0.50	1.88	1.37	70.39	21.45	5.7
Finland	2.63	7.05	0.78	20.7	0.98	0.12	0.25	2.14	1.81	64.01	16.96	6.1
Norway	4.35	17.00	0.78	9.7	0.73	0.19	0.18	2.75	1.92	56.55	24.41	3.1
Sweden	3.89	10.09	0.73	13.4	1.71	0.37	0.28	2.68	1.77	76.86	24.99	3.7
<i>Mean</i>	<i>3.65</i>	<i>10.54</i>	<i>0.77</i>	<i>13.4</i>	<i>1.28</i>	<i>0.24</i>	<i>0.31</i>	<i>2.36</i>	<i>1.72</i>	<i>66.95</i>	<i>21.95</i>	<i>4.7</i>
<b>Continental (Christian Democratic) Welfare States</b>												
Austria	8.38	27.29	0.75	6.2	0.37	0.12	0.34	2.14	2.43	51.76	15.05	3.2
Belgium	5.69	13.37	0.70	19.2	0.32	0.14	0.31	2.66	2.17	49.71	19.74	7.0
France	7.75	27.06	0.75	21.6	0.69	0.11	0.15	2.94	1.80	14.88	16.02	7.3
Germany	6.58	32.76	0.67	9.8	0.31	0.14	0.24	2.68	1.30	31.04	20.70	5.5
Italy	16.4	27.12	0.82	29.2	0.27	0.07	0.09	2.88	0.64	37.69	9.59	8.1
Netherlands	6.32	22.86	0.66	9.8	0.61	0.29	0.43	2.47	1.18	30.44	22.06	5.0
Switzerland	8.06	18.91	.	6.1	0.23	0.18	0.26	1.14	1.00	27.29	18.87	2.1
<i>Mean</i>	<i>8.45</i>	<i>24.19</i>	<i>0.73</i>	<i>14.6</i>	<i>0.40</i>	<i>0.15</i>	<i>0.26</i>	<i>2.42</i>	<i>1.50</i>	<i>34.69</i>	<i>17.44</i>	<i>5.5</i>
<b>Liberal Welfare States</b>												
Australia	14.11	45.75	.	.	0.19	0.06	0.14	1.07	1.67	40.11	10.61	5.8
Canada	15.31	50.48	.	14.4	0.18	0.05	0.13	0.75	0.69	32.13	11.55	7.6
Ireland	14.61	45.04	0.61	16.5	0.12	0.13	0.19	0.98	1.61	53.66	13.64	10.6
United Kingdom	12.93	34.58	0.61	14.2	0.65	0.06	0.07	0.65	1.84	40.19	11.53	6.4
United States	22.70	56.79	.	12.4	0.20	0.03	0.07	0.21	0.25	19.68	7.31	5.6
<i>Mean</i>	<i>15.93</i>	<i>46.53</i>	<i>0.61</i>	<i>14.4</i>	<i>0.27</i>	<i>0.07</i>	<i>0.12</i>	<i>0.73</i>	<i>1.21</i>	<i>37.15</i>	<i>10.93</i>	<i>7.2</i>

Sources: Eurostat; Gauthier 2010; Huber et al. Comparative Welfare States dataset; LIS; OECD; Scruggs 2004; World Bank.

Table 2.4: Random Effects Regression Models of Child Poverty; Single Parent Income; Youth Unemployment

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Child Poverty	Child Poverty	Child Poverty if Single Mother	Child Poverty if Single Mother	Single Parent Income	Single Parent Income	Youth Unemployment	Youth Unemployment
Daycare Spending	-1.703*** (0.553)	-2.010*** (0.554)	-2.233 (1.906)	-4.869*** (1.862)	0.0459** (0.0231)	0.0432 (0.0237)	-0.536 (1.179)	-1.453 (1.169)
ALMP	-0.966 (1.433)		3.068 (4.977)		-0.113 (0.117)		-22.17*** (2.980)	
EPL	-0.296 (0.342)	-0.770† (0.294)	-1.666 (1.175)	-1.832 (0.990)	-0.0357** (0.0176)	0.00399 (0.0141)	-1.075 (0.821)	0.754 (0.714)
Family Allowances	-0.546 (0.438)	-0.903** (0.442)	-6.400*** (1.504)	-7.714*** (1.491)	0.0125 (0.0260)	-0.0107 (0.0256)	2.847*** (1.077)	2.274** (1.089)
Union Density	-0.105*** (0.0257)	-0.121*** (0.0250)	-0.0261 (0.0853)	-0.101 (0.0872)	-0.000644 (0.000912)	0.000302 (0.000928)	0.299*** (0.0526)	0.351*** (0.0505)
Welfare Generosity	-0.00155 (0.0568)	-0.0412 (0.0587)	-0.327* (0.196)	-0.536*** (0.197)	0.00699* (0.00391)	0.00147 (0.00367)	-0.596*** (0.128)	-0.640*** (0.129)
Unemployment	0.150** (0.0676)	0.191*** (0.0603)	0.492** (0.232)	0.548*** (0.202)	-0.000983 (0.00437)	-0.00308 (0.00419)		
PLMP		5.419*** (2.077)		31.80*** (6.975)		-0.230** (0.0985)		-28.37*** (4.704)
Constant	16.15*** (1.486)	17.30*** (1.422)	44.62*** (4.910)	47.43*** (4.974)	0.654*** (0.100)	0.736*** (0.0974)	13.66*** (3.208)	14.08*** (3.047)
Observations	192	206	192	206	81	90	194	208
Number of idn	16	16	16	16	12	12	15	15
R <sup>2</sup>	.56	.55	.59	.48	.23†	.11†	.48†	.41†

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05

†denotes significant in opposite hypothesized direction. Overall R<sup>2</sup> reported. ‡denotes within R<sup>2</sup>.

Sources: Eurostat; Gauthier 2010; Huber et al. Comparative Welfare States dataset; LIS; OECD; Scruggs 2004; World Bank.

### 3 The Capacity of Social Policies to Combat New Social Risks

#### 3.1 Introduction

In recent years, much has been made in the welfare state literature of the presence of new social risks in postindustrial political economies (Esping-Andersen 1999, Hemerijck 2002, Taylor-Gooby 2004, Armingeon and Bonoli 2006). In fact, the term “new social risks” arguably signifies one of the defining areas of contemporary research on welfare state adaptations in advanced affluent democracies. The welfare state has long been the subject of study for its mechanisms of combating social risk and decommodifying the typical male industrial worker (Esping-Andersen 1990, Korpi 1980). However, in the context of postindustrialization and an evolving global economy, scholars and policymakers alike have turned to analyzing how the modern economy can avoid new social risks in times of technological change and globalization, with states still providing a modicum of social wellbeing for their citizens, especially those deemed to be most vulnerable. A range of policy tools remains in effect under postindustrialism, having originated in divergent models of welfare provision that today are commonly known as “worlds of welfare capitalism” (Esping-Andersen 1990). How these various worlds of welfare provision—specifically, policy tools—interact with the well-being of new social risk groups forms the basis of this paper.

In this paper, I consider the groups who are most likely to be victims of these new social risks, and test the implications of social policies for their well-being. Specifically, I conduct multi-level regression analyses to analyze the effects of social policies on the

likelihood of being poor of low-skilled young women and men aged 18-30, and of those at risk of possessing obsolete skills, namely low-educated men aged 55-64. I conduct the analyses by combining both macro-level policy data and household- and person-level micro-data from the Luxembourg Income Study (LIS) cross-national database. This paper provides a contribution to the literature on social policy, new social risks, and the contemporary welfare state of advanced industrialized economies, in one of the first multi-level analyses to specifically focus on welfare policies and vulnerable population groups. My central question is to ask which policies—active labor market policies (ALMP), passive labor market policies (PLMP), employment protection legislation (EPL), family policies, and government daycare spending—are effective at combating new social risks. In addition to analyzing social policies, I also include union density and representation of women in national parliaments in my models as two measures that depict agents who are most intent on combating old and new social risks, respectively. Because the time point at which I analyze the effects of social policies on individual-level poverty is centered around the year 2004, my analyses capture the new social risk structures that have arisen in the new welfare state of the early 2000s—i.e. the “Third Way” of the social welfare state that promotes activation rather than passive welfare uptake (Huo et al. 2008).

New social risks tend to be concentrated within specific groups: youth, women, families with small children, and older workers with obsolete skills. Given the nature of these societal groups, there is difficulty in identifying one underlying cause or uniting interest. As Kitschelt and Rehm (2006) state, there is “diversity, if not conflict” among the new social risk groups, contingent upon age and gender, due to a lack of unifying interest. In this paper, I focus on social risk groups as defined by low skill level: 1) *young, low-educated males*, aged 18-30; 2) *young, low-educated females*, aged 18-30; 3) *older, low-educated men*, aged 55-64.

Young people with low skill levels are exposed to a high risk of unemployment while having dwindling earning power. Young low-skilled females may have as a further constraint the concern of raising young children and/or caring for elderly parents. Older low-skilled males have the added risk of preparing for imminent retirement. Furthermore, they risk having antiquated skills that do not match the updated skill-level requirement of the current labor market.<sup>1</sup>

Before I discuss specific social policies and their hypothesized effects on individual measures of well-being, I turn to a discussion of new social risks and how to conceptualize them.

The vulnerabilities characterizing new social risks stem from three distinct features of the postindustrial economy. First, while gender appeared as an overlooked yet vital component of the welfare state research schema of the 1990s (Orloff 1993, Sainsbury 1996, Daly 1994), it has now become fully inserted into the understanding of social risks and how these relate to the political economy. Changing gender roles are one of the primary aspects of contemporary social risk profiles: women have entered the labor force in higher percentages than ever before, and their educational attainment matches, or in some countries exceeds, that of men. Countless academic and mainstream-media reports discuss the implications of women's increased entry into the labor market, including the heightened need for childcare outside the home and the ways in which these gender shifts are spawning social and domestic shifts (Vos 2009). With evolving gender roles and changing family structures, we have seen a rise in lone-parent, especially single-mother, households, which risk being poor due to the particular challenges for them of combining work and parenthood (Taylor-Gooby 2004, Esping-Andersen 2009). As women have made massive advances in education and employment levels, thereby

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<sup>1</sup>I do not include older women as a new-risk group, under the logic that they have traditionally been sheltered against social risks via their status as spouses, and have typically had less active life-cycle employment profiles than their male counterparts (with the exception of the Nordic countries).

achieving more equal opportunities with men, the balance of unpaid labor of care responsibilities within the home has shifted: the postwar gendered division of home labor imposes strains on the family in today's modern era.

Second, changes within the labor market include the de-standardization of employment and the weakening labor market position of the low-skilled. In today's post-industrial societies, economic growth rates are lower and less certain, and states face various measures of economic austerity. Technological advancements have altered the landscape of the industrial manufacturing sector, resulting in lower mass employment in this sector, as well as increased economic unpredictability for the semi- and low-skilled. Economic globalization and the inherent competition that accompanies it have produced greater flexibility within the labor market, albeit to varying degrees.

Lastly, changes have occurred within the welfare state itself. As activation has become the buzzword especially in the employment-lagging continental European countries, the welfare state is being rebuilt around work, as with the Hartz IV reforms in Germany and similar measures in France. Thus, the new phase of continental European welfare politics can be described as the effort to make all citizens fit into the labor market as the new means to social inclusion, this particularly for women, who were previously discouraged from work and from the employment-based model of social inclusion. The state is now seen as an activating state, and not merely a passive, socially supportive, state. German political discourse, for example, has centered on the need for an *aktivierender Staat* (“activating state”) (Wollmann 2003). With this new mode of welfare provision, however, must come certain changes. Citizenship alone does not guarantee entitlement to welfare benefits, but rather, benefits are conditioned upon work status. Those who enjoy a strong attachment to the labor force, and thus can reap substantial benefits based upon labor market performance (in addition to private-pillar benefit schemes), will be much better equipped to handle life's risks. Those with



weaker skills and labor force attachment will find their welfare contingent upon other provisions and a necessity to resort to a) private or b) familial mechanisms of support. Conservative welfare states face the challenge of adopting social policies that address the new needs of the population, while maintaining fiscal responsibility during stringent financial times. At the same time as these new needs have arisen, new social risks have presented themselves as obstacles to social parity and societal well-being (Taylor-Gooby 2004).

Let us now turn to a definition of new social risks, based on the synthesis of several streams of recent scholarly work. As aptly summarized by Bonoli (2006), new social risks are seen as the insecure situations under which individuals experience welfare losses and which result from the socio-economic transformations of the past three to four decades, generally subsumed under the heading of “postindustrialization.” Deindustrialization, the boom of employment in the tertiary sector (service sector), and the significant entry of women into the labor market, have increased the instability of family structures and at the same time, increased the destandardization of employment. More jobs now are classified as “atypical” jobs, which include part-time work, temporary contracts, and low-wage or “mini-jobs,” which do not carry social benefits.

