Labor market segmentation and the politics of investment and compensation

Ognjen Zugic
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Academic dissertation for the Degree of Doctor of Philosophy in Political Science at Stockholm University to be publicly defended on Friday 2 February 2024 at 13.00 in Aula Magna Höger, Frescativägen 6.

Abstract
This dissertation investigates patterns of policy reform that relate to labor market segmentation. It does so through two interrelated research questions. The first question aims to understand what policies are theoretically relevant for a regime-based model of labor market segmentation and how these policy regimes have empirically evolved over time in rich European democracies. The theoretical approach argues that previous studies have a narrow policy focus. Previous literature studies policy-based dualization primarily through how governments regulate the labor market status of standard and atypical workers through employment regulations. Some literature also incorporates active labor market policy (ALMP) or unemployment compensation as a way to include pro-outsider policy into models of policy-based segmentation. This thesis argues that current policy models of segmentation fall short of capturing the full scope of how government economic strategy approaches segmentation. Primarily, they do not represent governments’ efforts to either avoid segmentation by investing in a skilled insider workforce or compensating the effects of segmentation through outsider-targeted welfare tools. To integrate investment and compensation as policy dimensions alongside the literature’s focus on regulation, the dissertation incorporates tertiary education and minimum income benefits alongside employment regulations and labor market policy in a labor market policy regime.

The second research question addresses the politics of these reform trajectories, asking why reforms were undertaken and what made them successful. Because the beneficiaries of higher education and minimum income benefits are politically diffuse, it develops an explanatory account of reform based on the role of political coalition-building in broader political processes that help secure reform coalitions for policies where beneficiaries are not concentrated labor market constituencies. The dissertation contrasts this theoretical account against two influential explanatory theories, one based on electoral politics and the other on economic interests.

In the second and third chapters, the dissertation uses a descriptive strategy to investigate the first research question by investigating policy developments in sixteen rich European democracies combined with a deeper investigation into policy changes in Sweden, Germany, and the Netherlands. It shows that a focus on regulations and labor market policy underestimates the variety of strategies governments take to intervene in the balance and outcomes of typical and atypical labor market participants. The chapters identify two empirical policy trajectories. One invests more in a skilled insider workforce but compensates outsider employment less; another invests less but uses more targeted welfare benefits to compensate for atypical employment outcomes. This variation occurs within similar trajectories of employment regulation and labor market policy.

This dissertation’s fourth and fifth chapters use qualitative material to investigate influential reform processes in tertiary education and minimum income benefits in Sweden, Germany, and the Netherlands. These chapters show that decisions are made in the context of labor market concerns and that where they benefitted diffuse constituencies, decisions to invest in insiders or compensate outsiders were a part of broader reform processes. The findings illustrate patterns of party and economic coalitions that deviate from predictions made by other explanatory accounts.
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Acknowledgements

This dissertation is the final product of my doctoral education, but what I learned and how I developed stretches far beyond what is written on the following pages. This study, the long years of intellectual enrichment, and the many stages of personal betterment were a privilege only made possible by many exceptional mentors, colleagues, and friends.

Kåre Vernby and Johannes Lindvall were my dissertation advisors; I am grateful to each of them for their brilliant supervision. Over the years, they read dozens of drafts and met with me countless times, and I always left our discussions feeling reinvigorated. That we could have so many meetings where each was endlessly constructive and patient is a model of communication I hope to always live up to. Kåre, you’ve always answered with interest when I knock on the door with an idea or challenge. Because of that, many consequential realizations I’ve had over this process were during informal chats on campus. Johannes, even though we work on different sides of Sweden, your openness and availability made me feel like your office was just down the hall.

Comments from Pär Nyman, Cornelia Leander, Sanna Lundquist, and Jonas Tallberg during my mid-seminar and final seminar were helpful and appreciated. In addition to Jonas, Alexandra Segerberg and Joakim Kreutz gave me a stimulating environment to discuss and plan the project in our first-year supervision group. In the last years, the Comparative Politics seminar has provided an energizing intellectual home at the department, and I am grateful to all the participants, in particular to Niklas Bremerberg, Alexander Katsaitis, Ludvig Norman, Jonas Tallberg, and Jan Teorell for their comments that significantly improved the first chapter of this dissertation. Jakob Ahlbom and Rickard Söder also gave helpful feedback on the fourth chapter during the excellent PhD retreat. I also benefited from intellectual support outside the limits of this dissertation. Lisa Dellmuth gave me my first look into an academic research project during my second year. More recently, Andreas Duit opened my research to topics far outside the narrow limits
of this dissertation. Support from the Swedish National Data Service made attending the ICPSR summer program possible, giving me valuable methodological tools that will continue to serve me well beyond this thesis.

Sometimes, PhD students need more than intellectual support. In my experience, institutional support was also abundant. When a legal reform to Sweden’s immigration system made things uncertain for me, Jon Nyhlén, Christian Möllerop, Göran Sundström, Niklas Bremerg, Agneta Sundman Claesson and Anneli Lindén all had a role in safeguarding my stay in Sweden. I also thank the Swedish Association of Teachers and Researchers (SULF) for representing my interests and the interests of other foreign PhD students during this time. Along with Niklas, Thomas Sommerer provided much support as the heads of PhD studies.

Hans Agné, in addition to leading the first course I took, gave my PhD cohort a valuable piece of advice: the people we would rely on most would be each other. To Carl Vikberg, you have become a dear friend of mine over the thousands of office chats and text messages we’ve shared these years. Only a minor quarrel over the third-dimensional properties of indifference curves (the origin of which I can’t remember anymore) keeps us from a perfect record. Anna-Maria Fjellström, Sanna Lundquist, and Carolina Janson were also a part of this group; your kindness and generosity of spirit made the years live up to Hans’ advice. In addition to the many other wonderful people I’ve been lucky to share Floor 5 with, Karin Sundström, Cornelia Leander, Sara Moritz, Tyra Hertz, and Ian Higham are recognized here for making me feel extra welcome.

Finally, thank you to my parents, Predrag and Nermina, for their support through a life that has moved across the Atlantic twice now (let’s hope for the last time). To Elise, even though “did we learn a lesson?” became a common phrase every time an evening of worry and doubt turned out completely fine, I still haven’t learned a thing. With you by my side, I don’t need to!
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ALG II</td>
<td>Arbeitslosengeld II (Unemployment benefit II)</td>
</tr>
<tr>
<td>ALMP</td>
<td>Active labor market policy</td>
</tr>
<tr>
<td>BDA</td>
<td>Bundesvereinigung der Deutschen Arbeitgeberverbände (The Confederation of German Employers’ Associations)</td>
</tr>
<tr>
<td>D66</td>
<td>Democraten 66 (Democrats 66)</td>
</tr>
<tr>
<td>DGB</td>
<td>Deutscher Gewerkschaftsbund (The German Trade Union Confederation)</td>
</tr>
<tr>
<td>EGG</td>
<td>Existenzgrundlagengesetz (Subsistence Act)</td>
</tr>
<tr>
<td>EPL</td>
<td>Employment protection legislation</td>
</tr>
<tr>
<td>GMI</td>
<td>Guaranteed minimum income</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and communications technology</td>
</tr>
<tr>
<td>LO</td>
<td>Landsorganisationen i Sverige (The Swedish Trade Union Confederation)</td>
</tr>
<tr>
<td>NSE</td>
<td>Non-standard employment</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization of Economic Cooperation and Development</td>
</tr>
<tr>
<td>PLMP</td>
<td>Passive labor market policy</td>
</tr>
<tr>
<td>PvdA</td>
<td>Partij van de Arbeid (The Labour Party)</td>
</tr>
<tr>
<td>SAP</td>
<td>Sveriges socialdemokratiska arbetareparti (The Swedish Social Democratic Party)</td>
</tr>
<tr>
<td>SOU</td>
<td>Statens offentliga utredningar (Swedish Government Official Reports)</td>
</tr>
<tr>
<td>SPD</td>
<td>Sozialdemokratische Partei Deutschlands (The Social Democratic Party of Germany)</td>
</tr>
<tr>
<td>TCO</td>
<td>Tjänstemännens centralorganisation (The Swedish Confederation of Professional Employees)</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational education and training</td>
</tr>
<tr>
<td>VVD</td>
<td>Volkspartij voor Vrijheid en Democratie (The People’s Party for Freedom and Democracy)</td>
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Chapter 1
Politics and the new labor market

In this thesis I explain what motivates policy makers when they have to make decisions about labor market groups that are not well organized, are not politically important, and do not form clear electoral or economic constituencies. This thesis situates itself between narrow policy-based studies of labor market dualization and broad studies in comparative welfare state research by developing a more comprehensive theoretical model of the policy trajectories that characterize labor market segmentation. I call these patterns of policy-making labor market regimes. Labor market regimes include policies familiar to any scholar of labor market segmentation: employment regulations, passive labor market policy, and active labor market policy. As I show, however, focusing on these policies alone underestimates variation in the policy trajectories of European countries. I demonstrate other policies that have a fundamental role in shaping dualization are used with greater variety than the standard policy toolkit of dualization literature suggests. In particular, I show that important decisions are taken on behalf of future labor market insiders and current outsiders when policy-makers reform higher education systems and minimum income benefits. Because the beneficiaries of these reforms are often not as strongly organized as current insiders, however, reforms to their benefit often take place incidentally to other processes which are able to generate strong reform coalitions.

First, countries vary greatly in how they invest in tertiary education despite the fact that tertiary education is one of the primary tools governments can use to invest in future labor markets. Although studies of tertiary education are typically siloed into their own literature, I argue tertiary education constitutes a major tool used for shaping the future
insider labor market. Second, countries also vary greatly, and in surprising ways, in how they organize and fund their minimum income benefit systems, despite the fact that the beneficiaries usually have a very weak attachment to the labor market. Studies of minimum income policy are seldom connected to labor market politics, even though means-tested benefits are powerful a tool for mitigating the negative circumstances labor market outsiders find themselves in. Yet standard accounts of dualization downplay the importance of these policies. By adding these two policy areas I argue that my labor market regimes encompass two significant strategies used by policy-makers to address the problem of segmented labor markets: investing in insiderness and compensating for outsidership. Defending the addition of these tools and strategies into my argument about how scholars should think about policy-based dualization constitutes a theoretical and descriptive contribution of this dissertation.

But why would governments reform policies where beneficiaries have not yet entered the labor market, as in the case of tertiary education; or for whose beneficiaries are demographically heterogeneous, weakly organized, and numerically small, as is the case of minimum income benefits? If we follow prominent explanatory accounts of economic policy making, we have no reason to believe they would. These accounts rely on what I call a “constituency-beneficiary” logic, where political actors are primarily motivated to produce reforms which favor beneficiaries who are important political constituencies. In comparative political economy literature, those constituencies are either composed of groups of voters or economic interest groups. Yet these accounts are ill equipped to explain the reforms that I focus on in this dissertation.

Instead, I introduce an explanatory account that argues when reforms favor unimportant or unorganized beneficiaries, it is because the reform is incidental to some other political process that does manage to form a coalition of influential constituents. These constituents, however, are not the beneficiaries of the reform which benefits, for example, labor market outsiders. This happens when reforms are included as a part of a political bargain to achieve another political objective, as a smaller part of a larger political project, or as a way to reorganize decision-making authority or policy responsibility. This is not to suggest that reform is unintended or random. Policy-makers understand the effects of policy and want to make their proposals consistent with their ideological or programmatic objectives. In this argument, what enables an outsider-friendly reform is not the importance of outsiders as a constituency, but a coalition of actors who are primarily concerned with something else.
This creates an opportunity for constituency-beneficiary links to become less politically important because political support is formed around another primary process. It also implies that the coalitions which might form in support of reform that benefits small, unorganized groups can be innovative and flexible, opening up unconventional pathways for political change. While this argument is an explanatory contribution of this dissertation, I argue that similar arguments are commonly found in literature explaining welfare state retrenchment, new politics of welfare states, multidimensional reform processes, and reform capacity of power-sharing systems.

Researchers understand labor market segmentation in postindustrial economies through different definitions and disciplinary focuses, but they all share the core observation that economic life is increasingly characterized by at least two worlds of work. One group includes workers with secure and stable employment and another includes workers who hold irregular, short, or undefined working hours and employment duration. They are faced with comparatively weaker job security by nature of their contract. As opposed to a homogeneous class of labor, therefore, working life is characterized by the experiences of insiders and outsiders. At the same time, governments can deploy a variety of policy tools which influence the significance of this dualization, I argue the variety of these strategies and whether they create distinct worlds of segmentation has been under explored.

The heterogeneity of working life may also draw scholars to characterize the experience of work as increasingly precarious or even to refer to the quality of the working conditions, pay, and workplace benefits experienced by workers (Kalleberg, 2011). The focus of this study, however, is not the subjective quality of workplace experiences or even the tangible conditions offered by a job such as the pay, the cleanliness or safety of the work environment, or the stress induced by job insecurity. Rather, I document the role of politics and policy-making in responding to differences among workers with different types of jobs. To do so, this project is centered around two main questions:

1. What combinations of labor market, social, and education reforms have been undertaken in Western Europe?

\footnote{Although these factors are correlated with labor market dualization, with labor market outsiders facing higher likelihood of recurring poverty (Tomlinson and Walker, 2012) and health problems (Benach and Muntaner, 2007).}
2. Why have governments adopted different reforms that were important for the recent trajectory of labor market regimes?

In short, the questions above achieve the two main aims of this dissertation. The first aim is to theoretically identify the relevant policy dimensions of segmentation and to descriptively map the concrete policy changes that distinguish different national patterns of policy-making that I call labor market regimes. The second aim is to investigate the explanations for why these policy areas evolve in relation to labor market segmentation.

To achieve these aims, this dissertation relies on a comparison of how different national “policy regimes” stratify or equalize labor market insiders and outsiders. A policy regime is different than an individual policy or reform, a government position, or a party platform. Policy regimes are constellations of policies and institutions which reveal the underlying logic of a system of governance and can offer information about how policies interact with each other, the values of politics, and who the winners and losers of political arrangements become (May and Jochim, 2013). A regime focused view of segmentation ties policies to politics, it helps illustrate the trade-offs among policies that elected officials are willing to make, and how those decisions influence the stratification of labor market groups. To characterize these regime aspects, I argue dualization occurs through two theoretical channels: the likelihood of transition from one labor market group to another and the quality of benefits targeted to each labor market group.

The first contribution of the dissertation is that I argue expanding the group of policies beyond what segmentation literature tends to focus on has the benefit of revealing distinct government strategies, or trajectories, in Chapter 2 and Chapter 3. To understand the drivers of segmentation, the policies I include in these regimes are important tools that policy-makers use to manage the segmentation of labor markets. Specifically, I include employment regulations, active labor market policy, unemployment compensation, tertiary education expansion, and minimum income benefits. The first three are a common focus in studies of segmentation but the latter two are not. I argue that these are worth integrating into explanations of how governments respond to labor market segmentation.

These are not chosen just to increase the number of policy tools that my model draws on, but because they are a good representation of particular policy dimensions relevant for labor market segmentation. Employment regulations and labor market policy describes one dimen-
Politics and the new labor market

sion of policy-making where policy-makers manage the current balance of insiders and outsiders. But apart from this, policy-makers also spend resources on two other theoretically relevant dimensions. First, they invest in future labor markets. This is done through a wide array of education policy tools that are aimed at ensuring first-time labor market entrants are prepared to enter a competitive market. Second, they compensate for poor labor market outcomes. Unemployment compensation is one example of this, but if outsider employment is a concern for a policy-based model of dualization, compensating for the precarious nature of outsider employment is a uniquely relevant policy dimension for the argument put forward by this dissertation. Therefore I include tertiary education as one of the main tools governments use to manage the skill profile of the economy, and minimum income benefits as one of the primary instruments available for compensating the working poor for their marginal position in the labor market. Chapter 2 is therefore dedicated to a theoretical account of how these policies function in a labor market regime and a descriptive account of how these policies have developed across wealthy European democracies. Chapter 3 is dedicated to a more in-depth analysis of three countries that show interesting variation: Sweden, Germany, and the Netherlands.

Among those countries, two strategies for approaching segmented labor markets emerge that I spend the rest of the dissertation exploring. First, an investment oriented strategy is present in Sweden that does not accommodate the growth of outsider employment but focuses on increasing the chances that workers make it into insider employment, and therefore into traditional insurance based welfare state arrangements. The unexpected downside of this is that those who find themselves outside the general insurance system rely on minimum income policies that lose value through a process of drift, compensating outsiders at the bottom of the earnings distribution is rarely the focus on welfare state politics.

Second, a compensation oriented strategy emerges in the Netherlands and Germany that focuses on minimum standards for certain types of outsider. These regimes focus on normalizing and encouraging outsider employment, and unlike in the example above, spend a considerable amount of reform effort on the benefits available to outsiders. They target particular types of outsiders, such as part-time workers or low wage earners for income supplements, and have in the past fifteen years increased the value of minimum income benefits relative to wages\(^2\). On the

\(^2\)Although this does not mean inequality has not grown, that poverty
other hand, allowing outsider employment to grow seems to be accom-
panied with less egalitarian higher education systems, either because
individual student finance is more means-tested (and therefore redis-
tributive in terms of income policy) or because enrollment has been
historically low.

Therefore one system invests more but compensates comparatively
less, another system compensates more but does not invest as much.
These strategies, investment and compensation, are theoretically rele-
vant alternatives to the one provided by most dualization literature that
focuses on increasing or decreasing the extent of dualization through la-
bor market regulation. But in order to operationalize these theoretically
relevant policy dimensions, we need a model of segmentation with poli-
cies that capture political effort at investing in insider employment and
compensating outsider employment. By integrating tertiary education
and minimum income benefits into a labor market regime model, this
dissertation shows such a model is not only theoretically necessary, but
reveals novel variation in policy regime trajectories.

The second contribution is an explanatory one. I argue traditional
theories that are used to explain government decision-making are not
linked to the theoretical model of policy-based segmentation I propose.
I argued above that a policy model of segmentation should include a
wider range of tools which benefit diffuse constituencies. On the other
hand, the most prominent explanatory theories focus on powerful polit-
cical constituencies. In exchange for support, governments propose poli-
cies that these constituencies are often the beneficiaries of. Prominent
literature either focuses on electoral constituencies grouped by occupa-
tional class or economic constituencies grouped into different produc-
tion interests. This theme will be present when I review dualization
literature, where partisan theories of dualization often explicitly rely
on constituency-beneficiary linkages between, for example, employment
protection regulations and labor market insiders, or active labor market
policy and labor market outsiders. But the nature of segmentation is
that it produces heterogeneous labor markets with small groups of po-
litically weak voters. This is where policy makers presumably face the
greatest need for policy intervention. In fact, Chapter 2 and Chapter 3
show that some of the more interesting variation among European la-

is not a problem, or that it is good to be an outsider in these coun-
tries. Rather these regimes spend comparatively more political effort
on orienting welfare in a direction that combines benefits with atypical
employment
Politics and the new labor market regimes comes from differences in policies that do not have well-organized beneficiaries.

To account for these variations, I suggest an explanation that relies on coalition building around reforms, where the primary beneficiaries of reforms are powerful and benefits to less powerful groups are incidental, typically an outcome of a bargaining process to build the primary reform coalition. The nature of the coalition building processes allows reformers to guide policy outcomes in directions that fulfill distributive or ideological objectives which may not be the direct objectives of their most powerful constituents. For an example, consider budget cuts in response to calls for fiscal discipline. A party with more left-wing preferences may be convinced to support cuts where they perceive it necessary in exchange for more income protection for the most vulnerable labor market groups. The reform would reduce the budget overall because the increase in outsider income benefits would be small compared to overall cuts, shifting the distributive profile of the reform in exchange for their support. In this example, appeals to important constituencies would not explain the increase in outsider benefits, this was incidental to coalition building around another political objective.

My argument also has an institutional component. Where institutions are more fragmented, or where policy processes involve a large number of institutional actors, the options for coalition building around reforms become larger and the coalition for reform can include a wider group of actors. In the example of budget cuts, if the benefit to outsiders was administered by (or even partially financed by) municipalities, policy-makers would need support among local political actors as a part of the reform coalition. The only exception would be if policy-makers enjoyed such an overwhelming majority to make dissent from this important constituency irrelevant. This is an important component of my approach, even though constituents such as municipalities are not a formal part of the national policy-making process, their support is nonetheless important for political parties to achieve their goals. When building a coalition for reform, they can be just as important constituents to a reform process as organized groups of voters are. My approach shows important reforms in favor of politically weak groups are made incidentally to other political processes, which could not be explained by what I call constituency-beneficiary approaches. This decouples the politically weak beneficiary from the politically powerful constituency.

In the following section, I review foundational literature on dualization and introduce some of the main concepts and theories in the field. Afterwards, I briefly introduce my idea of labor market regimes,
and provide a general argument for why this approach is necessary in the labor market segmentation literature. Following this, I introduce important explanatory models for this dissertation, and how they will be applied to the main policy case studies in Chapter 4, which presents three case studies of the expansion of higher education, and Chapter 5, which presents three case studies of the politics of minimum income benefits. In particular, I describe two main explanatory theories in comparative political economy and argue that the policy outcomes studied later in this text do not match the expectations for the development of policies I study in Chapter 4 and Chapter 5. Following this I introduce and defend my own explanatory approach, discuss case selection, methods, and conclude.

1.1 Dualization and public policy

This dissertation sets two policy families, tertiary education and minimum income benefits, into a growing research field which studies the politics of contemporary labor markets. Although economic theories of dual labor markets appeared in academic research fifty years ago (Döringer and Piore, 1971), the phenomenon of society-wide segmentation in labor markets is more recent. The process is called by different names: precarity (Kalleberg, Reskin and Hudson, 2000), segmentation (Picot, 2013), and dualization (Rueda, 2005, 2007; Emmenegger et al., 2012). However, the consequences for theories of socioeconomic policy change which rely on political support from labor or social democratic voters (Korpi and Palme, 2003; Huber and Stephens, 2001) are similar. Rather than parties drawing support for policy reform from a homogeneous pool of labor, labor is differentiated into two or more segments which can have conflicting preferences or benefit from social policy reform in different ways. Furthermore, theories which rely on the experience of individual economic risk for explaining demands for social policy reform (Rehm, 2016) are complicated by a pool of labor with systematically differentiated risks depending on their labor market status. I proceed with three main areas of research: literature which engages with dualization as a concept, literature which engages with dualization and politics, and literature which engages with relevant social welfare policies.
Dualized firms, markets, or policies? Conceptual differences in political economy

Attention to the politics of post-industrial labor markets is growing, but conceptual differences persist in how segmentation is understood in different research fields. Different authors focus on segmentation at different levels. The first accounts of labor market dualization were described in economics literature and claimed that in contrast to orthodox labor market models where labor is provided through one competitive market, there were two distinct markets for labor: a primary market with high wages, good working conditions, administrative due process, and employment stability alongside a secondary market with low wages, poor working conditions, high turnover, and arbitrary supervision (Doeringer and Piore, 1971; Piore, 1972). Doeringer and Piore (1971) argued that the cause of dual labor markets originates at the firm-level where a significant amount of jobs are filled by promoting or transferring workers who are already in the firm. The aggregate of these “internal labor markets” constitutes the primary labor market. Because firms have incentives to keep their most valuable employees, they employ workers from the secondary market as a buffer to the competitive forces of the external labor market. Economists who promoted dual labor market theory argued it better accounted for broad social problems than the orthodox labor market model\(^3\), but dual labor market theory remained a controversial\(^4\) economic problem with policy implications, not a fundamentally political problem.

Labor market dualization later gained relevance again through studies that found dualization as an outcome of collective action and politics. For economists like Lindbeck and Snower, the insider-outsider model arose from insiders who took advantage of high turnover costs of replac-

\(^3\)The introduction to Internal Labor Markets and Manpower Analysis argued dual labor market theory better addressed policy concerns that will be familiar to any student of comparative political economy: “structural unemployment, technological change and automation, inflation, racial discrimination, and the employment and training of disadvantaged workers” (Doeringer and Piore, 1971, p.1).

\(^4\)Later, Michael Piore wrote: “I never considered myself a revolutionary; indeed quite the contrary. But as an exponent of labor market segmentation in the community of ‘normal’ economics, I can assure you that labor market segmentation does not fit the paradigm.” (Piore, 1983, p.249)
ing insiders with outsiders\textsuperscript{5}. These turnover costs gave insiders market power that was represented by trade unions, organized through wage bargaining, and was politically relevant since (at the time of writing) insiders were a clear electoral majority (Lindbeck and Snower, 1988b, 2001). Later, political scientists and sociologists began to focus on the policy-driven sources of dualization, and the political causes of those policies. The most relevant example of this is partisan models of dualization, which link labor market segmentation to party politics. Partisan models of dualization characterize labor markets with two divergent groups, insiders and outsiders (Rueda, 2005, 2007), where these two groups are defined by their current working status. Insiders are those with standard full-time employment, while outsiders are those who are in a variety of atypical positions including the unemployed, involuntary part-time employees, or workers with fixed-term contracts. The advantage of this approach is that the connection between status and policies is clear and forms parsimonious models of how politics operates. For example, Rueda (2005; 2007) characterizes dualization as an outcome of regulations which protect insiders from dismissal, while outsiders are made more competitive with insiders when they receive job training. This leads to clear theoretical expectations about the politics of dualization: insiders support parties that promise high regulation, outsiders support parties that promise more generous labor market policy, and since the two are mutually exclusive in his model center-left parties face a trade-off between these two labor market segments. Picot and Menéndez (2017) present a similar argument by arguing dualization is shaped by policy changes which intervene in the regulation of non-standard employment and provision of unemployment benefits.

Dualization has also been widely documented as an individual level, risk-based concept (Schwander and Häusermann, 2013). In this research, dualization is characterized by an individual’s occupational probability of unemployment. Outsiders are those working in occupational classes who face higher than average risks of incurring atypical outcomes such as unemployment. This literature draws on contemporary measurements of occupational class (Oesch, 2006) and uncovers micro dynamics of labor market segmentation including the prevalence of outsiderness among women and young people (Häusermann and Schwander, 2012), family dynamics of outsiderness (Häusermann, Kurer and Schwander, 2016),

\textsuperscript{5}Especially turnover costs that originate from seniority rules, mandatory dismissal periods, or insiders harassing or refusing to cooperate with newly hired outsiders (Lindbeck and Snower, 1988a, 2001).
and the conceptual and empirical differences between outsiders and globalization losers (Häusermann, 2019). While this approach has benefits for conducting research into individual effects of atypical labor market experiences, intersectional labor market risks classify the individuals, not the orientation of the policy regime or party system. Alternatively, sociological work often focuses on precarity, which entails not only individual status but often the quality of work and associated benefits (Kalleberg, Reskin and Hudson, 2000), connecting work to a broader description of quality of life and social rights.

Busemeyer and Kemmerling (2019) address this conceptual confusion directly by arguing the literature tends to refer to dualization on two levels. The first is a micro level conceptualization of dualization which focuses on individual insiders and outsiders, and moves from the bottom up with an approach that starts with insiders and outsiders and moves up to their effects on politics through voting. Rueda (2007) and Häusermann and Schwander’s (2013) concepts fall in this micro category. In contrast, this dissertation adopts what Busemeyer and Kemmerling identify as a macro level perspective of dualization. Here dualization occurs when policy changes themselves reflect a dualistic logic, such as when employment regulations increasingly protect insiders over outsiders (Eichhorst and Marx, 2021) or when social benefits are concentrated in insurance based schemes which require a full-time employment biography to receive robust benefits (Thelen, 2014). Like this dissertation, studies that approach dualization from the macro level are not concerned with individual outcomes but rather with policy-making and regulation.

**Approaches to the politics of segmentation**

The conceptual distinctions from the previous section form a basis for different approaches to the politics of dualization. Where the conceptual focus of studies is on the micro level of dualization, politics is a matter of the political behavior of individual insiders and outsiders. This literature explains the implications of segmented political behavior in terms of electoral or policy outcomes, but the primary political influence of segmentation is expressed through dualization as a characteristic of voters. Other approaches can focus more closely on the outcomes of dualization, or the policies that governments choose where the preferences of dualized electorates is only one factor that influences decision making.

One of the first attempts to describe dualization as an electoral political dilemma posited that stratification between insiders and outsiders
would inherently form a problem for social democratic parties (Rueda, 2005) who once relied on a more homogeneous labor force for votes but now face insiders and outsiders who have conflicting policy preferences. This research found evidence that social democratic parties tend to choose supporting insiders at the cost of outsiders. Lindvall and Rueda (2014) find evidence for this dilemma in Sweden, showing how the social democratic party gained outsider votes in elections when it made an appeal to unemployment issues but lost outsider votes (and gained insider votes) when it made appeals to middle class insiders. More recently, Bürgisser and Kurer (2021) cast some doubt on earlier claims that social democratic parties systematically pursue insiders, they find social democratic parties alter their strategies to different degrees based on how electorally relevant insiders and outsiders are. The voter preferences literature on dualization also shows labor market risk influences preferences for redistribution, with outsiders tending to demand higher levels of income redistribution through the welfare state. This preference effect is shown to be robust at different skill levels (Häusermann, Kurer and Schwander, 2015) and remains robust despite sharing a household with an insider (Häusermann, Kurer and Schwander, 2016).

Research on dualization and politics has also spread to other party families than social democracy. Although not explicitly referencing labor market trends, Gingrich and Häusermann (2015) find that center-left electoral coalitions for welfare state reform increasingly include middle-class voters instead of working class voters. This echo some of Lindvall and Rueda’s findings that social democratic parties can make appeals to either middle-class insiders or working class outsiders, but have a harder time doing both. With populist radical right parties gaining attention in political science literature, scholars have found mixed findings about the links between dualization and right wing parties. Dal Bó et al. (2019) find outsiders disproportionately form the electoral base for the Sweden Democrats, a Swedish radical right party. However, this contribution posits that outsiders are the main losers in globalization, and it is these “losers” who vote for the radical right. Häusermann (2019) argues globalization losers are in fact insiders who work in exposed sectors, and that outsiders do not systematically vote for radical right parties.
Politics and the new labor market

Policymaking literature: why different policies emerge in different contexts

This project also draws on education and welfare state literature. In comparative politics, education literature is relatively underdeveloped compared to other policy areas, although a number of more recent contributions have advanced the integration of education into comparative political study. Ansell (2010) argues that education policy is linked to politics in a unique way compared to other examples of distributive politics where left-wing parties are assumed to favor expanding state expenditure. If education resources are concentrated on primarily elite subgroups of society, government spending on education is regressive and may not be pursued by left-wing parties. On the other hand, if education is more universal, additional spending is more progressive. Therefore the link between education policy and partisanship does not follow a fixed pattern but depends on the distributive profile of the education system. Busemeyer (2014) shows partisan patterns in comparative education reform and argues comparative politics should analyze education policies alongside typical social policies, and Garritzmann (2016) finds partisan explanations for systematic variation among countries’ student finance policy. Although education policy is still rarely studied alongside the welfare state instruments that are typically the focus of comparative welfare state literature, there is clear evidence that education is grounded in comparable political processes to other social policies.

Finally, this project draws on research on social welfare benefits. In particular, I focus on complimentarity and substitution in the welfare state by an emphasis on how policies outside traditional labor market policy can have equally important implications for the political economy of labor markets. Although well known literature focused on the expansion of the welfare state (Huber and Stephens, 2001), the contraction of the welfare state (Pierson, 2001), and the programmatic focus of the welfare state (Esping-Andersen, 1990), this project argues an account of labor market segmentation in the welfare state implies a redistributive struggle within existing social policy paradigms, regardless of the size of policy expenditures. Therefore, I draw on recent research which shows this redistributive struggle takes place in a political world of trade-offs. Recent experimental research shows citizens are willing to take cuts in benefit programs they support (in this case pensions) in exchange for other benefit concessions (Häusermann, Kurer and Traber, 2019). These experimental results are echoes in empirical studies of unemployment benefits which show coalition governments use compen-
Regimes of segmentation? A more holistic approach

Strategies to maintain electoral support during times of retrenchment such as increasing training funding while cutting unemployment insurance (Knotz and Lindvall, 2015). Findings from this literature suggest choosing between groups who have conflicting policy preferences may not always be necessary if reform coalitions can satisfy both groups through compensation mechanisms.

