

# Political Economy of Inequality

## Session 4: Labour markets II: Neoliberalism, dualization and inequality

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# Welcome back!

What we will focus on today:

- ▶ Neoliberalism
- ▶ Dualization and the insider-outsider theory of employment
- ▶ How distinctive are forms of capitalism really?

**Reminder:** Next session is on **18.11.2024**

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- ▶ **Argument**
  - ▶ Help the reader - Signpost your argument (topic sentences)
  - ▶ What counterarguments could there be? And why do you think that they are not as convincing as yours?
- ▶ Use **academic literature and (descriptive) data** to back up your claim

## Quick recap

- ▶ Decline in unionization and collective bargaining coverage
- ▶ Greater wage-setting decentralization → Neoliberal reforms and crisis
- ▶ Underlying question: How distinctive are different types of capitalism?

What is neoliberalism?



# What is neoliberalism?

- ▶ **Neoliberalism:** free market capitalism, deregulation and reduction in government spending
- ▶ **Macroeconomic reforms:** Trade liberalization, financial liberalization, fiscal retrenchment and disinflation
- ▶ **Labor market deregulation**
  - ▶ Wage-setting become more decentralized and closer to firm-level dynamics & derogation from existing collective bargaining agreements
  - ▶ Wage premium becomes higher
  - ▶ More flexible labor markets (temporary work)
- ▶ What about the role of the **state in industrial relations**?

## Insiders vs. Outsiders

- ▶ Power resource theory → Are the interests of labor homogeneous? What about intra-class conflict?
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# Insiders vs. Outsiders

- ▶ Power resource theory → Are the interests of labor homogeneous? What about intra-class conflict?
- ▶ Who are labor market insiders and outsiders?
  - ▶ **Static:** Current labor market status (Rueda 2005; Saint-Paul 1996)
  - ▶ **Dynamic:** Occupational class group, propensity for social risks, gender and age (Häusermann, Schwander, et al. 2012; Schwander 2019)
- ▶ Insiders have well-protected jobs vs. Outsiders are subject to market fluctuations → First in, first out
- ▶ A difference of *degree* rather than of *kind*? (Lindbeck and Snower 2002)
- ▶ The role of unions
- ▶ Any demographic cleavages?

# How are insiders and outsiders different and why does it matter?

- ▶ What are the preferences of labor market insiders?
  - ▶ Employment security
  - ▶ Wage growth
- ▶ What about firms? Labor *turnover* costs
  - ▶ Severance pay
  - ▶ Hiring
  - ▶ Training
- ▶ But do insiders really only care about themselves?
  - ▶ Labor costs with outsiders
  - ▶ Solidarity with outsiders, e.g. minimum wage (Marx and Starke 2017)
- ▶ Trade unions: Do they only defend the interests of members or also that of outsiders? (Keune 2015; Meardi, Simms, and Adam 2021)

# The politics of the insider-outsider divide I

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# The politics of the insider-outsider divide I

- ▶ After the 'golden age of capitalism', how should social-democratic parties deal with the emergence of outsiders?
- ▶ Rueda (2005) Social-democratic parties as labor market insider parties
- ▶ Social-democrats as the party of labor market insiders? *The insider-outsider dilemma* (Lindvall and Rueda 2014)
  - ▶ If social-democrats support insiders, outsiders might abstain or support radical parties
  - ▶ If social-democrats support outsiders, insiders might go to center-right
- ▶ Which groups matter more?

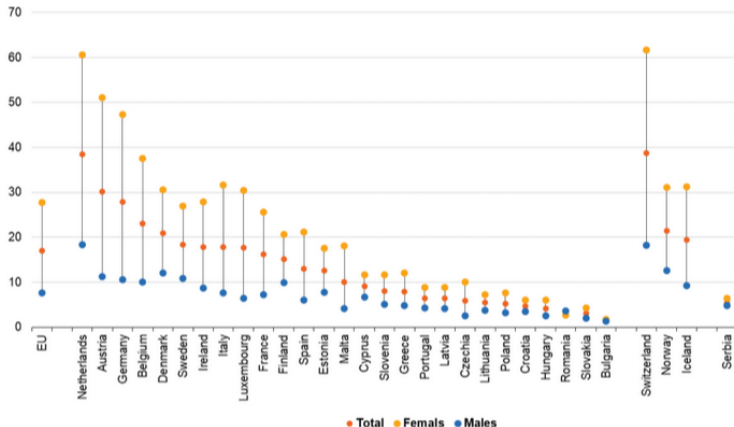
# The politics of the insider-outsider divide II

- ▶ Party politics and insider-outsider preferences: Who defends the interests of labor market outsiders?
  - ▶ Abstention (Marx and Nguyen 2016)
  - ▶ Would it make sense to voter for center-right parties? Reduction in EPL. (Rueda 2005)
  - ▶ Unlikely! Outsiders support for new left parties (Rovny and Rovny 2017; Marx and Picot 2013)
  - ▶ Electoral composition → Shift for social-democratic parties, also pro-outsider policies (Bürgisser and Kurer 2021)
  - ▶ Globalization, job losses and support for populist parties (King and Rueda 2008; Georgiadou, Rori, and Roumanias 2018)
- ▶ Outsider-insider household (Schwander 2019)

# How to measure outsider-ness? Part-time employment

## Part-time employment by sex and country

(as % of total employed people aged 20-64 in each sex category, 2022)