We can thus classify new social risks into distinct categories. Reconciling work and family life entails ensuring the viability of a dual-earner family model, as opposed to the classic and outdated (as the sole possibility) “male breadwinner” model, in which only the male works. Having two earners in the family greatly reduces the odds of the family falling below the poverty line (Esping-Andersen 2002). As a corollary, single parenthood entails a heightened risk of poverty, especially when the parent is not in stable employment. As with the need for childcare, having a frail elderly relative can now be seen as a social risk, as this care duty must also be externalized. These relatives were once cared for informally by non-working women, but with the large-scale entry

of women into the labor force has come a depletion of the supply of abundant, free, care.

Possessing low or obsolete skills signifies a significant new social risk. During the postwar years, the low skilled found economic salvation in the manufacturing sector, where wages could grow because of advances in technology—and therefore, increases in productivity—and as a result of strongly mobilized unions’ bargaining (Bonoli 2006). Conversely, today low-skilled people are either unemployed or are employed in the low-value added service sector, which entails retail, cleaning, catering, etc., and is known for providing little opportunity for productivity increases (Pierson 1998, Iversen and Wren 1998). In the contemporary economy, having low or obsolete skills poses a major risk of welfare loss, since the sheltered manufacturing sector which had provided an economic safe haven now does so considerably less (Bonoli 2006). Finally, new social risks are exemplified by insufficient pension coverage that results as the cost of increasingly atypical career patterns. Part-time, unstable work and employment interruption due to childcare carry a risk of inadequate pension coverage, and therefore a risk of loss of welfare. The following section presents hypotheses regarding social policies and their effects on the poverty level of the low skilled.

### **3.2 Hypotheses**

The hypothesized effects of the macro-level independent variables on the dependent variables—poverty of the low-skilled by age and gender—are summarized in Table 3.1. In this study, the micro-level variables are entered only as control variables.

*[Table 3.1 about here]*

### *3.2.1 ALMP*

Active Labor Market Policies (ALMP) are one facet of social policy that plays a direct role in employment levels. ALMP can be seen as having an impact on the “insider-outsider” roles in employment. Outsiders, including those who are disadvantaged in the labor market, such as the unemployed, atypical workers, and excluded people (single mothers, immigrants, low-skilled) who have difficulty securing and maintaining jobs, benefit from the training, re-entry, and skills-acquisition emphasis of ALMP (Rueda 2007). We can expect that ALMP have a positive effect in lessening poverty of the new social risk groups—that is, the higher the ALMP value (measured as government spending on active labor market policies as a % of GDP, divided by the unemployed population), the lower the odds of poverty.

### *3.2.2 PLMP*

Labor market strategies that fall under the rubric of passive labor market policies (PLMP) provide income protection for those who are temporarily without market income, rather than directly promoting employability (Martin and Grubb 2001). Passive programs such as unemployment insurance and income support assist the unemployed by supplying some income stability in the face of loss of income. However, because these policies are passive in nature, and do not actively retrain or reintegrate workers into the workforce, their outcome is mixed: they do not aim to enhance the employability of labor market outsiders, such as single parents and youth, but they assist those who are temporarily out of employment. Thus, passive labor market policies can be seen as a tool to aid “insiders,” or those who already have labor market attachment. It would be difficult to parse out the effects of PLMP on different segments of the population. In most cases, greater government spending on PLMP will be expected to be associated with less poverty. PLMP is operationalized (like ALMP) as government spending on

passive labor market policies as a % of GDP, divided by the unemployed population.

### *3.2.3 EPL*

Employment protection legislation (EPL) is a passive income/job-protection policy tool that is generally seen as benefiting a core group of insiders, who maintain a solid connection to the labor market, at the expense of those on the exterior of the core labor market who would otherwise like to penetrate the market and become stably employed (Esping-Andersen 1999, Rueda 2007). In countries with strict job protection laws and various restrictions on temporary and part-time work, a dual labor market emerges in which “outsiders” (those without stable employment) face difficulty in obtaining the secure positions enjoyed by “insiders.” The high-EPL model of privileging the core workforce yields this insider/outsider divide: the high wages and job security enjoyed by chiefly male insiders is predicated in effect on the exclusion of youth and women. It is generally agreed that stricter employment protection laws inhibit employment among youth and outsiders who are left out of protected labor schemes, and propagate the insider/outsider divide (Rueda 2005). Therefore, I hypothesize that the stronger the employment protection levels in a country, the greater the degree of outsidersness, and therefore the higher poverty. One caveat here would concern the Nordic countries, where the effect of EPL on poverty will be smaller than the reducing effect on poverty of these countries’ generous active labor market policies and family policies. In other words, the outsider-barrier nature of EPL in the Nordic countries will be felt much less acutely, if at all, due to the strong emphasis there on labor market activation and integration that is lacking in many continental European countries.

#### *3.2.4 Family policy generosity and childcare availability*

As women and men on the lower end of the income spectrum face greater obstacles to keeping their families out of poverty, it is of particular importance that the earners in the family (whether single-parent or dual-parent) have access to childcare options in order to maintain a basic income through employment, and that benefits are structured in such a way as to promote gainful employment and not promote undue exit from employment. Exit from employment hinders parents prospects of later return to the workforce, as well as carries an income penalty of lost wages or wages that remain stagnant. Family policy can either exacerbate or diminish the inegalitarian consequences of modern female roles, as a report by Ray, Gornick, and Schmitt outlines (2008, 2010). When the female revolution does not entail enhanced labor force participation by the lower income groups, greater social inequalities—at the very least, in income level—will ensue. If the bottom-end of the income spectrum could fully participate in new female roles, we would expect far less polarizing social consequences. I expect family policy generosity and higher government spending on daycare both to reduce poverty.

#### *3.2.5 Union density*

The level of union density, defined as union membership as a proportion of wage and salary earners in employment, is included as a measure of agency of old social risk protection. This variable offers another way of capturing insider-outsider dynamics, related to levels of wage inequality. There are generally lower levels of inequality among union members than among nonmembers of unions (Oliver 2008, Wallerstein 1999). Unions tend to favor wage scales that prevent firms from paying wages below a certain level, thus potentially affecting those at the bottom of the income spectrum (youth and single parents). The lower the union density, the smaller the proportion of the

population that is protected by wage bargaining, and the more economically vulnerable are low-skilled workers.<sup>2</sup> In other words, where unions are strong, wage dispersion is lower, thereby affecting poverty levels. However, unions can be viewed as agents who have traditionally protected those who are prone to the old social risks of unemployment in the large manufacturing sectors, disability, sickness, etc., while younger low-skilled women and men would be outside such union coverage. Thus, I hypothesize that higher union density will be associated with lowering the poverty of older low-skilled men, but not of youth, who occupy more non-unionized and atypical jobs.

### *3.2.6 Percentage of seats of women in parliament*

The proportion of seats held by women in national parliaments is used as a proxy for women’s mobilization. This measure of gender equality represents agency of those who combat new social risks associated with women’s modern roles in the workplace. The higher the percentage of seats held by women in national legislatures, the higher the expected overall degree of gender parity, both in terms of inputs (policies) and outputs (women’s labor force participation, education levels, etc.). Thus, I expect higher levels of women’s representation in government to be associated with lower levels of poverty among low-skilled women, which may also have positive spillover effects for low-skilled men through beneficial societal externalities.

## **3.3 Measurement of data and sources**

I conduct my analyses using micro-data from the Luxembourg Income Study (LIS) Wave VI, around the year 2004. The macro-data come from a variety of sources, including the Comparative Welfare States dataset (Huber et al. 1997, updated 2004 and

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<sup>2</sup>In the regression models, I also used the variables “union bargaining coverage” and “wage dispersion” separately, in order to test other possible measures of the insider-outsider divide. These were, however, insignificant.

2010); Gauthier Comparative Family Policy Database (2010); and OECD, Eurostat, and World Bank data. The 18 OECD countries in the study are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, and the United States. Table 3.2 contains descriptive statistics and values on the variables.

*[Table 3.2 about here]*

Following Brady and Burroway (2010), my dependent variable is poverty, defined as  $\text{poor} = 1$  (non-poor = 0) if s/he resides in a household with less than 50% of the median household income. This definition of poverty is the standard that is commonly used in cross-national poverty analyses (Brady 2003, Brady et al. 2009, Smeeding 2006). Household income is calculated after taxes and transfers, using the standardized LIS variable “DPI” (“net disposable income”). To adjust for household size, DPI is divided by the square root of household members. I calculate the poverty threshold for each country at 50% of median household income, including all individuals. To run my logistic regression models on select segments of the population—by social risk group—I reduce the sample to include only these specific groups; however, this is done after calculating the overall population poverty threshold. I define the new social risk groups by age, gender, and skill level (measured by education level). Table 3.3 presents the mean values of the group composition by country and welfare state regime. I analyze the effects of social policies—ALMP, PLMP, EPL, family policy, and government spending on daycare—along with union density and the percentage of seats held by women in national parliaments, on individual-level poverty. To control for the economic context within a country, I include the unemployment rate (OECD in Huber et al. 1997, 2010).

*[Table 3.3 about here]*

### *3.3.1 Micro-level variables*

My analyses include a set of individual-level control variables that capture demographic variance in poverty outcomes. To capture the “economies of scale” effect which assumes that households with multiple members pool resources and expenses, I measure several individual elements at the household level (Brady and Burroway 2010). These include binary variables for “No one employed” and “Multiple earners” in the household (reference category = one earner). I use the LIS-standardized measures of education, coded as binary values of “Head high education” and “Head low education” (reference category = medium education)<sup>3</sup>. The other control variables include “Age of the household head,” “Children under age 5,” “Number of other adults in the household,” and “Children under age 18 in the household.”

### *3.3.2 Macro-level variables*

Data on employment protection legislation (EPL) are from the OECD (Organization for Economic Cooperation and Development) annual time series. The summary index summarizes a number of sub-indices measuring the difficulty of layoff (terms of notice, severance pay, etc.) and regulations restricting the use of temporary work (Bradley and Stephens 2007). This index is calculated along 18 basic items, which can be classified in three main areas: 1) employment protection of regular workers against individual dismissal; 2) specific requirements for collective dismissals; and 3) regulation of temporary forms of employment. The Active Labor Market Policy (ALMP) and Passive Labor Market Policy (PLMP) variables are operationalized as public expenditure on active

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<sup>3</sup>The categories are: 1) less than secondary (low), 2) secondary or some tertiary (medium), and 3) completed tertiary or more (high).



and passive labor market measures, respectively, as a percentage of GDP, divided by the unemployed population. Both the EPL and ALMP/PLMP variables are standard OECD measures that are widely used in welfare state studies.

Data on daycare is defined as “Public expenditure on day care/home-help services as a % of GDP,” and comes from the OECD Social Expenditure database (“SOCX”).<sup>4</sup> Data on family allowances are defined as “Total expenditure on family allowances in the form of cash benefits as a percentage of the countries gross domestic product,” and come from the OECD, as provided by Gauthier (2010).<sup>5</sup> The union density variable, defined as net union membership as a proportion of wage and salary earners in employment, comes from Jelle Visser’s union membership dataset (Visser 2011). The data for the proportion of seats held by women in national parliaments (expressed as a percentage) comes from the World Bank’s World Development Indicators. The measure of welfare generosity is defined as “gross public social expenditures as a percentage of current GDP” (OECD).

### *3.3.3 Analytical Technique*

The regression technique utilized in this paper is multi-level logistic regression using random-intercept models<sup>6</sup>. The models are composed variously of different micro- and macro-level independent variables (see Tables 3.4, 3.5, and 3.6 for models and results).

[Tables 3.4, 3.5, 3.6 about here.]

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<sup>4</sup>[www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure).

<sup>5</sup>OECD StatExtracts.Social and Welfare Statistics - Social Protection - Social Expenditure - Aggregated data.(On-line: <http://stats.oecd.org/index.aspx>; accessed March 2010).

<sup>6</sup>Estimated in Stata 11 using the *xtlogit* command.

Due to the clustering of individuals within countries and the inclusion of country-level variables, the standard logistic regression model violates the assumption of independent errors. Mixed logit models predict whether an individual is poor based on a set of individual- and country-level variables. Based on Brady and Burroway (2010), the random intercept model can be expressed in two equations. First, the log odds of being poor for the  $i$ th individual in the  $j$ th country is represented by eta ( $\eta_{ij}$ ) and is a function of country intercepts ( $\beta_{0j}$ ), a set of fixed individual-level characteristics ( $\beta X_{ij}$ ) and an error term ( $r_{ij}$ ):

$$\log\left(\frac{p_{ij}}{1 - p_{ij}}\right) = \eta_{ij} = \beta_{0j} + \beta X_{ij} + r_{ij} \quad (3.1)$$

Second, each country intercept ( $\beta_{0j}$ ) is estimated as a function of an intercept ( $\gamma_{0Cj}$ ), a set of country-level variables ( $\gamma C_j$ ), and an error term ( $u_{0j}$ ):

$$\beta_{0j} = \gamma_{0Cj} + \gamma C_j + u_{0j} \quad (3.2)$$

Because the analyses are limited to 18 countries, it is necessary to keep the models parsimonious at level two, which is the country level. Additionally, due to multicollinearity between the macro-level policy variables<sup>7</sup>, I include only one macro-level

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<sup>7</sup>The correlations range from .6-.9.

variable in addition to one macro-level control variable per model.<sup>8</sup>

### 3.4 Results

The results of the multi-level logistic regression models are presented in Tables 3.4, 3.5, and 3.6. The analyses are conducted by grouping the sample into new social risk categories, using three dependent variables: poverty of low-educated young males and females (age 18-30), and low-educated older males (age 55-64).