1.2 Regimes of segmentation? A more holistic approach

One goal of this dissertation is to describe how policy-driven labor market segmentation systematically varies in rich European democracies. The literature review showed that depending on how scholars conceptualize labor market segmentation, variation may be described as an individual phenomenon or as a macroscopic, policy-driven phenomenon. This project focuses on dualization on the macro level by exploring what strategies governments use to manage the labor market and the well-being of its participants, and the circumstances that influence those decisions. To achieve this goal, a descriptive account of these strategies and their variation across countries is where I begin my empirical account of policy-based labor market segmentation.

Describing policy variation in a systematic way involves making choices about how specific the scope of selected policies should be. As I noted in the literature review, past research took both narrow and broad approaches to describing variation in labor market and welfare policy. Esping-Andersen (1990, p.1-2) framed this choice when introducing his three worlds of welfare capitalism:

The welfare state has been approached both narrowly and broadly. Those who take the narrower view see it in terms of the traditional terrain of social amelioration: income transfers and social services, with perhaps some token mention of the housing question. The broader view often frames its questions in terms of political economy, its interests focused on the state’s larger role in managing and organizing the

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6For example by comparing the relative number of insiders and outsiders based on a categorization scheme and individual level survey data.

7For example by focusing on the presence of policies that stratify labor market groups.
Politics and the new labor market economy. In the broader sense, therefore, issues of employment, wages, and overall macro-economic steering are considered integral components in the welfare-state complex.

On the spectrum between narrow and broad, therefore, most of the literature that examines segmentation has a policy focus that is “narrow”. Much like how Esping-Andersen described the narrow approach in welfare state research as focusing on two to three specific types of policy, studies of labor market segmentation have a similar focus on labor market policy and employment regulation. For example, Rueda’s (2005; 2007) partisan model of dualization is relatively narrow. The policy focus of the argument rests on employment protection legislation, active labor market policy, and to a lesser extent unemployment benefits. Similarly, Picot and Menéndez (2017) argue what is most relevant to non-standard employees is unemployment benefits, non-standard employment regulation, and dismissal protection. Rathgeb’s (2018) analysis of how governments and unions relate to precarious workers focuses heavily on active labor market policy and unemployment compensation. In the literature of “narrowly” conceptualized segmentation, what matters most is compensation of unemployment and various ways of regulating employment conditions such as temporary work and dismissal.

On the “broad” end of the spectrum, the most well-known example is *The Three Worlds of Welfare Capitalism* (Esping-Andersen, 1990). If for the minimalist authors only a selection of one or two policies matters for the labor market, then for authors who take a broader approach almost *everything* matters. For Esping-Andersen (1990, p.147-148), “the labor market as autonomous from politics is a myth”, with numerous examples of how social policy shapes labor markets when, for instance, “education and retirement programs...help reduce the economically active part of the working population”, “social services...become a vehicle for the absorption of new, especially female, labor force entrants”, and when the welfare state “helps people reconcile their role as economic producers, social citizens, and family members by granting workers paid vacations and temporary absence from work”. While his primary focus on labor market regimes is the welfare state’s role in labor market exit and supply, paid work absence, and the welfare state as an employer, it is clear that his vision for how social policy interacts with the labor market is broader than the concepts of decommodification and stratification that *Three Worlds* is best known for. This is a very broad view, the welfare regime extends beyond a number of specifically selected policies to include more abstract channels through which the state interacts with
markets. Esping-Andersen is not alone in taking a broad approach, for example Huber and Stephens’ study exploring different policy configurations of welfare states and their political causes includes twenty-one dependent variables for their quantitative analysis alone (Huber and Stephens, 2001, p.52).

A valuable insight from the broader approach is that labor markets and the welfare state are not separate. Rather, the regulations, benefits, and rights offered to citizens by the welfare state are part of what constitutes the labor market. Comparing national labor markets often implicitly involves the welfare state, whether or not it is an explicit goal of the research. But the problem with this is that it lacks the explanatory precision of the narrower approaches. By limiting the scope of policies used to examine labor markets, and subsequently labor market segmentation, the narrow approach can make clearer assumptions about voter preferences, partisan politics, and strategic political decision making since specific policies are linked to specific constituencies and intended outcomes. Furthermore, the broad approach lends itself less readily to studying problems specific to the labor market since the approach is packaged with so much context about broader social policy.

In Chapter 2 and Chapter 3, I describe the trajectories of labor market regimes. The use of regimes in this context sits somewhere in between the narrow and broad approaches described above. The regime concept I use is similar to the narrow approach in that it focuses explicitly on predetermined policies. Described in more detail in Chapter 2, some are policies which have a strong basis in segmentation literature, while others are generally not included in this literature but which I argue are important tools policymakers use to steer the trajectory of national labor markets. These either invest in skills through tertiary education or subsidize new forms of employment that are more common in postindustrial labor markets by supplementing incomes from marginal employment, but both manage the composition and status of current and future segments of the labor market. The regime approach I suggest is still specific enough so that previous literature can be used in order to generate expectations of what kind of groups are affected by each policy. The regimes I propose borrow from the “broader” approach detailed above, however, because they allow for policymakers to use tools outside the traditional domain of “labor market policy” to influence outcomes in the labor market.

By staking a position in between the narrow and broad approach, I account for the decision making on narrower policies more completely. As I will show in Chapter 4 and Chapter 5, policy makers regularly use
policies outside of traditional labor market policy to achieve labor market goals. For example, they subsidize the incomes of lower income jobs to increase employment, to encourage new types of work, and even to circumvent traditional policy making processes. Chapter 2, by comparing international indicators even shows that these tools may be used more actively than labor market policy and employment regulations. Furthermore, part of Esping-Andersen’s argument for the broad approach is that decision making on labor market issues takes place in the context of the welfare state. Some of the policies I include in labor market regimes are part of the welfare state but have a strong capacity for influencing the composition of employment, either through upskilling future workers or through subsidizing the livelihoods of marginal workers.

Chapter 2 and Chapter 3 establish the reasons for including these policies in a labor market regime and charts their recent historical trajectory. Chapter 4 and Chapter 5 show, additionally, that the policies I use to make my approach broader than previous more narrow studies involve policy making around labor market concerns, even though the policies themselves are not typical labor market policies. Chapter 2 explains my use of labor market regimes in more detail, providing a more extensive set of arguments for why, apart from staking a middle ground between narrower and broader approaches to studying variation across countries, using the concept of a policy regime is particularly useful in the context of this study.

One challenge applies to any study where a discrete set of policies is used to represent a broader theoretical process, whether the narrow, broad, or even “middle” approach that I take. There is always a potential policy that one can add to the model at the cost of expanding complexity, and there are a large number of alternative policies which could be chosen rather than what the researcher decides to include. In other words, determining the limits of a policy regime is impossible to do judging purely by the number of regime sub-components, and policies can always be substituted for others. But like many problems in social science, this one can be ameliorated by a robust theoretical account of the choices one makes. As I justify further in Chapter 2, the policies I choose are representative of theoretical policy dimensions that are alternatives to segmentation through employment regulation, namely that even if policy-makers enforce strict boundaries between insider and outsider employment their decision is complemented by the extent to which they invest in the insider labor market and compensate the outsider labor market.

The need for discrete policies to fit relevant policy dimensions is ev-
ident even in the broad literature. The *Three Worlds* argument was never supported because a sufficient number of policies were integrated into Esping-Andersen’s analysis. Rather, the argument rested on operationalizing aspects of social welfare policy that would be sufficiently representative of two important policy dimensions: decommodification and stratification. That other policies could have been integrated into the analysis was of substantially less importance than the fact that those policies which were chosen were representative of important policy dimensions, could be operationalized with high quality data, and were common enough that they could facilitate comparative research. In a similar vein, this model I put forward includes the policies that are important for representing the interdependencies of the policy dimensions that are uniquely important for this dissertation’s focus on labor market segmentation.

### 1.3 Why does economic policy change?

The policy regimes I will describe more fully in Chapter 2 include policies that are not usually studied synchronously. Instead, the policies chapters one to three focus on tend to be analyzed in three distinct groups, labor market policy, welfare policy, and education policy. Some scholars have called for more investigation of education policy alongside welfare policy (Busemeyer, 2014), and others who have done so have found that education policy does not always follow the same political pathways as other forms of social policy (Ansell, 2010).

In the section above, I described reasons why studying these policies together is important. But an explanatory account of what combinations of policies are chosen by governments to manage segmentation is challenging for two primary reasons. First, explanatory accounts of policy change in segmented labor markets may be different than explanatory accounts of the initial growth of welfare states. Conflict over the distribution of resources within welfare states involves distributional trade-offs among different groups of beneficiaries. For instance power resource theory and partisan explanations of welfare state formation (Korpi and Palme, 2003; Huber and Stephens, 2001) focus on center-left parties as innovators and drivers of social welfare policy. With how this literature explains social policy, explanatory accounts of “which governments do what and why” typically rely on what party family governs or on a specific historical pattern of coalition building. Accounting for

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8For example, Manow (2009) argues the difference between social
segmentation, Rueda’s (2005; 2007) argument stresses that the center-left might be forced to choose between the insiders and outsiders, even though power resources scholars see these groups as more similar than different.

This introduces complexity, for instance compensating the losers of policy trade-offs, that might not have been necessary in expansionary phases of welfare state politics. Therefore, it is difficult to generate expectations of policy outcomes based solely on the composition of governments or parliaments since parties may be cross-pressed by labor market segments with unique attachments to certain policies. Second, and particularly relevant for this dissertation, the beneficiaries of policies which governments use to address segmentation are often poorly organized, face heterogeneous social risks, and may not be politically active. Therefore these explanatory accounts are powerful tools for analyzing policy reform in situations where core, organized labor market insiders are the target, but I argue struggle when the beneficiaries are outsiders or other loosely organized policy beneficiaries.

Regarding the first point, scholars of welfare state change have adapted partisan theories to account for multi-dimensional distributional conflict within welfare states that involves balancing cross-cutting demands among, for example, retrenchment, labor market activation, income protection, social investment, and other goals (Bonoli and Natali, 2012; Beramendi et al., 2015). Therefore this dissertation uses a partisan approach which takes multi-dimensional reform processes into account as one potential explanatory theory. Regarding the second point, however, these theories may not integrate groups of outsiders that are less electorally relevant into their approach. Therefore I include an approach that comes from another group of theories that argue that rather than economic decisions following electoral politics, they are the result of dominant production interests.

Two competing explanatory theories: Partisan politics and economic interests

In this section I introduce two contemporary theories that political scientists use to explain change in economic policy. Both of these theories democratic and conservative welfare regimes is explained by the formation of a red-green agrarian-social democratic coalition in the Scandinavian countries and a red-black Christian democratic and social democratic coalition in continental Europe.

I describe these attachments in Chapter 2
center around a common logic: the nature of reform reflects the preferences of politically influential constituencies who are beneficiaries of policy-making outcomes. In one group of theories, which I refer to as partisanship theories, key political constituencies have common preferences because of their shared occupational status, and the relative size of these groups and their economic circumstances shape how important their support is to political parties. In exchange for political support, parties offer these constituencies policies that align with the constituents’ political preferences, often for policies for which constituents are beneficiaries. In another group of theories, which I refer to as economic interest based theories, reforms align with the preferences of producer groups from sectors of the economy that are key to driving growth. They are important political constituencies in that they provide input on the direction of reform, policy-makers have an incentive to follow their preferences, and reforms maximize their ability to grow. In the sections below, I start with partisan theory and end with economic interest theory. In each section I give a more detailed account of one particular theory for each group and discuss a generalized set of expectations for the case studies the second half of this dissertation focuses on. These are case studies of higher education expansion and minimum income benefit reform in Sweden, Germany, and the Netherlands.

Partisan politics based explanations

To understand policy change based on partisanship theory, I use Beramendi et al’s (2015) model of constrained partisanship, which offers guidance on how political parties and elected governments make decisions when they face socioeconomic constituencies with competing interests. This feature of the theory is especially important because many authors argue that in a political context of labor market segmentation, parties need to choose among different constituencies that in an otherwise unconstrained world, they might prefer to support more broadly. If two ideologically similar parties face different constraints and coalitions of voters, then this model helps explain why those two parties behave differently.

This model is uniquely relevant for this project compared to more simplified models that rely on left-right composition in government because, for example, a Swedish social democratic party may communicate systematically different policy priorities than a social democratic party in the Netherlands depending on context. Furthermore, the policies in

\[^{10}\text{Especially the center-left}\]
my labor market regime model may appeal to different labor market
groups, and Beramendi et al’s explanation incorporates the possibility
for parties to face “cross-pressure” from different economic groups when
deciding how to expand the welfare state. For example, the model ac-
counts for different preferences between consumption and investment
oriented welfare expansion. Since Chapter 4 focuses on an investment
policy and Chapter 5 on a consumption policy, this model is well-suited
for generating some basic expectations for what reform should look like
in the countries that I examine if party politics is the primary driver of
policy change.

In this model government choices are constrained in two primary
ways. First, governments face path dependence and lock-in from pre-
vious choices and from political institutions. Put by Beramendi et al
(2015, p. 12-13):

...there are sunk costs of past policy choices that have solidi-
fied around legal codes, bureaucratic institutions, and politi-
cal coalitions...past policy choices indirectly affect contempo-
rary preference distributions, and thus the current political
demand side, by shaping the profile of production regimes
and thus the occupational and social structure...

The “feasibility set” of choices available to governments is also con-
strained by the authority they have, which is crucial to understanding
when decisions are taken as choices compared to when decisions are not
taken as a result of incapacity (Beramendi et al., 2015, p. 13-14):

We understand state capacity as a set of administrative, fis-
cal, and legal capabilities that allow politicians to effect the
translation of policies into binding and authoritative public
policies...weak state intervention...may result from the
choice to pursue a market oriented public strategy...even in
the presence of high state capacity...By contrast, incumbents
in low state capacity contexts do not have the necessary in-
stitutional leverage to regulate the economy more strongly.
In these cases, low state intervention reveals inability, not
choice.

Much like veto players literature, the way institutions are designed
is important in this theory as a limiting factor for reform. Parties are
constrained in this framework, but how are they enabled? As implied
in almost all party literature, political parties are enabled by receiving
support from different groups of voters in society. We know this also from the power resources framework, when working class voters are successful at mobilizing power resources (and can find coalitions with other class groups to produce a majority) the expected result is a robust welfare state that represents the interests of wage earners (Korpi, 1983; Esping-Andersen, 1990).

The model offered by Beramendi et al differs from power resources explanations because the authors argue that in post-industrial democracies socioeconomic class groups can have cross-cutting preferences, that is, preferences (and the direction that policy can take) are two-dimensional. The authors describe a first dimension, state intervention, as similar to the typical left-right dimension most experts and students alike should be familiar with. On one end of this dimension are preferences for strong political intervention in markets, on the other end of this dimension are preferences for weak intervention in markets.

Strong and weak intervention, however, doesn’t describe how governments intervene. To model this aspect, the authors introduce a second dimension that cuts across the first: on one end is investment and universalist oriented social policy and on the other end is consumption and particularistic oriented social policy. Therefore every euro or krona spent by government faces a trade-off, one euro spent on investment is a euro not spent on consumption. As an example of what these terms mean, the authors measure consumption including pensions, unemployment benefits, and incapacity payments\footnote{Careful readers may recognize these as the basis of Esping-Andersen’s “decommodification index” (Esping-Andersen, 1990, p.50)} while investment includes expenditure on research and development, tertiary education, child care services, and active labor market policy\footnote{For further discussion of what social investment welfare is or is not, see Morel et al (2012). In general, social investment policy includes spending where the benefits are inter-temporal (spending now should bring a benefit in the future), and where welfare spending can become a productive factor in the economy (i.e. boost output or productivity).}. Chapter 4 focuses on one example of investment policy, tertiary education, while Chapter 5 focuses on minimum income benefits, a consumption based policy.

In this model, voters in different occupational class categories prefer different mixes of these two dimensions. Beramendi et al note that highly educated occupations prefer investment oriented policy, this includes for instance sociocultural professionals\footnote{Those who work in social and cultural services, this could be a civil} and also business professionals, managers, and technical experts. But while educated groups prefer...
investment policy, their preferences for what the role of government in the economy should be are not unified. Sociocultural professionals tend to have more discontinuous or atypical employment biographies, tend to be women, and tend to work for the welfare state or other public employment arrangements. Therefore they are more interested in strong government intervention, while the business, managerial, and technical professionals prefer market-based solutions.

On the other end are those who prefer consumption oriented, particularistic benefits. This includes lower skill service and clerical workers, manufacturing workers, and in general lower-skill wage earners on the side which prefers high intervention and the petite bourgeois on the side which prefers low intervention. This group favors taking care of needs that are immediate rather than investments that only pay off in the future, and targeted spending can pay off more for them than universal spending that affords middle class earners the same benefit. The petite bourgeois prefer more market based solutions and lower taxation, while the lower-skilled wage earners prefer a strong state to intervene on their behalf.

One important note here is that Beramendi et al. (2015, p. 22) mention that low-skill service workers face some cross-pressure in this respect, they also tend to be women and work in care services that can be linked to the welfare state, might be more likely to also demand investment, and are a part of those outsider groups that Rueda (2007) argues benefit from human capital investment-oriented ALMP. However, the authors argue that because this group is small and difficult to politically mobilize, they play less of a role in the coalition building political parties participate in.

What role can this information play in the theoretical expectations of this dissertation? There are three important aspects. First, this lets me use secondary literature to generate a stylized picture of what the most-likely expectations for political conflict within a certain country might be, and to judge whether the policy developments I have researched show evidence of congruity with these expectations. For example, Gingrich servant, a journalist, a manager at a non-profit, or other roles that rely on personal interaction in a work environment with substantial autonomy.

In fact, the authors make a specific statement about outsiders in this model on page 23 of their book, I discuss this point in more detail in the next section of this dissertation where I introduce my explanatory theory.
Why does economic policy change?

Gingrich and Häusermann (Gingrich and Häusermann, 2015, p.59) show that the social democratic electorate in Scandinavian countries became increasingly middle-class since the 1980’s, with middle class voters overtaking working class voters as a proportion of employed social democratic voters since 1990. Coupled with the observation that a key characteristic of Sweden’s occupational structure is that it has a high proportion of interpersonal service employees compared to other countries (Oesch, 2006), it might be reasonable to assume that the center-left is pulled in the direction of universalism/investment and high government intervention. This aligns closely with expectations from other welfare state scholarship.

Second, this literature also sets some constraints on the expectations of what party politics can actually achieve. Parties can reach out to new groups, but it is impossible to completely reestablish their own constituencies. A party that relies on a coalition of petite bourgeois and business professionals can reach out in a new direction regarding state strong/weak intervention or investment/consumption spending, but it cannot abandon both groups. Returning to the Swedish example above, the ideal-typical social democratic party could reach out to more working class voters by becoming more particularistic and consumption oriented, or it could reach out to more managerial professionals by maintaining its universal and investment characteristics but eschewing its support for strong intervention in the economy. Increasing particularistic consumption and reducing its support for government intervention would be unlikely though, because it risks alienating both the sociocultural middle class and service employed wage earners that it previously relied on.

As a complement to general partisanship theory literature, certain studies of education reform argue that the distributive politics of higher education is different than other social policy. Rather than assuming left parties always expand social policy, this literature argues support for higher education is conditional on enrollment. Where enrollment cohorts are small, students participating in higher education tend to be from middle class or elite families and are outside of the core constituency of left parties. In this case, left parties will favor private spending in education rather than public expansion (Ansell, 2010). Other literature finds that left parties can support expansionary politics within low-enrollment countries if the policies they advocate are oriented toward financial aid and will be spent on low-income beneficiaries (Garrtizman, 2016). The effect of partisanship on education policy depends on the duration of party rule, for instance that governments with long periods of center-left government spend more on education than those with brief periods
Politics and the new labor market (Garritzman, 2017). What types of expectations does this literature set for the three case studies of education reform in this dissertation? With Beramendi’s (2015) model and some of the insights from Ansell (2010) and Garitzmann (2016), I can generate some expectations about higher education development. First, where would we expect a mass general tertiary education system to develop? This literature describes the preferences of voters within this economic policy space by a socioeconomic status defined by their occupation. The socioeconomic groups who support investment oriented spending in the Beramendi model include sociocultural professionals, managerial professionals, and technical experts. On the other hand, the sociocultural professionals prefer higher government intervention in general, while the managerial professionals and technical experts tend to prefer lower government intervention. The socioeconomic groups who support consumption oriented policies are the manual working class, low-skill service employees, and petite bourgeois. The former two prefer more government intervention in the economy, while the petite bourgeois prefer less.

Therefore, a mass tertiary education system that is organized by the government should be found where parties can rely on an electoral coalition between sociocultural professionals and the working class. The Scandinavian countries are the most likely scenario for this, this cross-class coalition is what Esping-Andersen relied on to explain the emergence of the universal welfare state in social democratic welfare states (Esping-Andersen, 1990). Furthermore, a high concentration of interpersonal service workers among the middle and working class can be found in Scandinavian welfare states compared to continental countries (Oesch, 2006), particularly because the welfare state itself employs many of these workers.

When it comes to funding tertiary studies, distributional conflict around tuition costs should be low where a high percentage of the population, and a wide breadth of occupational groups, are included in the same highly encompassing tertiary education system (Ansell, 2010; Garritzman, 2016; Garritzman, 2017). Therefore we might expect in Sweden that a mass education system will develop, and that conflict around resource allocation among class groups should be low. The Netherlands, with its smaller public sector may have a different pattern of employment in public services, but as we will see in the growth regimes section the Dutch economy also has a comparative advantage in high skill services, so there is little reason to believe that outcomes should diverge significantly between the two. However, there are differences. The case study in chapter four shows that the partisanship approach does follow
the initial development of Sweden’s tertiary education system, but once a center-right government comes to power in the 1990’s it cannot explain why this government, who was successful in other areas, was not able to slow down massification despite beliefs that it was not desirable. Only once there is potential for conflict over higher education does the underlying coalition, which included regional politics, become clearer. Furthermore, the distributive politics of higher education is different between these two cases. The same finance model, where students receive both a loan and a universal grant\(^\text{15}\) has been unchallenged in Sweden but was the subject of intense political conflict in the Netherlands and eventually the universal grant was removed with the support of multiple left-wing parties. I argue that the electoral circumstances are not sufficiently different between the two to explain this stark difference in distributive outcomes, especially since in one case the center-left has upheld universal finance while in the other the center-left has dismantled it.

In Germany, we should expect left parties to be more apprehensive towards strong investment in higher education. If we consider the data Oesch (2006) used to build his class schema\(^\text{16}\) Germany’s occupational structure is highly concentrated in technical skills in which the more routine workers prefer high government intervention and consumption based expenditures, but in which the experts prefer low government intervention and investment based expenditures. The occupation structure also features fewer interpersonal services. A coalition is less likely to form between these groups that prefers a mass, encompassing education system. This literature therefore suggests that at the very least, parties have an incentive structure to promote education in Sweden and the Netherlands, and a less clear incentive structure in Germany. However, the case study of Germany suggests otherwise. Here a red-green coalition in the late nineties and early two thousands embarked on an ambitious expansion agenda. It was not a lack of party initiative that curtailed reform, however, in this case it is the opposite, the center-left promoted education expansion. In order to explain this, I argue we need to look more at the particular reform coalition that would have been necessary for long term success, and the fact that this coalition was more concerned with an institutional reform of German federalism that was divided by the center-left federal government’s ambitions in

\(^{15}\)That is not means tested or based on parent’s income

\(^{16}\)While these data alone are dated by now, they are more relevant for the reform periods Chapter 4 focuses on.
higher education policy.

This dissertation also includes three case studies of minimum income benefit reform. Given the partisanship theory explained above, how should we expect minimum income benefit reform to develop in the three case studies in Chapter 5? Recall Beramendi et al suggest that reform takes place along two dimensions. The first is similar to a standard “left-right” dimension, where intervention in the economy can be strong on the one side, and weak on the other. The second dimension, which cuts across the first, concerns the type of intervention and its distributional consequences. On one extreme interventions are completely investment oriented or universal, and on the other extreme interventions are completely consumption oriented and particularistic. To illustrate, a comprehensive, public early childhood care and education system is a strong state intervention because it does not rely on private markets, is universal because it includes all children regardless of the parents’ income, and is investment oriented because the social return on spending occurs in the future in the form of more capable adults and the parents’ labor market participation. Taking another example, an unemployment benefit with a high replacement rate but narrow eligibility criteria constitutes a strong state intervention but its distributional logic is particularistic, and its purpose is consumption oriented\textsuperscript{17}.

To reiterate, governments aren’t free to choose any combination of state intervention and distributional logic, they are constrained by electoral constituencies whose occupational profiles correspond to certain distributional preferences\textsuperscript{18}. The occupational groups who support strong intervention include high skill service workers in sociocultural occupations as well as low skill service workers, but also manual and clerical lower skill manufacturing workers. Business professionals, managers, and petty bourgeoisie are the primary constituency for weak state intervention. Policy preferences for investment and consumption, however, cut across this first dimension. Sociocultural professionals and business professionals prefer universalism or investment while the low skill ser-

\textsuperscript{17}For a graphical representation of these two dimensions, see Beramendi et al (2015, p.29)

\textsuperscript{18}Their argument also recognizes that there are path dependent policy legacies and institutional constraints, but the focus on their argument is on electoral coalitions and therefore the primary constraint is the preferences of occupational groups, for a more detailed account and a graphical representation of these electoral constituencies, see Beramendi et al (2015, p.23)
vice workers, manual and clerical lower skill manufacturing workers, and petty bourgeoise prefer particularism and consumption based benefits.

What does this mean for minimum income benefits in Sweden, Germany, and the Netherlands? All else equal, increasing the generosity of minimum income benefits favors outsiders. Minimum income benefits are particularistic, they target a particular group, and their purpose is to supplement or replace a market income so that households can meet consumption needs. In a very stylized manner, previous research on the electoral base of center-left parties’ offers some expectations about the differences between the three countries presented here. Gingrich and Häusermann (2015) show that center-left parties in both Social Democratic and Christian Democratic regimes shifted from a majority working-class electoral base to a majority middle-class base (Gingrich and Häusermann, 2015, p.59). Given these (broad) expectations, the base of center-left parties in Sweden, Germany, and the Netherlands should support investment oriented social policy. If the base finds allies toward the more market-oriented right, policy should stay investment oriented but state intervention should weaken. If the center-left base finds allies in the working class, social policy should remain the responsibility of the state but become more particularistic and consumption based.

In terms of process, this model suggests two separate starting points for reform trajectory based on regime type. An equality oriented capitalist country, which is what the authors call countries like Sweden and Denmark, is characterized by strong state intervention and investment or universal distributional priorities. From there, coalition possibilities for reform include partnering with managerial or business coalitions and weakening the state, or partnering with working class coalitions.

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19The authors show that in 1980, employed voters with a working class occupational profile were approximately fifty percent of the electorate in both Christian Democratic and Social Democratic Regimes while employed voters with a middle class occupational profile were under twenty percent in Social Democratic regimes and slightly over twenty percent in Christian democratic countries. In 2012 middle class workers were sixty percent of the vote for the center-left in Christian Democratic regimes, and over sixty percent in Social Democratic regimes. Working class voter support for the center left fell to approximately twenty percent of the center-left electorate in both regimes.

20The authors also call this direction segmentation.

21A trajectory the authors call marketization.
Politics and the new labor market

and keeping the strong state, but making redistribution more particularistic\textsuperscript{22}. In Sweden, therefore, depending on coalitional dynamics and electoral competition, benefits should become either less universalistic or more market based. But while this theory explains the prioritization of the general insurance system over the social assistance system in Sweden, it does not explain the policy drift that characterizes the level of social assistance benefits other than to suggest that none of the occupational groups who form important constituencies have an interest in social assistance. But the case study suggests that policy-makers themselves face a social assistance system that is slowly becoming an unemployment benefit in practice, and therefore the lack of attention paid to this policy area is still worth explaining. To understand this, it is important to look to the coalition that would be necessary to increase these benefits, which I show is a difficult coalition to build considering decreasing social assistance payments is a way for municipalities to balance budgets.

A \textit{status oriented} capitalist country, which is what the authors call countries like Germany and the Netherlands, is characterized by \textit{strong state} intervention and \textit{particularistic} or \textit{consumption based} distributional priorities. From there, reform possibilities include coalitions with more middle class groups, particularly sociocultural professionals, to keep a high level of state intervention but making social policy more investment based or universal\textsuperscript{23}, or by coalescing with the petty bourgeoisie and keeping social policy particularistic and consumption based but lessening the reach of the state in economic matters\textsuperscript{24}. Depending on the coalitions which are available for backing reform, in the Dutch and German cases benefits should become more inclusive or more dualistic. But status maintenance mostly concerns preserving the status of \textit{insiders}, while inclusivity typically implies integrating outsiders into insider insurance schemes. Neither is perfectly aligned with what happened in these countries, which is that the welfare state has become less inclusive in some areas but has compensated some outsider groups with better minimum income policies.

\textbf{Economic interest based theories}

The other framework typically used to explain economic policy reform prioritizes the economic institutions, dominant producer groups, and

\textsuperscript{22}A trajectory the authors call \textit{segmentation}
\textsuperscript{23}A trajectory the authors call \textit{inclusion}
\textsuperscript{24}A trajectory the authors call \textit{capture}
the role industrial interests play in matching economic policy to their production interests. Rather than focus on the preferences of electoral constituencies, party ideology, or party systems, these institutional explanations expect long term equilibria to form around the interests of dominant production groups. Therefore, policy change most frequently comes from exogenous factors that then require production arrangements to adapt. While partisanship literature sees an active role for political parties to turn voter preferences into policy outcomes, the politics of economic interests literature focuses heavily (although certainly not exclusively) on non-market coordination among firms, between firms and workers, business associations, and unions in order to build institutions that complement dominant modes of production. In this section I briefly sketch out this literature as one of the potential explanatory accounts for how domestic policy changes to fit with domestic labor markets.

The Varieties of Capitalism (VoC) literature focuses most explicitly on producer groups and socioeconomic institutions, emphasizing successful coordination among them in setting wages, influencing regulation, and tailoring social policy to the needs of their most well organized production interests (Hall and Soskice, 2001). Other related arguments center on growth regimes which situate socio-economic institutions like wage bargaining and social policy in models of economic growth, emphasizing feedback effects among institutions, economic supply factors such as capital, wages, and skills, and economic demand factors such as consumer preferences, consumer credit, and wage driven demand (Palier and Hassel, 2020). While there are many components to the growth regime perspective on change, it can be understood as expecting countries to follow a path that is determined by a collection of factors which determine how countries grow their economy. More specifically, Hassel and Palier (2020, p.17) define growth regimes as:

A growth regime, in its broadest sense, is a mode of governance of the economy. It encompasses the institutional, policy, and organizational frameworks that shape the specialization of firms and the consumption and saving patterns of the population, as well as the use of technology and work organization. A growth regime can be based on a particular type of innovation, the evolution of a particular high-value-added industry, the use of fiscal and monetary policy, and policy instruments that affect the employment rate and human capital. The (welfare) state is an important...
Politics and the new labor market component of growth regimes for economic management.\textsuperscript{25}

It is this particular growth regimes model by Hassel and Palier (2020) that I use alongside Beramendi et al’s (2015) model of constrained partisanship as alternative explanations to what I will present later in this chapter. Unlike the partisanship literature, electoral politics plays a very limited role in the direction of public policy in this theory, if any. Rather, these scholars focus on the adaptation of public policy to the comparative advantage of domestic economies. The occupational class groups discussed in the previous section (sociocultural professionals, low-skill interpersonal service workers, manufacturing employees, professional managers, etc) are important because the relative sizes of these groups are a part of the domestic skill profile that drives each country’s comparative advantage, and because who the “core workers” of these regimes are will vary based on the type of growth regime a country’s economy constitutes. Welfare states should be reactive to the risks faced by different groups of core workers, but the political behavior of individuals in these groups does not have as clear of a role in driving politics as it does in the partisanship literature.