Source: Eurostat online data (lfsa\_epgaed)

eurostat

Figure 4: Part-time employment by sex and country

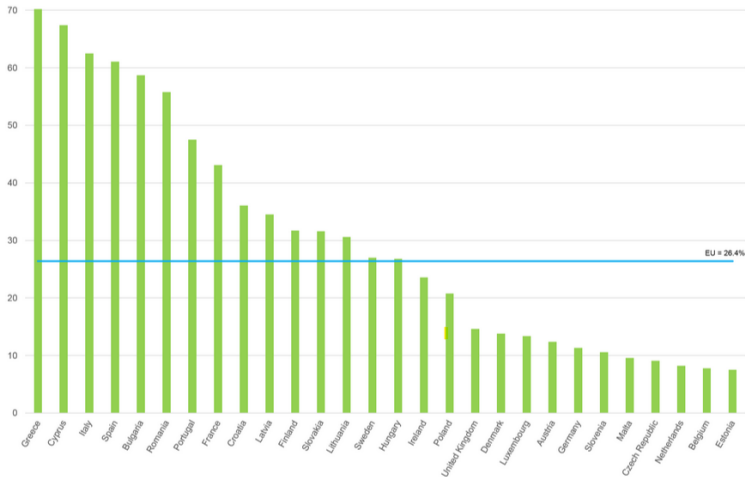
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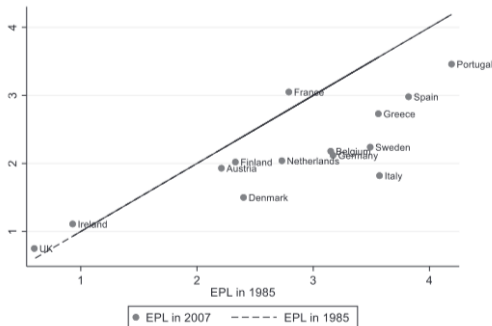
# How to measure outsider-ness? Involuntary part-time employment

## Involuntary part-time employment, 2017

(as % of the total part-time employment)



# Employment protection legislation (EPL)



**FIGURE 1** EPL in 1985 and 2007.  
EPL, employment protection legislation

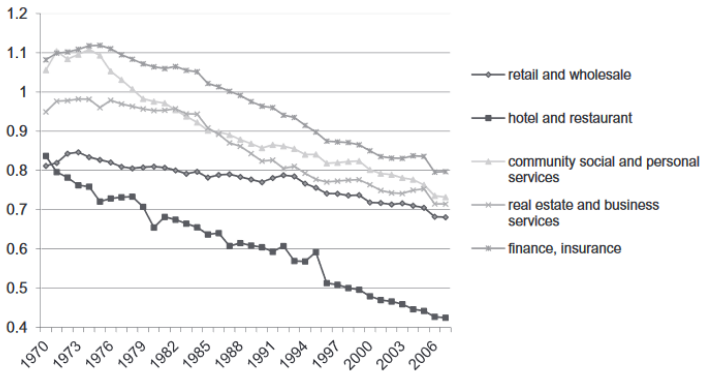
Figure 1: Simoni and Vlandas (2021)

# Labor market dualism

- ▶ Can we have both? Liberalization and coordination
- ▶ Labor market segmentation in the economics literature (Eichhorst and Marx 2021)
  - ▶ Segmentation: Insiders on full-time contracts vs. outsiders, precarious working conditions
  - ▶ Segmentation as second-best solution: Business lobbies for deregulation, but unions block this
- ▶ Germany as a case study: Expansion of low-pay sector with low collective bargaining coverage and high protection for core workers.
- ▶ Complementarity between coordination and liberalization (Hassel 2014)

# Labor market dualism in Germany

FIGURE 2  
Hourly Wage in Services as Share of Manufacturing Wages.



Source: Klems Database. Data Accessed in 2011.

Figure 2: Hassel (2014)

Today's readings: Baccaro and Howell (2011)

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- ▶ Common 'trajectory of liberalization': Fordist wage-led growth model and egalitarian forms of capitalism was an exception
- ▶ Convergence vs. divergence → where is the *comparative* in comparative political economy?
- ▶ Notion of change in different institutionalist approaches?  
Gradual change, but strong path dependence
- ▶ Continuity of structure  $\neq$  from continuity of form (Kinderman 2005)

## Baccaro and Howell (2011)

- ▶ Institutional deregulation
  - ▶ Shift to collective bargaining at the workplace
  - ▶ Lower employment protection
- ▶ Institutional conversion
  - ▶ Formally unchanged institution
  - ▶ Centralized bargaining and work councils
- ▶ **Argument** Industrial relations in CMEs do not become like those of LMEs → But the **direction** of change has been the same

Thelen (2012)



# Thelen (2012)

- ▶ Debate
  - ▶ **Liberalization 'camp':** Globalization, liberalization in work relations, inequality. How compatible is capitalism with equitable social outcomes really?
  - ▶ **VOC approach:** Institutional differences, different forms of capitalism can be successful
- ▶ Example of Germany: Wage-setting coordination is seemingly unchanged, but collective bargaining coverage declines. Who is right?
- ▶ VoC institutions for economic efficiency, question of institutions on social solidarity

# Different types of liberalization

- ▶ LMEs: Deregulation
  - ▶ Frontal assault (e.g. Thatcher, UK - 1980s)
- ▶ CMEs (sectoral): Dualization
  - ▶ Germany as a case study
  - ▶ Weak collective bargaining autonomy (Bosch and Lehndorff 2017)
  - ▶ Core sector vs. periphery sector
- ▶ CMEs (national): Embedded flexibilization
  - ▶ Flexicurity: active labor market policies, flexibility in the labor market and social security

# The argument

- ▶ Institutions of the past need to be supported by new social coalitions (shift from manufacturing to service economy)
- ▶ New interest associations and the capacity of the state to broker coalitions that encompass the interests of different types of workers.
  - ▶ Example of Scandinavian ALMP → Not shield workers from the markets, but adapt them to it

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