Throughout all the models, the individual-level control variables are significant and stable. Multiple earners, additional adults, and persons over age 65 in the household all reduce the likelihood of poverty for the three groups (young low-educated males and females, and older low-educated males). The presence of multiple earners in the household reduces the odds of poverty by as much as a factor of 7.4 for young, low-educated, males.<sup>9</sup> For the female group, having multiple earners in the household reduces the odds of poverty by 5.6, and for the older male group, the presence of multiple earners yields a reduction in poverty odds by 4.1.

Conversely, having no one employed in the household, children 5 years old and under, and a greater number of children in the household all increase the odds of poverty of the three groups. If no one is employed in the household, the odds of poverty increase by a factor of 4.8 for young low-educated men, around 3.5 for young low-educated women, and 3.7 for older low-educated males. For young men, the number of children in the household increases the odds of poverty by a factor of 1.3, while the presence of children under 5 increases the odds of poverty by a factor of 1.5. Similarly, for

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<sup>8</sup>The control variable is either “welfare generosity” in the case of the models that analyze the effect of social policies on poverty, or an economic context control (unemployment rate) for the models with union density and women’s representation in parliament.

<sup>9</sup>To interpret odds ratios below 1.0, the inverse is taken. For example, an odds ratio of .5 is interpreted as  $-1/.5 = -2$ .

young women, the number of children increases the odds of poverty by a factor of 1.1, and the presence of young children increases the odds of poverty by a factor of 1.3. The economic context control variable, unemployment, is correctly signed in all models (increasing poverty odds by a factor of 1) but remains insignificant in all models. The welfare generosity control variable is insignificant in all models on the young groups, but is highly significant and correctly signed (decreasing poverty odds by a factor of 1.1) in the older male group.<sup>10</sup>

The effects of employment protection legislation (EPL) on poverty odds differ according to the group under analysis. For both young low-skilled males and females, higher EPL is associated with an increase in the odds of poverty, but the results are not significant. For the older male group, however, EPL is associated with a decrease in poverty odds (by a factor of 1.2), but again the results remain insignificant. Thus, we can neither confirm nor disconfirm our expectation of an increase in poverty of low-educated groups as a result of increased employment protection levels.

Across all models, active labor market policies (ALMP) are shown to be the most important predictor of a decrease in poverty levels among the low skilled. The odds of low-skilled young male poverty are reduced by a factor of 200 for one unit increase in active labor market policy spending. The odds of ALMP reducing young low-skilled female poverty are 1.25 times greater than that for young men (reduced by a factor of 250). For older low-skilled men, the results show even more importance of active labor market policies for reducing poverty than for the younger population—5 times as much as for young women—looking both at the factor size and significance level. This finding may indicate that ALMP are more effectively targeted at older people, or that

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<sup>10</sup>To keep the models parsimonious at level two (the country level), only one macro-level variable is included per model per dependent-variable group (young low-educated male, female; older low-educated male) along with the macro-level control variable of either unemployment or welfare generosity.

this group is better at responding to the opportunities provided by ALMP. Further analysis of the components, provision, and take-up rates of active labor market policies is a necessary next step.

The effect of passive labor market policies (PLMP) on poverty is only significant for the older male group, and strongly so: for one unit increase in the passive labor market policy variable, the odds of poverty are reduced by a factor of 33.3. We see from these results that passive labor market policies, such as unemployment insurance, are most effective for the financial well-being of older low-skilled males, while the younger groups do not register a benefit from these passive measures. Furthermore, we observe a stark contrast in reduction of poverty odds between active and passive labor market policies. Active labor market measures have by far the more powerful effect on the reduction of the odds of poverty across all three groups.

The policies related to the family—which can be considered as work/family reconciliation policies for the younger groups—are, as expected, related to a reduction in poverty for the low-skilled young women and men. A one-unit increase in the family policy allowances indicator yields a reduction of the odds of poverty by a factor of 1.4 for both the young female and male groups. For the older males, this effect is insignificant though similarly signed. Daycare spending, on the other hand, is associated with a reduction in the odds of poverty of older males by a factor of 2.1. For young men, the effect is not significant, but for young low-skilled women, the odds of poverty decline by a factor of 2.2 with a one-unit increase in government daycare spending.

Union density is significant in reducing the odds of poverty of the older male group by a factor of 1, while it is insignificant for both younger males and females. This finding is consistent with the expectation that union density captures agency of actors promoting policies that are aimed at old social risks, i.e. unemployment, disability, sick leave, etc. of established workers. Conversely, the number of seats of women in

national parliaments—a proxy for agents developing policies aimed at new social risks relating to gender equality and work-family balance, among others—has a significant effect in reducing the odds of poverty for young low-skilled women by a factor of 1. This measure has an equal effect on the reduction of poverty odds for the older male group, also by a factor of 1. This finding offers support for the hypothesis that the greater the representation of women in national parliaments, the greater the chances of having policies that are associated with a reduction in poverty among women and also of old social risk groups (of at least 55 years of age) who may be at risk because of obsolete skills.

Table 3.3 shows the percentages of the new social risk groups within the population, and the percentage within the age and gender groups that is low skilled. Summarizing the effects of policies when looking at the composition of the population by group type (defined by gender/age/skill-level) provides insight into the efficacy of particular countries' policy mixes in combating new social risks. While it can be said that the Nordic welfare regime as a whole provides better coverage against social risk, looking at individual country profiles gives a more accurate picture of government effort against risk. While the Nordic welfare regime clearly protects older low-skilled males against poverty to a much better degree than the Continental or Liberal welfare regimes, the picture for the younger population is less clear. It is true that the Nordic countries have lower percentages of youth in poverty than the other regimes, but it is young, low-skilled males in particular that complicate the story. Denmark, for example, appears as an anomaly; it shows an unexpectedly high percentage of young low-skilled men in poverty (15.1% compared to a mean of 11.4% in the Continental countries). This is particularly unusual given Denmark's higher than average spending on ALMP, but it also has higher than average spending on PLMP. The combination of active and passive labor market policies in this country does not seem to be adequately protecting its low-skilled youth

from poverty, whereas the older population seems to be benefiting disproportionately.

As expected, in all welfare state regimes, young low-skilled women are worse off than their male counterparts. However, this difference is most stark in the Liberal welfare regime. The Liberal Anglophone countries have the lowest percentages of seats of women in parliament compared to the other two welfare state regimes, and similarly the lowest amount of government spending on daycare facilities. Looking at the welfare regime groups as a whole, one would conclude that the Liberal countries offer the least protection against social risk for women. However, looking at individual countries again provides a refined assessment: Australia, for example, has higher than average daycare spending and family allowances, and its young low-skilled women are indeed much better off compared to their peers in the other Anglophone countries, with a group poverty rate of 11.5% compared to the regime mean of 25.7%. This is particularly striking when noting that young low-skilled females comprise the biggest share of the population (6.7%) in Australia out of all the countries under analysis.

Lastly, older low-skilled males fare far better in countries where mechanisms of old social risk protection are strongly in place. Where union density is higher, older low-skilled males are better protected against the risk of poverty. Looking at the individual country profiles, we see for example that Spain has the highest percentage of older low-educated men in poverty (16.7%) out of both the Continental and Nordic welfare regimes, and by far the lowest union density (15.5%) out of all the countries in the sample, save for France (8%) and the United States (12%). Similarly, Spain's spending on PLMP (.14%)—shown in this paper's analyses to protect older males via its passive insider income-protection mechanism—is one of the lowest in Europe. Italy shares a similar country profile with Spain in this regard, providing evidence of a southern European welfare regime that is distinguishable from the other regimes.

Analyzing welfare regimes grouped together as a whole, coupled with scrutiny of

individual country profiles, yields nuanced evaluation of the policy effects found in this paper's analyses. This paper offers evidence for the argument that the three worlds of welfare capitalism famously brought to light by Esping-Andersen (1990) are in need of refined categorization as policies and populations continue to adapt to changing times. Future research will need to take this paper's analyses, based around the year 2004, and apply them to policies and societies that exist today under greater financial and economic strain.

### **3.5 Conclusion**

In the political economies of Europe today, measures of "old risk" prevention such as unemployment insurance and sick pay exist alongside "new risk" profiles that center on skill level and opportunity for participation in the labor market. The capacity to adequately cope with these risks will be unevenly distributed among citizens based on levels of education, income, and policy formulation. The new risk target group, or group most affected by the structure of new social risks, does not possess a sufficient attachment to the labor market to deal with the financial imposition that these risks imply. New risks have mainly to do with entering the labor market and establishing an enduring position in it, and with care duties that arise principally at the early stage of family-formation. However, many scholars have recently drawn attention to the later risks posed to families of providing long-term care for frail, dependent, elderly (Saraceno 2010, Knijn and Ostner 2002). Individuals who are able to successfully navigate the transition to solid, paid employment, as well as those who develop strategies of care-taking using independent means, will not experience the urgency of these new social risks.

Thus we see how polarization comes into the picture: new social risks pose a problem mainly to certain subsets of the population: these include those with lower education



and less access to training, and those who do not have available recourse to the family or the market for provision of family care services for children and/or the elderly.

In this paper, I have analyzed the effects of common social policy instruments—active labor market policies, passive labor market policies, employment protection, family policies, daycare—along with union density and women’s representation in parliament, on the poverty levels of low skilled segments of national populations. I found that generally speaking, social policies contribute to the reduction of poverty. Specifically, active labor market policies—involving public employment services, training programs, and employment subsidies for the un- and under-employed—significantly reduce poverty of all three groups under analysis: low-skilled young women and men, and low-skilled older men. Notably, passive labor market policies, which are most often in the form of unemployment insurance, are most helpful in alleviating the poverty of older low-skilled men. This finding is in line with our expectation that passive labor market policies are generally targeted at those who have already contributed to the workforce and who receive passive income assistance in exchange for such service—a mechanism that does not help to relieve the poverty of low-skilled youth who do not have such employment history. This expectation about the difference in mechanism, effectiveness, and aim between active vs. passive labor market policies is borne out in the data.

In the same vein, union density is found to be significant and positively related to lowering the poverty of older low-skilled men, but not of the younger groups. This finding may reflect the varying capacity of unions to protect the income of jobs across a wide spectrum, as opposed to protection within privileged sectors in which mostly older men work.

Family allowances are notable for significantly lowering the odds of poverty of both younger men and women, but not for lowering that of older men. This finding offers

evidence for the positive effects of generous family policy on the income of young low-skilled adults, who rely on child benefits to offset the financial hardship that comes from child-rearing.

The analyses in this paper shed light on the different ways in which social policies are effective in combating poverty across low-skilled segments of the population. In one of the first multi-level statistical analyses combining micro- and macro-level data to address policy effectiveness, the paper contributes to contemporary studies of public policy and the welfare state. There are several directions for future research based on these findings. First, researchers will need to overcome the inherent limitations of the data, including differentiating between different types of active labor market policies, for example (i.e. employment services vs. training programs vs. employment subsidization), as well as studying the different components that comprise contemporary family-policy packages (child benefits in cash vs. the length and structure of paid parental leave). Furthermore, while this paper's study provides insight on policy and poverty interactions in a post-Third Way era, it is a static snapshot of one time point (roughly the year 2004) across multiple countries. Future research will benefit from providing analyses that extend across time in addition to across countries, to show the diverse policy trajectories that have differing impacts on the poverty of certain groups. Furthermore, as social risk profiles continue to develop, future studies will need to emphasize the interaction between gender, age, and skill level, and examine how vulnerabilities arise differently across different welfare regimes. The path to poverty reduction is likely not a one-size-fits-all approach, but rather one that will combine elements from diverse national approaches.

Table 3.1: Variable Descriptions and Hypothesized Effects on Poverty of the Low Skilled

Variable	Description	Young (18-30)		Older (55-64)	
		Male	Female	Male	Female
Active labor market policies	Spending on ALMP measures as % of GDP / unemployed pop.	-	-	-	-
Passive labor market policies	Spending on PLMP measures as % of GDP / unemployed pop.	+	+	-	-
Employment protection	Index of employment protection legislation	+	+	-	-
Daycare spending	Public expenditure on day care/home-help services as % of GDP	-	-	-	N/A
Family allowances	Total expenditures on family allowances as % of GDP	-	-	-	N/A
Union density	Union membership as a proportion of wage and salary earners in empl.	-	-	+	-
Seats of Women	Proportion of seats held by women in national parliaments	-	-	-	-

Sources: Gauthier 2010; Huber et al. Comparative Welfare States dataset; LIS; OECD; Visser 2011; World Bank.