Hassel and Palier define five different types of growth regime\textsuperscript{26} but for this dissertation, only two are relevant. Both are export-led, but one growth regime is dynamic services export-led, while the other is high-quality manufacturing export-led. Later in the same volume, Thelen (2020) describes Sweden and the Netherlands as dynamic services growth regimes and Germany as a high-quality manufacturing growth regime. One of the important insights from the growth regime model for this dissertation is what type of workers are the core interest of each growth regime. In the same volume, Wren (2020, p.281) offers insights as to how employment expansion and social policy are connected in Sweden:

In social democratic Sweden...the wages of workers in low productivity private services sectors have remained protected in relative terms since the mid-1970s...the public sector has played a key role in employment creation since the early days of agricultural decline, and in the current context also it is welfare services sectors rather than low productivity private

\textsuperscript{25}Emphasis mine

\textsuperscript{26}Dynamic services export-led, high-quality manufacturing export-led, FDI-financed export-led, finance-based domestic demand-led, and publicly financed domestic demand-led
services sectors that dominate in terms of employment, at a cost in terms of government spending and taxation. In political and economic terms the sustainability of this model is dependent on continued strong growth in high value-added sectors to provide the tax revenues necessary to support an expansive welfare state. In periods of slow growth, political tensions over welfare state tax burdens and eligibility are more likely to emerge.

Wren then summarizes developments in Germany on pages 281-282:

German governments have found themselves caught between historically inherited constraints on the extent of state service provision which limit the capacity for the expansion of public employment in welfare sectors; and an industrial policy which emphasizes protections on the relative wages of core industrial workers...successive German governments have pursued an essentially neoliberal route to the problem of low-skilled employment creation, dismantling protections on the wages of workers outside the industrial core, and the benefits available to labor market non participants, and facilitating a significant expansion of employment in low productivity services sectors, at a cost of increasing inequality.

What these quotes imply is somewhat similar to the conclusions I will come to in Chapter 3, namely that in the Swedish labor market regime decisions do not accept or encourage the development of outsider labor markets as extensively as the Netherlands and Germany. The purpose of the following chapters is not to dispute the conclusions of the growth regimes literature in terms of how it describes economic developments and the adaptations to post-industrialism, rather the task in later sections will be to establish whether reforms can always be explained by making the choices that are most congruent with the growth regime.

How would economic interests explain developments in higher education that are the focus of Chapter 4? One example from Hassel and Palier’s work to demonstrate the emergence of growth strategies is the Lisbon strategy, part of which was dedicated to facilitate further adaptation of European economies towards knowledge intensive production. The Bologna process is closely related the Lisbon strategy, predating Lisbon by two years but forming the main EU framework to engage universities in the shift towards the knowledge economy. The focus on promoting growth in core economic sectors and the producer oriented
framework in the Varieties of Capitalism approach assumes that university reform and expansion is most likely to succeed if it is embedded in a strategy oriented toward the interests of those key growth generating sectors.

The divergent paths of education in the Netherlands, Sweden, and Germany in the growth regimes framework are evaluated by Thelen (2019; 2020) in a way that describes changes in education as a result of changes in growth regimes, and leads many of the choices in education policy making under explored. In Sweden, Thelen argues, the encompassing nature of producer groups has facilitated a transition from manufacturing exports to more of a mix of industries including an information and communications technology (ICT) sector that requires more tertiary education. In Germany, where producer groups are segmented into narrower interests, they will be less likely to develop into new industries and instead focus on refining high value-added manufacturing production. In the Netherlands, a decline in manufacturing industries and mass entry of women into part-time work gave service industries a comparative advantage, spurring the development of professional services that rely on more general tertiary education.

But while Thelen (and I, in later sections) focus on reforms in the 1990’s which expanded higher education and aligned with the explosion of the ICT industry in Sweden, reforms to make the labor force more academic began as early as the 1960’s when Sweden’s higher education system began a departure from the elite based model that would remain in Germany until the 2000’s. Furthermore, the push for an academic workforce extended beyond ICT, for example nurses and police officers would attend academic education although these groups were organized separately from the producer groups Thelen focuses on. More importantly, the Swedish case study shows that economic interests advocated for higher education as a part of a broader regional development strategy, where higher education was one way to achieve growth alongside other regional development priorities. Furthermore, Thelen’s explanation does not seem to account for the differences in public investment, particularly student finance and distributive politics, between Sweden and the Netherlands, nor does it account for the motivations of the German government to expand higher education and the reasons why expansion was curtailed. At best, the growth regimes model is not mutually exclusive with observed outcomes, but does not offer a sufficient explanatory account of the politics of these outcomes.

Therefore while the growth regimes perspective focuses on the adaptation of domestic industries to knowledge intensive production, there
is an incomplete description of how domestic political actors shape the skill acquisition processes in the economy. Nevertheless, there are expectations from the growth regimes framework for these three countries. Very broadly speaking, the manufacturing oriented growth model of the German economic system should be most hostile to general mass education reforms because a narrower segment of producers benefit from high skills. At the same time, the more service and technology oriented nature of production regimes in the Netherlands and Sweden should make governments more open to expanding higher education.

Unlike higher education investment, minimum income benefits concern compensation of those at the bottom of the distribution of labor market outcomes. Similar to their place in electoral politics, their place in growth regimes is marginal but not completely insignificant, and in some labor market regimes is growing. A key question for evaluating the compensation available to some of the worst-off outsiders is whether minimum income benefits are oriented towards expanding the low-wage sector or avoiding the development of a low-wage sector, and whether that choice aligns with what we can expect from a perspective which prioritizes growth regimes as a way of explaining policy design. The chapter on higher education will show that countries vary in how they invest in skills, there is a trade-off between a more general-skills, massified tertiary education system compared to a specific-skills, segmented education system. Trends in minimum income benefits suggest a similar decision between trying to maintain a more comprehensive employment structure where all labor market participants benefit from the same universal insurance system compared with a segmented structure where minimum income benefits are coupled with employment, creating an expanded low-end labor market alongside the primary labor market.

From a growth regime perspective, Sweden, Germany, and the Netherlands fall into export oriented regimes (Picot, 2020), but of the export oriented regimes, Sweden is more clearly “dynamic services” export-led while Germany is clearly “high-quality manufacturing” export led, with the Netherlands leaning more toward the former than the latter (Palier and Hassel, 2020). Both will have growth in service employment, but the authors argue that the characteristics of service employment matter, with service employment broadly containing dynamic service27, non-

27High productivity, e.g. finance, information technology, professional services
dynamic services\textsuperscript{28}, and welfare services\textsuperscript{29} (Wren, 2020). Wren (2020), comparing employment developments in Germany, Sweden, and the UK from the growth regime perspective, shows that non-dynamic service employment increased more in Germany than in Sweden\textsuperscript{30}.

The incentives and pressures to develop outsider employment subsidized by minimum income benefits should be different where different types of service employment align with how different growth regimes cope with post-industrial labor markets. Given the differences in comparative advantage (service vs. manufacturing exports) and service composition (dynamic, non-dynamic, welfare), how would the growth regime perspective inform expectations about how minimum income benefits would develop? Subsidizing outsider employment with minimum income benefits would likely concentrate welfare effort on adding employment to non-dynamic services. Therefore, one way of thinking about minimum income protection is that where wages in service employment are compressed, subsidizing poor wages undermines solidaristic labor market practices. This is consistent with Wren (2020), who notes service wages were protected in Sweden by the state sector. It seems like the growth regimes perspective would argue where wages in the service sector are more dispersed, or where higher earners are in another sector like manufacturing, subsidizing outsiders on the lower end of the labor market will impact fewer core insiders.

Therefore the growth regimes literature offers a partial explanation in this case, but I argue it is insufficient. It offers a clear account of the constraints that are faced by political parties, that in service export economies expanding low-income employment is more damaging to the prevailing wage structure in the service sector than in manufacturing export economies. But I show in the case studies that there are reasons to question how important this dynamic is to policy-making. For example, in the German case during the period studied a grand

\textsuperscript{28}Low productivity, e.g. personal care services, hospitality

\textsuperscript{29}State employed, e.g. public administration, education

\textsuperscript{30}The latest data showed non-dynamic services were about 25% of total employment in Germany and slightly above 20% in Sweden (Wren, 2020, p.261). Wages in these sectors historically were quite similar, slightly more than 20% below the intersectoral average, until 1995 where Swedish non-dynamic service wages held constant while in Germany they declined to about 30% lower than the average wage, showing growing intersectoral inequality in Germany but not in Sweden (Wren, 2020, p.263-264).
The constituency-beneficiary problem
coalition under the third Merkel government introduced statutory minimum wages, an initiative led by service sector unions. While this is not the focus of the chapter, it offers an important insight into the growth regime argument. If manufacturing export economies should encourage low-income service employment, German social partners and political parties would not have been as accepting of a statutory minimum wage in this sector. Furthermore, measures to expand low-wage employment were accompanied by cuts to insiders benefits and growth in minimum income schemes. This casts doubt on the idea that expanding low wage work is primarily driven by a motivation to make non-dynamic services cheaper for insiders.

1.4 The constituency-beneficiary problem
This project hopes to explain what policy-makers do about segmented labor markets, and why they make those choices. The section above introduced two powerful explanatory theories, but I argued they offer incomplete accounts of what policy-makers do about segmented labor markets. When political scientists explain government decision-making in democracies, they usually emphasize the importance of concentrated, well-organized groups who mobilize to make their interests into policy. This is especially true in distributive politics, where resources are allocated to groups who can successfully mobilize in favor of their own distributive preferences. These “core constituencies” take different forms depending on the theoretical focus of the literature. In the two prominent explanatory frameworks above, core constituencies are either voters or core sectors of the economy. Taking the partisanship literature as an example, constituencies are groups of voters who parties rely on for support, and in exchange for their support parties defend policies for which their core constituents are beneficiaries. That constituencies and beneficiaries are the same population (or at least that they overlap) is usually an implicit assumption in comparative social policy research.

However, one of the challenges in studying labor market segmentation is that only current insiders are represented in concentrated constituencies that advocate for their position as beneficiaries of social policy. As constituencies, outsiders are a diffuse group. In Chapter 2 I build a theoretical model of labor market policy regimes and argue that the policies available to governments target three distinct groups of outsiders: the inactive, the unemployed, and the atypically employed. The likelihood of these groups coalescing into powerful constituencies is further complicated by cross-cutting risks that are more likely to be
present in outsiders than insiders, such as a foreign background, single parenthood, or single earner families where the primary earner works an insecure job. Beramendi et al’s model of constrained partisanship, which I consider above as one of the most complete electoral accounts of economic policy change, makes this point explicit in a footnote when explaining why outsiders are not an occupational category they include in their theoretical model (Beramendi et al., 2015, p.23):

Labor market outsiders’ interests...are not a powerful electoral group in contemporary capitalist democracies; that is why we do not fully conceptualize them in the context of demand side constraints governments face. The same applies to migrant minorities. Likewise, the nonworking do not appear here.

Despite the powerless nature of outsiders as an electoral constituency, governments make reforms that improve their circumstances. The descriptive analysis I conduct in Chapter 2 and Chapter 3 show there are reforms that increase the income of outsiders, and Chapter 4 and Chapter 5 delve deeper into the politics of some of these reforms to show that parties whose electorate may be middle class make distributive decisions that favor the working poor. This would not be the case if a powerful constituency were strictly necessary for reforms to succeed.

Policymakers may also face diffuse constituencies when they make certain reforms that reinforce insiderness. Chapter 2 argues that investments in higher education are a focus on insider employment. If reform expands higher education, its goal is to increase the number of insiders. Students only gain an occupational status once they leave university and enter the workforce, ideally in positions with a standard employment relationship. But for many reforms in higher education, students cannot be constituents because they may be too young to vote at the time of a policy decision, or they may not be students yet at the time the decision is made. While Beramendi et al’s work argues social investment policies do have an electoral logic, the case study evidence...

31 While parents of future students may be able to vote, even here there is not a clear beneficiary-constituency relationship.

32 Put by Gingrich and Ansell (2015) in the same volume: “...a substantial literature has emerged arguing ...Public education spending is not solely a function of public (or expert) demands, but also of the preferences of partisan actors ...The underlying assumption in much of this work is that in aggregate education spending is fiscally progressive and...
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presented in Chapter 4 shows differences among left parties in how they approach higher education politics that cannot be wholly accounted for by the explanations offered by this literature. I argue this should not be unexpected, policy-makers are making decisions on the behalf of future beneficiaries, not present ones. This includes the students, but also the firms that will hire skilled workers, which encompass a more diffuse group of producer beneficiaries as the education itself becomes more general and less firm specific.

The idea of diffuse constituencies and beneficiaries is not contained to just insider-outsider politics, nor is it entirely new. Paul Pierson noted a similar problem with welfare state retrenchment (Pierson, 1996). In Pierson’s account, welfare state retrenchment is politically different from welfare state expansion because retrenchment imposes losses on concentrated constituencies to benefit a diffuse group of beneficiaries. When welfare states grow, policy-makers respond to concentrated constituencies who receive a clear benefit, allowing policy-makers to claim credit. When welfare states are retrenched, policy-makers cannot claim credit for diffuse benefits in the face of tangible losses to concentrated constituencies, so they seek to avoid blame. They do so, Pierson argues, through forming broad political coalitions where blame can be shared. One implication of this is that retrenchment is more likely to happen in power-sharing arrangements with more veto players, since blame can be spread across multiple responsible agents.

In the cases of policies discussed later in this dissertation, the constituency-beneficiary problem works the other way around. While for Pierson, the “new politics” of retrenchment imposes losses on concentrated constituencies in order to gain diffuse benefits, the focus here is in situations where reform is linked to diffuse constituencies, even though benefits are concentrated. But this is only an important explanatory factor when constituencies and beneficiaries are the same. Taking Pierson’s argument again, retrenchment is only problematic from an explanatory standpoint because the beneficiaries do not act as a concentrated constituency.

But beneficiaries and constituencies are not always the same. One well-documented example of when this may be the case is with positive externalities. Positive externalities involve decisions where a third party receives a benefit which is incidental to some transaction between two hence favored by the Left.”

33For example, higher economic growth, lower future unemployment, smaller budget deficits, etc
other parties. In this case, there are two constituencies with interest in a transaction, but also a third beneficiary who is better off as a result of decisions someone else has an interest to make. Although it may be unusual to think of parties to a transaction as constituencies, they are not dissimilar as the usage here and in political science fit the term constituency in its less strict form, as a “body of supporters, customers, subscribers, etc” (Oxford English Dictionary, 2021). A decision can be made where where certain beneficiaries are not constituents to the decision, the benefit in this case is incidental to the process that caused the decision. I argue the politics of reforms presented in Chapter 4 and Chapter 5 are examples of this, where important coalition building happens around another processes, and the potential outcomes to higher education or minimum income benefits are incidental to these processes rather than the primary drivers of reform.

If we accept that constituencies and beneficiaries are not always the same group, what kinds of decisions involve producing benefits for parties that are not constituents of a decision? Returning to Pierson, he suggests power-sharing arrangements are more likely to adopt retrenchment because they spread blame among a broad group of actors. I suggest that in the case where constituencies are not the same group as beneficiaries, power-sharing arrangements are likely to adopt reform for diffuse beneficiaries as well. This is because power-sharing arrangements are more amenable to political bargains, and political bargains can involve attracting coalition partners by providing benefits to groups which are not among the constituencies who initiated the reform. In this way, parties to an agreement can make a policy-making process align more with their distributional preferences compared to an alternative outcome which otherwise would have been less preferable.

In a political bargain, the beneficiaries of reforms may include groups which are not a part of the constituencies that were necessary to initiate a bargain. Tangible gains allocated to certain beneficiaries therefore may not be a part of the causal process that leads to a reform. Rather, they are incidental to this process. This does not mean that reforms are random, they still conform to the general preferences that political parties (or any other actor) may have. In fact, without needing to rely on powerful constituencies, political parties may be more likely to act according to their programmatic or ideological preferences rather than

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34A more strict definition defines a constituency as residents of a geographic political district, far too limiting for most usages of constituency in political science research.
The constituency-beneficiary problem

the preferences of key constituencies or the median voter. But this means that the impetus for reform does not come from a particular constituency organizing to demand a benefit, or even that the beneficiaries of a reform are electorally relevant. Reforms are driven by (or at least the success of reform relies on) other constituencies that are part of another process.

Silja Häusermann’s work explaining pension reform in continental Europe makes an argument which features some similarities to the suggestion I make here (Häusermann, 2010). One of the major puzzles identified by her work is that in several continental European countries, pension reform included the expansion of minimum pension benefits and inclusion of female outsiders into insurance schemes, policies for which the beneficiaries are typically not core constituencies of powerful political groups. One of Häusermann’s main arguments is that contemporary reforms involve cross-cutting conflicts which policy-makers strategically exploit in order to build support for reforms when comprehensive welfare state expansion is not possible. I use a similar claim to justify why my theoretical model of policy responses to labor market segmentation should include a wider range of policies.

In her argument, the extent to which policy-makers can take advantage of cross-cutting conflicts in welfare state reform depends on the extent of coalitional flexibility. In political systems where interest groups and political parties are highly fragmented, the options for forming a coalition are more numerous. Häusermann calls this process “coalitional engineering”, and where engineering has more opportunities to take advantage of cross-cutting conflict, reform capacity is subsequently higher. The link between conflict and coalitions in Häusermann’s work is still that constituencies are connected to reforms through their status as beneficiaries, but because of coalitional engineering very small constituencies can be integrated into reforms by “combining several conflict dimensions in a single reform package” (Häusermann, 2010, p.7).

A similar argument is put forth by Knotz and Lindvall (Knotz and Lindvall, 2015), who find that cuts in social policy are accompanied by compensating measures more frequently in coalition governments than in single party governments. In particular, unemployment benefit retrenchment was more frequently combined with training programs where reforms were initiated by coalition governments. The authors argue that single party governments have the concentrated power necessary to pass legislation without as many compromises. On the other hand, coalitions are formed when no parties are sufficiently large to unilaterally pursue their own objectives, and therefore legislative objectives depend on the support of others. Because a broad, encompassing coalition is neces-
sary in these scenarios, the losers of reform are more likely to be offered compensation when they are harmed. Another explanation the authors argue for is that coalitions can include smaller parties who are more ideologically diverse and for whom a median voter logic is less dominant, implying that ideological commitments may lead to the inclusion of compensatory mechanisms.

The conclusion about power sharing and compensation is integrated into Lindvall’s broader work on reform capacity (Lindvall, 2017). Here Lindvall argues that power sharing systems enable policy-makers to solve bargaining problems by building support for reform through compensation. Unlike accounts of reform capacity that see power-sharing as a limitation\(^3\), Lindvall argues power-sharing systems can tolerate more conflict thanks to options for negotiation with other parties as coalition partners, with interest groups outside of formal institutions, and even across longer periods of time as the risks of intertemporal policy-making can be spread out across the different parties to a political bargain. What this suggests is that, like Häusermann’s work, political arrangements which can broaden the potential group of constituencies included in a political decision can make reforms possible which otherwise would have failed.

The theoretical approaches taken by the authors above imply that reforms can be driven by a wide variety of coalition circumstances. While some reforms may draw on powerful, organized constituencies who offer their support in exchange for beneficial social policy, when coalition building requires more flexibility smaller groups may be beneficiaries despite their lack of organized influence. In this dissertation I extend this logic to argue that successful coalition building around one political objective may be consequential for passing reforms in other policy areas, where those policies are a part of building that successful coalition. The simplest articulation of this would be a political bargain, where a political party agrees to a reform and in exchange alters the distributive profile of the initial arrangement in order to benefit an outsider group that would otherwise be politically inconsequential. An example of this I will use later in Chapter 4 is the Dutch left-wing party GroenLinks facilitating the liberal-labor coalition government’s fiscal discipline objectives by agreeing to eliminate universal tuition grants, a proposal GroenLinks was willing to support in exchange for a more generous means-tested grant for students from low-income backgrounds.

\(^3\)For example literature which argues institutional veto-points reduce the chances for successful reform, see Tsebelis’ (2002) work.
The constituency-beneficiary problem

Depending on how institutions are designed, however, the location of coalition formation may not be exclusive to the legislature. A government with a reform agenda may need to recruit support from other parts of the state, for instance when sub-national political interests are key to the success of a policy. For instance in Sweden, a coalition of political parties, the Swedish Confederation of Professional Employees, and regional political actors created a strong base of support for a regional economic development project that included higher education expansion as one part of its development strategy. This safeguarded the education system from later retrenchment because of the importance of local political interests for center-right parties who may have otherwise preferred slowing the rate of higher education massification. In this case, a coalition was built that incorporated local levels of the state around regional development, where higher education was incidental to the broader goal of regional development.

This process can also work to prevent reform, where to achieve an objective constituencies need to be brought together into a coalition who are not the proximate beneficiaries of reform. Consider again the Swedish case, but for minimum income benefits. Chapter 5 shows that there was strong problem pressure to reform the social assistance system and make benefits more nationally equivalent by establishing a national norm for benefits, rather than benefit levels resting solely in the hands of municipalities. But the main problem facing reform was that this would take budgeting autonomy away from municipalities. A partial national norm was established, and since then increasing the social assistance benefit has been politically difficult because of the cost to municipal budgets. Because there is nothing to offer municipalities in return, there is no feasible way to bring the local level of politics into a coalition for reform and increase the living standards of outsiders. Rather, the social assistance system is left in a state of policy drift. In this case institutions restrict coalition flexibility.

The main explanatory argument is therefore that the reforms I am interested in are successful or unsuccessful because of coalition building around other political processes. Where they involve outsiders or politically weak insiders, reforms to their benefit are incidental to other political processes. Where efforts at protecting these groups fail or do not materialize, it is not because outsiders, for example, failed to organize into a powerful constituency. They did not do so in successful instances of reform either. Rather, it is because there was no broader political process and coalition to which these reforms could successfully attach themselves to. The contribution of this explanatory approach is
therefore to describe how reforms can succeed even when beneficiaries are not politically relevant.

1.5 Methods, material, and structure

The purpose of this dissertation is to introduce a model of policy regimes based on labor market, education, and minimum income policy in order to describe how government decision making stratifies groups in segmented labor markets, and to explain what contributes to decisions that shape the trajectories of those policy regimes. In order to achieve these goals this dissertation makes use of three strategies. The first relies on descriptive inference to show variation in policy regimes and to make an argument about important variation that is understudied in the context of labor market segmentation. This strategy is used in Chapter 2 and Chapter 3 of this dissertation. The second strategy is based on process oriented qualitative case studies in order to study causes behind the variation in outcomes uncovered by the descriptive inferences. The third strategy is comparative. Comparisons are used in both within-case and cross-case contexts. Both types of comparisons facilitate evaluation of counterfactual claims, which is important for evaluating the strength of competing theories and for understanding cases that are characterized by non-reform. The process oriented and comparative strategies are used in Chapter 4 and Chapter 5 of this dissertation.

The strategies described above make use of two different groups of cases. The first includes sixteen countries that are described in Chapter 2. While sixteen countries are the largest number of cases this dissertation uses, it is still a relatively small number of cases if one considers the potential universe of cases to be all capitalist economies that have existed. However, there is a trade-off with expanding the number of cases used in the analysis, primarily between the risk of a small sample inducing selection bias and a larger sample inducing causal heterogeneity (Collier and Mahoney, 1996). The dependent variable in this study is labor market regimes, and selecting these sixteen countries among the dozens of capitalist countries that have potentially relevant examples of labor market regimes (at least broadly defined) suggests I have selected on the dependent variable. But in this case, expanding to those other labor market regimes would expand the dependent variable to cases that

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36 Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.
are not theoretically relevant. This is because the labor market regimes I describe are constructed specifically to systematically operationalize the concept of policy-driven labor market segmentation. This means that the sample must be restricted to countries that are rich enough to reasonably expect that presence or absence of certain types of policy expenditure is a matter of political choice rather than necessity. Furthermore, countries should be post-industrial to make sure that labor market structure is comparable and that dualization occurs in similar ways. Including countries where work is precarious because of, for example, a high prevalence of sweatshop labor is theoretically distinct from the precarious work that may arise in European countries because of growing service employment and employment deregulation. Therefore bias introduced by a limited sample should not be a problem that reduces the reliability of the results.

The limited choice of cases here is also desirable because it limits causal heterogeneity. At a minimum, the explanatory theories used here require consolidated democratic government. Similar to the argument already presented, countries must also be rich enough for policy to be the result of democratic politics rather than a lack of resources. Furthermore, because institutions are often path dependent it helps the study to restrict the sample of cases to countries with a reasonably shared historical development of institutions and labor markets, and which face similar contemporary challenges. In terms of sources, the chapter that uses the sample of sixteen countries relies on comparisons of national data made available from international institutions such as the OECD and Eurostat, as well as some data sources collected by individual scholars.

The second sample of countries is more restricted and is used in the third descriptive chapter and in the qualitative process oriented and comparative fourth and fifth chapters of this dissertation. It consists of the Netherlands, Germany, and Sweden. The selection of these three countries is the most obvious example in this dissertation of selecting on the dependent variable, because the descriptive results of Chapter 2 suggest that these cases include interesting variation that is not captured by current welfare state and dualization literature. But far from the problematic practice of selecting extreme values of the dependent variable, which on average underestimates the relationship between independent and dependent variables (Collier and Mahoney, 1996), I select these three cases because they show theoretically important variation in the dependent variable. As I show in chapter two, Germany and the
Netherlands\textsuperscript{37} belong to a group of countries that invests less heavily in producing insiders through tertiary education, while Sweden belongs to a group of countries that invests high levels of public resources in tertiary education. On the other hand, the Netherlands and Germany belong to a group of countries that offer more robust minimum income benefits to outsiders, while Sweden belongs to a group of countries that offers less robust targeting of outsiders. Taken together, these form two theoretically interesting regimes: one that invests more but compensates less, and another that compensates more but invests less.

Two other theoretical possibilities exist. One is a country that both highly invests in insiders and highly compensates outsiders. As I show in Chapter 2, such a country does not exist\textsuperscript{38}. The other group is a low investment, low compensation group which is made of of southern European countries. This group is of less theoretical interest because of the research questions. These essentially ask (1) what are the theoretically important descriptive outcomes in policy-based labor market segmentation (2) what explains policy developments over time in those regimes? Including a regime that neither invests in insidersness nor compensates outsidersness would be a completely counterfactual case that tries to explain why neither of these strategies emerged in the southern cluster of countries. While this is still an interesting question, given that the three cases already included instances of low outsider compensation or low insider investment, they are already sufficient to test the theoretical argument I present about how outcomes to reforms that influence weak constituencies are incidental to other political processes that involve more concentrated constituencies. Therefore these three cases maximize the leverage I have for investigating the theories (both my own and the

\textsuperscript{37}Here I should also note why these two countries. I present more on this below, but it is useful to note here that there is additional variation within this group, Germany’s low investment is due to lower enrollment, while Dutch low investment is due to higher private financing. Therefore there is empirical variation between these two countries which is important to explore when placing them in the same theoretical regime category.

\textsuperscript{38}It also is not a matter of accidentally excluding such a country from the larger sample either. The sample of sixteen are all European countries, while some argument could be made for including Australia, Canada, New Zealand, and the United States. But given that these are all liberal welfare states, there is no reason to expect they would belong to a high investment, high compensation group.
alternative explanations) that can answer the research questions.

Apart from selecting cases from theoretically relevant variation in the dependent variable, there are also reasons to choose these three countries specifically. Germany is often considered a model case of the continental welfare state. Because this model of welfare state is concerned with status-maintaining welfare policies, it is a least-likely case for policies that expand and compensate the atypical labor market. Therefore, if outsiders benefit from decisions that are incidental to other political processes, it is strong evidence to support my theory because organized constituencies in Germany should be highly committed to status maintenance. On the other hand, Sweden is a least likely case for dualization because it is treated in comparative welfare literature as an archetype of the social democratic welfare state where universal welfare entitlements to all citizens should make an unlikely case for political outcomes which lead to a worsening of outsider status relative to insiders. Presumably, politics in these countries should allow benefits to be income differentiated, but should not systematically stratify different groups. If evidence shows that dualization is worsening in Sweden, it lends significant additional utility to my theoretical concept of regimes. Furthermore, the Netherlands is considered a continental welfare economy but by many accounts is also considered a hybrid between the social democratic and continental systems. Therefore this gives some additional variation to the sample without adding further complexity of choosing a completely distinct welfare state type.

In addition to choosing cases, Chapter 4 and Chapter 5 also require choosing policies, since they focus specifically on tertiary education and minimum income benefits. The policy areas these cases focus on are different than what the segmentation literature typically focuses on. For example, segmentation literature often focuses on parties’ commitments to unemployment (Lindvall and Rueda, 2014), to employment regulations (Rueda, 2005, 2007; Eichhorst and Marx, 2021), or to active and passive labor market policy (Picot and Menéndez, 2017; Picot, 2013; Rathgeb, 2018). In these cases, partisan models can be constructed in a clear way since the reforms have immediate effects for insiders and outsiders which are proximate to their labor market status. However, Chapter 3 will show that in the areas of unemployment benefits, standard and temporary employment regulation, and active labor market policy, many countries followed similar reform pathways. EPL was rarely changed, almost all countries substantially deregulated temporary employment regulations, and unemployment benefit conditionality has grown in almost all countries, even the insider oriented continental
states. Generally unemployment benefit reforms also led to reductions in benefits for the highest recipient categories.

What this shows is that if there are explanations for why governments make decisions in these policy domains, they do not necessarily help differentiate a group of countries which scholars of advanced capitalism generally agree show a high degree of variation (Beramendi et al., 2015). However, the regime approach I introduce expands the policy space in which competition or coalition building among insiders and outsiders can occur, and in the Netherlands, Sweden, and Germany, it is along higher education and income benefits that key differences emerge.

These differences are important for two primary reasons. As argued above, they show that outcomes for labor market politics can diverge despite convergence along policy domains which are widely accepted as being crucial to understanding labor market politics. This is important because it suggests political decision making can come to compromises that would not necessarily be possible under the assumptions of current literature. Second, these are examples which confound expectations under typical assumptions about redistributive politics. Continental markets are usually associated with higher insider protection, but in this case both Germany and the Netherlands show some reorientation of the higher education and benefits system to target outsiders at the expense of insiders. At the same time, the Swedish system has not made any particular prioritization of either group, an outcome which is not possible in partisan models that treat insider and outsider interests as zero-sum. Therefore, these three cases offer a unique opportunity to learn about the decisions behind labor market regimes. The case study sections will focus on three cases of two policy areas. For each country covered in detail in Chapter 3, Sweden, Germany, and the Netherlands, the determinants of a group of key reforms in both higher education and income benefits will be presented. In total, these six case studies will form a process and comparison oriented explanation of reform.

Alongside the selection of cases there is also a selection of the temporal aspect of this dissertation. In general, the historical period analyzed in this dissertation runs from the mid 1980s to 2020. In Chapter 2 and Chapter 3, the exact time period shown depends on the availability of data at the time of collection. Ideally indicators are shown from the mid 1980s to 2020. However, data are not always available for this period and so what is shown in figures and tables may include shorter periods. For Chapter 4 and Chapter 5 the exact reforms that are studied range from the 1990s to the mid 2010s. However, sometimes these case studies include context or decisions that were made decades prior because they
Methods, material, and structure reveal information that is important for understanding contemporary reforms.

One of the key considerations to make when using a process-oriented research strategy is the type of evidence used, since depending on the research question and theories some evidence can have more “diagnostic” value than others (Bennett, 2010). Here primary and secondary sources are used. Because the processes I was most interested in were those that led to reform within the policy areas I was interested in, the primary sources included official state documents that could reveal the decision-making process that led up to a reform. Therefore the documents most heavily used are directly related to legislation. This includes four categories of documents. The first category is preparatory or explanatory work issued before legislation is considered in parliament, or in conjunction with its introduction. Because parliamentary procedures among the three countries differ, these documents differ in how they are presented, but all serve the purpose of describing the problem that legislation intends to address. In the Swedish case this draws on committee directives and preparatory work (Swedish Government Official Reports, or Statens offentliga utredningar (SOU)). In the Dutch case this involves explanatory memorandums (Memorie van toelichting). In Germany a summary of the purpose of legislation is given with the initial draft bill.

The second category of documents is related to the first in that it comes before legislation, but unlike the first category is not an official part of the legislative process. This category includes documents related to party negotiations over policy, and includes party platforms, coalition agreements, and output from party working groups. The party platforms and coalition agreements provide evidence on the policy stances of political parties and how these change when they come into agreements with other parties. In some cases reform processes span across governments. In these instances election platforms can be especially helpful because they signal what negotiating points are most important for a party on a forthcoming reform. The evidence from working groups\(^{39}\) provide similar evidence but are produced on more of an ad hoc basis depending on whether a working group is formed for a particular reform.

The third category is the minutes of parliamentary debates. These are available for all three countries and provide a record of the preferences of political parties, their intent when it comes to reform, the problems that they prioritize, and the reasons for they support or do not support legislation. These debates are usually connected to a spe-

\(^{39}\)These are mostly used in the German cases.
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cific legislative proposal, and in this dissertation debates from plenary sessions were always used when a piece of legislation was the focus of the study. However, sometimes relevant debates also occur during more general annual sessions of parliament. For example, policy debates and explanatory material can emerge from sessions of parliament following an annual presentation of the budget, such as parliamentary debates that occur around the annual budget day (Prinsjesdag) and presentation of the annual budget memorandum (Miljoenennota) in the Netherlands\textsuperscript{40}. Another example of information that is collected from parliament but that is not directly tied to legislation is the general motion period (Allmänna motionstiden) in the Swedish Riksdag, where every autumn members of parliament submit motions that are not tied to legislation. I also include in this category parliamentary motions which are introduced during debates over specific legislation (as opposed to the kinds of motions submitted during a session like the Allmänna motionstiden).

Fourth, I read consultation responses which are made by interest groups during the legislative process, which offers a perspective on the input that key economic interest groups had on legislation. These occur in different ways across the three countries studied. In Sweden, referral responses (Remissvar) are submitted by relevant authorities or interest groups to policy proposals. Typically the government asks for these, but sometimes they are also voluntarily produced by relevant groups. In Germany, official public hearings (Öffentliche Anhörungen) may be held in connection with legislation where relevant experts or interest groups are invited to offer comments on legislation. In the Netherlands, there is not the same type of consultative process during legislation, but there are numerous temporary and permanent advisory bodies which serve a consultative function to government. The most relevant in this case is the Social and Economic Council (Sociaal-Economische Raad, or SER), an advisory council composed of trade unions, employers associations, and independent experts who produce advice on legislation that the government responds to. In this dissertation, Swedish referral responses and German public hearings are referenced, but the SER did not produce relevant advice on the legislation that I focused on (although SER also produces policy reports that were read as background material).

\textsuperscript{40}Sweden and Germany also have annual parliamentary sessions that follow the government’s budget proposal. However, only in the Dutch case was there significant policy debate that was relevant for the reforms studied in this dissertation.
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There are also some miscellaneous sources that are used at times. This may include reports from social partners that give a perspective not found in consultation responses, or newspaper articles. On the later, all case studies were informed by extensive review of newspaper articles for background and context, but these articles are only occasionally referenced and do not constitute a systematic part of data collection. The only place where I make reference to systematic collection of newspaper articles is in the fifth chapter when I make reference to a review of an online newspaper archive between 1991 and 1998 on the introduction of a national social assistance standard in Sweden, the reason for this is because these sources provided much needed information on how the issue developed within the Swedish social democratic party and parliamentary debates and official documents were insufficient for this purpose. Additionally, because of language constraints the documents were usually machine translated into English using Google or DeepL translation services.

After selecting the relevant data, the researcher must decide which observations from the data are most important to show the reader. This was done when an observation was particularly representative of important positions actors took or when the information revealed how participants in reform negotiated with each other or where the quote revealed important conflict dimensions of reform. The information that is represented by individual observations presented to the reader was always chosen as the result of convergence among multiple sources of data, both primary documents and other historical and political studies that were written about either the same series of events or events that were directly adjacent. Therefore while the analysis is my own, the empirical material it is based on has been carefully selected to ensure each empirical step is recorded as one example of information that can be found from multiple sources.

Finally, Chapter 4 also includes data collected from semi-structured interviews with individuals involved in the policy making process. These include government ministers, state secretaries, and representatives from social partners and interest groups. Respondents were contacted who had a close connection to the reform processes studied in the case studies. This means that they participated in a reform process, had substantial experience with the policy area that was the subject of study within the country being studied, or had substantial experience within organizations that were important stakeholders in a reform process. Interviews typically lasted approximately one hour, although some were conducted in writing. The questions that structured the interview asked
about the individual or group’s role in a reform process, what motivated
their role in reform, how the reform fit into their organization’s broader
policy strategy, and where they found conflict and consensus during the
reform process. The interview questions were not designed to reveal the
participants opinions or interpretations of events, but only to establish
a more detailed historical record of events and to serve as additional
sources of corroboration for insights that come from the other data pre-
sented in the case studies. They do not stand as evidence alone of events
but do lend detail to the analysis, and all of the discussions that I de-
cided to cite were further researched and aligned with other primary
and secondary sources that I read while writing this dissertation. The
reason why interviews are not used for Chapter 5 is because it proved
more difficult to secure a well-balanced set of interviews for that part of
the analysis. On reflection, I therefore decided that it was more prudent
to not use interviews at all in this part of the analysis, and instead rely
exclusively on written sources. An appendix listing the interviews which
informed this project can be found at the end of this thesis.

The structure of the dissertation is as follows. In this chapter, I
argued for why a policy regime approach is useful for a political model
of policy-based labor market segmentation. I also reviewed prominent
explanatory theories and introduced my own. In Chapter 2, I further
specify the policy regimes and broadly compare countries along devel-
opments in these policies. Chapter 3 takes a more focused view of the
labor market regimes by describing in further detail the recent historical
policy developments of three countries: the Netherlands, Germany, and
Sweden. Chapter 3 demonstrates that two of these policy areas show
interesting divergence in their strategy towards labor market outsiders,
Chapter 4 and Chapter 5 are a qualitative study of the politics of impor-
tant reforms that were influential for the trajectory of the labor market
regimes of these three countries. Chapter 6 briefly concludes.
Methods, material, and structure
Chapter 2

Regimes of segmentation

In Chapter 1, I argued that the study of politics and labor markets has grown more sophisticated to reflect more heterogeneous employment types, but that research into the economic decision making of governments is still siloed into, among others, labor market policy, social welfare, and education. The problem with this is that both governments and voters have reasons to form positions across all of these domains. For example, a dispute about labor market policy takes place in the context of the other benefits available to workers and the human capital profile of the economy.

In this chapter, I describe a policy based approach which integrates aspects of employment regulation, labor market policy, social welfare, and education policy into regimes which influence two primary channels of dualization: the likelihood that someone can change from one labor market status to another and the benefit levels enjoyed by each status relative to each other. This approach opens up important policy dimensions that have been overlooked by the literature, namely efforts at investing in high-skill labor markets and compensating atypical employment. This stands in contrast to other literature which focuses primarily on efforts to protect insider employment.

These four policy areas differentiate the experiences of different labor market segments. By making theoretical claims about who the primary beneficiaries and subjects of these policies are, four main labor market groups will emerge as most relevant to these policies: insiders, outsiders, the unemployed, and the inactive. The first theoretical and descriptive goal of this study, however, is not to focus on the distinct effects of single policies but to describe how policies aggregate, interact, and evolve as regimes. By framing segmentation as a process that develops in response to multiple policy outcomes, a regime-based approach can reveal a re-
relationship between politics and the labor market which is mediated by combinations of policies and decisions that incur wins, losses, and compromises for labor market segments. Furthermore, weighing winners, losers, and the trade-offs inherent in compromises is a more complete reflection of the decision-making process faced by governments.

This chapter serves three purposes. First, the chapter argues for the use of an approach which focuses on regimes and describes why this approach should be preferred for describing the temporal development of social policy as a mechanism for conditioning dualization. It describes these regimes by generating theoretical expectations about how policies intend to influence the relative status of labor market participants and their transitions among different segments (insider to employed outsider, unemployed to insider, etc). Second, it offers a high-level comparative perspective of what policy trajectories look like in advanced capitalist countries by using descriptive indicators. Doing this highlights how policies which interact with dualization have evolved over time, emphasizing the differences among traditional policies such as employment protection or unemployment benefits and new policies I emphasize such as tertiary education and targeted welfare benefits. It also provides a comparative analysis of how countries’ labor market regimes are similar or different. This demonstrates the usefulness of studying policies along with each other for describing variation in the strategies governments use to influence labor market outcomes.

Third, and most consequential for this dissertation, in addition to describing developments in policies, this chapter compares those trajectories against common typologies employed by welfare state scholars. This shows that cross-national variation in a regime which is limited to EPL, ALMP, and unemployment benefits would underestimate the variety of strategies for supporting different labor market segments. Furthermore, the additional variation from including education and minimum income benefits in a labor market regime shows unexpected outcomes. Some countries seem to be focused on compensating outsiderness, while other countries seem to be investing in insiderness. At the same time, those who invest in insiderness do not compensate outsiderness as robustly as other, and those who compensate outsiderness do not lead the way in investing in insiderness. The implication here is that two pathways emerge, one where outsider employment is not only tolerated but incentivized, and another where outsider employment is not tolerated but rather resources are spent on trying to produce an economy with more robust insider employment. Unlike what welfare state typologies may suggest, continental economies are not the ones focused on insider em-
Regimes of segmentation

ployment, rather they increasingly compensate outsiders. Meanwhile, the social democratic welfare states do not show a uniform response to dualization, with the social democratic exemplar, Sweden, lagging behind on reforms to target outsiders and rather promoting a future insider labor market.

2.1 Why regimes?

Social policy research frequently emphasizes the policy making process, outcomes, or voter preferences for particular policies. For example, studies focusing on particular policies include explaining preferences for employment regulations (Saint-Paul, 2002; Guillaud and Marx, 2014) or how partisanship influences adoption and design of active labor market programs (Vlandas, 2013; Cronert, 2019). In education research, studies can focus on the particular effects of different education systems, showing inequalities in access to or quality of education (Rudolphi, 2013) while others document the redistributive political economy of education systems (Ansell, 2010; Busemeyer, 2014; Garritzman, 2016). Studies can also focus on more general government objectives, such as how politics determines redistribution or the size of social expenditure (Huber and Stephens, 2001). The strength of studies which purposefully select a narrow range of policies\(^1\) is they can make clear conclusions about the causes, effects, and power relations associated with a policy or broader goal like redistribution. Furthermore, studies which limit their policy scope to explicitly labor status oriented policies offer a concise framework on which to model preferences.

However, labor market segmentation implies a broad stratification of society enforced by numerous policies in different domains. In addition to a large number of policies, segmentation as a political process involves voters who themselves evaluate political parties based on compromises even when they are faced with outcomes they might not prefer (Häusermann, Kurer and Traber, 2019). Likewise, policy-makers themselves must think about the combined effect of policies. This project is not the first to extend the policy space of this research field. Since Rueda (2005) introduced a partisan model of dualization that focused on EPL and labor market policy, the field has expanded to partisan models which include non-standard employment regulations (Picot and Menéndez, 2017; Eichhorst and Marx, 2021), policy studies which in-

\(^{1}\) Or a focus on one particular aspect of the welfare state that encompasses a broad range of policies, such as social spending
clude migration policy (Emmenegger and Careja, 2012), and case studies which include the social investment policies and retirement reform (Peng, 2012). Labor market status can feasibly interact with a much wider array of political outputs than could be summarized in one study, but what is necessary is for political accounts of segmentation to correspond to an understanding of the social welfare state which can reasonably articulate how governments expect to stratify the labor market and how individual voters can evaluate policy packages based on their status in the labor market. This chapter therefore contributes to understanding why thinking about dualization in terms of regimes is valuable and argues for what the boundaries of these regimes should be.

A policy regime is a constellation of policies and institutions which reveals the programmatic logic of a system of governance and offers information about how policies interact with each other, the values of a prevailing political system, and who the winners and losers of political arrangements become (Jochim and May, 2010; May and Jochim, 2013). Dualization or labor market segmentation involves multiple labor market groups who experience growing inequalities relative to each other. These inequalities, and therefore the extent of segmentation itself, relies on political arrangements and decisions which involve trade offs, constraints, and short-term considerations that are embedded in long-term trajectories.

Describing labor market segmentation and its political causes, I argue, requires describing simultaneously how states influence the numbers of insiders and outsiders, the socioeconomic status of insiders and outsiders enforced by public policies, and the constraints on decision making faced by policy makers when making decisions that impact insiders and outsiders. I argue there are four particular aspects of regimes which would help describe the process of segmentation. First, thinking about regimes helps define the groups necessary to represent the process of labor market segmentation. While some policies may influence only insiders, or only the unemployed, describing this phenomenon in terms of regimes requires the identification of all main statuses produced by relevant contemporary reforms. Unlike accounts of dualization which rely on the intersectional risk of different occupational groups (Häusermann and Schwander, 2009) or the uncertain or precarious nature of working standards (P. Vallas and Kalleberg, 2017), the policy regime requires assumptions about how policies interact with particular statuses, and therefore helps identify the key status groups: insiders, outsiders, the unemployed, and the inactive. Because describing the role of a regime is theory driven, it requires examining which actors could be potentially
important and what the relationships among them might be. Rather than starting from a regime, if I started from a particular political problem such as why governments cut unemployment benefits, I might only need to identify two salient groups: the unemployed and the employed. Starting from a phenomenon and understanding the policy regime associated with it, however, requires asking questions about the range of possibilities available to governments and the groups which could possibly be affected.

Second, regimes describe the dynamics necessary to represent the process of labor market segmentation. Similarly to the first point, a description of a policy requires the identification of the theoretical channel through which the policy influences individuals. Describing a regime necessitates the definition of the most important theoretical channels through which a policy could influence individuals. Individuals can relate to the functions of the policy regime in two ways. First, they can expect the regime to give them better prospects of finding standard employment or a lower risk of finding atypical employment. This implies policies can collectively shape how many insiders and outsiders participate in the labor market. Second, policies can influence the socioeconomic position of individuals relative to others, which in turn influences dualization by changing the severity of segmentation and making the social experience of dualization better or worse. These two factors come together in a regime because their interaction produces particular outcomes which cannot be described by one functional factor alone.

An example may make the distinction between the regime approach and other approaches clearer in this regard. In the approach I propose, I specify the expectations for what pathways are most relevant for stratifying labor market groups. Beginning from these pathways then helps identify relevant policies and actors. By asking about one of the two pathways - “what can governments use to change socioeconomic positions of some labor market groups relative to others?” , I can identify minimum income benefits and universal benefits as two broad types of policy making which stratify insiders and outsiders differently. However, by starting with policies first and not the functional characteristics of a regime, I might overlook certain characteristics of labor market segmentation. If I were only interested in employment protection legislation and active labor market policy, I would preclude the possibility that welfare benefits can be used to stratify labor market groups on the level of benefit generosity.

Third, regimes account for complementarity and substitution in political decision making. This is related to the second point, if regimes
explain unique outcomes that occur as a result of a combination of distinct regime functions (i.e. state changes and benefit generosity) they can be used to represent how individual features of the regime can combine to form new functions or can substitute each other to appeal to different labor market groups. While the second point referred to the distinct functions of the regime, this point highlights how its functions relate to individuals and how individuals can evaluate different proposals for changing particular policies. In the above example, a study which focuses on employment protections and active labor market policy, the researcher would be poised for expectations of conflict among insiders and outsiders. This is what Rueda finds (Rueda, 2007), since employment protections insulate insiders from competition and active labor market policies make outsiders more competitive. However, a government could attempt to form a policy package which overcomes these conflicts to create a coalition by appealing to other preferences which might be systematically aligned with outsiderness, such as better child care benefits or housing policy.

Fourth, regimes define the relative relationships among actors rather than their individual relationships to one policy. Apart from showing how regimes distribute resources and risk among labor market groups, the inequalities which are cumulatively produced through multiple policies reveal information about how governments prioritize different segments of society and how a change in the status of one group influences the relative position of others. This fourth point will be exemplified in forthcoming sections by Germany’s unemployment and minimum income benefit reforms. In short, insiders paid a cost by losing certain portions of their unemployment benefits, while in a separate policy area outsiders gained status through a shift in welfare priorities towards topping-up low incomes. This is especially relevant because the same reform includes modifications to multiple policy areas, since both unemployment compensation, social assistance were modified by the same law, with means-tested childcare benefits introduced alongside the new social assistance system. Although these are separate policy areas their cumulative influence on the labor market regime shows a prioritization of atypical workers at the expense of costly income maintenance systems for insiders. If a study had only focused on the politics of unemployment benefits, it would be able to correctly categorize the loss for insiders but overlook the relative gain for outsiders.

The advantage to describing dualization as a policy regime driven political process, I have argued, is partly because the nature of regimes encompasses a range of pathways to certain outcomes which cannot be
explained by one particular regime component. However, two criticisms are leveled against prominent regime categorizations such as Esping-Andersen’s three worlds of welfare capitalism (Esping-Andersen, 1990). First, regimes often are not strictly exclusive (Scruggs and Allan, 2008; van der Veen and van der Brug, 2013). This means the boundaries of regimes are not as strictly defined as regimes imply, particularly if they are a part of a typological classification scheme. However, to show variation and characterize change over time in how welfare states stratify the social rights of insiders and outsiders, it is not necessary for regimes to have completely mutually exclusive features. This approach relies less on strict typologies and more on characterizing policies which stratify the labor market, describing their interactions, and showing how they lead to differential patterns of segmentation across countries and different strategies pursued by governments. Some divergent regimes will have similar characteristics along certain policy dimensions, but differences along other dimensions can still differentiate the net outcome for insiders and outsiders. Second, ideal types can create confusion if policies are more complex than the regime typologies suggest (van der Veen and van der Brug, 2013). However, because the purpose of using a regime here is to better capture an average experience for labor market groups, the more generalized conclusion offered by a regime may be closer to what is perceived by voters, interest groups, and parties rather than a conclusion which is altered by policy idiosyncrasies.

Finally, it is useful to discuss what constitutes change in regimes. One of the purposes for framing dualization in terms of regimes is in order to categorize change over time in one concept which itself is built from different sub-components. However, it is difficult to tell when changes in the sub-components constitute changes in regimes. Furthermore, since regimes enforce limitations on political possibilities, it is difficult to tell when a lack of change constitutes meaningful information for understanding the dualization regime. A policy regime may undergo incremental changes which do not significantly alter its redistributive principles, however, at some point incremental changes may be cumulatively large enough to change the nature of the policy system. Large, abrupt changes may also cause shifts which alter how groups of policies systematically stratify society as to constitute a different regime.

Peter Hall (1993) introduced a framework for understanding the levels of policy change by distinguishing between broad paradigm shifts which alter the programmatic orientation of a policy system and smaller incremental changes which Hall terms normal policy making. In normal policy making, changes to regimes include first and second order
What policies make a regime?

changes, or changes in the levels of instruments or adoption of alternative instruments which achieve the same overall purpose. These changes do not necessarily constitute regime changes although they can make certain features of a regime more pronounced. Third order change includes more substantial breaks with previous policy objectives and imply a programmatic reorientation of the policy regime. Although Hall uses the concept of “paradigm shift”, the implication for regime change is similar. Regimes may change incrementally and never undergo fundamental changes to their character as regimes. Regularly altering the level of policy instruments or substituting new instruments for old ones (as long as they are functionally similar) indicates that the relationships between actors and priorities of policymakers have not changed substantially.

However, when the programmatic orientation of the policy making process changes, for example from embracing decommodification as a guiding principle to marketization, a fundamental change in the trajectory of the regime occurs. At the same time, a lack of change may not be insignificant, if change which might have otherwise occurred did not, or if external circumstances changed enough to invalidate the impact of the initial policy (Thelen and Mahoney, 2009). For example, if a policy displays remarkable stability over time despite pressure to change, this stable outcome may reveal important information about how policy regimes form support coalitions in society. On the other hand, stability in a policy despite changing circumstances in society may indicate a decrease in the ability of policies to maintain previous goals. Therefore certain case studies in this dissertation are based around a lack of change, while others are based on explicit changes. Although paradigm change and regime change are not interchangeable, they entail similar choices such as policymakers needing to weigh which experts or interests authority over policy lies with, which groups command resources during political conflict, or how successive policy failures lead to reevaluation of the direction of policy making.

2.2 What policies make a regime?

To explain why certain policies and labor market groups should be included in the analysis I begin with a selection of policies from previous literature and build up to a more complete regime framework which encompasses policies that influence the permeability of labor market statuses, or the ability of an individual from one status to transition into another, and policies which encompass the material benefits targeted to each status group. The strength of this approach is that segmentation
in this instance is explored in terms of strategies which governments use which interact with labor market status, specifically policy arrangements which can be tied to policy making and electoral processes.

This approach does not classify insiderness or outsiderness empirically in the sense of counting the number of insiders or the number of outsiders like an individual-level analysis would. A demographic approach such as this one would rely on factors which are not directly linked to politics such as global demand for certain products, interest rates, factor prices, and others which might influence unemployment rates or demands for a flexible workforce. Rather, this policy regime approach focuses on conceptually mapping the functional purposes of policy reform. Economic factors will mediate the effectiveness of policy, but what this project is concerned with is how governments treat different labor market groups and the policies they use to stratify or equalize them. Therefore, when I refer to status permeability or quality of life, it is not an empirical outcome but rather the purpose of the reform.

I begin my explanation of relevant policies for this dissertation with a generic model which shows the two pathways through which governments influence dualization through policy. These two functional aspects of the labor market policy regime are status permeability and quality of life. These are depicted in a generic model in Figure 2.1. The vertical axis, labeled $\beta$, depicts the quality of life or social benefits offered to a first and second group of individuals. In this case, Group 1 enjoys more benefits from the state than Group 2, and is therefore higher. To depict permeability, the model includes two periods along an axis labeled $T$, $t_1$ and $t_2$. The arrows show the paths available to each group. In this instance, the policies will push Group 1 individuals to stay as Group 1, while Group 2 can transition into either group. There is not change in their position on the $\beta$ axis, but Group 1 becomes larger since Group 2 individuals can join it. This diagram depicts the logic behind a single policy which makes it easier for Group 2 to join Group 1. This diagram is not meant to provide a true to life description of all outcomes in the labor market. Rather, it depicts the logical purpose of policies vis-à-vis the labor market and the expected influence of policies at the margin.

One of the central policies in the study of politics and labor market segmentation is employment protection legislation (EPL). The focus on EPL is well justified, EPL directly shields insider employment from outsider competition. Although EPL can exist for all types of employment, it generally refers to a set of regulations which protect standard employees, or insiders from dismissal. These regulations can impose costs on firms for dismissing employees by requiring severance payments
What policies make a regime?

Figure 2.1: Model form, generic groups

-Labor market group 1

- Labor market group 2

$t_1$, $t_2$, $T$

which can be both generous in the amount of money required for the payment but also the amount of tenure needed to make an employee eligible for severance. EPL can also impose costs on firms by requiring lengthy notice periods for dismissals, requiring employers to notify an employee of his or her termination months in advance and continue paying salary and benefits during the period. Finally, EPL also imposes regulations on what circumstances qualify a legal termination. Under strict EPL regimes, it is often not only costly to fire a worker but impossible due to regulations which only allow termination under a slim set of circumstances.

Dualization literature considers EPL a policy that mainly benefits insiders (Rueda, 2007; Picot and Menéndez, 2017). These studies argue support for EPL shows a partisan commitment to the interests of standard employees. EPL clearly secures jobs for insiders, but it also makes those same jobs more difficult for outsiders to obtain. Since employment turnover is low in a regime of high EPL, job openings for insider jobs are more rare, it is more difficult for outsiders to undercut the wages of insiders, and insiders can acquire a high level of firm specific human capital which is difficult for outsiders to obtain. In jobs with higher turnover, entrants may not need as much firm specific knowledge. Figure 2.2 shows the model based on a single policy in which a government promotes a high level of employment protection legislation. To categorize dualization with only this one policy, the model only requires two groups: insiders and outsiders. EPL mostly protects insiders, so it is only necessary to define a group which is not insider. Employment pro-
tection legislation is strict in this example of the model, so insiders tend
to transition to the status of insider, and outsiders stay outsiders. State
differences do not occur, because EPL prevents them. Notice that while
there is a β axis in the model, EPL is not a welfare benefit and therefore
the vertical axis is of no substantive importance. This model therefore
demonstrates a dualized economy where policy-makers side with insiders.

Figure 2.2: High EPL in the model.

There is a type of employment regulation which is relevant to out-
siders as well, however. This is non-standard employment (NSE) reg-
ulation, or in the case of temporary contracts, EPL for temporary em-
ployees. NSE regulation is not as prominently featured in policy-based
studies of dualization, but Picot and Menéndez include this category
of regulation in their categorization of pro insider and outsider policies
(Picot and Menéndez, 2017) while Eichhorst and Marx (2021) include
temporary work regulations in their study of dualization over time in
Europe. NSE regulation governs the ability for firms to hire temporary
workers and can set regulations on part-time work. Many countries have
implemented reductions in NSE regulation to keep up with economic de-
mands for labor market flexibilization.

While Picot and Menéndez discuss NSE regulation in relation to out-
siderness in general, the effect of relaxing NSE regulation is twofold: it
increases the ability for firms to hire temporary workers, but assuming
some cannot find employment once their contract ends, it also neces-
sarily increases the amount of atypical workers who eventually become
temporarily unemployed by nature of their work being temporary. While
What policies make a regime?

NSE regulation is a policy that concerns outsiders, in terms of status permeability it cannot be shown with a model which does not differentiate between atypical workers and the unemployed. Figure 2.3 therefore introduces a new group, *Unemployed*. In this regime, high EPL still prevents any other group from joining insiders. Low NSE regulations, however, make transitions between outsiders (atypical workers) and the unemployed more common. This more accurately captures the reality of dualized labor markets where an precarious and volatile segment of the labor force exists alongside a stable core, but also reflects calls in the literature to differentiate among outsiders (Kiersztyń, 2017).

Figure 2.3: High EPL and low NSE regulation.

\[ \beta \]

\[ \begin{align*}
\text{Insider} & \quad \rightarrow \quad \text{Insider} \\
\text{Outsider} & \quad \rightarrow \quad \text{Outsider} \\
\text{Unemployed} & \quad \rightarrow \quad \text{Unemployed}
\end{align*} \]

EPL and NSE regulation are not designed to increase the labor market position of any labor market group. In other words, they are status maintaining, not status enhancing. Relaxing firms’ ability to hire and fire temporary employees does little to improve the status of current atypical workers (and can even harm them) while the jobs created by growing flexibility will only temporarily move the unemployed into work. Active labor market policy (ALMP), however, can change the ability of individuals to transition labor market statuses more permanently by helping them find better matching jobs or by increasing their human capital profile. This is another policy category commonly used in the literature to distinguish policies which affect segmentation (Rueda, 2007; Emmenegger et al., 2012). This diverse group of policies function by either bringing inactive individuals into the labor market, increasing the rate at which unemployed individuals enter paid work, or by making workers more competitive by increasing their skills.

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Active labor market programs can include measures such as training programs or adult education which seek to upskill individuals so they qualify for more in demand jobs, they can include employment services such as public or private employment agencies which seek to match individuals to suitable employers, or ALMP can include modifications to benefit structures which makes benefit receipt conditional on searching for or accepting employment and therefore “activating” an individual who was inactive in the labor market. ALMP functions in several different ways which can all have distinct purposes, consequences, and partisan attachments (Vlandas, 2013; Cronert, 2019), but they can be shown within the same model in Figure 2.4. On one side of the policy spectrum, ALMP can be highly human capital oriented and focus on providing training and other “upskilling” services which can make outsiders more competitive in the labor market (Bonoli, 2012). This aspect of ALMP which increases competition with insiders is why Rueda argues this as a policy insiders do not support (Rueda, 2007). It is worth noting that because ALMP includes policies with a broad range of functions, there is some ambiguity in how they interact with segmentation. When Rueda (2007) argued outsiders support ALMP, he used survey data that showed atypical workers prefer higher spending on job training. But this is only one subset of ALMP, increased conditionality on social assistance or unemployment benefits is also included as an ALMP in categorizations of labor market policy (Bonoli, 2012).

ALMPs can also be less human capital oriented but still beneficial to outsiders by providing employment search services to help outsiders find appropriate employers or to provide job search counseling. On the other end of the spectrum, ALMP can refer to policies which tie social benefits such as unemployment, social assistance, or others to participating in the labor market (i.e. looking for work, regularly meeting with a public employment service, requiring job seekers to accept certain kinds of work which might be below their qualifications or previous experience). For this reason, a fourth category is added to Figure 2.4, Inactive. Because certain types of ALMP focus particularly on inactive participants by altering benefit eligibility to include searching for work (this type of ALMP has been particularly popular, for example, in the Netherlands and Germany (Eichhorst, Kaufmann and Konle-Seidl, 2008)), the inactive category is necessary to differentiate ALMPs whose objective is activation versus ALMPs whose objective is upskilling or some other

2Additionally, he argues insiders do not want to pay taxes to support ALMPs which they do not benefit from
What policies make a regime?

... intervention. The inactive category by definition can only move into unemployment, if an individual were looking for a job in the first place and were able to move into work, he or she would be unemployed, not inactive.

Figure 2.4 shows the effects of a broad implementation of ALMP. This model adds inactive workers into the labor market by showing their transition path into unemployment, ALMP can match the unemployed to suitable employers (or even force them into work through benefit expiration) and move them into outsider employment, and it can up-skill individuals and make them more competitive with insiders, moving outsiders and the unemployed into insider positions. Some will stay unemployed. Since ALMP is changing the structure of the labor market by helping with matching or skills, it increases flows from one group to the other and the pool of inactive and unemployed shrinks in $t_2$ and the pool of employed statuses grows.

Figure 2.4: Introduction of active labor market policy

![Diagram](image)

The policies in Figure 2.2 through Figure 2.4 all dealt with status permeability, or the transition from one labor market state to the other.

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However, governments can also take steps to alter the benefits enjoyed by each labor market group regardless of their ability to transition from one status to any other. So far, the $\beta$ axis has not been used to make any indication of how policies influence well-being, and treating dualization as a transition problem and not a well-being problem is common in the literature. The first policy which modifies a group's material well-being are unemployment benefits. Unemployment benefits, sometimes called passive labor market policies (PLMP), are commonly included in discussions about policies which influence labor market dualization (Rueda, 2007; Emmenegger et al., 2012; Picot and Menéndez, 2017). When they are discussed in the literature they are generally treated as a form of insurance against transition risks, because outsiders are more likely to face high unemployment risk these benefits are often framed as a pro-outsider policy (Picot and Menéndez, 2017; Rueda, 2005, 2007). At the same time, to qualify for the most generous unemployment benefits individuals often need to have a long-term standard employment biography.