**Table 3.2: Mean Values of Variables by Country and Welfare State Regime**

Year	Young Low-skilled		Young Low-skilled		Older Low-skilled		EPL	Family Allow.	Daycare Spend.	ALMP	PLMP	Unempl.	Union Den.	Seats of Women in Parl.		Welfare Gen.
	Male	Poor	Female	Poor	Male	Poor								Women in Parl.	Welfare Gen.	
<b>Nordic (Social Democratic) Welfare States</b>																
Denmark	2004	0.15	0.16	0.03	1.50	1.61	1.65	0.30	0.47	5.7	71.7	38	27.6			
Finland	2004	0.12	0.13	0.06	2.02	1.62	0.94	0.11	0.23	8.8	73.3	38	25.9			
Norway	2004	0.13	0.14	0.02	2.56	1.75	0.76	0.17	0.19	4.5	55.0	36	23.2			
Sweden	2005	0.08	0.09	0.03	2.24	1.52	1.63	0.18	0.16	7.1	76.0	45	29.4			
<i>Mean</i>		<i>0.12</i>	<i>0.13</i>	<i>0.04</i>	<i>2.08</i>	<i>1.63</i>	<i>1.24</i>	<i>0.19</i>	<i>0.26</i>	<i>6.5</i>	<i>69.0</i>	<i>39</i>	<i>26.5</i>			
<b>Continental European Welfare States</b>																
Austria	2004	0.14	0.24	0.11	1.93	2.43	0.41	0.12	0.29	4.9	34.1	34	27.3			
Belgium	2000	0.05	0.11	0.07	2.18	1.76	0.62	0.17	0.31	7.0	49.3	23	25.2			
France	2005	0.13	0.19	0.09	3.05	1.39	1.19	0.10	0.18	8.9	8.0	12	29.1			
Germany	2004	0.11	0.20	0.09	2.12	1.17	0.38	0.11	0.24	9.8	22.2	32	26.6			
Italy	2004	0.16	0.18	0.11	1.82	0.60	0.60	0.08	0.09	8.1	33.9	12	24.6			
Lux.	2004	0.21	0.22	0.09	3.25*	3.24	0.40	0.15	0.21	3.1	42.4**	17	23.9			
Neth.	2004	0.04	0.11	0.04	2.12	0.74	0.96	0.22	0.32	6.5	22.0	37	21			
Spain	2004	0.12	0.18	0.17	2.98	0.43	0.51	0.07	0.14	11.0	15.5	28	21.2			
Switz.	2004	0.06	0.07	0.10	1.14	1.03	0.31	0.18	0.25	4.2	19.6	25	20.2			
<i>Mean</i>		<i>0.11</i>	<i>0.17</i>	<i>0.10</i>	<i>2.29</i>	<i>1.42</i>	<i>0.60</i>	<i>0.13</i>	<i>0.22</i>	<i>7.1</i>	<i>27.4</i>	<i>24</i>	<i>24.3</i>			
<b>Liberal Welfare States</b>																
Australia	2003	0.10	0.12	0.17	1.19	2.64	0.40	0.06	0.12	5.9	22.8	25	17.7			
Canada	2004	0.20	0.25	0.21	0.75	0.68	0.17	0.05	0.10	7.2	29.5	21	16.5			
Ireland	2004	0.08	0.31	0.24	1.11	2.25	0.26	0.15	0.20	4.5	38.3	13	16.1			
U.K.	2004	0.12	0.21	0.17	0.75	2.22	0.84	0.10	0.04	4.8	29.7	18	21			
U.S.	2004	0.26	0.39	0.29	0.21	0.08	0.28	0.03	0.05	5.5	12.0	14	16			
<i>Mean</i>		<i>0.15</i>	<i>0.26</i>	<i>0.22</i>	<i>0.80</i>	<i>1.57</i>	<i>0.39</i>	<i>0.08</i>	<i>0.10</i>	<i>5.6</i>	<i>26.5</i>	<i>18</i>	<i>17.5</i>			

Sources: Gauthier 2010; Huber et al. Comparative Welfare States dataset; LIS; OECD; Visser 2011; World Bank.

Notes: "Poor" is a dichotomous variable from 0 (non-poor) to 1 (poor), with poverty defined at 50% or less of median (national) income. EPL is a scale from 0 (least restrictive) to 6 (most restrictive). Family Allowances & Daycare spending are public spending as % of GDP. ALMP & PLMP are public spending as % of GDP, divided by the unemployed population. Unemployment & Seats of women in national parliament are expressed as %. Union density is net union membership as % of wage & salaried employees.

\*\*Value for 2008. \*\*Value for 2003.

**Table 3.3: Group Composition by Country and Welfare State Regime**

Country	Year	Young Male	Young Female	Older Male	Young Low skill Male	Young Low skill Female	Young Low skill are	Young Low skill are	Young Low skill are	Older Low skilled Male	Older Low skilled are	Young Low skilled Females	Young Low skilled are	Older Low skilled Females	Older Low skilled are
		% pop.	% pop.	% pop.	% pop.	% pop.	% pop.	% pop.	% pop.	% pop.	% pop.	% pop.	% pop.	% pop.	% pop.
<b>Nordic Welfare State</b>															
Den.	2004	7.6	7.5	6.7	2.8	2.4	32.0	2.0	2.0	29.9	15.1	15.5	15.1	15.5	3.0
Finland	2004	8.1	7.0	7.4	2.3	1.8	25.7	2.9	2.9	39.2	12.4	13.4	12.4	13.4	5.8
Norway	2004	11.1	9.7	7.3	0.8	0.5	5.2	1.5	1.5	20.5	12.6	14.2	12.6	14.2	2.3
Sweden	2005	8.0	7.7	6.6	1.9	1.4	18.2	1.9	1.9	28.8	8.4	8.9	8.4	8.9	3.2
<i>Mean</i>		<i>8.7</i>	<i>8.0</i>	<i>7.0</i>	<i>2.0</i>	<i>1.5</i>	<i>18.8</i>	<i>2.1</i>	<i>2.1</i>	<i>30.0</i>	<i>12.1</i>	<i>13.0</i>	<i>12.1</i>	<i>13.0</i>	<i>3.6</i>
<b>Continental European Welfare State</b>															
Austria	2004	7.5	7.6	6.0	0.8	0.9	11.8	1.2	1.2	20.0	14.0	23.6	14.0	23.6	10.9
Belgium	2000	6.4	6.6	4.4	1.1	0.6	9.1	2.1	2.1	47.7	5.3	10.7	5.3	10.7	7.4
France	2005	7.6	8.1	5.2	1.6	1.3	16.0	2.0	2.0	38.5	13.4	19.2	13.4	19.2	9.4
Germany	2004	7.6	8.0	6.1	1.4	1.3	16.3	0.6	0.6	9.8	10.9	19.7	10.9	19.7	8.8
Italy	2004	8.4	7.4	7.0	3.0	2.2	29.7	4.3	4.3	61.4	16.3	18.1	16.3	18.1	11.3
Lux.	2004	9.2	9.6	5.8	3.6	3.2	33.3	2.5	2.5	43.1	20.8	22.0	20.8	22.0	8.6
Neth.	2004	6.2	6.2	5.8	1.1	0.8	12.9	1.7	1.7	29.3	4.1	11.3	4.1	11.3	3.7
Spain	2004	8.9	8.5	5.7	3.2	2.1	24.7	3.9	3.9	68.4	11.5	17.6	11.5	17.6	16.7
Switz.	2004	5.8	6.8	5.5	1.4	1.2	17.6	0.5	0.5	9.1	6.0	7.3	6.0	7.3	10.0
<i>Mean</i>		<i>7.5</i>	<i>7.6</i>	<i>5.7</i>	<i>1.9</i>	<i>1.5</i>	<i>19.7</i>	<i>2.1</i>	<i>2.1</i>	<i>36.8</i>	<i>11.4</i>	<i>16.6</i>	<i>11.4</i>	<i>16.6</i>	<i>9.6</i>
<b>Liberal Welfare State</b>															
Austral.	2003	9.6	9.7	6.5	6.7	6.7	69.1	4.9	4.9	75.4	9.5	11.5	9.5	11.5	17.4
Canada	2004	8.0	8.4	5.6	1.4	1.3	15.5	1.9	1.9	33.9	19.9	24.6	19.9	24.6	20.7
Ireland	2004	6.4	6.9	5.6	1.2	1.0	14.5	3.5	3.5	62.5	8.3	31.4	8.3	31.4	24.4
U.K.	2004	6.1	6.6	7.6	3.1	3.5	53.0	5.4	5.4	71.1	12.3	21.4	12.3	21.4	16.6
U.S.	2004	7.6	8.2	4.1	1.7	1.4	17.1	0.6	0.6	14.6	25.9	39.4	25.9	39.4	29.4
<i>Mean</i>		<i>7.5</i>	<i>8.0</i>	<i>5.9</i>	<i>2.8</i>	<i>2.8</i>	<i>35.0</i>	<i>3.3</i>	<i>3.3</i>	<i>55.9</i>	<i>15.2</i>	<i>25.7</i>	<i>15.2</i>	<i>25.7</i>	<i>21.7</i>

Source: LIS. Group composition as % of population, or as % of age/gender/skill-level group.

**Table 3.4: Generalized Linear Mixed Logit Models of Young (age 18-30) Low-educated Male Poverty on Individual- and Country-Level Variables: Odds Ratios and Z-Scores**

	N (Obs.) = 16194; N (Countries) = 18						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<b>Individual-Level</b>							
No One Employed in HH (Z-Scores)	4.796*** 20.97	4.782*** 20.96	4.784*** 20.96	4.799*** 21	4.795*** 20.99	4.796*** 20.99	4.790*** 20.97
Multiple Earners in HH	0.135*** -31.01	0.135*** -31.00	0.135*** -31.00	0.135*** -31.02	0.135*** -31.01	0.135*** -31.01	0.135*** -30.98
Other Adults in HH	0.730*** -10.67	0.729*** -10.71	0.729*** -10.71	0.729*** -10.70	0.729*** -10.70	0.729*** -10.68	0.729*** -10.70
Persons in HH over age 65	0.535*** -5.62	0.535*** -5.63	0.535*** -5.63	0.536*** -5.62	0.535*** -5.63	0.535*** -5.63	0.535*** -5.63
Number of children under age 18	1.260*** 9.32	1.259*** 9.31	1.260*** 9.32	1.261*** 9.34	1.260*** 9.33	1.260*** 9.33	1.260*** 9.31
Child Under 5 in HH	1.508*** 5.63	1.508*** 5.63	1.508*** 5.63	1.509*** 5.64	1.508*** 5.62	1.508*** 5.62	1.508*** 5.63
<b>Country-Level</b>							
Welfare Generosity	0.977	1.014	1.003	0.987	1.017		
Unemployment	-0.51	0.39	0.07	-0.4	0.36	1.049	1.069
EPL	1.001					0.64	0.93
ALMP	0.01	0.005*					
PLMP		-2.27					
Family Allowances			0.105				
Daycare Spending			-1.37				
Union Density				0.716*			
				-1.96			
					0.561		
					-1.24		
						0.995	
						-0.68	
Seats of Women in Parl.							0.983
							-1.18

\*\*\*p < .001, \*\*p < .01, \*p < .05

**Table 3.5: Generalized Linear Mixed Logit Models of Young (age 18-30) Low-educated Female Poverty on Individual- and Country-Level Variables: Odds Ratios and Z-Scores**

	N (Obs.) = 13794; N (Countries) = 18						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<b>Individual-Level</b>							
No One Employed in HH	3.493***	3.489***	3.489***	3.499***	3.497***	3.501***	3.494***
(Z-Scores)	17.88	17.87	17.87	17.91	17.9	17.92	17.89
Multiple Earners in HH	0.178***	0.178***	0.178***	0.178***	0.178***	0.178***	0.179***
	-26.47	-26.45	-26.46	-26.47	-26.44	-26.44	-26.41
Other Adults in HH	0.595***	0.594***	0.594***	0.594***	0.594***	0.594***	0.594***
	-15.8	-15.84	-15.83	-15.82	-15.82	-15.82	-15.85
Persons in HH over age 65	0.583***	0.582***	0.582***	0.582***	0.583***	0.583***	0.583***
	-3.96	-3.97	-3.97	-3.97	-3.97	-3.96	-3.97
Number of children under age 18	1.121***	1.121***	1.121***	1.122***	1.121***	1.121***	1.121***
	5.39	5.38	5.38	5.41	5.39	5.39	5.39
Child Under 5 in HH	1.341***	1.342***	1.341***	1.341***	1.342***	1.342***	1.342***
	4.21	4.22	4.21	4.2	4.22	4.21	4.22
<b>Country-Level</b>							
Welfare Generosity	0.954	0.991	0.976	0.964	1.008		
	-1.02	-0.26	-0.61	-1.12	0.19	1.034	1.071
Unemployment						0.46	0.97
EPL	1.006						
	0.03						
ALMP		0.004*					
		-2.39					
PLMP			0.146				
			-1.17				
Family Allowances				0.730†			
				-1.83			
Daycare Spending					0.451†		
					-1.80		
Union Density						0.989	
						-1.45	
Seats of Women in Parl.							0.973†
							-1.88

\*\*\*p < .001, \*\*p < .01, \*p < .05, †p < .10

**Table 3.6: Generalized Linear Mixed Logit Models of Older (age 55-64) Low-educated Male Poverty on Individual- and Country-Level Variables: Odds Ratios and Z-Scores**