Figure 2.5 shows the expected effect of a decrease in unemployment benefits. This figure does not make any arguments about transition likelihood, rather shows that a reduction in benefits negatively affects the beneficiaries. Here I introduce a dashed line to signify the decrease in expected utility that employed individuals experience because of the reduction in unemployment benefits since from $t_1$ to $t_2$ outsiders have a higher risk of becoming unemployed, and therefore are harmed by a decrease in unemployment benefits even if they remain in the same status. The connection between unemployment benefit generosity and the preferences of insiders and outsiders is theoretically ambiguous. Policy-based models of dualization assume that outsiders have stronger unemployment protection preferences than insiders (Picot and Menéndez, 2017; Rueda, 2007), although Rueda’s analysis shows there is a relatively small gap between support for increasing unemployment insurance between insiders and outsiders. Boeri et al (2001) show survey respondents who are unemployed or employed but not covered by insurance would be more likely to pay extra taxes for more generous benefits than employed respondents who were covered by insurance. Guillaud and Marx (2013) show that in France, outsiders and the unemployed are more likely to support generous unemployment insurance over workers with permanent contracts, but not necessarily that insiders do not support spending on insurance. Menéndez (2021), using evidence from a survey experiment in Argentina, shows insiders are more likely to favor non-contributory spending on outsiders if they believe they themselves are at risk of un-
What policies make a regime?

employment, indicating that job security might be an important factor for the willingness to spend on more generous unemployment support. Because of this evidence, I choose to frame these benefits in my model as theoretically important to outsiders and the unemployed, but not as important to insiders.

Figure 2.5: Reduction of unemployment benefits

EPL, NSE regulation, ALMP, and PLMP are all policies which dualization literature argues forms links between individual labor market status and political behavior. In the case of EPL, for instance, insiders support high protection of their standard work contracts while in the case of ALMP, outsiders might support increased spending on labor market programs they perceive as increasing their chances of finding a job, or even finding a better paying job. Models of partisanship based on this smaller subset of policies frame the politics of labor market segmentation as inherently categorized by zero sum conflict, parties can only choose one group or the other because support for a policy like EPL increases support from insiders but necessarily decreases support from outsiders. I argue that by broadening the policy selection to in-
Regimes of segmentation include social benefits and education, however, models of labor market segmentation can grow to incorporate trade-offs and compensation that voters may be willing to accept when a party proposes a policy that certain labor market constituencies disagree with. The idea that compensation can drive the politics of reform is a feature documented in coalition governments which have diverse constituencies and need to use compensation as a mechanism to build support (Knotz and Lindvall, 2015). Experiments also find that when policy packages include policies a voter disagrees with, he or she ranks the packages differently based on the compensatory measures included in the package (Häusermann, Kurer and Traber, 2019).

Including social benefits is necessary to capture the politics of trade-offs and bargaining in building support for labor market reform. For example, Figure 2.6 shows a benefits proposal which does not include compensation. The benefit depicted in the figure is a contribution based benefit, perhaps a modification to the unemployment or health insurance system, which changes eligibility and generosity criteria to favor longer contribution periods and higher contribution levels. In this instance, only insiders would support the reform since it bases eligibility and generosity on a trait only insiders enjoy.

Figure 2.7, on the other hand, includes two groups of benefits: a universal benefit (such as a child care subsidy, a health care subsidy, etc) and a minimum income benefit which tops up the incomes of low wage workers or individuals who are outside of paid employment. Normally, insiders would not be expected to support outsider oriented reform. However, this proposal includes a benefit multiple groups can draw on depending on labor market status, so insiders benefits as well. They are slightly better off, while outsiders, the unemployed, and the inactive benefit from both policies. While this example is likely rare because of financial constraints placed on governments (Schäfer and Streeck, 2013), the same scenario could occur where a benefit in one area offsets a cut in another. The comparison of these figures shows that the design of social benefits can have distributive consequences which are relevant for labor market segmentation.

For this dissertation including minimum income benefits into the study in particular is necessary to capture one potentially relevant policy dimension of segmentation. This is the only category of benefits which targets outsiders, the unemployed, the inactive, or some combination of the three depending on benefit design. Studying this policy introduces an important policy dimension to the segmentation model, the possibility for governments to compensate outsiders for their atyp-
Figure 2.6: Increase in insurance based benefits
ical position in the labor market. Examples of this will be presented in Chapter 4 and Chapter 5, where cuts and compensation featured prominently in the politics of student finance and family benefits in the Netherlands. Different forms of benefits, therefore, can mediate support for policy regimes in different ways and can build reform coalitions from groups who might otherwise have conflicting preferences. While this dissertation will not involve a complete analysis of all social welfare benefits, Chapter 5 makes it clear that the reform of minimum income benefits often includes political discussions around other universal or insurance based benefits as well. This means that while the exact focus is on minimum income benefits because of its connection to outsiders, the dissertation does not ignore the distributive trade-offs implied in Figure 2.6 and Figure 2.7.

The final policy category I include in this project is tertiary education. Education is not commonly found in literature explicitly discussing dualization, although vocational education and training is discussed at length in adjacent areas of comparative political economy (Thelen, 2014) and commitments to growing the pool of individuals with tertiary education is an internationally recognized goal for labor market development. Investment in labor market skills is an important policy dimension to include in a model of segmentation, even if governments regulate the boundaries between insider and outsider employment using employment regulations, they may still choose to invest in insider employment to different degrees. Capturing this policy dimension incorporates an understanding of what governments do to create insider employment in the domestic labor market.

There are further reasons to operationalize skills investment in terms of tertiary education when studying segmentation. First, the uptake of tertiary education in the population determines the numerical balance between insiders and outsiders. The larger the proportion of entrants with tertiary education relative to upper secondary or lower, the higher the proportion of labor market entrants who would be competitive with

\[ \text{For instance, Chapter 5 discusses the addition of a means-tested child benefit alongside the Dutch universal child benefit, the replacement of a German income-based unemployment benefit for a new means-tested social assistance and childcare benefit, and how increases to Swedish universal childcare benefits have not accrued to some outsiders, for whom the universal benefit is included as income when qualifying for means-tested benefits.} \]

\[ \text{For example, EU 2020 Goals} \]
Figure 2.7: A policy package with universal and minimum income benefits
Regimes of segmentation

insiders. Second, the supply of tertiary education can influence the type of industries which are viable in an economy, and therefore the extent of segmentation. Thelen argues the development of tertiary education in the Netherlands and Sweden was coupled with an expansion of high skill service sector jobs while the relatively low investment in tertiary education in Germany led to dualization since only a certain segment of the workforce had access to the vocational education and apprenticeships necessary to join the core industrial sector (Thelen, 2019). Third, tertiary education is a way for governments to change the composition of labor market segmentation without harming or intervening in the current status of labor market participants. It is a significant tool governments can use to address growing atypical employment but because it does not directly engage current labor market status it has been excluded from dualization literature. This, combined with expectations in welfare state literature about the relative popularity of social investment welfare priorities among certain groups of center-left voters (Gingrich and Häusermann, 2015), makes tertiary education an important policy category for understanding how governments address labor market segmentation.

Figure 2.8 shows a substantial investment in tertiary education and a corresponding increase in tertiary education graduates. In the model presented here, I treat potential workers leaving university as a special case of inactivity. During education, students are generally not searching for permanent work and do not belong in any active category. After graduation, some will find full time work, some will find atypical work, and some will remain unemployed. However, if the proportion of graduates is large, the effect should on average result in more full-time workers than in the previous period, all else equal. Therefore, Figure 2.8 shows a large proportion of inactive individuals finding insider and outsider employment.
2.3 Empirical regime developments

So far, this chapter achieved two purposes. First, I defended a claim: political science research benefits from studying labor market policy change in a more encompassing way. In this case, following the developments of policy regimes over time complements a growing field of narrower studies of policy-driven labor market dualization. Second, I introduced the regime concept by mapping out relevant policies and how I expect they stratify different labor market groups. The purpose of this section is to take the theoretical model and explore its comparative empirical development over time.

I begin with empirical developments in employment protection legislation (EPL). EPL is an important benchmark for evaluating the usefulness of my approach. Given its prominence in the literature, plotting national variation in EPL can indicate the cross-national variation that typical partisan models of dualization would reveal. In this case, the section below suggests that rather than EPL revealing varieties of
segmentation, an analysis based on EPL underestimates cross-national variation in policy outcomes.

Standard employment regulations across most countries did not change since the mid 1980s (Figure 2.9) to 2015, so differentiating these countries based solely on how they protect insiders reveals few changes and little variety. Figure 2.9 shows the OECD’s EPLex index of employment protection. This measure has a maximum score of six, a minimum of zero, and is an additive index composed of different employment regulation measures such as severance payments, termination notification requirements, and conditions which make an employee eligible for firing. Higher scores imply stricter regulations. From only an employment protection perspective, very few changes in response to dualization have occurred in the thirty years shown. If policy-makers do perceive atypical forms of employment as worthy of a policy response, they do not address it by reducing EPL to make outsiders more competitive for standard contracts. There is a large group of countries with moderately strict rules (around a score of three) and three countries (Ireland, Switzerland, and the United Kingdom) with low scores below two. Portugal, Spain, and Greece changed their strategies by reducing EPL, and in those cases it was toward a convergence with most other European countries. For most, it would appear as if their governments have not changed their strategies at all and that most of them dualize in relatively the same way.

The cross-national development in non-standard employment regulation suggests a slightly different pattern, although a common trend, among most countries. Figure 2.10 shows the OECD’s EPLex measure of temporary employment regulation. In this case the measurement includes aspects such as the maximum number of flexible contracts in a row which can be offered to one employee, types of work for which temporary employment is legal, and equality between temporary and full time employees, among others. The measurement goes from zero to six where the higher number indicates more difficult conditions for employers to use temporary work. Ireland, Switzerland, and the UK, which had low EPL, also have historically low temporary employment regulations. In addition to these three, Austria, Finland, and the Netherlands also historically regulated temporary employment comparatively little. Most other countries decreased temporary employment regulations over time. Therefore, while there are different trajectories most countries end up converging to a similarly low level of NSE regulation.

If variation in responses to dualization exists, describing it through regulations does not paint a picture of variety, and does not suggest
Empirical regime developments

Figure 2.9: Standard EPL (1985-2013)

Source: OECD Indicators of Employment Protection (2013)
Figure 2.10: NSE regulation (1985-2013)

Source: OECD Indicators of Employment Protection (2013)
that significantly different historical responses to modern labor market problems exist in Europe. Furthermore, the patterns shown here do not match well with typologies common in comparative research. Are Germany, Sweden, and Italy ideal candidates for sharing patterns of reform? Would most scholars suggest Finland, Switzerland, and the United Kingdom are systematically similar? Certain periods in isolation suggest variation, but over time the information in Figure 2.9 and Figure 2.10 match different “worlds of welfare” together and do not follow any kind of pattern that suggests a clear spectrum of liberal market and coordinated market economies.

Figure 2.11 shows spending on labor market policy divided between active labor market policy and out-of-work maintenance, which includes unemployment benefits. Spending on active labor market policy declined or remained constant in almost every country, and in 2019 almost all countries spent under one percent of GDP on ALMP. Where spending increased over time, such as Austria, Portugal, or Switzerland it was from a low starting point, meaning while some commitment to ALMP has grown, it does not grow to levels that are historically significant. Denmark is an exception, ALMP spending had a positive historical trend and in 2019 spending was twice as high as Sweden which had the second highest expenditure. In ALMP there is convergence to low levels.

Passive labor market policy, or unemployment benefits, are also prominently featured in the dualization literature. Unlike employment regulations, these policies have many more factors which can influence how they interact with labor market status, including the duration for which unemployment benefits can be claimed (and how duration grows as an individual accumulates more time in standard employment), the generosity of benefits, including how generosity depends on employment biographies, and also administrative strictness for claiming the benefits in terms of whether there are work seeking and job acceptance requirements and punishments for not meeting them. I therefore include one measure of spending and one measure of eligibility strictness. Spending is shown in Figure 2.11 alongside ALMP. As might be expected, spending on income maintenance follows unemployment. High spending in the late 1980s and early 1990s in Denmark, Finland, Ireland, the Netherlands, Spain, and Sweden reflects recessions during this time, and Germany’s high spending through the 1990s and early 2000s also reflects a time of high unemployment. Likewise, increases in spending for Ireland, Italy, the Netherlands, Spain, and Portugal in the late 2000s correlate with the 2008 recession and Eurozone crisis. It is difficult to say concretely how much of the spending data is a result of policy changes
compared to economic circumstances. Therefore, in the next plot I will address policy changes in unemployment benefits through changes in benefit conditionality.

Figure 2.11: Spending on active and passive labor market policy (1985-2020)

Solid line is active benefits, dashed line is out-of-work income maintenance. Source: OECD (2021b)

Conditions for unemployment benefit receipt, shown in Figure 2.12, refers to obligations individuals must meet in order to draw benefits from the unemployment system. A system with extremely low conditions is more generous and decommodifying, while a system with high conditions means there are administrative requirements for benefits such as regular meetings with employment agencies, proof of job search, or other measures which require the beneficiary to fulfill obligations often related to job search and acceptance. Most countries increased conditions be-
Empirical regime developments
tween 1980 and 2010. Only one, Belgium, reduced conditions\textsuperscript{5}, and only Switzerland and Italy have held onto a system with low conditionality.

Figure 2.12: Unemployment benefit conditionality (1980-2012)

The descriptive analyses above show that the selected European countries protect insiders with EPL and regulate outsiders with NSE regulations in similar ways. They tend to hold EPL at similar levels over time while deregulating outsider employment. Most countries converged on a low level of active labor market policy spending. When it comes to regulating access to unemployment benefits, cross sectional variation remains but most countries have made it harder to qualify for unemployment compensation. But these policies regulate the current labor market, how do countries compare when it comes to mobilizing

\textsuperscript{5}The figure also shows a decrease in conditionality in Norway in the late eighties and early nineties, but the absolute level remains quite high.
resources to invest in future labor markets?

Figure 2.13: Tertiary education attainment (1990-2020)

Solid line represents a cohort aged 25-34, dashed line 25-64. Source: OECD (2021a)

Figure 2.13 shows tertiary education attainment has grown in recent years in almost all countries to emphasize professional and research based tertiary education, but differences between the timing, level, and growth of university education attainment remain. Tertiary attainment expanded rapidly in Sweden, becoming the first country with forty percent of the 25 to 34 year old cohort completing tertiary education in 2003. From there, only Ireland, the Netherlands, Norway, Switzerland, and the UK reach a fifty percent attainment rate, with the Netherlands and Norway reaching this milestone in the last year of data available, 2020. Therefore, states grouped as social democratic welfare and liberal welfare systems all achieve high attainment by 2020, although as I show later they do so through drastically different investment strate-
Empirical regime developments

gies. In the continental group, however, countries vary. Austria, Greece, Germany, Italy, and Portugal have historically low attainment while Belgium, France, the Netherlands, Spain, and Switzerland all increased attainment more quickly. Unlike some literature that finds important distinctions between northern and southern continental economies (Manow, Palier and Schwander, 2018), variation in this group does not clearly follow from a north-south division.

Attainment, however, only shows the outcomes of the education system. What is furthermore important from the perspective of judging how governments steer labor markets is the resources governments choose to invest in education. Table 2.1 shows levels and trends in national spending on tertiary education. First, there is clear variation in the levels of public spending devoted to education. Here I show spending per full-time equivalent student to account for differences in the absolute sizes of education systems and to show the relative effort governments dedicate to students, rather than relative to the size of the economy or government expenditures. Furthermore, this only shows public spending on education, since as I show in the third column private spending varies considerably among these countries and the purpose here is to show the role of government.

From data on public spending per student, variation does not seem to follow clearly from typical regime characterizations, although there is substantial cross sectional variation present. This is made clearer in the top panel of Figure 2.14. The three highest spending countries are Norway, Sweden, and Switzerland, who all spent above 20,000 USD per student. While two are social democratic welfare systems, the other two, Denmark and Finland, cluster along with the northern continental economies. The lowest spending countries are all liberal economies and southern continental economies. Public spending, however, does not completely describe how these countries achieve their attainment rates. The middle column of Table 2.1 shows that countries also differ in terms of their historical spending trajectories, although for some countries data is limited in the period of time it is available. Both Norway and Sweden have increased their spending substantially. Sweden leads in this respect with a twenty percent increase in spending from 2005 to 2019, while Norwegian spending grew twelve percent. Expenditure growth is not wholly characteristic of social market economies, however, as expenditures per student fell in Denmark and Finland over the same period. The only other country where there is a similar time period and substantial growth in expenditure is Belgium. The rest of the northern continental economies held steady or slightly declined in spending, while
### Table 2.1: Public spending on tertiary education

<table>
<thead>
<tr>
<th></th>
<th>USD per FTE student, latest year</th>
<th>Percent change (FY)</th>
<th>Spending from private sources, 2018 (% total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>17,209</td>
<td>1.5 (2012 - 2019)</td>
<td>10.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>16,538</td>
<td>-17.7 (2005 - 2019)</td>
<td>10.2</td>
</tr>
<tr>
<td>Finland</td>
<td>14,925</td>
<td>-4.4 (2005 - 2019)</td>
<td>3.8</td>
</tr>
<tr>
<td>France</td>
<td>12,063</td>
<td>-6.7 (2012 - 2019)</td>
<td>21.7</td>
</tr>
<tr>
<td>Germany</td>
<td>14,542</td>
<td>1.3 (2005 - 2018)</td>
<td>14.8</td>
</tr>
<tr>
<td>Ireland</td>
<td>11,143</td>
<td>1 (2015 - 2019)</td>
<td>27.5</td>
</tr>
<tr>
<td>Italy</td>
<td>6,808</td>
<td>-3.7 (2005 - 2018)</td>
<td>35.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>13,013</td>
<td>-5.7 (2005 - 2018)</td>
<td>28.9</td>
</tr>
<tr>
<td>Norway</td>
<td>21,218</td>
<td>12.7 (2005 - 2019)</td>
<td>6.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>6,498</td>
<td>-21.6 (2005 - 2018)</td>
<td>31.8</td>
</tr>
<tr>
<td>Spain</td>
<td>8,477</td>
<td>-14.6 (2005 - 2019)</td>
<td>33.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>20,274</td>
<td>19.6 (2005 - 2019)</td>
<td>11.6</td>
</tr>
<tr>
<td>Switzerland</td>
<td>26,692</td>
<td>-0.2 (2012 - 2018)</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>6,474</td>
<td>-53.7 (2012 - 2019)</td>
<td>71.3</td>
</tr>
</tbody>
</table>

Note: Spending in USD is calculated in PPP and 2015 constant prices (OECD, 2021a).

Portugal, Spain, and Greece spent substantially less over time.

Some countries complement public spending with private spending. The bottom panel of Figure 2.14 shows attainment compared to the percent of total tertiary education spending that comes from private sources. Here we see that while, for instance, Germany, Finland, and the Netherlands, spent similar amounts of public resources in the top panel of Figure 2.14, the Netherlands achieves a higher attainment rate than both by relying on substantially higher private spending.

A number of similarities among countries emerge from this analysis of descriptive indicators. Two countries maintain an education trajectory.

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6Data for Switzerland was unavailable, and the UK was removed as an outlier (71.3% of total spending is private) to make the plot easier to read.
Empirical regime developments that aligns with expectations of social democratic welfare states if those expectations are extended to tertiary education. Sweden and Norway both spend significant public resources, have increased that spending the most over time, and do not require significant private expenditure to achieve a high level of service provision. This is a clear pattern of strong public investment. Belgium, although not yet spending as much, also has increased public expenditure substantially compared to others, does not require substantial private spending, and achieves similar attainment. Ireland, France, and the Netherlands achieve high attainment through a mix of moderate public and higher private spending. Denmark, Austria, and Finland achieved mid-level attainment through moderate spending public spending and low private spending, while Germany spent almost the same to achieve relatively low attainment. Finally, the southern economies spent the fewest public resources, had high private spending, reduced spending over time, and achieved a wide variety of attainment outcomes. However, Spain sits somewhere between this group and the “high attainment, medium public/high private spending” group of Ireland, Netherlands, and France. The United Kingdom spent similar public resources as the southern economies and also drastically cut public spending, but maintained a top attainment rate accompanied by extraordinarily high private spending.

If tertiary education is a way to invest in a future insider economy, a wide range of outcomes characterize investment in future insider employment. But what about how states compensate those who do not make it to insider employment, especially those in the most marginal positions? The first column of Table 2.2 shows social protection (excluding pensions) spending as a proportion of GDP. The major exceptions in the more recent level of spending are Spain, Ireland, and Portugal, who spend substantially below the EU15 average. Other than these, most countries are similar, although it is worth noting that only two countries that reduced spending over this period were Ireland and Sweden, with spending in Sweden falling the most.

7 Although worth noting here that while it does not spend as much as Sweden and Norway, its spending lies in between Finland and Denmark, two countries which expectations from previous literature might predict would have comparatively higher spending.
8 Spending data are only available for Ireland for a short period, making a conclusion about spending over time is not possible.
9 27.6 percent in the same period.
Figure 2.14: Enrollment compared with funding types

Source: OECD (2021a)
The second and third columns of Table 2.2 show the composition of spending. The second column shows spending on means-tested benefits, where the three largest spenders are Denmark (11.2% of GDP), the UK (4.3%), and the Netherlands (4.1%). Here the social market economies differ sharply from each other, Norway and Sweden are the lowest spenders in this category, both below one percent, while Finland is in the middle. Sweden and Norway also decreased expenditures on means-tested assistance the most in the sample, while the highest spenders in 2017 increased spending the most over time. But while for the Danish welfare state increasing means-tested benefits came at the cost of spending for non means-tested cash benefits (the third column) the inverse cannot be said for Sweden and Norway, as they also cut spending on non means-tested benefits during the period for which data are available. Low spending on means-tested benefits in social democratic welfare states is not a surprise, it aligns with expectations from *The Three Worlds of Welfare Capitalism* (Esping-Andersen, 1990). But Denmark spending by far the most, Finland looking more like Belgium, Portugal, and Switzerland than Sweden and Norway, and the changes over time in Table 2.2 signal that at least means-tested benefits do not cleanly align to common typologies. If one is to take the numbers in Table 2.2 to mean something about who spends what on whom, dualizing Bismarckian states may be just as likely to spend money on those with weak labor market positions than the universal states.

To further illustrate this point, Figure 2.15 shows the value of guaranteed minimum income benefits in terms of the number of hours a person would need to work in order to escape poverty. In a system where benefits are above the poverty line, zero hours of work would be necessary to escape poverty. The figure shows a scenario modeled for two different types of outsider, a single person with no children, and a couple with one working partner and two children. Both are assumed to earn 67% of the average wage. Calculations also include housing.  

10 While one possible explanation for low spending on means-tested benefits in a social democratic welfare state simply might be that poverty is low and therefore few fall below the means-test, this explanation likely doesn’t account for all the differences. Poverty rates based on 50% of the median income for the same year show Sweden’s poverty rate was 9.3%, Norway’s 8.4%, Netherlands’ 7.9%, and Denmark 6.1% (OECD, 2022)

11 Denmark, Netherlands, UK

12 Where here the poverty line is 50% below the median income

13 These data are gathered from the OECD, and are based on calcula-
benefits subject to qualification rules. Results here show that, given the minimum income benefit system, a Swedish or Norwegian couple with children would have to work more hours than in any other country to escape poverty. For a single person, GMI benefits have deteriorated in Sweden, Norway, and Switzerland.

Turning to the direct value of these benefits, Table 2.3 shows the value of GMI benefits for a jobless couple with two children as a percentage of median disposable income in the first column. The growth in the value of these benefits is shown in the second column. The third column is the difference between the GMI benefit in the latest observation available at the time of writing and a poverty line of fifty percent of median disposable income. As I have in previous sections, I will begin with the social democratic welfare states. While the expectations from the Three Worlds typology is that these countries will spend less on means-tested benefits as a proportion of total expenditure, that does not imply that these benefits themselves should be meager in the standard of living they offer. Here there is another clear division between Sweden and Norway on the one hand and Finland and Denmark on the other. The former are more than ten percentage points below the poverty line, while Finland is only one percentage point away from the poverty line while the Danish benefit is eleven percentage points above it. The countries where these benefits have risen the most are Austria and Germany, where benefits grew more than ten percent over a nineteen year period and provide an income near or above the poverty line, while the largest declines in the benefits are in countries that include liberal, social democratic, and southern continental welfare states. Figure 2.15 and Tables 2.2 and 2.3 taken together show a growing concentration of welfare effort on individuals who have marginal attachments to the labor market in a number of countries - Austria, Germany, Ireland, and the Netherlands, with additional countries such as Denmark, Finland, and the UK showing high levels of effort although not in an increasing direction, especially for the UK. On the other hand, Belgium, France, Greece, Italy, Norway, Sweden, and Switzerland spend relatively less effort on this group of people, with clearly noticeable declines in these benefits in the latter three countries.

The OECD also offers data for an individual at the minimum wage, but because several key countries either do not have a minimum wage, or only implemented one recently, the higher wage rate was chosen.
Table 2.2: Social protection expenditures (Eurostat, 2020)

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<td>Switzerland</td>
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Finally, Figure 2.16 shows guaranteed minimum income benefits and tertiary public education spending per student together. As I argued in Section 2.2, I expect these policies target two different groups and have fundamentally different purposes in relation to the labor market. High public spending in tertiary education indicates a willingness to spend money on students in the short term to receive a long term benefit in the labor market. The expectation is that these students will become future insiders. While leaders in government may find that there are intrinsic social benefits to higher education that are not related to labor market performance, it makes little sense to assume that governments spend such significant resources without expecting economic benefits. On the other hand, guaranteed minimum income benefits are spent on current outsiders. A high GMI benefit indicates a willingness to subsidize marginal labor market situations, and implicitly, an acceptance of outsidership as a feature of the labor market.

A number of clusters emerge in Figure 2.16. Norway, Sweden, and Switzerland are characterized by lower GMI benefits but a very high...
Empirical regime developments

Figure 2.15: Hours of work needed to escape poverty (2001-2019)

Note: The solid line is a couple with two children and the dashed line is a single person. The wage level is set at 67% of average wage. Source: (OECD, 2020)

investment in tertiary education. Norway and Sweden have low private spending on education as well (data for Switzerland were not available here). Recall furthermore from Table 2.1 that Norway and Sweden also had the largest growth in spending per student and achieved high tertiary enrollment relatively early. On the other hand, the value of GMI benefits has fallen drastically compared to other countries and the overall spending on means-tested support declined over the period in which data were available. In this regard, the countries in this cluster are closer to southern Europe than to the Bismarckian states, but they invest much more in students than both of these groups. I argue this signals a direction in social policy that is oriented towards investing in insiderness at the expense of subsidizing outsidersness. From the social policy out-
look presented here, there does not seem to be a willingness to accept outsider employment as a fact of the labor market and to subsidize the standards of living for those who have the weakest attachments to the labor market. Rather, the way forward is through high investment and promotion of insider employment in the future.

Another cluster has lower public investment in tertiary education but substantially higher value GMI benefits. These benefits either keep recipients above the poverty line or very close to it. A number of these countries (Ireland, Netherlands, Austria, and Germany) increased their benefits over time, while Finland and Denmark’s benefits have declined but remain high. In all these countries except Finland, spending on means-tested benefits grew over the period for which data are available. On the other hand, they spent fewer public resources on tertiary education per student, and over time the level of education spending either fell as in the case of Denmark, the Netherlands, and Finland, or grew only to a limited extent as in Austria and Germany. Private spending varies within this group, with Ireland and the Netherlands spending significantly through private sources to achieve its high attainment rate shown in Figure 2.13, while Finland spends very little through private sources, although with lower attainment. Overall this indicates a lower push for public investment in future insiders and a higher emphasis on compensating marginal positions in the labor market, essentially subsidizing those who bear the greatest burden of outsidersness.

The third cluster is in the southern economies. These spend less money per student on higher education and have more meager GMI benefits. Where data are available, benefits over time declined in some of these countries\(^\text{14}\), sometimes substantially as is the case in Spain and Portugal. In all of these countries public funding for tertiary education declined, sometimes substantially as in the case of Portugal, Spain, and Greece. It seems that these countries have not been able to focus spending on either insiders or outsiders. Finally, there are some atypical cases and edge cases. The UK, for instance, spends about as many public resources on education as the southern economies but achieves high attainment through large reliance on private financing of education. However, the value of GMI benefits is relatively high although the value of benefits declined over time. France and Belgium are edge

\(^\text{14}\)Although the change in Italy is difficult to assess and therefore not in the data, Italy did not have a formal minimum income system until 2016 and therefore a jobless couple who did not qualify for unemployment insurance did not have an income.
Empirical regime developments

cases, GMI benefits are equally valuable as in Norway and Sweden, but they do not invest in higher education to nearly the same extent. Their investment is similar to the group which subsidizes outsiders, but do not offer outsiders the same benefit generosity.

Figure 2.16: Investing in insiders compared with subsidizing outsiders, 2018

Sources: OECD (2020; 2021a)
2.4 Conclusion

This chapter argued that thinking about regimes is a useful way of understanding government orientations towards different groups in segmented labor markets. I described a policy driven, rather than individual level, process of segmentation and by doing so started with a broader range of options that policymakers use to steer labor markets, rather than a narrower range of options that is derived from individual, labor market specific preferences. I also argued that some theoretical pathways through which policymakers may choose to manage segmented labor markets are overlooked by a narrow focus on, for instance, employment regulations. The approaches restricted to regulations and labor market policy can adequately frame political conflict over current job status, but miss whether policymakers choose to influence the benefits that some outsiders have access to (therefore alleviating the negative circumstances outsiders find themselves in), can underestimate the extent to which policy makers might focus on the ability of insiders and outsiders to change status, and completely forego the possibility that in steering labor markets, policy makers may choose to spend significant resources on future labor market insiders. Therefore I introduced and specified a theoretical regime framework where I situated regulations, income benefits, and higher education in labor market regimes.

By describing the levels and changes in regulations and benefits in these labor market regimes, I argued that variation has been overlooked by more piecemeal approaches. For instance, while Sweden, Germany, and Italy have almost identical histories of employment protection legislation and non-standard employment regulation, they are completely different in regard to how they balance the current needs of outsiders and the future development of insider skills. By introducing higher education and guaranteed minimum income benefits, I argue, unique variation is uncovered which would not be the focus of other studies.

Three regimes emerge from this chapter. One is a minimum protection regime defined by policy decisions which accept the presence of atypical employment (and even encourage it) while subsidizing the position outsiders are left in while they participate in atypical employment. Fewer public resources are spent on investing in a future insider labor market through higher education, and, where higher enrollment rates have been achieved it has been with the help of significant private resources. The minimum protection regime shows a comparative focus for governments on outsiders, at least in terms of the use of public resources compared to what might otherwise be possible. This does not imply that
outsiders are thriving in these countries or that insiders are suffering, rather that reforms undertaken cost insiders in order to try to remedy the experience of outsiderness.

On the other hand, there is also an insider investment oriented regime. Here substantial public resources are spent on higher education. In addition, few private resources are used and all of the countries achieved high enrollment rates in tertiary education and are amongst the earlier to reach those high levels. Spending per student rose substantially over the period for which data are available, while comparatively, spending on means-tested benefits decreased and the value of benefits for those with the weakest attachment to the labor market declined. From the broad overview these data offer, in these countries someone who may need to take minimum income benefits will have to work more hours to stay out of poverty, but their children will be more likely to attend (and be able to afford) higher education.

What is important about these two regime clusters is that no ubiquitous retrenchment occurred. The minimum protection regime saved money on education but spent money on relieving the impact of outsiderness. The insider investment regime has paid out more meager benefits to the poorest of society but has spent more money on education. The third cluster, however, shows evidence of retrenchment in both regards. The southern regimes reduced spending on education and means-tested benefits, and many reduced the value of GMI benefits. The level at which they spend on education is comparatively low, no other countries besides the UK spent less than $10,000 per student, although for this amount of money they achieve similar enrollment as some of the lower enrollment minimum protection countries (albeit with a substantially share of higher private spending). In the next chapters, I choose three countries to explore more closely, and explain in more detail the trajectories which shaped these regimes, the key reforms in each case, and what shaped the nature of these reforms.
Chapter 3
Investing in insiderness or compensating outsiderness

The previous chapter argued governments use policy instruments for two primary purposes when it comes to labor market segmentation. First, they control the flow of labor market groups from one status to the other through protection or investment. Second, they control the qualitative experience of different statuses by providing benefits. The extent to which these benefits target certain groups over others influences the material circumstances enjoyed by different groups relative to each other. Furthermore, the previous chapter showed there are no countries that achieve both top levels of investment in insiders or subsidization of outsiders.

This chapter furthers the argument that subsidizing insiderness and promoting outsiderness are two distinct models of segmentation by delving further into within-case variation. I do so by complementing national level indicators with qualitative information and benefit calculations to show how specific policy instruments in five policy areas target labor market groups in three countries: the Netherlands, Germany, and Sweden. These five policy areas are labor market regulation, labor market policy, unemployment compensation, tertiary education, and minimum income benefits. In the former three, which are policy areas that have the highest salience in comparative political research on segmentation, the trends over time are quite similar for all three countries. However I argue that that both qualitative and quantitative differences in policy instruments among these three countries show that Dutch and German labor market management is characterized over time by moving outsiders into work and subsidizing their position in the labor market while the Swedish benefit system has not developed in this direction. At the same
time, Swedish labor market management is more concerned with producing a homogeneous group of insiders with universal and comparable tertiary education while the Dutch and German systems have increased enrollment more slowly, are more fragmented, and continue to focus less on insider investment.

More specifically, in the model that promotes outsiderness social policy increasingly emphasized bringing individuals into any work possible and then ensuring the state introduced policy mechanisms to make those marginal forms of employment manageable, especially in the case of caring for family and providing necessities. Moreover, in the Dutch and German cases labor market insiders absorbed losses from reforms to key benefits in order to facilitate the absorption of outsider labor into the economy, while in the Swedish case benefits did not change substantially enough to alter the more universal nature of redistribution in relation to labor market status. Some differences within the new minimum standard regime exist. German policy makers implemented regulatory changes to expand outsider employment later than the Netherlands and grew the stock of individuals with general tertiary education more slowly than the Netherlands and Sweden. But I argue that these differences within regime types do not render the differences between regimes less important, social policy and education still have substantial variation that indicates promoting insiderness or outsiderness are done differently between the universal and minimum standards regimes.

The divergence between former Bismarckian states and the enduring universal model is also that labor market status functions differently between the two. In the minimum standard model, regulations sought to introduce temporary and part-time employment as standard parts of the labor market\(^1\) while Sweden’s regulatory system has opened up space for atypical work but incorporated marginal work into labor law later and to a lesser degree (Nyström, 2004). In this regard, while the welfare regime does not differentiate social rights as strongly on the basis of insiderness or outsiderness, these statuses are more strongly enforced by regulations. The activation regime also treats these groups differently. In the minimum standard systems, political choices revolved around bringing individuals into paid work and then subsidizing the consequences. Whether this is the creation of new statuses such as German *minijobs*, making benefits conditional on employment searches, or reducing the standard of job an individual is required to take, the activation policies

\(^1\)Some scholars even called the Dutch efforts a process of making “atypical work typical” (Visser et al., 2004)
Investing in insiderness or compensating outsiderness of the minimum standard regimes are concerned with employment first. Although aspects of this system also exist in the Swedish case, active measures remain more robust in the Swedish system than in the other two and social assistance benefits are still not intended for people whose primary economic problem is unemployment. Therefore, while the three countries differentiate the quality of life based on labor market status in different ways, they also incentivize movement between status differently as well.

Finally, although education has converged in the most recent years among the three systems to emphasize professional and research based tertiary education, during the periods of reform in the 1990s and 2000s the systems which emphasize minimum standards also emphasized earlier tracking, vocational education, and failed to provide the robust income and tuition support of the Swedish case. In Germany only recently did university education enrollment grow substantially and secondary school students start selecting general education tracks. In the Netherlands, non-vocational tertiary education became important earlier than Germany but vocational post-secondary education still outpaced the academic and professional universities in enrollment until the late 1990s, while the gains in non-vocational tertiary education were financed more heavily by private spending rather than public investment. The expectation that individuals would have general skills able to compete in the labor market and find work in new service sectors therefore differed among the three countries significantly, and although in recent years certain outcomes have converged important differences in structure and finance persist.

Segmentation therefore differs among these two systems in two ways. First, the standard of living for insiders and outsiders is different in the minimum and universal policy regimes. In the former, atypical status is accepted as inevitable and the state concerns itself with subsidizing living standards for citizens in marginal forms of employment to a greater extent than other regimes. Additional support for this idea will be provided in Chapter 5 where political debates around minimum income benefit reform clearly included discussions about expanding and subsidizing the atypical labor force. The adaptation of these systems to move towards outsider protection has, at times, also come at the cost of modification of rights insiders enjoyed during previous periods of social policy governance. In the universal model, the state differentiates less on the basis of status and therefore does not offer significantly targeted efforts at labor market outsiders. Second, the systems also treat the change of statuses differently. The minimum income group prioritizes changing
status from unemployment to any atypical work, choosing to treat any job as standardized. The universal model, on the other hand, spends more on active policy measures\(^2\) (rather than punitive measures) and has concentrated education policy on creating an insider labor market with a more homogeneous higher education background.

### 3.1 The Netherlands

The Dutch labor market offers a history of labor market developments which are useful in applying a policy based understanding of labor market segmentation. I argue both incentives to transition between statuses, regulations, and punishments combined with benefit policies geared toward “work first” combined to boost labor market participation and employment tremendously at the cost of growing outsidersness and continued benefit inequality. Here I will show that a large number of outsiders should be expected in the Dutch system. ALMP data shows most resources are diverted to passive support, with relatively little spent on services and training which promote higher human capital and better job integration. Furthermore, benefit reforms have been punitive, stressing higher conditionality and acceptance of work. Extremely low income jobs are subsidized due to a minimum income social insurance scheme which has grown more valuable for certain outsiders. These benefits and labor market practices combine to increase the proportion of atypical jobs compared to standard work.

Through the 1970s and 1980s the Dutch labor market had a core of employed, full-time insiders and low labor market participation. During the period, the labor market was characteristic of a more corporatist welfare state with single earner families and low labor market activity for women (Kloosterman, 1994). However, the Netherlands underwent a dramatic change in the employment and activity profile of its labor market (Cox, 1998; Visser and Hemerijck, 1997). In 1984 the unemployment rate was at 11.2\(^3\), but the most dramatic feature of the labor market at the time were activity rates ranging from 56-58\% in the mid 1970s and mid 1980s, among the lowest in Europe (OECD, 2023). The dismal picture described here stands in stark contrast to recent figures, in 2017 the activity rate in the Netherlands was almost 80\% and the unemployment rate in 2018 fell to 3.8\% (OECD, 2023).

\(^2\)Although, as we shall see, active measures such as training programs have declined.

\(^3\)OECD total for all age groups
While the “Dutch jobs miracle” that was most pronounced in the late 1990s has been explored in academic literature (Visser and Hemerijck, 1997), contemporary accounts of inequality of the Dutch labor market (Hartog and Salverda, 2018) indicate that there is significant heterogeneity in the composition of the Dutch labor market in terms of segmentation. Therefore studying what policymakers do to facilitate segmentation is a useful complement to the literature which has focused on how the Netherlands has managed to decrease mass unemployment.

The rapid transformation of the Dutch labor market makes it a case which should provide a test for the model shown in Chapter 2, many individuals entered the labor market in new ways, drastically changing the composition of the labor market and showing how policy changes coincide with the two theoretical pathways of segmentation that this thesis focuses on. A large portion of the inactive population had to reenter the labor market from the disability insurance system, which was widely used as a long term cash benefit that kept individuals out of employment. Women entered the labor force in large numbers, and dual earner families became more common (Visser and Hemerijck, 1997; Angresano, 2011). Tertiary education attainment and investment rose, and the Dutch employment market become more reliant on professional services rather than manufacturing (Thelen, 2019). Chapter 2 showed that the large growth in enrollment was made possible by comparatively high private spending.

The labor market has therefore changed, but what is most relevant for this case study is that the changes have overwhelmingly been in favor of producing outsider groups of individuals. Over the past thirty years, activity grew and unemployment decreased. However, employment growth was strongest in atypical forms of employment. Figure 3.1 shows the composition of full-time and part-time work in the Netherlands compared to the OECD average. Since the mid-1970s, the composition of insider and outsider employment in the Netherlands diverged from the OECD, part-time work grew while full-time work shrank, nearing parity in 2017. Figure 3.2 shows how much temporary work has expanded compared to the OECD average. Although in the 1970s temporary work was uncommon, the Netherlands added a substantially higher proportion of temporary contracts to its workforce through the

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4 The likelihood of changing from one status to another, and the quality of life benefits afford to different statuses

5 Data is similar for the EU 28 average, although with substantial heterogeneity
The Netherlands

1990s and 2000s. At the most recent point, temporary contracts were almost twice as prevalent in the Netherlands.

Figure 3.1: Full-time and part-time work in the Netherlands compared to OECD average (1983-2017)

These labor market indicators collectively show the Netherlands is a policy environment where at least three of the state transitions proposed in the model were prevalent. First, the inactive entered the labor market. Second, the unemployed outsiders entered employment, likely through part-time or temporary work. Third, the stark decline in full-time work suggests at least some insiders transitioned to less secure positions. The rapid change of Dutch employment was studied extensively because of its success in decreasing unemployment (Visser and Hemerijck, 1997). The indicators in figures 3.1 and 3.2 alone suggest it should also be studied in a context of policy-driven dualization. Unemployment reduction was achieved through adding non-standard work to the economy, not by an increase in the number of insiders. The outcomes in the Dutch economy therefore show a strong tendency to encourage outsider employment,
Investing in insiderness or compensating outsiderness

Figure 3.2: Temporary work in the Netherlands compared to OECD average (1983-2017)

Source: OECD (2023)
the rest of this case study investigates the policies that corresponded to these outcomes.

**EPL and NSE regulation**

Employment regulations in the Netherlands enforce differences in job security between permanent contracts and temporary, or flexible, contracts. The level of difference between full-time and temporary EPL, however, is comparatively moderate and while broad changes in EPL indicators are rare, the Dutch state has reformed employment regulations to make the use of temporary employment more flexible while at the same time improving the security of flexible work arrangements in some circumstances (Van Oorschot, 2004a).

Figure 3.3: Employment protection legislation in the Netherlands (1985-2013)

![Employment Protection Index](image.png)

Source: OECD (2013)

Figure 3.3 shows the OECD index of employment protection for permanent contract workers and temporary contract workers (?). Each
Investing in insiderness or compensating outsiderness

index is measured on a scale of zero to six, with six indicating the most strict conditions in each category. For permanent contract workers strict scores indicate high costs and strict regulations for termination, for temporary workers strict scores indicate strict regulations for hiring temporary workers. There is little variation in either index, with the only obvious changes occurring in NSE regulation in the late 1990s and a slight decrease in EPL over time. In a comparative perspective, the EPL shown here is relatively high. Southern economies like Spain and Portugal score higher, but most advanced economies are either at a similar or much lower level of EPL. On the other hand, the NSE regulation score is extremely low. Although not as low as liberal economies like the United States or United Kingdom, the Netherlands scored among the lowest in NSE regulation in Europe. While many European countries have deregulated NSE regulation, flexible use of temporary contracts has been permissible in the Netherlands since data has been available.

The quantifiable level of EPL therefore suggests moderate stratification of working individuals. There have been no clear changes in EPL indices that suggest Dutch governments have either regulated non-standard employment to make it comparatively scarce compared to standard employment, or to blur the lines between standard and temporary contracts by deregulating EPL for standard employment. Looking into qualitative aspects of employment regulation, this is also the case. The OECD indicators do not distinguish full-time and part-time regulations, and, Dutch labor law offers the same dismissal protection for part-time workers as full-time workers. Since the Dutch economy employs a large proportion of part-time workers, this means a large proportion of the outsider population benefits equally from EPL as insiders. Furthermore, employment laws from the early 1990s enforce equal social security contributions, unemployment benefit contributions, access to occupational pension schemes, and minimum wage levels between full-time and part-time work (Van Oorschot, 2004b). This is a part of the normalization of atypical work in the Dutch labor market regime (Visser et al., 2004).

Dutch law therefore enforces equality among all permanent employment contracts regardless of working hours. While these laws are not formally considered employment protection legislation, they are part of the legal framework that regulates the connection between social rights and labor market status. The Working Hours Act 6 of 1996 was the first statutory legislation that equalized full-time and part-time contracts,

6 *Wet Aanpassing Arbeidsduur*, now replaced by the Flexible Working Act

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making it illegal to base any hiring, contract extension, or firing decisions on working hours. In 2000 the act was updated to grant both full-time worker and part-time workers the right to renegotiate their employment contracts to increase or decrease their working hours with no risk of termination. In principle, this allows both insiders to reduce their hours from full-time work, but also for outsiders to increase their hours if their circumstances have changed. This creates a mutual interest in EPL from both part-time and full-time employees in the Netherlands. For example, Visser et al (2004) point out that extending legal protection of working hour flexibility for men working full-time would strengthen the negotiating power of women in part-time employment, regardless of the significantly lower growth in male part-time employment.

In the case of flexible work, Dutch policymakers have taken steps to make the use of labor more flexible. The reduction in NSE regulation in Figure 3.3 relates to the introduction of the Workforce Allocation Act by Intermediaries\textsuperscript{7} (WAADI) which removed legal barriers for the operation of temporary work agencies but required that temporary contracts keep the same remuneration as permanent contracts (Van Oorschot, 2004\textsuperscript{b}) and also the Flexibility and Security Act\textsuperscript{8} which increased the number of consecutive temporary contracts that was permissible from one to three in a three year period and reduced dismissal restrictions.

However, the regulations in place also attempt to balance an increasing desire for temporary contracts with some level of security. Therefore, non-standard employment regulation functions with a similar logic to minimum income protections, they allow production of marginal employment relationships but attempt to create a reasonable standard of safety for those who are affected. As such, the Flexibility and Security Act limited on-call work and included the presumption of an employment contract after any employee works for at least three months, 20 hours per week (Van Oorschot, 2004\textsuperscript{b}). While the legislation regulating temporary employment does not explicitly govern the access of temporary employees to social security benefits, it relies on the provision of employment contracts to ensure employees are included in social security. Furthermore, regulations created in the 1990s required employers to offer permanent contracts after 36 months, which has been reduced to 24 months under the 2014 Work and Security Act\textsuperscript{9}. The Work and Security Act also replaced the complex severance payment system in

\textsuperscript{7}Wet allocatie arbeidskrachten door intermediairs

\textsuperscript{8}Flexibiliteit en zekerheid

\textsuperscript{9}Wet werk en zekerheid
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the Netherlands with a transition payment (transitievergoeding) which can be used by temporary employees whose employer is unwilling to extend his or her employment into a permanent contract. This is a payment which amounts to a third of the monthly salary per year worked. This act also limited the use of trial periods for employees which were exempt from protections. The 2019 Balanced Labor Market Act\textsuperscript{10} extended the maximum contract duration back to three years, but among other changes it also strengthened the security of on-call and payroll employees\textsuperscript{11} and introduced a higher unemployment insurance contribution for temporary contract workers compared to those with permanent contracts.

The recent historical development of employment regulation shows that these policies were used since the 1990s as a part of integrating atypical employment into the Dutch labor market. Employment has not been simply deregulated, however, since employment law has made efforts to provide security alongside nonstandard employment. Part-time employment has most clearly been “standardized”, since regulations made any discrimination on the basis of working hours illegal. While standard EPL has not changed dramatically, it is important to note that outsiders, in as far as they are permanently employed with part-time hours, benefit equally from EPL as standard employees. On the side of temporary workers, regulations have clearly opened up space for employers to hire more outsiders through reduction of administrative barriers to temporary work. At the same time, multiple reforms have tried to balance the use of temporary work by employers with security for temporary employees.

\begin{footnote}{Wet arbeidsmarkt in balans}
\end{footnote}

\begin{footnote}{An employment status where the employee is employed and paid through a payroll company but completes work tasks for another company that is the employees exclusive employer, the employee may not be made available for employment anywhere else. Before the Balanced Labor Market Act, this status could in practice be permanent as long as the payroll company was a part of the Association of Payroll Companies (VPO), see Chamber file 34837 No. 3 (Kst 34837 nr. 3, 2017, p. 2-3). This is different from temporary work agency where the agency mostly allocates employees who then have contracts between themselves and the company where the work is done.}
\end{footnote}
Labor market policy - Active and passive

National governments typically spend under 1% of GDP on ALMP, making it one of the smaller social expenditure categories in social policy regimes. Despite the comparatively low investment in ALMP, it is a common focus in social policy research. This is because different forms of ALMP signal fundamentally different approaches to dealing with labor market challenges (Morel, Palier and Palme, 2012) and have a broad range of consequences for party politics (Vlandas, 2013; Cronert, 2019). In the case of the Netherlands, ALMP has reflected the “work first” nature of the Dutch policy regime trajectory with reforms focusing on reorienting workers toward participation but without comparatively high spending on job creation or improving the quality of jobs. Studies of activation policy in the Netherlands note some investment in wage subsidies for the unemployed or job creation schemes (Van Oorschot, 2004a), but the most significant aspects of the Dutch activation strategy has been a shift from passive income support to activation demands linked to social benefits (Cox, 1998; Sol et al., 2008). In this section, I use indicators to evaluate the balance of different active labor market policies and their changes over time in the Netherlands.

Characterizing developments in active labor market policy is challenging because ALMP includes both punitive and supportive forms of activation, and activation measures might include merely modifying benefit regulations to increase work participation conditionality. This is one of the components of the work first model of Dutch labor market reform, work seeking requirements were tightened for claimants of the primary social assistance benefit, pressuring them to join paid work with little “active” intervention on the state’s behalf in terms of providing hiring incentives or skill development (Cox, 1998; Sol et al., 2008). These type of ALMP offer little human capital investment and rely strongly on markets to place workers into jobs (Bonoli, 2012). However, by focusing on expenditure I can exclude activation measures which only make modifications to social benefit conditions and instead turn to these when discussing unemployment benefit conditionality12.

Figure 3.4 shows labor market policy spending as a percentage of GDP. The total spending on labor market programs includes both passive and active measures, and as might be expected tracks quite closely with unemployment. The 1980s had high unemployment in the Netherlands.

12Unfortunately the same data are not available for social assistance conditionality, although some discussion of specific social assistance conditionality will be discussed in the Chapter 5.
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lands with a correspondingly high expenditure on labor market policy, almost all of which was spent on unemployment insurance. The figure also shows active programs, which include any program that fulfills a matching, training, employment incentive, or job creation function. These are also moderately sensitive to unemployment, but the state spends substantially less on all of these programs combined than on passive benefits. Spending on ALMP has reduced since the early 2000s and in 2020 the government spent just 0.56% of GDP on active programs. This more recent picture of Dutch labor market policy matches earlier literature about the “activation turn” of Dutch labor market policy around the late 1990s, where work requirements for benefit eligibility became an important tool for reducing unemployment (Cox, 1998; Sol et al., 2008). Like the changes in regulation, labor market policy is less concerned with producing standard insider employment (by for example investing heavily in active measures) and more concerned with trading unemployment for outsider employment.

Figure 3.4: Netherlands labor market policy spending (1985-2020)

Source: OECD Source: OECD (2021b)
Although expenditure data show active programs have declined, the data does not show much about how ALMP reorients the unemployed back into paid work. Since I argue the literature should take pay more attention to qualitative aspects of dualization, it is useful to examine the labor market goals set by ALMP and what kind of labor market position ALMP is designed to place unemployed outsiders into. As mentioned, ALMP can be punitive and move the unemployed into any job available. However, it can also invest heavily in the participant, either offering programs which increase their skills, which help in their job transitions through career services, or which create jobs directly.

To help understand the individual ALMP categories and offer a more nuanced perspective on the trajectory of ALMP, I will make reference to Bonoli’s categorization which places policies along two dimensions: whether they are strongly or weakly oriented toward markets and whether they are strongly or weakly oriented towards investment in human capital (Bonoli, 2012, p.184). Along these two dimensions Bonoli describes four main categories of active labor market policy: incentive reinforcement, occupational ALMP, employment assistance, and upskilling. *Incentive reinforcement* is highly pro-market oriented and makes no effort in human capital investment. It includes tax credits, benefit conditionality, and benefit sanctions for not meeting job search requirements. *Occupational ALMPs* have weak orientation towards both markets and human capital investment. These include public sector job creation and non-employment related training programs. They provide public jobs the unemployed, but are not intended to integrate the unemployed into the labor market. *Employment assistance* also includes weak human capital investment, but a much stronger emphasis on market integration. Examples of these policies include public employment services, job search programs, and employment subsidies. These facilitate integration into the labor market through matching the unemployed to employers and strengthening job search efforts, but while they allow outsiders to put their human capital to use these policies do not explicitly strengthen human capital. Finally, *upskilling* is both highly market oriented and highly human capital oriented, and focuses primarily on training programs that facilitate labor market entry by improving the skills outsiders have.

Two policy areas are left out of this categorization because they are not active labor market policy. Passive benefits (unemployment insurance) which only provide out of work income maintenance have no human capital and no market orientation. These were already shown in Figure 3.4 as the gap between active programs and total labor market...
policy spending. Bonoli also places general education on the classification as having a strong human capital orientation but weak market orientation. I explore this policy area later in the tertiary education section.

Figure 3.5 shows spending on Dutch ALMPs broken down into category from 1985 to 2020 using OECD labor market policy expenditure data (OECD, 2019). OECD expenditure data on labor market policy is disaggregated into nine spending categories, of which seven fit into the classification described above\(^\text{13}\). The seven remaining expenditure categories can be grouped into three of the four policy types Bonoli describes, employment assistance, occupational ALMP, and upskilling. Incentive reinforcement, because it contains changes to benefit conditionality, cannot be measured well by expenditures. I discuss this category below with a different source of data.

To measure spending on employment assistance I group the following OECD categories: labor market services, start-up incentives, employment incentives and supported employment. To measure spending on upskilling I use the OECD category for training. To measure occupational ALMP, I use the OECD category for direct job creation.

By type of ALMP, therefore, it seems that most of the resources in the Dutch labor market system go to relatively pro-market ALMP’s that have little or no human capital investment. Figure 3.4 showed overall spending on active measures has fallen consistently since the 1980s, Figure 3.5 shows that almost all of the ALMP spending is in employment assistance with the purpose of facilitating labor market integration, but not necessarily with any orientation towards job quality. Spending on these services also declined by half from its peak in 2002. This cannot be attributed to decreases in unemployment, as unemployment rose in the early 2000s and again after the 2008 financial crisis. Less than a quarter of a percent of GDP was spent on either occupational or upskilling labor market policies throughout the entire period for which data is available, and by the end of the observed period almost no money was spent on these two. Therefore while some ALMP spending is present in the Netherlands, most of it is not concerned with improving the quality of outsider employment but rather with moving outsiders into any market employment possible. This is not a complete picture of Dutch activation policy, therefore now I turn to incentive reinforcement and passive labor market policy.

\(^{13}\)The two which are will not be categorized are passive support and spending on early retirement, as neither are active policies.
Figure 3.5: ALMP categories by spending (1985-2019)

Source: OECD (2021b)
Here I turn to passive benefits (unemployment insurance) which provide income to people who are out of work. As was noted in Figure 3.4 in the difference between total labor market policy spending and active spending, the amount of money the Dutch government spent on passive benefits has declined. Passive labor market policy is also included in both Rueda’s work and Picot and Menéndez (Rueda, 2007; Picot and Menéndez, 2017). Both argue PLMP serves the interests of outsiders. Although unemployment benefit generosity tends to favor insiders, the reforms instituted as part of the Dutch work first strategy included growing conditions for receiving benefits which included a loosening of the definition of the minimum acceptable job. Figure 3.6 plots the sanctions and conditions attached to the Dutch unemployment benefit (Knotz and Nelson, 2019). While sanctions have lost strength, conditions have grown consistently since the 1990s. This component is important to highlight because although unemployment insurance is a passive benefit, increasing the conditionality for benefit receipt by requiring stricter job search requirements is a part of the incentive reinforcement group of active policies. Figure 3.6 suggests a stark change in this regard, where the job search and availability criteria for unemployment benefit claimants became the highest of the three countries included in this chapter.

Furthermore, the maximum duration of the unemployment benefit was reduced from five years to 38 months, after which an individual would need to rely on social assistance, if eligible. Benefits, however, were increased for the first two months of benefit receipt from seventy percent to seventy five percent for claimants with a more continuous employment biography. For those who only partially met employment requirements and are only eligible for the so-called short-term benefit, the benefit changed from seventy percent of the minimum wage for six months to a wage-related benefit of three months. In 2015, this maximum duration was reduced again to 24 months in a reform to the Unemployment Insurance Law (WW) within the Work and Security Act. In the same reform, conditionality of unemployment benefits was again increased. Before the 2015 WW reform, the individual claiming unemployment insurance had up to one year before they were required to

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14 Policy changes outlined in the explanatory memorandum for the Law Amending the Unemployment Insurance System and Dimissal Law (Kst 30370 nr. 3, 2005)

15 Changes to the unemployment benefits system outlined in the explanatory memorandum to the Work and Security Act (Kst 33818 nr. 3, 2013)
The Netherlands
take any job offer. After the 2015 reform, this period was reduced to six
months.

Figure 3.6: Unemployment benefit conditionality in the Netherlands

Source: Knotz and Nelson (2019)

Like the trends in active policy, unemployment benefits have changed
to emphasize shortening the amount of time spent outside the labor mar-
ket through tightening job search requirements and shortening benefit
duration, but have not come at the expense of cuts to the level of the
benefit and have at times even increased benefit levels. Unfortunately,
similar data as found in Figure 3.6 is not available for social assistance
benefits, but this picture of unemployment conditionality suggests the
use of “employment incentive” active labor market policy has also risen.
Therefore Dutch labor market policy is mainly aimed at keeping out-
siders active in the labor market through methods that encourage par-
ticipation, while maintaining short term benefit generosity. They do
not, however, show clear evidence of attempting to convert outsiders
into insiders through upskilling programs.
Tertiary education

Education attainment grew in the Netherlands since the 1990’s although the total composition of individuals with tertiary education as a percentage of the workforce remains in the middle for Europe (Gingrich and Ansell, 2018, p.236). Nevertheless, participation in tertiary education has been high in the Netherlands, and emphasized general skills over highly specialized firm-oriented training schemes. The result, Thelen argues, is that the Netherlands developed a high skill, lucrative professional services sector which hires university graduates (Thelen, 2019). Ansell and Gingrich show the change in the effect of graduate status on job quality from 1993-2011 was by far the highest in the Netherlands in their sample of thirteen EU countries (Gingrich and Ansell, 2018, p.241).

Figure 3.7, however, shows the differentiation of types of tertiary education in the Netherlands. Included in the figure the types of education which fall under the post-secondary education measured in the Dutch enrollment rate. This includes post-secondary vocational education, universities of applied sciences (Hogescholen), and research universities. Although research universities are growing, the most common Bachelor granting institutions are the universities of applied sciences, although the process of obtaining a Bachelors in the Hogescholen are different than at the universities. The Hogescholen takes four years rather than the three years at a university, and includes internships and professional specialization while the university requires a research oriented thesis. The length of study and combinations of general courses and specializations make it not a suitable comparison for other higher non-university forms of education such as Associate Degree granting institutions in the United States or the Swedish Högskola, in the latter because the primary difference is mainly the ability to grant postgraduate degrees. Both the Hogescholen and university provides a general higher education and together outnumber the pupils from vocational schools. Since the 1990s these forms of education have increased while vocational education remains relatively stagnant. Despite this, vocational education still retained a higher pupil count than either scientific or professional tertiary education when taken individually.
Another way to differentiate higher education systems is through funding. An important implication in mapping the trajectory of policy regimes is to establish the extent to which governments commit to policy choices that influence labor market segmentation. Tertiary attainment is an outcome of the higher education system, but higher education finance is important for establishing the extent to which governments commit to the production of educated workers. Despite its high tertiary attainment level, Chapter 2 showed that the Netherlands differentiates itself from many European countries because of its comparatively high reliance on students and their families to contribute to the financial cost of education. Vossenstein and De Jong (2006) show that increasing real tuition fees in the Netherlands are a strong example of a growing importance of cost sharing in the Dutch higher education system between students, their families, and the state. Garritzmann (2016, p.61-73), in his com-
parative study of tuition fees, notes that the Netherlands was the only country in which the share of students paying tuition fees between 1997 and 2010 grew significantly. He further shows that the higher spending on loans in the Netherlands differs from other continental European countries in which tuition support is mostly paid in the form of grants.

When Garritzmann categorized countries into different spending regimes, the Netherlands joins a group with Australia, New Zealand, the USA, and the UK in what he called a high-tuition high-subsidy regime (Garritzman, 2016, p.83). The subsidies Garritzmann refers to are a mix of universal grants, means-tested grants, and loans. The universal grant was paid to everyone studying in a higher education institution in the Netherlands regardless of income. From the late 1990’s, the grant was made more conditional on student performance and study duration and lost value relative to tuition increases (Vossensteyn, 2002). Therefore while the grant was available on a universal basis, it was not unconditional. At the same time, supplementary grants have grown. These grants are means-tested and provide tuition support to students from lower-income backgrounds. Finally, a loan system with favorable repayment terms is available to support student income and tuition fees during the study period. In 2014, the universal grant was repealed completely in exchange for more means-tested spending, a decision I return to again in Chapter 4.

Social benefits

Inactivity, unemployment, part-time and temporary work data all show a large proportion of individuals entering the labor market and eventually finding atypical work. Although some ALMP investment shows a labor market policy strategy that emphasizes activation, many modifications to policies that influence labor market segmentation come from changes in social benefit structure and eligibility criteria. Therefore I argue that the benefits which are tied to marginal positions in the labor market are an important component of how governments link the welfare state and atypical labor market status. These benefits include social assistance, family benefits, housing benefits, and tax credits; all forms of assistance which top-up wages from marginal work up to a minimum income. This is a diverse area of policies, but all of them target low-wage earners and form a package of benefits that enforce a minimum standard of living. In this section I provide a broad overview of the developments of these benefits in the Netherlands. Furthermore, a high emphasis on minimum income benefits effectively incentivizes low-wage
work for employers as well, they can hire workers for low hours or pay, but the effect on overall inequality and poverty will be lessened due to the top up of poor wages. The Dutch welfare system combines work and welfare in other ways that the German or Swedish systems, for instance, do not. For example, the in-work benefit, or income dependent combination credit, is a tax credit system for working adults with children. Although all other countries in this analysis provide a child care benefit, the Netherlands offers a further benefit through the tax system alongside a means-tested childcare benefit.

Figure 3.8 shows the benefits available to six representative family types and are calculated using the OECD’s tax and benefit calculator. One calculation is performed per year and per family type. These calculations produce detailed data on the benefits, taxes, and income situation for each family type. Here I include two families: a single individual with two children and a couple with a non-working spouse. Each figure shows three individuals, a worker with full-time work (working 100% of standard hours), a worker who is employed half time (50%), and an individual who works half of the 30 hours per week typically considered to be the upper threshold of part-time work (38% of a full work week). These are intended to show a varying degree of attachment to the labor market, with the full-time worker representing an insider and the part-time workers representing outsiders with varying degrees of connection to the labor market. The benefits shown here are family benefits, housing benefits, tax credits, and social assistance. The benefits are plotted as a percentage of the average income. Note that benefits shown in Chapter 2 for the purpose of cross-country comparison are compared to median income and modeled with a different family, so comparisons may differ; the purpose of this chapter is tracing within-case developments.

The social benefit system focuses mainly on providing a minimum standard of care for children, as without children the only source of non-wage income would be the housing benefit. For single workers, outsiders have a higher benefit overall than insiders due to a housing benefit which is not received by full-time workers. The value of this benefit, however, stays relatively unchanged from 2001 to 2018 for each group. Where the changes occur is in family and in-work benefits. Family benefits grow over the period from about four percent of the average wage for all groups to 13.5% of the average wage for the outsiders and almost ten percent for the insiders. Since the in-work benefit is tax related and insiders pay more taxes, the credit ends up being slightly larger for insiders. The highest growth in this group comes from the introduction of more generous means-tested benefits for children and the introduction
Investing in insiderness or compensating outsiderness in 2014 of a single parent supplement which Chapter 5 discusses in detail.