	N (Obs.) = 14571; N (Countries) = 18						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
<b>Individual-Level</b>							
No One Employed in HH	3.682***	3.666***	3.676***	3.684***	3.673***	3.667***	3.660***
(Z-Scores)	20.00	19.97	19.99	20.00	19.96	19.93	19.89
Multiple Earners in HH	0.241***	0.242***	0.241***	0.241***	0.242***	0.242***	0.242***
	-14.99	-14.95	-14.98	-14.98	-14.94	-14.92	-14.92
Other Adults in HH	0.890**	0.885**	0.888**	0.889**	0.887**	0.885**	0.884**
	-2.88	-3.03	-2.94	-2.92	-2.98	-3.03	-3.04
Persons in HH over age 65	0.519***	0.520***	0.519***	0.518***	0.520***	0.520***	0.520***
	-6.28	-6.26	-6.28	-6.28	-6.26	-6.26	-6.26
Number of children under age 18	1.305***	1.309***	1.307***	1.306***	1.307***	1.306***	1.307***
	3.74	3.79	3.76	3.75	3.76	3.75	3.76
Child Under 5 in HH	0.798†	0.802†	0.800†	0.799†	0.801†	0.801†	0.802†
	-1.63	-1.59	-1.61	-1.63	-1.61	-1.61	-1.60
<b>Country-Level</b>							
Welfare Generosity	0.884**	0.912***	0.904***	0.873***	0.915*		
	-3.12	-4.41	-3.67	-4.58	-2.33		
Unemployment						1.004	1.074
						0.04	0.90
EPL	0.869						
ALMP		0.0008***					
		-5.19					
PLMP			0.030**				
			-3.11				
Family Allowances				0.849			
				-1.04			
Daycare Spending					0.471*		
					-1.96		
Union Density						0.977**	
						-2.77	
Seats of Women in Parl.							0.953**
							-3.03

\*\*\*p < .001, \*\*p < .01, \*p < .05, †p < .10



## 4 Does Labor Market Dualization Translate into Welfare State Dualization? The case of Germany

### 4.1 Introduction

The modern postindustrial welfare state is confronted with a unique set of challenges. For the welfare state to remain viable in the face of increasing dependency ratios of the inactive to active population, social benefits must not overly burden the public purse, yet still provide a substantial measure of social well-being for citizens. Politicians know that decreasing social benefits is an unpopular and costly move, but businesses demand competitiveness in the midst of increasing internationalization, and do not want to shoulder too many social costs on behalf of their employees. How to balance social benefit provision with postindustrialized labor markets is a question that has become increasingly relevant for the modern welfare state. The welfare state must also adapt to providing benefits to those in different segments of the labor force, without resulting in a situation of unbalanced social privilege.

One development that has steadily gained the attention of welfare state scholars is that of an emerging dualism between those who are able to retain their social entitlements in the postindustrial era, and those who face dwindling social protection and increasing vulnerability. The distinction between the two groups lies mainly in the labor market, between those who have stable and secure employment and those who do not (Rueda 2005). However, dualism is also seen as having emerged within and issuing from the state itself, in the form of dualizing social policy (Palier and Thelen

2010). This development has occurred most markedly in the Continental European, or Bismarckian, welfare states. These countries are interesting cases for the study of social and labor market dualization because rather than representing frozen institutional structures that are resistant to change in spite of inherent structural problems, these political systems have undergone piecemeal transformations that, arguably, have resulted in increasing labor market and social welfare inequalities (Clegg 2007; Eichhorst and Marx 2011; Eichhorst and Hemerijck 2010; Palier and Thelen 2010; Davidsson and Naczyk 2009).

In this paper, I examine one country in particular—Germany—which is considered to be a prime example of a Bismarckian, social-insurance based, welfare state. I propose answers to three fundamental questions: 1) whether there are more labor market outsiders in Germany today than there were twenty years ago; 2) whether these labor market outsiders are indeed worse off today than two decades ago; and 3) whether the welfare state increases or lessens this dualism. To answer these questions, I employ data from the Luxembourg Income Study (LIS) and analyze the income—both pre- and post-welfare state involvement (i.e. pre- and post-taxes and transfers)—of those determined to be labor market outsiders and insiders. My analyses utilize five waves of the LIS data for Germany: 1984, 1989, 1994, 2000, and 2004<sup>1</sup>. The operationalization of labor market insiders and outsiders comes from Husermann and Schwander (2011) and Kitschelt and Rehm (2006), and utilizes occupation as the principal indicator of outsidership, further refined by gender. The basis for this classification comes from survey data with which individuals are identified who are most at risk of unemployment and/or atypical employment. Individuals are considered to be outsiders if they are typically affected by atypical work and unemployment throughout their work biography, based on the characteristics of their occupational reference group. The occupations are

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<sup>1</sup>[www.lisdatacenter.org](http://www.lisdatacenter.org).

classified using the International Labour Organization's (ILO) International Standard Classification of Occupations (ISCO) 2-digit codes<sup>2</sup>.

In a second step, I add the currently unemployed and those “not in the labor force” to the above operationalization of outsiders. Doing so reveals two interesting conclusions that contrast with relying solely on occupational group alone. First, including the unemployed shows an increase in outsiders in Germany over time. Second, by including the currently unemployed in the operationalization of labor market outsiders, the welfare state is shown to have a positive effect by narrowing the income gap between insiders and outsiders over two decades.

## **4.2 Conceptualization/Measurement of Insider-Outsider**

The concept of a divide between “insiders” and “outsiders” in postindustrial economies has received increasing scholarly attention in recent years. However, clear measurement of insiders and outsiders has yet to be established. On the contrary, there exist only a couple of explicitly defined measures of insiders and outsiders in contemporary political science/social policy literature, which I discuss here. Rueda (2005) divides insiders and outsiders along one dimension: employment status. He defines insiders as “those with secure employment,” and outsiders as “those without.” He goes on to define insiders as “those workers with highly protected jobs, sufficiently protected not to feel greatly threatened by high levels of unemployment.” He defines outsiders to be “either unemployed or hold[ing] jobs characterized by low salaries and low levels of protection, employment rights, benefits, and social security privileges.” (Rueda 2005: 62). His measure of insiders is those workers who are “employed full-time with a permanent job or as those with part-time or fixed-term jobs who do not want a full-time or permanent job” (Rueda 2005: 63). His measure of outsiders, then, are “those who

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<sup>2</sup>See <http://www.ilo.org/public/english/bureau/stat/isco/>.

are unemployed, employed full-time in fixed-term and temporary jobs (unless they do not want a permanent job), employed part-time (unless they do not want a full-time job), and studying. Students are included in the outsider category both because they have no certainties about their future employment (even those who hope to become insiders or upscale managers can end up unemployed) and because in some cases they may have extended their education because of difficulties entering the labor market” (Rueda 2005: 63).

Husermann and Schwander (2011) measure insider-outsider status in a different way. They conceptualize outsidership as not resulting merely from a static incidence of one's employment status, but rather as an employment biography profile. That is, whether a person is currently employed or not has less bearing on outsider status, they argue, than the person's general likelihood of being employed or unemployed over her life course. Therefore, they measure insiders and outsiders in terms of occupations, classifying individuals into insider-occupations and outsider-occupations based on survey evidence of the incidence of unemployment or atypical employment by occupational group. The occupations are classified using the International Labour Organization's (ILO) International Standard Classification of Occupations (ISCO) 2-digit codes. This way of measuring insiders and outsiders takes social class as the basis for the classification of occupational groups; it draws on Kitschelt and Rehms (2005) division of social classes in postindustrial societies into five classes that share similar work conditions and rates of precariousness (Husermann and Schwander 2011). For each occupational group (see group names and descriptions above), Husermann and Schwander compute “the group-specific rate of unemployment and the rate of atypical employment (including part-time employment as well as temporary or fixed-term employment depending on the data availability in the respective survey), compare it to the average in the workforce, and test whether the difference is significant. Occupational groups that have a

significantly higher rate of either unemployment or atypical employment are defined as outsiders. Consequently, all individuals in these groups are then treated as outsiders” (ibid.). Rather than a generalized measure that is the same across countries, Husermann and Schwanders measure of outsidersness thus varies by country.

Lastly, outsiders and insiders have been measured not by labor force status, but by access to social rights and benefits. Here the distinction between the two groups lies in access to social insurance (insiders) versus the lower-level social assistance (outsiders) (cf. Davidsson and Naczyk 2009). This measurement applies mainly to Bismarckian welfare states, in which social protection is provided in the form of benefits derived from employment, whereas means-tested social assistance is regarded as a residual tool for prevention of poverty among the most marginalized. However, this differentiation between social insurance and social assistance begs the further question of differential access to occupational pension and health insurance schemes.

Summarizing the various measures of insidersness and outsidersness allows for assessment of their respective strengths and weaknesses. Ruedas measure, while favorable perhaps for its simplicity, remains the same for all countries. One could argue that his measure fails to account for the nuances in welfare regimes and social policies that directly bear on whether someone is an insider or outsider. In contrast, Husermann and Schwander’s definition of outsider varies significantly across countries. While their measure captures more variation in welfare arrangements, labor markets, and educational systems than does Ruedas, their measure ends up being synonymous with gender in the case of Germany, for example. Equating outsidersness with being female leaves unanswered questions, such as how outsiders can be exclusively women even when, as in the case of Germany, women have entered the labor market in greater numbers in the last decades than ever before. This paper utilizes Husermann and Schwanders measure of outsidersness and builds upon it, by also including the unemployed and those

not in the labor force. I find that depending on the measure used, different results are obtained, which paves the way for subsequent analyses that differentiate between employment biography and current labor force status.

Furthermore, all the measures summarized here focus on individual labor market status as an indicator of outsidership, but remain silent on how households fall into outsider status. This is problematic because poverty must be assessed at the household level, not the individual level. The measures available in contemporary political science and social policy literature thus focus on only one conceptualization of insider-outsider status—the individual within the labor market—leaving a large lacuna. There is a strong need for analyses that focus on the household level, given that it is at this level that welfare benefits accrue and household members pool their resources. Furthermore, the issue of taxation must be considered, and it is broadly known that especially Bismarckian welfare regimes manage taxes at the household, and not individual, level.

While an individual may be an outsider in the labor market, he/she may live within a household that is headed by an insider, and vice versa. The implications of this cannot be overlooked: a labor-market “outsider” may enjoy sufficient benefits if she resides in an insider-headed household. This is particularly likely to be the case in the Bismarckian countries, where women have traditionally been the second, marginal, earners, and their spouses have been the primary breadwinners with adequate social protection coverage for the household. This paper’s analyses therefore utilize the household level because this level most accurately reflects social policy provision and coverage. Dualization in the labor market (an individual-level phenomenon) is not necessarily mirrored by dualization of the welfare state (a household-level occurrence).

### 4.3 The Emergence of Insiders vs. Outsiders

#### 4.3.1 *Outsiders in the Labor Market*

In this paper, I focus on two dimensions of outsidership: labor market position, and social protection coverage. The general view in the literature on segmented labor markets has been that the institutionalization of different rules of labor market operation has separated workers into “core” and “periphery,” with the former being able to maintain good, adequate, jobs, and the latter getting squeezed into the remaining, inferior, jobs that may result in enduring diminished labor market status (Davidsson and Naczyk 2009). Today, fewer people’s work biographies reflect the stable, protected, socially insured, sufficiently paying jobs of the era of industrial employment. Increasing numbers of people have inconsistent employment biographies, which may be interrupted by long periods of study, childcare and/or eldercare, job-seeking, and reflect the greater diversity of jobs and employment scenarios available today. This diversity of employment (including self-employment, part-time, fixed-term contracts, mini-jobs) may result in disadvantages such as decreased pay, welfare losses, lack of social and/or political integration, and limited opportunity for career advancement or pay increases.

However, whether individuals who find themselves in precarious employment actually suffer monetary losses or losses of well-being—as measured by welfare state coverage and protection—is an empirical question that warrants exploration. If there is indeed an increasingly dualized division of labor market participants into the categories of insiders and outsiders, which I test in this paper in Germany over time, it is important to consider whether state policy is effective in reducing the magnitude of this divide. For this reason, I examine the effect of the welfare state—i.e. of taxes and transfers—on the income of two subsections of the population, labor market insiders and outsiders, classified according to occupation and labor market status.

### *4.3.2 Outsiders in terms of Social Protection*

Germany is a foundational bedrock of Bismarckian welfare states, in which social protection is administered in the form of welfare rights and coverage through employment. Social assistance, providing less social coverage than the employment-based social insurance, is seen as a less substantial, residual tool that is reserved for the most marginalized segments of society as a means of poverty alleviation (Davidsson and Naczyk 2009). However, as jobs become more precarious and careers increasingly interrupted (or begun late), the capacity of social insurance to protect people from social risks declines. Workers may not be able to pay contributions for the amount of time required in order to receive full benefits, and some jobs do not offer unemployment insurance while providing only very low levels of pension coverage (Palier and Thelen 2010). I will discuss these “mini-jobs” and marginal employment in Germany in further detail below.

In conservative continental European welfare regimes, social protection insiders are therefore those who are able to make the required contributions to receive social insurance coverage, while outsiders are those who do not fall under the social insurance umbrella, relying instead on residual social assistance. The implications of this are manifold: a crucial point of consideration is whether social protection outsiders are able to avoid falling into poverty. Furthermore, given the social stigma that is attached to drawing on social assistance as opposed to being covered through the insurance system, the political (and social) behavior of outsiders may indeed reflect the disenchantment of a socially disadvantaged group.

## **4.4 Bismarckian Welfare State Change: Germany**

Germany presents an interesting case for analysis of insider-outsider dynamics and for testing whether dualization within the welfare state—and of outcomes—has in fact occurred over time. As has become apparent among welfare state scholars, Germany’s



political economy (and that of other Continental European welfare regimes, particularly France) has undergone significant restructuring over the past two decades, through gradual, piecemeal, reforms that have produced cumulatively large effects (Palier and Thelen 2010; Palier and Martin 2007). While the fundamental tripartite bargaining within Germany's political economy has not entirely eroded, firms have increasingly become the locus for determining labor contracts, and rather than complete deregulation of labor markets, an increasing number of jobs reflect atypical or nonstandard employment. These developments have occurred alongside an increase in the number of working poor. And while participants in the core economy have been able to defend established institutions from which they themselves benefit, the universal bargaining coverage that once followed as a result is now considered to be an outdated concept, no longer possible in the modern postindustrial economy.

Following the labor-shedding strategy of the 1980s, which has since become viewed as a general policy failure, employers and the remaining workforce in the core manufacturing sector turned toward firm-based negotiations to preserve job security in the face of increasing flexibility. As the core industry lost its ability to secure labor rights across the broader workforce, a secondary labor market gradually emerged in which nonstandard employment options became more prevalent. The new rules of the secondary labor market centered on flexibility and less security, which in turn fostered a secondary mode of welfare protection. As Palier and Thelen (2010) illustrate, where there exist welfare systems that are premised on the existence of a separation of social risks and welfare coverage—as in Germany with the contribution-based welfare provision (rather than financed by general taxation)—the emergence of new types of jobs that do not contribute to the social insurance funds will necessarily undermine the system. As a result, welfare reforms emphasized a stricter demarcation between social

*insurance*, based on having “paid into” the system in the form of payroll contributions, and social *assistance*, which is intended to provide for those outside the standard employment contract.

#### *4.4.1 The Changing Nature of Employment in Germany*

As the protected status of core workers in standard employment has been maintained, the conditions for non-standard employment have evolved around a status quo of more flexibility. Additionally, the development of a broad range of services (e.g. construction, goods delivery, child care, elder care, restaurants, personal services) has resulted in a secondary labor market, characterized by non-standard employment contracts and lower standards in compensation, working condition, and social protection (Palier and Thelen 2010). Trade unions in Germany and other European countries have been able to maintain strict employment protection for the core workers, at the expense of an easing of restrictions in conditions for those working outside the core sectors. Germany has seen an increase in atypical jobs since the mid-1980s, with this trend continuing to grow through the past two decades, despite the fact that these jobs provide less pay and fewer benefits than that of standard workers. In other words, though the jobs are not necessarily “good,” and though the incidence of working poverty has increased, the number of non-standard jobs has continued to grow. As Bleses and Seeleib-Kaiser note in their account of the dual transformation of the German welfare state, the ratio of regular-to-atypical employment in the 1970s was 5:1, but by the mid-1980s, the ratio had become 3:1, and by the mid-1990s, the ratio had sunk to 2:1 (Bleses and Seeleib-Kaiser 2004).

While temporary workers comprise one group within nonstandard employment, “mini-jobbers” make up another significant component. Holders of these jobs perform low-level, part-time work that is not fully covered by social insurance contributions.

While holders of mini-jobs have health insurance as part of the public health insurance system in Germany, they are not eligible for unemployment benefits, and the pension entitlements are exceedingly low, given that they are based on already-low earnings levels. Employment in mini-jobs has risen steadily over the past two decades, increasing from 2 million mini-jobs in 1991 to 4.7 million in 2005, with another 1.7 million mini-jobs being taken as second jobs, which was not allowed prior to legislation of the Red-Green government under Gerhard Schröder in 2002 (Ebbinghaus and Eichhorst 2007). Moreover, and what has strong implications for this paper's analyses of labor market dualization, an estimated 20 to 40 percent of all low-skilled Germans work in mini-jobs (Mitlacher 2007). Thus, what we are seeing in modern-day German labor market developments is an increasing segmentation of the labor force between the "haves" and the "have-nots": those who have standard employment with adequate wages and social protection, and those who do not.

#### *4.4.2 The Gender Component*

We turn now to a discussion of who is most at risk of being a "have-not" in the labor market. While the low-skilled segment of the population is an obvious suspect, the distinction between insiders and outsiders has a strong and distinct gender component. The gender divide stems from the location of the bulk of these mini-jobs, which are not within the core economy, but are found in the service economy. While it can be argued that the increase in different types of work reflects an opening up of the economy to allow women's (and other under-employed segments of the population) participation in the labor force, the tradeoff between type of job and quality of job is not always favorable. Women's groups in Germany have offered criticism of jobs that carry few benefits, given that these jobs are filled in large part by women. The growth of the low-wage service sector has enabled many women to fill jobs; however, the structure of

marginal employment and its accompanying social benefits has not altered the country's traditional profile of the male breadwinner model.

Marginal part-time employment in Germany, which exempts employers from payroll contributions up to a wage threshold of 400 euros, comprises a typical employment pattern in private services (Eichhorst and Marx 2010). While this form of employment is seen as attractive for married women who benefit from their spouses' insider jobs that provide social insurance coverage, it leaves single women outside the social protection scheme. From a gender equality perspective, marginal part-time employment that is not covered by social insurance but is significantly filled by women leaves a gaping lacuna in ensuring equal status and protection between women and men. Furthermore, Germany provides particularly fertile ground for wage inequality. Collective bargaining is weak in market-related services and there is no legal minimum wage, leaving wage dispersion higher in Germany than in other Bismarckian countries, and leaving atypical workers particularly vulnerable.

#### *4.4.3 Welfare Policy Reform*

The German government has undertaken various reforms to refine the distinction between contributory social insurance and non-contributory, state-financed, income-tested assistance that is targeted at the neediest segments of the population. The Red-Green government under Schröder implemented arguably the most significant of these reforms, and certainly the most prevalent in popular discourse: the so-called "Hartz IV" reforms. This set of labor market reforms is named after the head of the commission, Peter Hartz, that proposed the changes in 2002. The various stages of the Hartz reforms took place between 2003-2005, with the most well known of these, Hartz IV, going into effect on January 1, 2005. The first three stages of the Hartz reforms involved changes to the Federal Labor Agency, the creation of mini-jobs, various grants for entrepreneurs, and

structural and procedural changes to job centers.

The Hartz IV reform transformed the system of unemployment benefits from a three-tiered system, which had been comprised of unemployment insurance with benefits related to earnings; unemployment assistance, with lower benefits but still earnings-related; and social assistance, which was means-tested. The new system consists of only two levels: 1) insurance benefits based on earnings and 2) flat-rate, income-tested, social assistance. The duration of unemployment insurance was also shortened from 32 to 18 months for older workers, and to 12 months for other workers. In this vein, the Hartz IV reform moved away from a system of status maintenance or income support for labor market outsiders, and toward a system of means-tested poverty reduction for these groups. In other words, for labor market outsiders, unemployment protection for outsiders in Germany has taken a neoliberal turn that mirrors Anglophone “Liberal” welfare states in terms of benefits, but has maintained a continental Bismarckian insurance system for labor market insiders, which still aims at this group’s status- and income-maintenance.

The central question, then, is whether such dualization within welfare state policy produces a duality of social-wellbeing outcomes (measured here by income) between those who are considered to be labor market insiders and those considered to be outsiders. Tracing causality between policy reform and income losses can be complicated by intervening factors such as a general change in the economy—slow growth, high unemployment, and population aging—not to mention times of fiscal austerity. However, we know some troubling trends: since 2000, income inequality and poverty have grown faster in Germany than in any other OECD country, having increased by more percentage points between 2000-2005 than in the previous 15 years (1985-2000) (OECD 2008). Wage inequality and dispersion have grown in Germany, where collective bargaining is weak in market-related services. Since many companies exist outside the scope of

collective bargaining, coupled with the lack of a binding wage floor, Germany appears to be the least poised to contain pressure for wage inequality among the Bismarckian welfare states (Eichhorst and Marx 2010). Moreover, the incidence of long-term unemployment has increased substantially in Germany. In 2006, 57% of the unemployed were without a job for 12 months or longer, compared with 44% in 1994 (Fleckenstein et al. 2011).

#### 4.4.4 *Classification of Occupations into Post-industrial Class Groups*

To examine whether there has been an increase in the proportion of labor market outsiders to insiders in Germany between 1984-2004, I base the main definition of the two groups on occupational class. Labor market outsiders are those who are most at risk of being in atypical employment or of falling into unemployment. Grouped according to occupation, their work biographies reflect a generalized increased risk of experiencing a weakened attachment to the labor force over the course of their lives. While atypical and un-/under-employment have been established in the political science literature as the core determinants of outsidership (Rueda 2005, 2006, 2007; Emmenegger 2009; Davidsson and Naczyk 2009), this paper utilizes Husermann and Schwander's (2011) classification of outsiders based on the notion of extended *risk profiles*. For example, women in conservative continental European welfare states may be employed for a time but will likely interrupt their employment and/or careers in the event of childbirth and child/family care duties. Conversely, those who experience temporary spells of unemployment may not necessarily remain unemployed or experience a recurring risk of such unemployment. Therefore, utilizing one's occupational reference group rather than relying solely on a given employment status at one point in time provides a deeper theoretical basis for identifying labor market exclusion and exposure to the risk

of continuing outsidership. In a second step, I combine the survey evidence-based occupational risk groups with those currently unemployed, and show that the conclusions we can draw about outsiders in Germany depend on the operationalization.

Using occupational profiles as the starting point for differentiating between labor market insiders and outsiders enables us to distinguish between low-skilled and high-skilled workers, and identify similar work conditions and levels of employment insecurity. In this paper, I use Kitschelt and Rehm's (2005) five occupational class groups, based on Oesch (2006), along with Husermann and Schwander's (2011) survey analyses as the bases for my definition of labor market insiders and outsiders in Germany.<sup>3</sup> These class groups are the following: 1) Capital accumulators (high-skilled managers, self-employed, experts); 2) Socio-cultural professionals (high-skilled professionals in interpersonal professions, mostly in the public and private service sector); 3) Blue-collar workers (skilled and unskilled); 4) interpersonal services workers (skilled and unskilled); 5) office workers (skilled and routine). This classification into socioeconomic groups utilizes ISCO-88 2-digit occupational codes.<sup>4</sup>

Labor market classification is further refined by gender and age. There is a strong gender dimension to postindustrial economies, given the large-scale entry of women into tertiary education and employment (Esping-Andersen 1999; Esping-Andersen 2009; Taylor-Gooby 2004; Kitschelt and Rehm 2006). Female workers may be especially prone to disadvantage in conservative European welfare states—of which Germany, this paper's analytical case, is an archetype—as their often interrupted employment biographies result in incomplete social insurance, since welfare benefits are proportional to contributions (Bradley et al. 2003). Younger and older workers also face different

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<sup>3</sup>For details on the operationalization of labor market insiders and outsiders based on rates of unemployment and atypical employment that were calculated using ISSP, ESS, and Eurobarometer data, see Husermann and Schwander (2011).

<sup>4</sup>See Figure 4.6 for classification of occupations and corresponding ISCO88-2d codes.

risk structures and exposure to unemployment and labor market exclusion.

#### *4.4.5 Operationalization of key variables and concepts*

Details of operationalization and definitions of the key variables and concepts employed in the paper’s analyses are presented in Figure 4.7. As discussed above, outsiders are all individuals who belong to social groups (defined by class, gender, and age) that are significantly more exposed to the risks of unemployment or atypical employment in a particular welfare regime (Husermann and Schwander 2011). For continental welfare regimes, outsiders are classified as 100% female, based on survey evidence from European Social Survey (ESS) Waves 2002 and 2008; International Social Survey Programme (ISSP) Role of Government, Waves 1996 and 2006 and ISSP Work Orientations Wave 2005; and Eurobarometer 44.3 (1996). These female outsiders are classified into the following categories: 1) Low service functionaries, above and below 40 years of age; 2) Socio-cultural professionals, above and below age 40; 3) Blue collar workers above and below age 40; 4) Mixed-service functionaries above and below age 40. Neither males nor capital accumulators of either sex were found to be outsiders using Husermann and Schwander’s (2011) definition of outsiders—i.e. having significantly higher rates of atypical employment and unemployment than the group-specific average.<sup>5</sup>

To examine insider-outsider outcomes in terms of monetary well-being and income, I compare gross income of the two groups at the household level. Using LIS data, I examine market income before taxes and transfers. The disposable income of insiders and outsiders captures income after the welfare state is taken into account. At the household-level, this measure is the LIS variable “dpi,” which measures net household

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<sup>5</sup>Significance level  $\leq 0.1$ . For details on this outsider classification, see Husermann and Schwander 2011.



disposable income after taxes and transfers.

The disposable and gross income ratios are the ratios of outsiders' disposable and gross incomes to the disposable and gross incomes of insiders. The income gap is measured as  $[1 - (\text{ratio of gross (net) wage of outsiders to gross (net) wage of insiders})]$ . The effect of taxes and transfers—i.e. the welfare state—is calculated as the difference between the gross income gap and net income gap, multiplied by 100.