Figure 3.8: Benefits as a percent of average income (2001-2018)

Note: Benefits shown as percent of average wage. Plot shows benefit calculations modeled based on different working hours, where 38% of full time is approximately 15 hours per week, 50% is 20 hours per week, and 100% is a standard work week (assuming a forty hour work week). Source: Own calculations, OECD tax benefit calculator
In the case of a couple with a non-working spouse, the difference between insiders and outsiders is stark. Here, the insider couple receives no in-work benefit\textsuperscript{16} and a small family benefit of about three percent of the average wage which does not change over time. In this case, the state leaves care responsibilities mostly with the non-working partner. Furthermore, part of the benefit increase available to the outsider families is due to the conversion of a child tax-credit to a new means-tested childcare benefit. I discuss this change in benefits in detail in Chapter 5.

Figure 3.9 shows the net income as a percentage of gross average income for the same individuals in Figure 3.8. In addition, not shown in the benefits calculated in the previous paragraphs were health care costs that are reduced for low income workers through credits in the social contribution system. After taxes and transfers, the social benefits system in the Netherlands has slowly equalized the incomes of insiders and outsiders. For the single worker, the outsider groups have gained on their insider counterpart. Although both groups benefited from growth in the family benefit system, the net benefit for insiders was neutralized through increased income taxes and social contributions. These costs fell for outsiders who also benefited more from family policy. Since both insiders and outsiders in a couple received relatively few changes in their benefits, the net income gap between the part-time and full-time workers again comes from increases in taxes and contributions for the insider group.

In these examples the Dutch welfare state increasingly makes efforts toward outsiders, especially through family policy, to improve the status of marginal work. Over time, insider and outsider net incomes converged in different family types, and the introduction of means-tested family benefits improved the situation of working outsiders. These trends have continued past the initial period of rapid labor market transformation in the 1990’s, reforms as recent as 2015 continue to increase the redistributive nature of the Dutch welfare state by increasing the benefits available to marginal workers but not to insiders. If the Dutch welfare state were more universal, we would see few changes that affected one group but not others, which is clearly not the case in the bottom panel of Figure 3.8. Rather, benefits increased for some of those with a weaker connection to the labor market, but not for insiders. In the top panel

\textsuperscript{16}Individuals in couples only receive in work benefits if they have a child if they are working \textit{and} they earn less money than their partner, the higher earner does not receive the tax credit.
Note: Income shown as percent of average wage. Plot shows benefit calculations modeled based on different working hours, where 38% of full time is approximately 15 hours per week, 50% is 20 hours per week, and 100% is a standard work week (assuming a forty hour work week).

Source: Own calculations, OECD tax benefit calculator
of Figure 3.8, single parent benefits did manage to increase the benefits available to all labor market groups, but the level of benefits was still differentiated because of an emphasis on means-tested assistance. Therefore the Dutch welfare state has increasingly provided a higher subsidy to workers who are willing to take on a weak position in the labor market.
3.2 Germany

The German welfare state is often cast as an archetype of the Bismarckian welfare system. In these systems, access to social benefits are based on an insurance logic that emphasizes employment and contributions, includes benefits which are proportional to income, and and often relies on an employed worker at the head of a household through which the state channels the welfare effects of social policy (Palier and Martin, 2008). To protect the status of the income earner and his or her access to welfare, these systems protect employment and therefore are criticized for creating high levels of dualization in employment outcomes (Emmenegger et al., 2012). Adding to the dual nature of German labor politics, the educational system is often cited as being extremely rigid, guiding pupils at a young age toward vocational education with little chance of reentering a track that leads to tertiary education (Powell and Solga, 2011). While this once channeled the workforce to industrial standard employment, the more recent results of this system is a workforce with comparatively lower levels of tertiary education attainment.

The Bismarckian nature of German social policy, however, is changing. I argue that the German system has taken steps to increasingly focus on outsiders, but does so through the recommodification of inactive labor, reduction of benefits for insiders, and a higher focus of social policy-making around benefits that supplement low-income work. It has given up some of the status-maintenance properties of the welfare state to focus on making marginal work more livable. The logic of reform has become more centered around providing means-tested benefits to the lower tiers of the labor market. This has accompanied an increase in atypical employment in Germany. Temporary employment (Figure 3.11) is slightly higher than the OECD average and places Germany in the middle of OECD countries, part time employment (Figure 3.10) is the seventh highest in the OECD and fourth highest in Europe. The challenge for German policy makers therefore is crafting a regime which can function under these circumstances.

Although atypical work has expanded, educational enrollment and figures from secondary school graduation show a rise in tertiary education and students who are completing secondary education tracks which make them eligible for university education. The dualistic nature of German employment is sometimes blamed on the lack of tertiary education (Thelen, 2019), with scholars arguing a lack of tertiary participation leaving the economy unable to adapt to new forms of high skill service employment. Tertiary enrollment and funding has grown in Germany,
Figure 3.10: Full-time and part-time work in Germany compared to OECD average (1983-2017)

Source: OECD (2023)
Figure 3.11: Temporary work in Germany (1983-2017)

Source: OECD (2023)
but the adoption of mass higher education has been more limited in Germany than in other countries included in this study.

Avoiding any level of dualism in Germany is not politically realistic, the German state cannot erode protections for insiders who make up an important political and industrial constituency, it cannot move all of the current atypical workers into insider jobs, and it is unrealistic to expect any policy regime to devote a large new budget for spending its way into equalizing outsiders with insiders (Schäfer and Streeck, 2013). Rather, the trajectory of segmentation in Germany shows a state much more concerned with boosting employment and subsidizing low wage work than it does with protecting insider status at all costs. Several of the reforms I cover in this section reduced rights to insiders. But outsiders, while pushed down a road to employment which is more punitive than it is supportive are not the clear losers either. In the next sections I show these developments in the German labor market policy regime beginning with changes to regulations and labor market policies, social benefits, and changes in tertiary education.

EPL and NSE regulation in Germany

Employment protections for full time workers in Germany are similar to the Netherlands, and are high compared to other advanced economies. Dismissal periods range from one to seven months depending on employee tenure and grounds for dismissal are strictly regulated and require employers to ensure that termination is a last resort. Figure 3.12 shows these regulations remained constant over time and contribute to the dualistic nature of the German labor market. A model of dualization that focuses on employment protections for outsiders would therefore conclude that little has changed in Germany, insiders have remained well-protected with no changes to their employment security.

Unlike regulations protecting insiders, the group of policies which governs protections for atypical workers underwent numerous changes through the 1990s and 2000s. While some of the more recent reforms to part-time employment and fixed-term employment laws have made it more difficult for firms to hire atypical employees, they have not introduced regulatory pathways for most atypical employees to find standard employment. Throughout the 1990s temporary work through agencies was steadily deregulated, with the maximum period of time a posting could be done through a contract agency steadily increasing from nine months in 1994, to 12 months in 1997, 24 months in 2002, and unlimited in 2003 (Ebbinghaus and Eichhorst, 2006, p.14).
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Substantial changes to the German NSE regulation regime were introduced during the first group of Hartz reforms (Hartz I and II\textsuperscript{17}). The reforms introduced broad changes in 2003 to the Germany labor market which previously heavily regulated temporary employment. The regulation lifted the ban on external employment agencies hiring employees for specific assignments to other firms (the so-called ban on synchronization), lifted the ban on re-employing temporary workers, and fully deregulated the time period for which a temporary employee could be hired (previously a temporary employee could remain temporary for a maximum of two years). Furthermore, Hartz I and II actively involved public authorities in creating temporary work by establishing staff service agencies (\textit{Personal Service Argentur}, or PSA’s) as parts of local employment offices which would either connect the unemployed with temporary work agencies or even authorize the employment offices to act as temporary work agencies (Jacobi and Kluve, 2006). New categories of jobs, so called “mini jobs” and “midi jobs” were created which could be part-time or temporary. Under EUR 400 a month, the mini job would be tax free for the employee and free of social security contributions while the midi job, between EUR 400 and EUR 800 would pay social security contributions on a sliding scale (Eichhorst, Grienberger-Zingerle and Konle-Seidl, 2008). Some re-regulation has occured since, in 2011 NSE regulation was changed to outlaw permanent employment of temporary labor and in 2017, as part of a coalition agreement, the maximum term for temporary employment was limited to 18 months (Koalitionsvertrag, 2018, p.52).

The same agreement also reformed part-time work legislation. While previous reforms in 2000 to the Act on part-time work and fixed-term employment \textsuperscript{18} allowed workers to transfer from full-time to part-time work, it did not grant the right to return back to full-time status (Drucksache 14/4374, 2000). It only gave them priority status for when full-time jobs became available. The new legislation permits agreements which specify a return to full-time employment after a period of part-time work of up to five years concludes. Therefore, the broad trajectory of German labor market regulation has been dualization, protections in standard EPL remained relatively static while atypical employment has was made more legally flexible. Some re-regulation occurred in terms of time limits to temporary agency work, but overall reforms to employment regulations made it easier to use temporary employment.

\textsuperscript{17}Erste Gesetz fur moderne Dienstleistungen am Arbeitsmarkt
\textsuperscript{18}Gesetz über Teilzeitarbeit und befristete Arbeitsverträge
Figure 3.12: EPL in Germany (1985-2013)

OECD (2013)
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Labor market policy

As with employment protection, the Hartz reforms had a substantial impact on the activation regime in Germany. Activation changes in Germany involved the increased use of public employment service agencies, limited use of training in the form of job search assistance courses and training vouchers (Bruttel, 2005; Fritsch, Zöllner and Wyrwich, 2016), and redesign of the social benefits system to move long term unemployed into active job search (Eichhorst, Grienberger-Zingerle and Konle-Seidler, 2008). On the one hand, regulatory changes such as the creation of mini jobs and midi jobs also combined with changes in passive labor market policy to introduce pressure to integrate into the labor market by increasing conditionality on job searches, and on the other hand, created new forms of employment which paid less than standard jobs but could be combined with social benefits. Similarly to the Netherlands, then, the German system has been more concerned with activation as a method of reducing benefit dependence rather than enforcing pathways for outsider transition to insider status.

Figure 3.13 shows the general trends in spending on labor market programs by dividing expenditure into total and active programs. Here we can see two notable conclusions. First, active programs are a small proportion of total spending on labor market policy, with most of the expenditure going towards passive benefits such as unemployment insurance. Although this is an unsurprising conclusion, it is worth noting that there is no evidence of labor market policy expenditure shifting towards activation, as unemployment fell throughout the late 2000’s and the 2010’s spending on both passive and active programs fell simultaneously. Second, the introduction of the Hartz reforms was followed by reduced spending on labor market policy as unemployment benefit generosity was tightened and the reforms increased labor market participation.

Figure 3.14 shows how expenditure on ALMP by the categorization provided by Bonoli (2012). There is a clear change over time in the composition of active labor market spending. Before the early 2000s, ALMP’s that were based on increasing the skills of program participants were the largest spending category. Occupational ALMP’s which create jobs for the unemployed and employment assistance services were also used in nearly the same amounts. But over time, especially after the Hartz reforms, services became the primary expenditure category as spending on upskilling fell and spending on occupational ALMP’s declined to almost nothing. During the Hartz reforms employment offices
Figure 3.13: Germany labor market policy Spending (1985-2020)

Source: OECD (2021b)
Investing in insiderness or compensating outsiderness became much more important in actively managing the relationship between the unemployed and their job search. Agencies became important in promoting activation by the introduction of temporary work agencies to find jobs for the unemployed, by providing short training courses on job search strategies, and by requiring an increase in the frequency with which individuals claiming unemployment assistance report to employment offices. Therefore ALMP’s became less human capital oriented and more market oriented, shifting towards spending that prioritized skills to spending that prioritized reintegration into the labor market.

However, the largest change in the German activation regime occurred during the Hartz IV reforms, where broad changes to the unemployment benefit system and social benefit system created incentives for combining marginal work with paid benefits. Because of the broad nature of the reform, it is difficult to separate the main developments in German activation, social benefit, and passive benefit systems. In short, the benefit system prior to Hartz IV consisted of a primary, limited term income related unemployment benefit, a second indefinite income related unemployment benefit, and a means-tested benefit for individuals outside the labor market or who were unable to work. The reforms removed this second tier of unemployment benefits and instead moved individuals who were long term unemployed onto the new means-tested benefit (Arbeitslosengeld II, or ALG II). Since the ALG II benefit can be combined with low-wage work, the further creation of atypical work through mini jobs, midi jobs, and temporary agency work shows an activation strategy which prioritized making outsider employment feasible.

In the primary insurance-based unemployment benefit, conditions rose through the 1990s, as shown in Figure 3.15, including requirements such as accepting a suitable job, participation in private placement services, and use of resources provided by employment agencies. Beneficiaries of the primary unemployment benefit also had their benefit duration shortened from a maximum of 32 months to a maximum of 18 months (Hochmuth et al., 2019). The second tier of unemployment was abolished, leaving those who had previously qualified for an indefinite income related benefit reliant on the means-tested benefit. Similar requirements were introduced alongside this new unemployment assistance benefit, ALG II. Taken together, figures 3.14 and 3.15 show a shift from a labor market policy system that emphasized training and protection to one that emphasized activation through job matching services and benefit conditions.
Figure 3.14: ALMP spending by category (1985-2020)

Source: OECD (2021b)
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Figure 3.15: Unemployment conditionality in Germany (1980-2012)

Source: Knotz and Nelson (2019)
Tertiary education

The German education system is well-known for vocational programs which have a high level of labor market success. These programs, especially the apprenticeship tracks, are coordinated by firms and produce workers who can rapidly enter the labor market in positions which are stable and secure (Protsch and Solga, 2016). The high level of coordination among unions and firms in the VET system ensures workers gain firm specific education and a satisfactory level of general skills, when these firms can fill the demand for apprenticeships and jobs the system works to create a high level of employment (Eichhorst, Grienberger-Zingerle and Konle-Seidl, 2008). The most lauded function of the human capital system in Germany, therefore, is not tertiary education but rather the VET system. Some scholars, however, cite problems with the German education’s focus on VET, pointing to comparatively low rates of tertiary enrollment and attainment (Powell and Solga, 2011), the difficulty of entering tertiary education due to secondary education tracks which make students ineligible for university education at young ages (Powell and Solga, 2011), mismatch between tertiary graduates and labor market opportunities (Gingrich and Ansell, 2018), and lackluster growth in high skill services due to a lack of investment and emphasis on tertiary education (Thelen, 2019).

An improvement in tertiary education would therefore signal an attempt to move the labor market in a direction away from the jobs which have been the backbone of the German economy for a long time and an investment in new skills and employment in the tertiary sector. Figure 3.16 shows the educational attainment of 25 to 64 year old Germans. From this graph it would seem little has changed in nearly the last thirty years. Since the early nineties to 2018 around twenty-five percent of the German population holds a degree from a tertiary education, and a far higher percentage hold degrees from upper secondary programs or non-tertiary post-secondary programs from the VET system. Historically, it would seem the composition of education has changed very little in Germany and that the authors citing Germany as a laggard in this area are correct and that the “massification” of higher education has missed the country.

Tertiary education in Germany, however, is difficult to reform or even analyze without making reference to the secondary school system. Unlike systems where a majority of secondary school students participate in a general education track which facilitates entrance into universities, technical schools, or associate degrees equally, the German system strat-
Figure 3.16: Tertiary education in Germany (1989-2017)

Source: OECD (2021a)
Germany
ifies pupils at a young age, generally ten to twelve years old (Neugebauer et al., 2013). Because of the early academic success required to enter the tracks which are eligible for universities and the Fachhochschule (universities of applied sciences), socioeconomic background plays a strong role in predicting who enters university (Neugebauer et al., 2013). Some of the segmentation in labor market outcomes therefore likely comes from this early segmentation in secondary education.

After primary school, most students can enter three different tracks which have a strong influence on their choice of post-secondary education. The school which has the least opportunities after graduation is the hauptschule. Those who graduate from this option can leave the school system or continue with vocational training. The next is the realschule, pupils in this track need better grades to enter and learn foreign languages and more general academic subjects than hauptschule pupils. Those with good grades in realschule can apply for a supplementary course to pass a university entrance exam. Finally, Gymnasium is the highest academic secondary school track in Germany, it takes the longest to complete, and the only track which leads directly to the university system. The realschule was abolished in several Land and replaced with other varieties of school which grant multiple exit certificates but still have a functionally similar role of providing a middle ground between hauptschule and Gymnasium. The Länder differ in their implementations of realschule and hauptschule, only gymnasium is a distinct track in all federal states (Neugebauer et al., 2013).

The composition of students in secondary school therefore is highly important for tertiary education outcomes. Figure 3.17 shows the composition of secondary education graduates in gymnasium, hauptschule, realschule, and a category for multiple degree granting schools. This latter category includes schools which some federal states have created after the abolition of realschule as well as gesamtschule which is a hybrid of the realschule and hauptschule where one school offers separate courses to students with different performance. In Figure 3.17, only those in Gymnasium who received the certificate to enter university are shown. The figure shows that around 2007 pupils graduating from gymnasium outnumbered those from any other track, and this number continues to grow while the number of students entering programs that lead to vocational education steadily declines. In 2017, there were more than twice the amount of students graduating from gymnasium as there were from hauptschule.

The trends observed above extend to Figure 3.18, which shows the tertiary enrollment rate of first-year cohorts from 2000 to 2017. In 2000,
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Figure 3.17: Secondary education graduates by school in Germany (1998-2017)

Source: Compiled by author from state-level statistics available from the German Federal Statistical Office
the rate was under 35%, which is during a period where Germany had one of the lowest rates of tertiary enrollment in Europe and was not keeping up with European goals for tertiary attainment (Powell and Solga, 2011). By 2013, however, the rate was almost 60%, well above the 40% target for the EU 2020 goals. Therefore some massification has occurred in the German higher education system, although this should be balanced against the attainment data shown in Chapter 2. While the enrollment rate of first year cohorts is high, the attainment level of 25-34 year olds in the population is still comparatively low even in the most recent figures\footnote{Only Italy had a lower tertiary attainment level of 25-34 year-olds in the sample shown in Chapter 2.}. 

Figure 3.18: Tertiary enrollment rate for first-year students (2000-2017)

![Tertiary enrollment rate for first-year students](image)

Source: German Federal Statistics Office (2019)

In terms of funding, Chapter 2 showed that public expenditure per student in German higher education was in the middle of the sample of European countries. In his categorization of higher education finance
systems, Garritzmann classifies Germany as a *low-tuition low-subsidy regime*. Private spending is also low in Germany, comparable to Sweden, thanks to the lack of tuition fees in German higher education. As I discuss in Chapter 4, tuition fees have been introduced briefly by certain federal states but have generally been repealed by subsequent state governments. Therefore although tuition fees have existed, they have not remained in place in any federal state. On the other hand, Germany also has a subsidy system administered by the federal government which includes a grant and loan component that is means-tested. This form of student aid is limited in its use in Germany, Garritzmann (2016, p.149) shows that the proportion of students who receive BAföG has steadily declined since the 1970’s and most recently covers less than 20% of the student population. Taking enrollment and finance together, the German higher education system has grown in recent years but has yet to reach the levels of more massified education systems, both in terms of the quantity of graduates and in the financial support it offers students.

**Social benefits**

In terms of the minimum income benefits available to working different labor market groups, the Hartz reforms again had a large impact, which negatively impacted insiders who lost eligibility into income-related unemployment insurance schemes. Since the initial second tier of unemployment benefits was income related and the new ALG II was means-tested, higher earning households saw the largest benefit reduction. On the other hand, the ALG II means-tested benefit was higher than the old income related benefit for many who had lower incomes. For those previously on the municipal social assistance benefit, the new benefit was around the same level but provided activation support. The distributional effects of Hartz IV are discussed at greater detail in Chapter 5, but here it is important to note that although the distributional effects are complex some who had lower incomes saw an increase in benefits. The new ALG II benefit could also be combined with new forms of atypical employment, some of which were exempt from social contributions and taxation. Furthermore, the new benefits system makes housing and heating benefits more accessible than the older assistance benefit (Eichhorst, Grienberger-Zingerle and Konle-Seidl, 2008) and introduced a new means-tested childcare benefit to keep working parents from entering the ALG II benefit.

Figure 3.19 shows the results of the same tax calculation done for the

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20 The *Bundesausbildungsförderungsgesetz*, or BAföG
Germany

Netherlands, with social assistance, housing benefits, child care benefits, as a percentage of the average wage for a single person with two children and a couple with two children and one non working spouse. Over time, both part-time workers saw their benefits grow from about fifteen percent of the average wage to between twenty-five and over thirty percent of the average wage respectively. This increase is driven by moderate growth in the housing benefit and large growth in family benefits. The insider benefit stays relatively unchanged, and most notably, insiders and outsiders diverge in benefit receipt severely from the beginning to the end of the series. For the couple, the insider benefit remains the same as with the single earner, since the wage is high enough to not qualify for social assistance and family benefits do not change. For the 38% worker, they receive more social assistance benefits at the end of the series while for the half-time worker no social assistance is paid but a larger family benefit compensates. Again, as with the single family, benefits have moderately increased for outsiders but remained constant for insiders.

Net income, shown in Figure 3.20 shows the benefits do contribute to the narrowing of an income gap among the modeled insiders and outsiders, but changes do not impact insiders negatively through increased taxation as they do in the Netherlands. For the single individual, the family benefit pushes his or her income higher at the end of the series than at the beginning, while the income for the couple stays the same. For the single outsiders, social assistance makes up for the gap between the half time and 38% worker, while both benefit from housing and family benefits. Overall, the impact of benefit reform in Germany reduces disparity among the modeled insiders and outsiders, but to a more modest extent than in the Netherlands. However, what is not shown is the losses in expected income to higher wage insiders in the event of unemployment after the elimination of the previous UB II benefit, one of largest reforms in this period.
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Figure 3.19: Social benefits by hours worked (2001-2018)

Note: Benefits shown as percent of average wage. Plot shows benefit calculations modeled based on different working hours, where 38% of full time is approximately 15 hours per week, 50% is 20 hours per week, and 100% is a standard work week (assuming a forty hour work week). Source: Own calculations, OECD tax benefit calculator
Figure 3.20: Net income after taxes, contributions, and benefits (2001-2018)

Note: Income shown as percent of average wage. Plot shows benefit calculations modeled based on different working hours, where 38% of full time is approximately 15 hours per week, 50% is 20 hours per week, and 100% is a standard work week (assuming a forty hour work week).

Source: Own calculations, OECD tax benefit calculator
3.3 Sweden

The Swedish social policy system is based on a high degree of taxation and redistribution, service provision and public consumption, active labor market programs, and a high degree of employment in the welfare sector. This model has remained relatively stable throughout economic crises and liberalization reforms and continues to provide a broad range of services, employs a large portion of the workforce, and is not significantly based on targeting any particular socioeconomic group (Bergh and Erlingsson, 2009). Although the social policy system has remained relatively stable, changes include more flexibility in labor law and high human capital investment. Over time, Sweden showed a similar development in regulations as Germany and the Netherlands. Few changes have been made to the employment protection system for standard employees who continue to enjoy moderately high levels of legal protection against unemployment. On the other hand regulations of non-standard employment were lowered substantially from one of the most strict regulatory frameworks in Europe (with private temporary employment being practically illegal) to a much more deregulated system where temporary employment is regulated but still simple for employers to implement. Unemployment replacement rates have been cut and benefit conditionality has grown.

Despite the growing flexibility of non-standard employment law, the Swedish social benefit system has done little to specifically compensate outsiders for their marginal labor market outcomes. Rather, over time Swedish benefits have become more similar for insiders and outsiders, and universal benefits such as child care allowances and care services have grown while social assistance and targeted benefits declined. Meanwhile, one of the most universalized aspects of the labor market policy regime is how it invests in skills. Active labor market programs set the Swedish skills investment strategy apart from other countries in the 1980s and 1990s (Köhler, Thorén and Ulmestig, 2008), and although ALMP is still stronger in Sweden than it is in many other countries, it is tertiary education which sets this model apart. Reforms have led to high participation in tertiary education, a low degree of tracking in primary and secondary schools and few dead ends in education pathways has made most people eligible for enrollment, universal financial support for students and state funding of tuition makes university education comparatively accessible to different socioeconomic groups, and entry requirements allow those who did not complete university education directly after upper secondary to reenter academic education in
Sweden

adulthood.

Figure 3.21 shows the distribution of part time and full time work is similar to the OECD average and has changed very little since the mid 1980s, staying around an 80/20 mix of full-time to part-time workers. Figure 3.22 shows temporary work is higher than the OECD average and has grown since the mid 1990s. Despite low incidence of part-time work, Sweden therefore has a higher than average share of workers in contracts which are not permanent. However, the welfare state has not adapted to targeting outsiders in atypical employment. As I show later in this case study and in Chapter 5, despite falling eligibility for unemployment benefits and more social assistance claimants citing unemployment as their primary problem, the general insurance system remains the primary benefit for outsiders. Through high investment in national skill development, the labor market regime is oriented toward preventing the incidence of outsiderness. What this implies is that a residual portion of outsiders are targeted less by the state by welfare reform efforts in favor of promoting insider employment rather than the German and Dutch strategy of subsidizing outsiderness in recognition of its permanence.

EPL and NSE regulation

Early accounts of welfare state categorization suggest Scandinavian welfare systems rely less on status protection through regulation to ensure welfare provision and more on universal benefits and services (Esping-Andersen, 1990). Compared to Netherlands and Germany, however, the employment protection system does not particularly differentiate Sweden as a distinct labor regime. As is the case in the Netherlands and Germany, employment protection legislation concerning standard employment changed very little in the period for which data are available and show a moderate level of standard EPL. The primary legislation in the Swedish regulation system is the Employment Protection Act 21. The act requires objective grounds for termination due to redundancy or personal conduct, in some cases requires employers to search for alternate employment for the employee at the firm if they have relevant qualifications, and includes tenure-based notice periods. These aspects of the Swedish standard EPL system make it similar in content to German and Dutch regulations.

Reforms in the Swedish labor market regulation therefore do not occur with significant magnitude in the realm of full-time work. Rather, where changes have taken place it has been in the deregulation of tem-

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Figure 3.21: Full time and part time work in Sweden compared to OECD average (1983-2017)

Source: OECD (2023)
Figure 3.22: Temporary work in Sweden compared to OECD average (1983-2017)

Source: OECD (2013)
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Temporary employment, which has been substantial. Figure 3.23 shows this dramatic change, EPL for temporary contracts declines from the 1990s and is deregulated through several reform periods which decrease the difficulty of using flexible employment. The series begins in 1990, before which temporary work was effectively illegal and the only non-permanent contracts available were fixed-term contracts for certain situations such as contracting particular projects or tasks.

Temporary agency work was introduced in 1990, in which temporary work regulations allowed only the state employment agency to broker temporary work between employees and employers (Rönnmar, 2010), making Sweden one of the strictest labor markets for non-standard employment. By 1993, a second round of reforms substantially deregulated temporary work. The Private Job Placement and Hiring-out of Labour Act\textsuperscript{22} legalized agency work, allowing private agencies to lease employees to employers. A later amendment to the Employment Protection Act in 2007\textsuperscript{23} broadened the conditions under which temporary work could be employed (Rönnmar, 2010). While previous versions of the Employment Protection Act required more precise conditions under which employers could hire through temporary agencies or assign fixed-term contracts, the 2007 regulation moved close to equalizing hiring terms for fixed and permanent contract workers. Although the use of fixed-term employment became easier since the 1993 and 2007 reforms, employers do not have unlimited use of fixed-term contracts. Any fixed-term contract automatically becomes permanent if the employee has worked for two years in any five year period. Some recent re-regulation has occurred, a 2022 reform reduced this period to twelve months\textsuperscript{24}. The drastic change from having no legal means of employing temporary workers to the current system reveals one of the widest ranging labor market reform trajectories in the study.

**Labor market policy**

The Swedish model of welfare provision is strongly associated with universal entitlements and decommodification (Esping-Andersen, 1990), a characterization which focuses on redistribution and social benefits. Labor market policy, however, also made Sweden’s social protection regime distinct from other economies. Sweden invested in active labor market

\textsuperscript{22}Lag (1993:440) om privat arbetsförmedling

\textsuperscript{23}Bättre möjligheter till tidsbegränsad anställning

\textsuperscript{24}Prop. 2021/22:176 Flexibilitet, omställningsförmåga och trygghet på arbetsmarknaden
Figure 3.23: Employment protection legislation in Sweden (1985-2013)

Source: OECD (2013)
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policy early and used ALMP as a key instrument to promoting labor market integration (Forslund and Krueger, 1997), particularly with its broader commitment to more generous forms of labor market policy which targeted upskilling and direct job creation over leaner, more punitive forms of ALMP such as sanctions and work requirements (Fleckenstein and Lee, 2017). The characterization of Sweden’s activation regime as highly human capital oriented continued through the 2000s, but recent literature argues a shift in ALMP priorities after the economic crisis of the 1990s began to move Sweden's ALMP posture in a more employer-oriented position (Davidsson, 2018). Activation in Sweden through the 1990s and 2000s shifted more toward incentivizing employment through wage replacement and recruitment subsidies. While some literature argues this constitutes a dualizing labor market strategy, compared to cases where ALMP strategies reflect benefit conditionality and emphasize a work first logic, an ALMP regime structured on employment incentives is more outsider friendly than strictly dualizing.

Figure 3.24: Swedish labor market policy spending (1985-2020)
Figure 3.24 shows the proportion of labor market policy spending that goes to active measures compared to the total labor market policy expenditures. Other than in the 1990s economic crisis, active spending represented a substantial proportion of total spending. Through the 1990s and early 2000s the activation platform rested on a mix of training, job creation, and employment services. Training took the form of market oriented vocational programs (Köhler, Thorén and Ulmestig, 2008) which emphasized in-demand jobs, computer and IT based training (Calmfors, Forslund and Hemström, 2001), and language training for non-native Swedish speakers (Calmfors, Forslund and Hemström, 2001). Typically, training measures that were directly linked to vocational needs lasted six months. These measures were especially popular during and immediately after the economic crisis in the 1990s. Figure 3.25 shows a clear peak during the first part of the 1990s where active labor market measures reach above 2.5% of GDP, during this time Sweden spent more of its ALMP budget on training than any other county (Calmfors, Forslund and Hemström, 2001). In addition to direct training, the Swedish ALMP system also emphasized upskilling via employment. This included practical training in the form of short-term jobs which were not intended to serve as permanent employment but were instead intended to provide skills based on experience. A similar program targets young people. As a part of a series of youth-targeted ALMP's, a job program paid the salary (equivalent to the unemployment benefit) for participants between the ages of eighteen and twenty-four to participate in six month jobs so they could gain some employment experience (Forslund and Krueger, 1997). However, the share of training dropped substantially, as shown in Figure 3.25, and some programs such as many of the vocational training programs were abandoned in 2007.

Apart from training measures Swedish ALMP also focused on employment assistance, a category of labor market policy which is now proportionally more prevalent relative to training. As described above, until 1998 the primary tool for incentivizing the hiring of the long-term unemployed were so-called “relief works”, which were temporary jobs up to six months in duration in which the employees salary would be paid by the state. These were often in public works or construction (Forslund and Krueger, 1997). When the use of relief works was abolished, the use of work experience schemes became widely used in which the state extended unemployment benefits for temporary employment in non-profits in jobs which otherwise would not have been created (Calmfors, Forslund and Hemström, 2001) and then later these measures were replaced with more general employment incentives in which the state paid wages when
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Figure 3.25: ALMP Spending by category (1985-2020)

Source: OECD (2021b)
a long-term unemployed person was hired. Many of these programs included some form of on the job training, but differentiate from training measures because their primary purpose is to activate an individual, not upskill them for employment they would not otherwise have been qualified for. Figure 3.25 shows employment assistance are the most resilient spending category while occupational ALMP’s and training fell.