#### *4.4.6 Findings and Implications*

This paper sheds light on the question of whether the welfare state has reduced or increased labor market dualism in Germany over time. The German welfare state *reduces* the income gap at the household level between occupational insiders and outsiders. Over time, the welfare state reduces the difference in insider and outsider household-level gross and disposable incomes by 1.3 percentage points in 1984, and by 2.8 percentage points in 2004, as can be seen in Table 4.1 and Figure 4.1. The blip in this consistently reducing trend occurs at the time point 1994, where the income gap between insiders and outsiders is narrowed only by 0.9 percentage points, compared to the previous years' 1.3% (1984) and 1.5% (1989). This anomaly can be explained because it is, in fact, not unexpected, given the strains on the welfare state of German reunification in 1990 following the collapse of communism.

The social protection of the German welfare state is aimed at households rather than individuals, in line with Germany's historical orientation toward insurance for the male breadwinner, following the traditional conservative Bismarckian model. This household orientation leaves individuals and especially women, who comprise 100% of those in outsider occupations in Germany<sup>6</sup>, out of the protected schema. Therefore, the question of whether labor market outsiders have become better or worse off over

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<sup>6</sup>Based on the survey evidence provided by Husermann and Schwander (2011).

Table 4.1: Insider/Outsider Gross & Disposable Incomes; Income Gaps; & Effect of Taxes & Transfers

Year	Gross Income Insider	Gross Income Outsider	Gross Income Ratio	Gross Income Gap	Disp. Income Insider	Disp. Income Outsider	Disp. Income Ratio	Disp. Income Gap	Effect of Taxes & Transfers
<b>Household-Level</b>									
Outsider operationalized as current occupational class group									
1984	65,873	57,749	0.88	0.12	48,535	43,195	0.89	0.11	-1.33
1989	80,756	70,356	0.87	0.13	58,263	51,600	0.89	0.11	-1.44
1994	88,601	76,658	0.87	0.13	65,916	57,612	0.87	0.13	-0.88
2000	105,811	89,038	0.84	0.16	77,962	67,645	0.87	0.13	-2.62
2004	69,883	53,497	0.77	0.23	51,407	40,842	0.79	0.21	-2.90
Outsider including unemployed and not in labor force									
1984	65,872	39,405	0.60	0.40	48,534	36,849	0.76	0.24	-16.10
1989	80,756	49,319	0.61	0.39	58,262	44,494	0.76	0.24	-15.30
1994	88,601	51,110	0.58	0.42	65,915	48,945	0.74	0.26	-16.57
2000	105,810	53,742	0.51	0.49	77,961	56,479	0.72	0.28	-21.65
2004	69,883	31,523	0.45	0.55	51,407	33,417	0.65	0.35	-19.90

Source: Luxembourg Income Study (LIS). Income values are mean values and in units of national currency. Income before 2004 is in Deutschmarks; income in 2004 is in Euros.

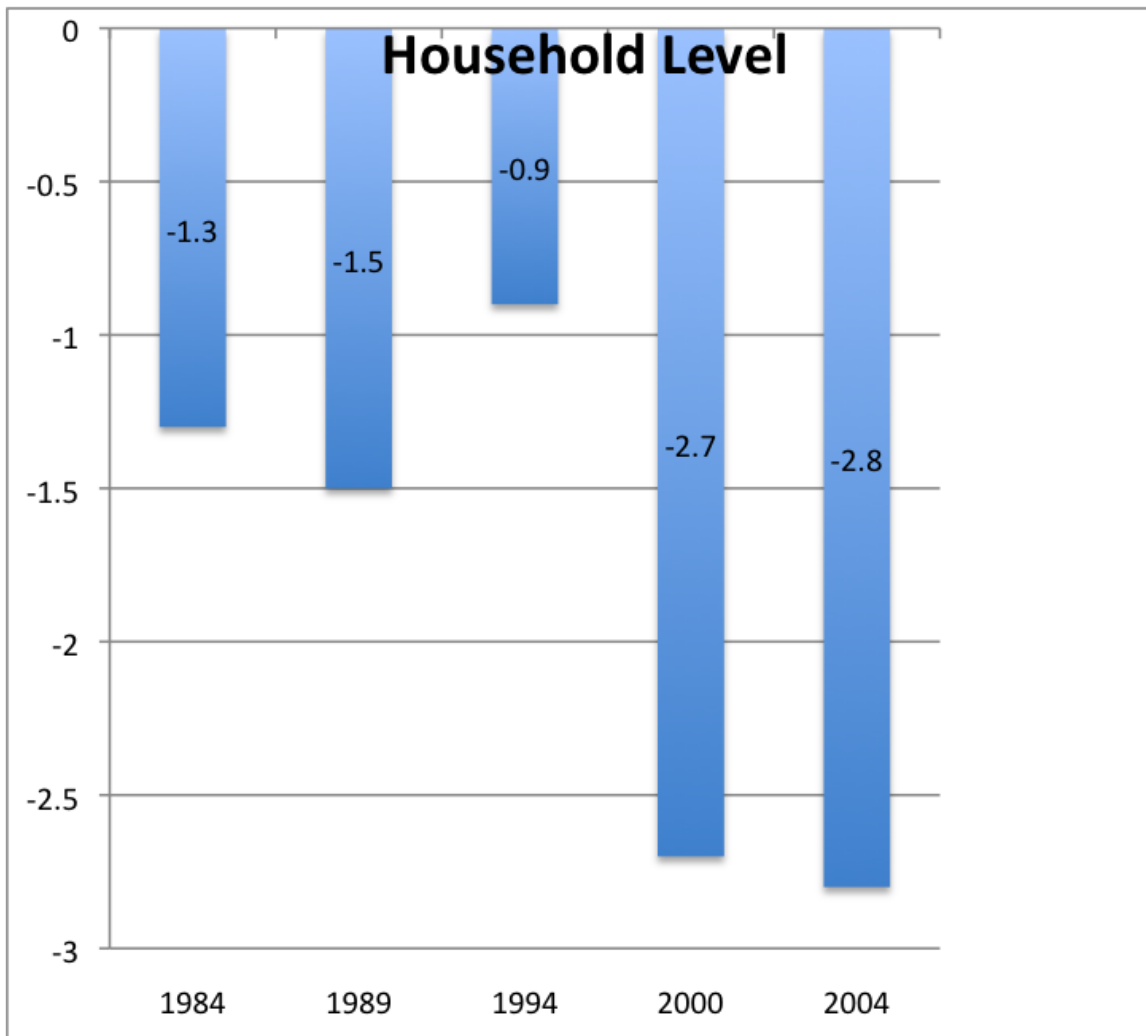


Figure 4.1: Effect of the Welfare State via Taxes & Transfers on the Household-Level Income Gap between Insiders and Outsiders

**Note:** The value indicates the change in the income gap due to taxes and transfers (in % points).

“Outsiders” operationalized here as current occupational class group: 1) Low service functionaries;

2) Socio-cultural professionals; 3) Blue collar workers; 4) Mixed-service functionaries.

Source: LIS; author’s calculations.

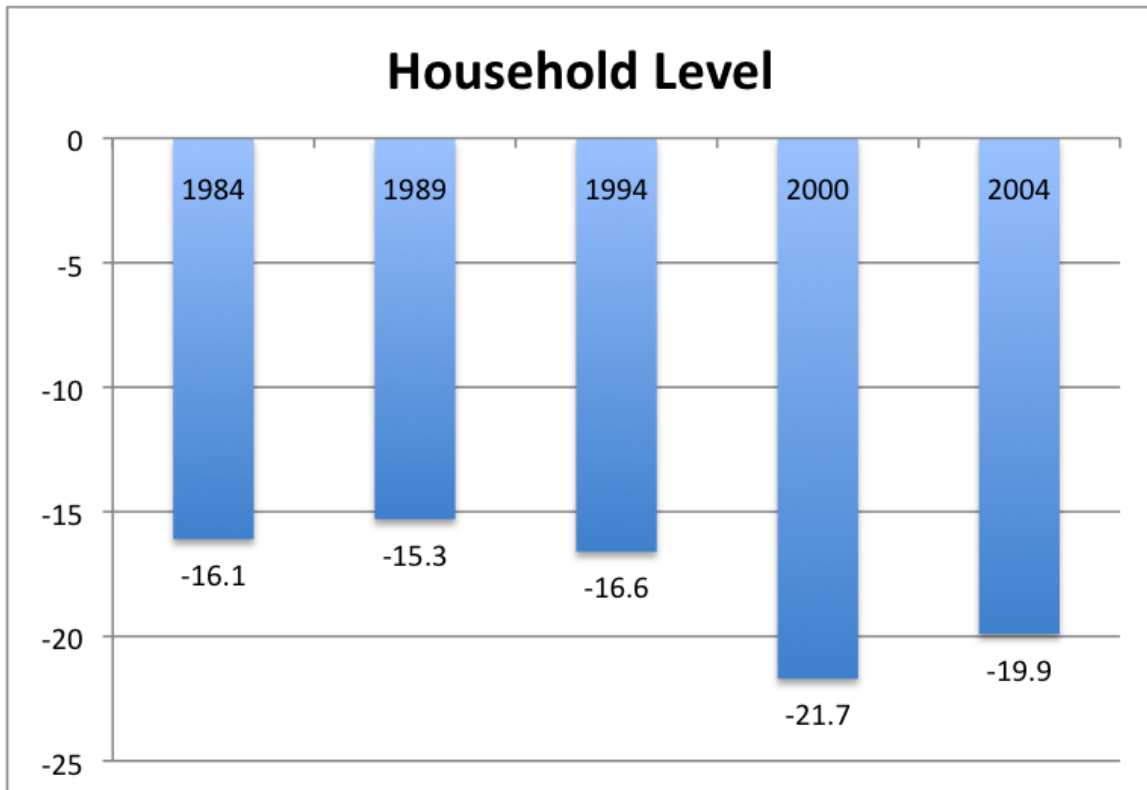


Figure 4.2: Effect of the Welfare State via Taxes & Transfers on the Household-Level Income Gap between Insiders and Outsiders

**Note:** “Outsiders” here includes the unemployed and those not in the labor force. The value indicates the change in the income gap due to taxes and transfers (in % points).

Source: LIS; author’s calculations.

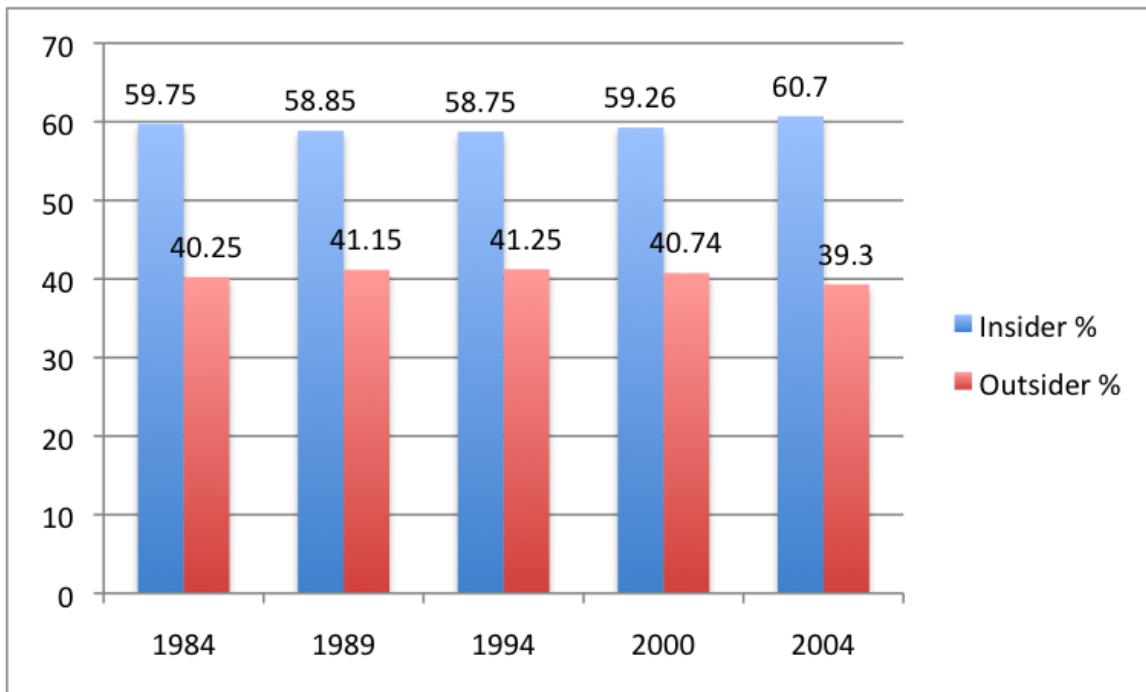


Figure 4.3: Percentage Employed in Insider vs. Outsider Occupations in Germany Over Time

Source: LIS.

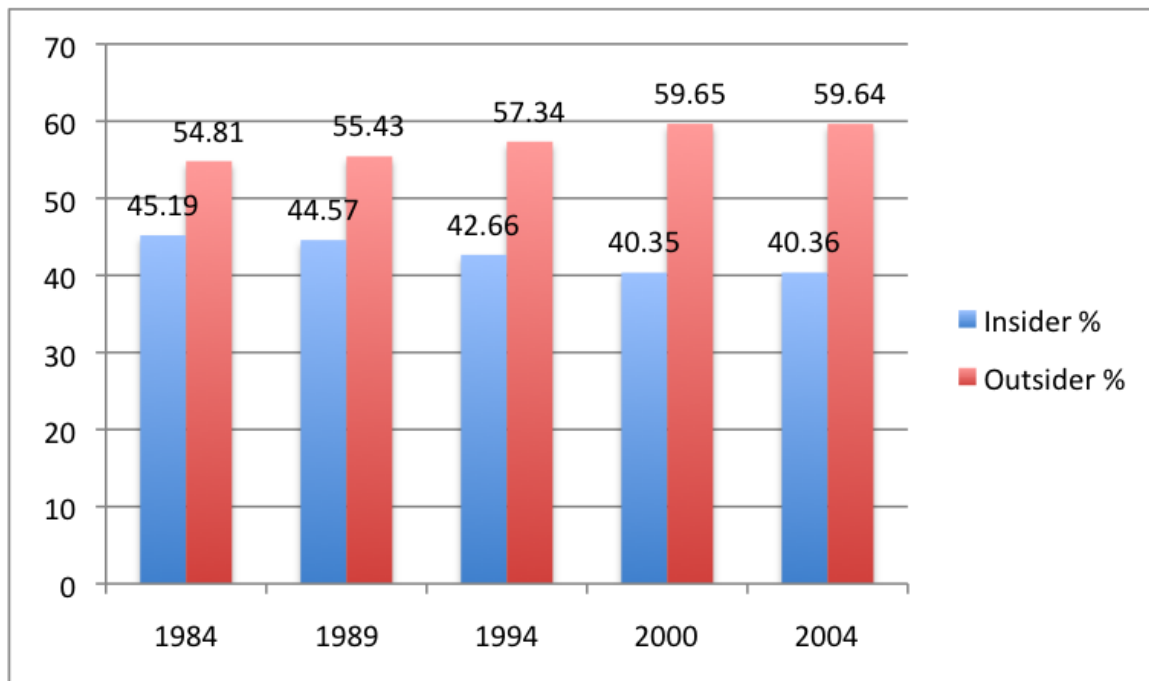


Figure 4.4: Percentage of Insiders and Outsiders (including the unemployed/not in labor force) in Germany Over Time

Source: LIS.

time requires a response that is conditioned by the level of welfare protection. The case of Germany shows that the household remains a “better place” for those in outsider occupations, given the narrowing of the income gap between insiders and outsiders at this level.

The question of whether there are more outsiders in Germany today than was the case twenty years ago reveals conclusions that vary according to operationalization. As shown in Figure 4.3, using Husermann and Schwander’s (2011) occupational classification of outsiders based on survey evidence, I do not find a steady increase in outsiders over time.<sup>7</sup> We see a slight increase in outsiders in 1989 and 1994 (to 41%, up from 40% in 1984). In fact, the percentage of outsiders as classified from the occupational groups identified above is found to slightly decrease overall, from 41% to 39%.<sup>8</sup>

The important distinction to note here is that the occupation-based measure of outsidersness captures only those who are *employed* in the occupations that are classified as outsider occupations. However, when the definition of outsiders is expanded to include respondents who are either unemployed, technically “not in the labor force” (students, housewives/-husbands, and for reasons unknown/not given), or simply “not employed,” a different picture emerges. We see a rising percentage of outsiders in Germany over time, as shown in Figure 4. This rising percentage of outsiders exists alongside a diminishing percentage of insiders, who remain defined here in terms of occupation.

Similarly, when operationalizing outsiders to include the unemployed/not in the labor force, the effect of the welfare state is positive. Taxes and transfers *narrow* the

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<sup>7</sup>Results based on adults over age 16 who are currently engaged in employment, retired, or near retirement. Results do not include the unemployed or those who are not in the labor force.

<sup>8</sup>Note: Similar results were obtained using the definition of outsiders that is based on Chapter Two of my dissertation: low-skilled young men and women aged 18-30, and low-skilled older men aged 55-64.

income gap between labor market insiders and outsiders, as shown in Table 4.1 and Figures 4.1 and 4.2. Again, in all years, the welfare state is advantageous to outsiders: it diminishes the income gap between the two groups by a large degree, ranging from a reduction of 15.3 to 21.7%. The equalizing effect of taxes and transfers on the income difference between insiders and outsiders peaks in the year 2000 after a mostly steady increase, before dipping in 2004. This likely reflects the generous welfare provision in 2000 under the Red-Green government, and the cuts that followed thereafter under the same government. In sum, by including the currently unemployed and those not in the labor force in the definition of outsiders, we see both an increase in the proportion of outsiders in Germany over time, as well as a consistently positive effect of the German welfare state, albeit to different degrees across the years, on narrowing the income gap between insiders and outsiders.

Finally, Figure 4.5 shows the labor market composition of the five different socio-economic groups in Germany from 1984-2004. As expected, we see a stark decrease in the proportion of blue-collar workers over time, and a marked increase in capital accumulators (inherent insiders), socio-cultural professionals, and low-service functionaries. The data reflect the changing nature of the German economy and labor market: fewer industrial workers coexist alongside a rise in the number of working women and those employed in the service sector.

## **4.5 Conclusion**

The findings presented here emphasize the need for a consistent definition of labor market insiders and outsiders in social policy and welfare state research. One operationalization, drawing on employment biography profiles and occupational class groups, reveals no increase in outsiders over time in Germany. However, changing the operationalization of outsiders by including the currently unemployed and those not in the



labor force yields a different result. Using this definition, we observe a steady increase in outsiders in Germany through time, which corresponds to expectations derived from received wisdom in the field. Furthermore, in using this operationalization, the welfare state is shown to have an ameliorative effect on the income gap between insiders and outsiders at the household level. Taxes and transfers reduce the difference in incomes between these two groups in Germany over time, providing preliminary evidence that welfare state reforms and state restructuring between 1984-2004, while trimming benefits and payout periods, did not result in an overall loss of welfare (measured in monetary terms) for those considered to be at a disadvantage in the labor market.

This paper's analyses suggest several important avenues for future research. Differentiating between countries within similar welfare regimes remains an important task. Whether the conservative continental European welfare states uniformly benefit insiders and outsiders is doubtful. Furthermore, the Liberal and Nordic welfare regimes have unique challenges that will affect their ability to shelter outsiders from welfare loss. How these regimes contrast with the Bismarckian model is an important question.

There is much we do not yet know about the mechanism by which labor market segmentation translates into social dualism and polarization. This has strong implications for public policy formulation: further research must consider differential access to training, promotion, and opportunity for advancement. Income is but one dimension of labor market dualism; other aspects of workplace stratification—ability to combine work and family life; upward mobility; employment that is commensurate with education, etc.—provide fruitful grounds for further research. The political implications of labor market segmentation are also highly relevant: profiles of voters who vote for extreme parties increasingly reflect frustrations with limited labor market opportunity. Further analyses of the welfare state and labor market in Germany will need to incorporate new waves of data in order to get a more accurate picture of the effect of welfare

reforms since 2004, including Hartz IV. Finally, the different socio-economic groups utilized as a basis for outsidersness in this paper reflect the evolution of the German labor market and education system. Future research will need to identify the profiles of labor market winners and losers that correspond to a changing economy, and consider the implications of such divisions not least for gender and social equality.

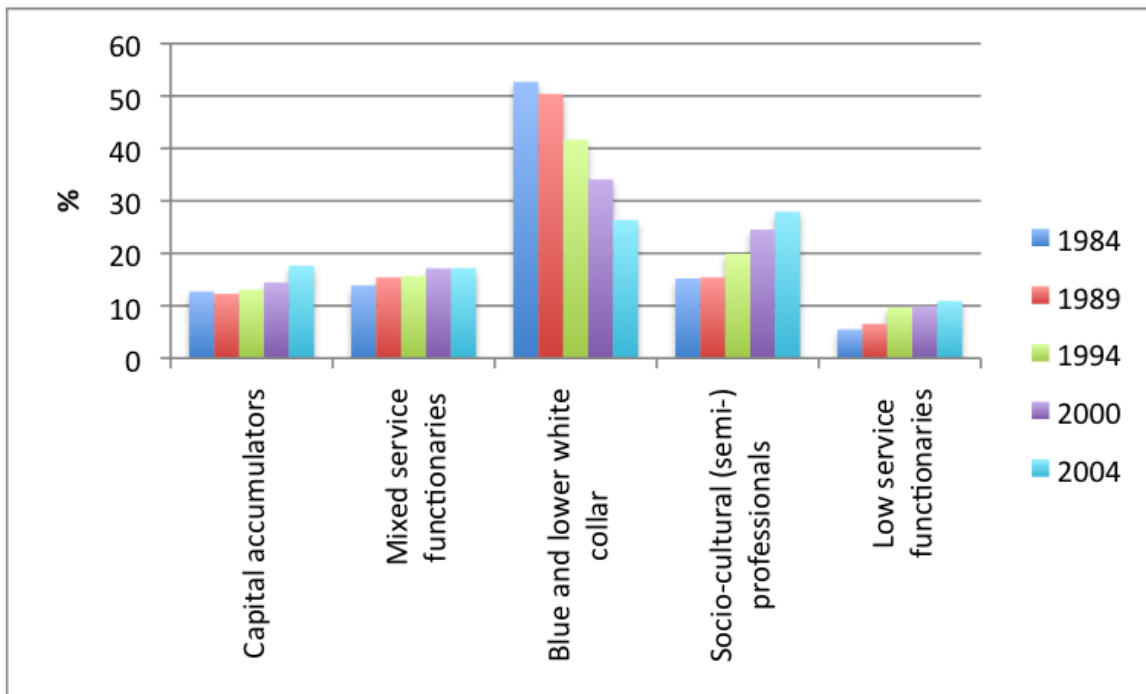


Figure 4.5: Socio-Economic Groups as % of Labor Market in Germany Over Time  
Source: LIS.

## Classification of Occupations into Post-Industrial Class Groups

Sources: Oesch 2006; Kitschelt and Rehm 2005: 23. **Reproduced from Häusermann and Schwander 2011.**

Independent work logic	Technical work logic	Organizational work logic	Interpersonal work logic	
<b>Large employers, self-employed professionals and petty bourgeoisie with employees (CA)</b> Self-employed <=24	<b>Technical experts (CA)</b> 21 Physical, mathematical and engineering science professionals	<b>Higher-grade managers (CA)</b> 11 Legislators and Senior officials 12 Corporate Managers	<b>Socio-cultural semi-professionals (SCP)</b> 22 Life science and health professionals 23 Teaching professionals 24 Other professionals 32 Life science and health associate professionals 33 teaching associate professionals 34 Other associate professionals	<b>Professional/managerial</b>
	<b>Technicians (MSF)</b> 31 Physical and engineering science associate professionals	<b>Associate managers (CA)</b> 13 General Managers		<b>Associate professional / managerial</b>
<b>Petty bourgeoisie without employees (MSF)</b> Self-employed >24	<b>Skilled crafts (BC)</b> 71 Extraction and building trades workers 72 Metal, machinery and related trades workers 73 Precision, handicraft, printing and related trades workers 74 Other craft and related trades workers			<b>Generally / vocationally skilled</b>
	<b>Routine operatives and routine agriculture (BC)</b> 61 Market-oriented skilled agricultural and fishery workers 92 Agricultural, fishery and related laborers 81 Stationary-plant and related operators 82 Machine operators and assemblers 83 Drivers and mobile-plant operators 93 Laborers in mining, construction, manufacturing and transport	<b>Skilled office workers and routine office workers (MSF)</b> 41 Office Clerks 42 Customer Service Clerks	<b>Skilled service and routine service (LSF)</b> 51 Personal and protective services workers 52 Models, salespersons and demonstrators 91 Sales and services elementary occupations	<b>Low/ un-skilled</b>

Two-digit numbers in front of job descriptions are ISCO88-2d codes.

CA = Capital accumulators. MSF = Mixed service functionaries. LSF = Low service functionaries.

BC = Blue-collar workers.

SCP = Socio-cultural (semi-) professionals.

Figure 4.6: Classification of Occupations

<b>Operationalization</b>	
Insiders / Outsiders	Outsiders are all individuals who belong to social groups (defined by class, gender, and age) that are significantly more exposed to the risks of unemployment or atypical employment in a particular welfare regime (Häusermann & Schwander 2011)
Household-level Gross Income	“MI”: Market Income before taxes and transfers
Household-level Disposable Income	“DPI”: Net household disposable income after taxes and transfers
Income Gap	$1 - (\text{ratio of gross (or disposable) income of outsiders to gross (or disposable) income of insiders})$
Disposable Income Ratio	Ratio of disposable income of outsiders to disposable income of insiders
Gross Income Ratio	Ratio of gross income of outsiders to gross income of insiders
Effect of Taxes & Transfers	$(\text{Difference between gross income gap and disposable income gap}) * 100$

Figure 4.7: Operationalization

Sources: LIS Waves 1984, 1989, 1994, 2000, 2004; Husermann & Schwander 2011.

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