Also within the employment assistance category, labor market services are available for both young people and long-term unemployed adults. This takes place primarily through two pieces of ALMP legislation, the youth guarantee (SFS 2007:813) and the activity guarantee (Prop 2006/07:89). Both of these were significantly reformed in 2007. The reforms to the activity guarantee also included reforms to unemployment insurance. The activity guarantee stipulates individuals who have been long term unemployed or on the unemployment benefit for 300 days and were unable to find employment can receive benefits conditional on accepting activity support from a public employment service. Parents can delay this decision and receive unemployment benefits for an additional 150 days. The reform reduces the threshold of “suitable work” during the first 100 days of unemployment insurance, so the unemployment benefits are worse for skilled insiders if they lose their job.

The youth guarantee functions in a similar way, but offers opportunities for internships and vocational education alongside suitable work and benefits. Therefore, while these policies do not show the strongest commitment possible to human capital investment, they provide a more generous ALMP platform than other European states, especially in instances such as the Netherlands or Germany where activation takes the shape of conditionality through emphasis on “work first”. Nonetheless, Swedish labor market policy follows the two previous case studies in terms of a decline in ALMP whose primary purpose is upskilling.

The passive benefit system in Sweden became less generous since the 1990s, more difficult to qualify for, and includes stricter job search criteria than in previous decades. Furthermore, voluntary private unemployment schemes became more prevalent. This created a secondary unemployment insurance system where premiums were based on unemployment risk, making insuring industries more exposed to unemployment risk more costly. Reforms to unemployment benefits directly hurt insiders by lowering replacement rates for the income-based unemployment benefit but also dualized the unemployment system by making the voluntary funds more attractive and generous for insiders. Furthermore, Figure 3.26 shows conditionality in the unemployment system has risen since the 1990s substantially.
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Figure 3.26: Unemployment conditionality in Sweden (1980-2012)

Source: Knotz, C. and M. Nelson (2019)
The unemployment benefit system in Sweden is divided into two government benefits, a basic benefit and an earnings related benefit. To qualify for the basic benefit, participants must be willing to work at least three hours every working day for an average of seventeen hours per week, registered with the public employment office, and ready to accept an offered job. Furthermore, the participant must have worked at least six months in the last year at a 50% employment rate or have worked 480 hours continuously during six months, working at least fifty hours in each month. Although this qualification period is more generous than the Netherlands and Germany, it has been increased from three months since the 1990s (Davidsson, 2018). At the time of writing, the basic amount paid 365 sek per working day, or approximately 8000 sek per month.

The earnings-related benefit requires 12 months of membership in an unemployment fund, which employees are eligible to join (and pay dues in) after five weeks of employment. This benefit pays eighty percent of the employees salary for the first 200 days and seventy percent for the next 100 days. Prior to the 2007 reform, employees could continue to receive benefits after 300 days at sixty-five percent of their previous salary, but since 2007 the benefits cease at 300 days. This excludes parents with children under the age of eighteen, who receive an extra 150 days. While eighty percent is generous compared to many replacement rates in Europe, the earnings related benefit has a threshold of paying a maximum of 20,000 sek per month. As a result, the true replacement rate compared to the average wage is much lower. The monthly dues paid to the unemployment funds can vary based on the fund, and funds can have both occupational and educational requirements. In practice, however, the differences in dues are small and most who qualify for joining an unemployment fund are eligible for joining the lowest cost fund.

Two main problems arise with the income related benefit: indexing and private supplementary insurance. In the early 1990s, the benefit ceiling was de-indexed from wage growth (Davidsson, 2018). The ceiling can only be adjusted when governments decide it is appropriate, which has meant the ceiling has grown substantially slower than wages and is why the average replacement rate is lower than eighty percent. This hurts high wage earners the most, and these employees have ex-

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25At the time of writing, the difference between the least expensive fund and a fund which has no occupational or educational restrictions was 20 sek per month
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experienced the largest reduction in real replacement rates (Davidsson, 2018). However, the greatest potential for dualization in the benefits system comes from voluntary private income insurance schemes which high earners use to supplement their lower benefit. For individuals whose income is high enough to exceed the 20,000 SEK ceiling on the earnings related benefit, private income replacement insurances can be purchased which will cover up to eighty percent of previous earnings. However, the premiums paid for supplementary insurance depend on the occupational risk of unemployment. Therefore, an individual with secure employment pays a lower premium for income insurance than an individual who is in an occupation with high unemployment. There is therefore a price penalty for being in an outsider dominated field such as hospitality and services while individuals in insider employment with strong protections pay lower premiums.

Tertiary education

Education in Sweden fits a trajectory which is centered around expansion of participation and the reduction of inequality to access. The expansion of education in Sweden has been noted as a policy field used by the Swedish state to promote equality of opportunity across multiple dimensions of socioeconomic status (Fägerlind and Strömqvist, 2004; Björklund et al., 2004; Halldén, 2008). The education system, particularly at the tertiary level but also at early levels which lead to tertiary education, are designed to create outcomes which are not particularly differentiated across different schools, across different educational backgrounds in terms of tracking and permeability of education, and in terms of entering the tertiary education system later in life. Contrary to the previous two cases, the Swedish case shows a more open tertiary system, with less differentiation and tracking at the upper secondary level than Germany but also less distributive conflict than in the Netherlands. In terms of the model of segmentation suggested by this dissertation, the Swedish case offers a level of general qualifications in the population which is both less differentiated and easier to access at different stages of life, which should lessen the chances that individuals are locked in to a particular labor market status. Finally, this more open education system serves as a buffer during employment crises where individuals can enter education and upskill rather than remaining unemployed (Björklund et al., 2004).

One area I have identified as relevant for understanding how education interacts with labor market status, and how government decision
making in education policy can influence the balance of insiders and outsiders, is through the permeability and tracking of secondary education. At first this appears to be a policy which is not directly related to tertiary education, but the eligibility for secondary school students to enter university education is directly linked to how secondary education is structured. In the Swedish case, schools were reformed early and dramatically to move towards a comprehensive model in which secondary school pupils were not selectively steered toward different education tracks but were rather educated in a more unified comprehensive school system. In the early 20th century, Swedish education looked similar to other European models where tertiary education was meant for elite students and the system was dualistic (Heidenheimer, 1974). A major reform in 1971 in the shape of a new secondary school curriculum lead to the combining of vocational and academic education tracks into one upper secondary program, Gymnasium (Heidenheimer, 1974). Prior to these changes, German and Swedish educational tracking was fairly similar, but after the reform Swedish students were much closer to tertiary education eligibility while German students could be tracked out of academic secondary education as early as ten years old (Robinson and Kuhlmann, 1967). Although the secondary education offered in Sweden after the reform still offered education which could be occupation specific, almost all secondary programs would make a pupil eligible for tertiary education (Busemeyer, 2014).

Tertiary education segmentation was further reduced in a reform package in 1977 where a fragmented system of applied or vocational post-secondary education and university programs was homogenized into a university system, admissions requirements were centralized, and individuals who were above age 25 and had four years of working experience would be made eligible to apply for tertiary education (Halldén, 2008). This reform served the purpose of making movement between vocational and university education more possible, to expand admissions, and to promote adult and lifelong learning. These initial reforms increased tertiary enrollment (Halldén, 2008) although enrollment dropped in the 1980s (Figure 3.27). A number of reforms in the 1990s decentralized admissions requirements which allowed universities to take more students and introduced a common set of requirements that made almost all upper secondary programs grant a basic eligibility for higher education studies (Busemeyer, 2014).

Although enrollment in Swedish tertiary education increased and decreased from the 1960s to 1990s (Halldén, 2008), Figure 3.27 shows enrollment in bachelor’s programs sharply increasing from the 1990s
Figure 3.27: Number of degrees in tertiary education (1978-2018)

Source: Statistics Sweden
through 2018. Although decentralization and some fragmentation occurred through the 1990s in tertiary education (Busemeyer, 2014), the state’s commitment to funding education and its expansion in participation has continuously increased. Furthermore, Sweden’s high participation also includes a high level of adult learners. The level of pupils aged 35 and older is one of the highest in a European sample shown by Hällsten (2012) while Germany has the lowest in the sample. Less tracking and more open admissions processes allow individuals to enter tertiary education later in life and even use periods of economic downturn to enter education rather than face unemployment (Björklund et al., 2004).

In terms of finance, Garritzmann (2016, p.3) places Sweden in a high-subsidy low tuition regime. The analysis in Chapter 2 showed that despite high current and historical enrollment numbers, spending per student remained among the highest in Europe. Swedish students do not pay tuition fees, and the student finance system in Sweden also allows grants and loans to students to support living costs (Fägerlind and Strömqvist, 2004). The benefit, typically referred to as CSN (Central studiestödsnämnden) after the name of the authority that administers it, consists of a grant and loan component which are not subject to any means-tested criteria. The student support system is remarkably stable and has not undergone substantial changes to the benefit structure since its formation in 1965. The aspects which allow individuals to enter tertiary education with a lower consideration of their age and status is found to promote both inter and intra-generational equality which is independent of other vocational training mechanisms which adults more commonly have access to in other countries (Hällsten, 2011). High permeability, high education, and more streamlined enrollment processes suggest Sweden’s tertiary education provides a high level of tertiary participation in the population and a less segmented education system than the other countries in this study.

Social benefits

The Swedish social benefit model is the archetype of social democratic welfare politics. The Swedish case is described in comparative welfare state literature as decommunitying through broad eligibility criteria, social rights granted regardless of employment or means, high income replacement, and coverage of a broad range of social risks (Esping-Andersen, 1990, p. 83). Along with these broad characteristics, benefits are provided as services rather than cash payments and therefore public
consumption is high (Bergh, 2004), taxes and redistribution are high, and the state serves as a major employer in the economy (Steinmo, 2002). However, discussions around retrenchment have lead to questions of whether the model is sustainable, especially after pressures in the 1990s to reduce budget expenditures (Lindbom, 2001). At the same time, research has shown that the overall level of taxation and redistribution was relatively stable in Sweden and public employment stayed high after the 1990s (Steinmo, 2002), that although deregulation and privatization have occurred the universalism of coverage and generosity has been maintained (Bergh and Erlingsson, 2009), and that a shift to more targeted social assistance based benefits has not occurred yet (Bergh, 2004). Unlike Germany and the Netherlands, therefore, there is not a reason to expect a growing proportion of benefits are being directed to outsiders, but rather that benefits will not differentiate individuals based on their labor market profile.

Figure 3.28 offers insight into how individuals with different employment biographies draw benefits from the state. The figure shows benefits as a percentage of average income from 2001 to 2018 for a single individual and a couple with a non-working spouse, both with two children, separated into three groups based on 100 percent, fifty percent, and thirty eight percent of full time work. In the top panel where the benefits for a single individual with children is shown, over time the changes to benefits have moved together for each labor market group, the main difference is the level of benefits. In this case, the fifteen and twenty hour per week workers receive slightly higher benefits through means-tested housing benefits, but neither receives social assistance. In this case no substantial changes over time in the differentiation of insiders and outsiders occurred, outsiders received more than insiders but not by much, and not in a manner that changed over time.

For a couple with a non-working spouse, however, benefits changed drastically over time. In 2001 the welfare state strongly differentiated insiders and outsiders, a fifteen hour per week worker received over twenty-five percent of the average wage in benefits, while the full-time insider received less than ten percent. Over time, these groups converged. The reason for this is that social assistance given to the outsiders was reduced while the family benefit, which is equally claimed by all labor market groups grew substantially over time. Because childcare benefits

\[ \text{Where fifty percent is twenty hours, and thirty eight percent is fifteen hours, or half of the 30 hours at which work starts to be called part-time} \]
Comparisons of Dutch, German, and Swedish labor market regimes

are included in the means-test for social assistance, any increase in the childcare benefit is offset by declining social assistance benefits. This means that in 2018 insiders and outsiders claimed benefits which were much more similar than in 2001, so much so that the 20 hour per week worker claims almost the same benefits as the full-time insider. What this shows is that although universal welfare benefits are available regardless of labor market status, the cumulative effect of benefits weakens the outsiders because of how means-tests are designed.

Figure 3.29 shows the net income effects of the benefits discussed in the paragraph above. Over time, few substantial changes have occurred but overall with less social assistance based targeting the welfare state has slightly increased stratification. For a single individual with children (who was never eligible for social assistance benefits), the net income for both outsider groups declined because during the same period income taxes and social contributions rose faster as a proportion of the average wage than family and housing benefits. For the couple with a non-working spouse, however, the reduction in social assistance and the growth of the universal family benefits showed a divergence between insiders and outsiders, the twenty and fifteen hour per week workers took home almost the same income which declined from about fifty five percent of the average wage in 2001 to under fifty percent in 2018, while the insiders income grew to above eighty percent of the average wage. These figures show that over time, very few changes have been made to favor insiders over outsiders or vice versa. However, declining real value of social assistance and the increase in family benefits show a widening of the take-home income between the two groups in favor of insiders.

3.4 Comparisons of Dutch, German, and Swedish labor market regimes

In Chapter 2, I argued for a broadened policy portfolio in policy-based models of labor market segmentation. In this chapter, I provided a more in-depth description of these policy areas in the Netherlands, Germany, and Sweden. By comparing these policy areas, in this section I show that my argument reveals variation and changes over time that are important to labor market segmentation and would be overlooked by previous policy-based models of segmentation.

Studies that characterize segmentation as a policy-driven phenomenon focus on either regulations, labor market policy, or both (Rueda, 2007; Picot and Menéndez, 2017; Eichhorst and Marx, 2021). Based on what I
Figure 3.28: Social benefits by hours worked (2001-2018)

Note: Benefits shown as percent of average wage. Plot shows benefit calculations modeled based on different working hours, where 38% of full time is approximately 15 hours per week, 50% is 20 hours per week, and 100% is a standard work week (assuming a forty hour work week). Source: Own calculations, OECD tax benefit calculator
Figure 3.29: Net income after taxes, contributions, and benefits (2001-2018)

Note: Income shown as percent of average wage. Plot shows benefit calculations modeled based on different working hours, where 38% of full time is approximately 15 hours per week, 50% is 20 hours per week, and 100% is a standard work week (assuming a forty hour work week).
Source: Own calculations, OECD tax benefit calculator
Investing in insiderness or compensating outsiderness

have shown in this chapter, the three countries I described above would be judged as relatively similar even though, from the perspective of comparative welfare state literature, they are almost always categorized into two groups or sometimes even three\textsuperscript{27}. If we consider employment protection legislation for standard workers, all three countries are quite similar. They score similarly on measures of EPL strictness which have not meaningfully changed over time. If EPL is the primary policy that enforces differences between insiders and outsiders, then all three countries should be considered approximately equal, with their policy systems stratifying the labor market in the same way.

Picot and Menéndez (2017) suggest that we should also consider non-standard employment regulations in a policy-based model of dualization. Here there is variation in trajectories, but convergence over time. Both Germany and Sweden scored high on the OECD’s employment protection index for temporary contracts in the 1980’s and deregulated consistently through the 90’s and 2000’s, while the Netherlands scored low over the whole time series. At the end, all three countries were very similar, and all have had experience with making temporary work easier for employers to use. Qualitatively, regulations in this realm are also comparable. The majority of reforms made the labor market more flexible, and while there was some re-regulation in all the countries, this was relatively marginal. In total, all three countries now allow temporary employment as a standard option for employers, at least from the standpoint of regulation. Therefore again, a model that is based in standard and temporary employment protection regulations would not find any systematic differences in how government policy stratifies the labor market.

Turning to labor market policy, here we find enduring differences among the three countries, but still many similarities. The most notable difference is in the ratio of active to passive expenditures. Both the Netherlands and Germany spend a higher proportion of total LMP spending on passive benefits compared to Sweden, which spends more on active measures. This aligns with what we would expect from comparative welfare state research, the two continental countries should spend proportionally more on insider status maintenance than Sweden. Furthermore, although active spending declined in the past thirty years in all three countries, the level of spending differs in the most recent figures.

\textsuperscript{27}While the Netherlands is often grouped together with other conservative welfare states like Germany, it is sometimes considered weakly grouped into the conservative model or judged as a hybrid.
Comparisons of Dutch, German, and Swedish labor market regimes

Sweden still spends a little over one percent of GDP on active programs, while both Germany and the Netherlands spend a little over half of this. But within ALMP spending there are some important similarities. Employment assistance ALMP’s are the most resilient spending category within active benefits, while spending on upskilling has declined in all three countries and occupational ALMP’s that create public sector jobs for outsiders are almost non-existent in the most recent data. Therefore while there are still some differences in absolute spending between Sweden and the two continental welfare states, the active labor market policy portfolio looks similar among all three. All three have a relatively weak human capital orientation but a strong market orientation. This is an important observation for the argument about segmentation that I put forward, if the level of investment in labor market participants is a relevant channel through which segmentation occurs, ALMP would indicate none of these three countries have strongly adopted an investment-oriented strategy. Finally, conditionality in unemployment benefits and social assistance became more strict in all three countries. Based on these indicators, we would conclude that policy regimes in the Netherlands, Germany, and Sweden stratify the labor market in similar ways. They protect insiders with EPL, they have deregulated the use of temporary work, and while they spend different amounts on labor market policy, they have all shifted away from ALMP’s oriented towards human capital to ALMP’s oriented toward labor market services. But would it be reasonable to suggest that a decline in the human capital orientation of ALMP’s means that governments aren’t investing in the human capital profile of their labor markets? The description of education policy in this chapter suggests that this is not the case. Rather, there is meaningful variation among these countries in how governments have used tertiary education as a tool to invest in skills. I showed that in Sweden, tertiary education enrollment is high, spending per student is high, student finance is universal, and the school system is more comprehensive, meaning more secondary school graduates are eligible for tertiary education and there is less differentiation among tertiary programs. This all suggests a more universal system of education. The Dutch and German cases are different. While the Dutch have achieved higher enrollment it was done through high private expenditure and a student finance system that has become less universal and more means-tested. The German system has less private expenditure but lower enrollment and less permeability between educational tracks. What this suggests is that massification is most complete in Sweden, but more limited in the Netherlands and Germany. This amounts to a
more substantial difference in how governments invest in labor market skills than would be revealed by the universal decline in training related ALMP’s.

Furthermore, while the analysis above suggests all three countries have made labor markets more flexible, standard models of policy-based segmentation do not reveal any information about how governments compensate outsiders for that flexibility. We cannot know from EPL and ALMP alone whether outsiders are left with only their wages from precarious work to provide for their well-being or whether the state intervenes in order to make life in precarious work more manageable. Here again I find important variation between two different labor market strategies. In Sweden, benefits do little to target outsiders in particular. Benefits and taxes have maintained a steady gap between insiders and outsiders over time. Where there were increases in benefits, such as to universal childcare benefits, they do not help outsiders who are in social assistance because that benefit income is counted against the means-test. There are no means-tested family benefits, unlike the Dutch and German cases where means-tested benefits have been introduced alongside the social assistance benefit. Therefore although there are benefits available to everyone, few benefits target minimum income earners in particular and dualization in this regard remains constant over time.

On the other hand, the tax and benefit calculations showed that in both Germany and the Netherlands, outsiders and insiders moved closer together over time for several representative family types. This is because benefit reform increased the targeting of benefits, with either new means-tested benefits being introduced, existing benefits becoming more generous, and also taxes costing insiders proportionately more than on outsiders. Unlike in Sweden, therefore, based on benefits and income, dualization decreases over time. In Germany, the benefit calculation suggests that in 2001 a family with a part-time earner received benefits worth just over 10% of the average income, in 2018 he or she would receive benefits worth about 25% of the average income. The full-time counterpart received benefits worth about 10% of average income throughout the whole time series. In 2001, the same Dutch outsider received about 9% of the average wage in benefits, while in 2018 she would receive about 15% of the average income in benefits. In Sweden, this outsider saw her total benefits fall from just under 20% of the average income to about 14% of average income in 2018. Sweden was also the only country where the insider was the winner, a full time worker with children took home a benefit worth about 9% of the average income in 2001, but about 13% of the average income in 2018. Given that there are
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such strong differences in the how different representative labor market participants benefit from the welfare system, this serves as an important complement to the regulatory changes described by literature that focuses on EPL and temporary employment regulations.

Taken together, these two new policy areas suggest that there is meaningful variation among the Netherlands, Germany, and Sweden that is not revealed when focusing on EPL, temporary employment regulation, and labor market policy. In Sweden, the state spends considerable resources making skill investment widely available and comparable in the hopes of investing in an insider labor market. In the Netherlands and Germany, this commitment is less pronounced. In Sweden, the state spends fewer policy interventions on targeting the well-being of outsiders in particular. In the Netherlands and Germany, social benefits have increasingly targeting individuals who are more loosely connected to the labor market, and have brought the material situation of certain insiders and outsiders closer together over time. This is an important conclusion to highlight and runs against expectations from common assumptions in comparative welfare state research from which we would expect continental economies to focus most on insiders and social democratic economies to offer less differentiated outcomes among differently commodified workers.
Chapter 4

Expanding higher education

In Chapter 3, I reviewed policy developments that showed higher education underwent an expansion in Sweden, the Netherlands, and Germany. However, higher education expansion did not occur equally across the three. Sweden was an early leader, the Netherlands has expanded higher education but later (and, as argued later, with substantially more distributional conflict) while Germany lagged behind in enrollment growth. These observations address the first research question of the project: what combinations of labor market, social, and education reforms have been undertaken in Western Europe? During a period where governments adjusted to post-industrial production, these three countries all adjusted the educational profiles of national labor markets in different ways. Higher education is one way to create future insiders, and therefore structure future opportunity and prosperity. Differences in education therefore showed different policy responses to segmentation. This chapter turns to the second research question and investigates the explanations behind reforms that are important to labor market regime trajectories.

I argue that education reforms were passed in each country according to political strategies around other processes. This means that they were not made possible by typical constituency-beneficiary politics, where a core, organized group of interests receives a benefit from political institutions in exchange for their political support. Rather, governments concentrated on other objectives, namely regional development, federalism reform, and fiscal discipline, and used higher education policy as one tool to build a reform coalition capable of achieving those objectives. Although the eventual beneficiaries of higher education reform would be
future labor market insiders, the constituencies needed to rally support for reform were most directly concerned with the first-order purposes of regional development, federalism reform, or fiscal discipline. In order to build support for this claim, I also evaluate the developments in higher education based on two main theoretical approaches based in partisan politics and explanations based in economic interests. I argue that neither approach sufficiently explains a convincing proportion of key developments in higher education trajectories.

### 4.1 Case studies of incidental politics in higher education

In this chapter I focus on reforms in three primary areas - individual student funding, geographic expansion of higher education institutions, and degree standardization. This section does not intend to explain all of the developments in higher education in these three countries, the goal is not to explain the origins of higher education finance or attendance, which other contributions do quite well already (Ansell, 2010; Busemeyer, 2014; Garrtizman, 2016). Rather, I pick a set of developments which have been important in education policy within each country and situate them in a general historical context to understand how governments make decisions around higher education expansion. These reforms have corresponding developments in the other two countries, so even if the focus is not the same across cases, if necessary a comparison can be made to the other countries in each instance. In this section, I introduce the reform periods I focus on in each country and how they are relate to the main theoretical approach of this project.

One of the primary developments in Swedish higher education is the expansion of tertiary education outside of a core number of institutions. This facilitated a major shift in higher education, where previously students would only find university studies in larger metropolitan areas and a small number of older university cities, new regional tertiary institutions were created in regions which previously only had vocational schools. Expansion through regionalization in Sweden accelerated with changes to the main legislation governing universities in Sweden, the Higher Education Ordinance and Higher Education Act, in 1993. Throughout the 1990s regionalization continued and is still ongoing, however in 2006 a political effort was made to slow down the process by the Ministry of Education under the Reinfeldt government composed of center-right parties.
This offers a set of political events which shows both what it takes to commit to growing university education but also what the opposition to expansion can look like in a country with high growth in university funding and attendance. It also offers a look at how center-right parties reformed education in a system which was primarily steered by Social Democrats (Liedman, 1993). These reforms are also notable due to their connections to a broader debate about the applicability of tertiary education to demands in the labor market. Although the reforms removed some of the references in the legislation to requirements for higher education to have clear labor market orientation, much of the regionalization was made possible due to cooperation between newer regional universities and regional industrial needs. Therefore these reforms also present a possibility for examining broader political considerations concerning higher education as labor market policy rather than cultural policy.

Previous literature, as with most of the reforms in this section, primarily discusses the reforms as a topic within public administration studies or higher education governance. The reforms led to a sharp decentralization of responsibility from the state to individual universities, so literature has focused largely on the adaptations of internal politics within higher education governance. Therefore, most of the literature does not examine political motivations for reform and so far little attention has been paid to these reforms in the context of comparative political economy research, although this point has been made about higher education reform in general (Busemeyer, 2014). Regionalization has not been as much of a topic in the Netherlands or Germany. In the Dutch case, higher education was never as regionally concentrated as in Sweden before the 1990’s, and in Germany higher education is typically the responsibility of the Länder and therefore a regional component is inherent to the tertiary education system. However, regionalization in Sweden is similar to the expansion of colleges of applied sciences in both German and the Netherlands, all three effectively introduced a large number of new universities in systems that were dominated by older, elite institutions.

Above I argued that the period of regional expansion in higher education was key to Sweden’s higher education trajectory, and understudied in the literature, making it suitable as a case study. But describing regionalization as a component of education expansion would underestimate its role in the Swedish labor market regime. The main explanatory argument put forth here is that regionalization itself is what made higher education growth particularly durable, and that therefore the coalition of interests surrounding regionalization made higher education retenche-
The political project at the heart of this was a regional policy pursued by both the Social Democratic Party and the Swedish Confederation of Professional Employees, who saw education as a component of decentralizing economic growth. The politics of higher education is therefore not what dominated the expansion of higher education. The primary beneficiaries, from the perspective of labor market segmentation, would be decades of university cohorts who would benefit from having higher education conducted outside of the main university cities and who would therefore become insiders in Sweden’s service based economy. But these beneficiaries were not the constituencies who would become important to these reforms. These constituencies were not brought together because of a beneficiary relationship to higher education, but to regional policy. This is why, for instance, even those on the right who would prefer less mass-oriented higher education could not oppose new universities or slow down massification within those new universities once they were established.

The broad consensus that regional politics produced would allow the Social Democratic Party to achieve multiple goals within higher education politics, for instance promoting lifelong learning and academization of previously vocationally trained occupations. These was no contradiction between these goals and regionalization, but they did not achieve this thanks to more typical constituency-beneficiary politics that explain the growth of the general insurance component of the welfare state. Rather, regional expansion was the goal around which political interests coalesced, and achievements in higher education were attached as a part of this broader purpose.

In the Netherlands I focus on student finance. Student financing in the Netherlands offers a similar opportunity to examine a policy instrument used to broaden tertiary education opportunities and the conditions under which it has been curtailed. Individual student finance was reformed in 1986 to introduce grants available to students during their studies. These were provided to students without condition and did not require repayment, creating a major component of the student finance system that was based on universalism. Although during reforms in the 1990’s the grants were made more conditional on school performance, this remained the basis of student finance until 2015 reforms replaced basic grants with loans.

The key reform studied here is therefore student financial aid, and in particular the repeal of universal student grants and their transformation into loans. This is especially important to understand given
conclusions in Chapter 2 that showed while the Netherlands achieved high enrollment, private spending remains considerably higher than in other systems and public spending comparatively lower. What is puzzling here from a comparative perspective is the Dutch labor party lead the movement to repeal universal benefits in higher education. From the perspective of constituency-beneficiary politics, this is an unlikely scenario because literature which links higher education to distributional politics predicts that left parties should only prefer less universal higher education spending when enrollment is low.

In this instance, however, the Dutch labor party (PvdA) did not rely on constituency-beneficiary linkages for reform. Their preferences were for more fairness in education finance, since general tax revenues paid for universal grants that benefited students from middle class backgrounds. Rather than relying on mobilizing a constituency in favor of these distributional preferences, the PvdA adjusted distributional outcomes in higher education in the broader political context of fiscal discipline. Two attempts were made to do so, only the latter was successful. In the former, the PvdA-led Ministry of Education faced a budget crisis in financing teacher salaries and considered repealing basic grants to fill the deficit, but there was no coalition at the time that could make this a serious solution because budget concerns were limited to the ministry and not a separate priority for the whole government. Years later, however, a coalition between the liberal VVD and the PvdA prioritized cutting spending to bring budgets back into balance after an increase in deficit spending following the 2008 recession. This became an opportunity to achieve other distributional goals, and the universal grants were eliminated with the help of other left parties in exchange for more generous means-tested student income support and a promise to divert any savings from reduced income support toward higher education institutions themselves. The primary beneficiaries, students, were overwhelmingly against the reform, but this was unimportant in the face of the politics of fiscal discipline. As a result, a more redistributive finance system was incidental to another political objective, deficit reduction. Nonetheless, creating a reform coalition around deficit reduction required extensive bargaining on the part of government parties in order to secure a majority in the upper house, and therefore parties were able to make extract distributive concessions for outsiders without requiring an outsider electoral coalition to initiate reform.

Student finance and degree standardization in Germany followed a similar pattern, as higher education reform became linked to a wider federalism reform that involved interests from the opposition and from
the German federal states. The reforms made in Germany in response to the Bologna process are unique as an example of the federal government passing higher education legislation in an area where the Länder typically govern, and therefore requiring the ability to gather support at regional levels to overcome any difficulties in passage (Toens, 2009). The reform evoked several dimensions of conflict, including concerns over the demise of Humboldtian education, the rise of education overly concerned with economic interests, and a worry from German firms that the introduction of a bachelors degree would lead to under-qualified university graduates. Therefore the Bologna period represents a key moment to examine political reform of higher education, especially since the reform precedes a large influx of students into tertiary education (see Figure 3.18 in Chapter 3).

During this time, the German government was already undergoing a process to reform the constitution and clarify the roles of the federal and state governments in Germany’s federal structure. This was a policy process that was ongoing simultaneously with the Bologna reforms until the SPD-Green government introduced legislation to codify the degree structure required by the Bologna reforms. The government included degree standardization into the main framework legislation which governed higher education in Germany and also included a ban on tuition fees on the basis that while cultural policy like education was the responsibility of the Länder, ensuring equal living standards among the Länder was within the constitutional responsibilities of the federal government.

At this point the government’s ambitious plans to expand higher education accessibility became tied to the federalism reform, with representatives of the Länder refusing to cede autonomy over university finance to the federal level. This caused the federalism reform process to break down, and a later court decision ruled that tuition fees did not fall under the current constitution. Any autonomy the government would have in tuition fees would need to be a result of changes to the federal-land power structure in the constitution. After loosing the red-green majority in the following elections, the SPD joined a grand coalition which revived the federalism process with complete withdrawal of the federal government from higher education. This decision would shape the adoption of the Bologna process and the future higher education trajectory as any adaptation to higher education would not be carried out centrally but through more diffuse networks of federal-land cooperation. As in the previous examples, in this instance it was not constituency-beneficiary politics that were important to shaping higher education, but rather outcomes in higher education were almost wholly incidental.
to bargaining situated within the politics of federalism reform.

4.2 Sweden: Early investment and higher education as the only way

The analysis presented earlier shows that Swedish higher education developed early and rapidly in the twentieth century compared to most other advanced political economies. Compared to other countries with mass academic education, for instance liberal market economies, Sweden’s public expenditure per student was substantially higher, sometimes as much as twice as high in proportion to GDP per capita\(^1\). Unlike many other countries, massification proceeded through both early and high enrollment rates as well as through high public expenditure. This chapter shows that the development of Swedish higher education is closely connected to the Social Democratic Party and a clear strategy to make higher education an important component of the Swedish labor market regime. But the coalition that held this process in place only became evident once a center-right government came to power and the expansionary higher education trajectory was \textit{not} altered, even despite a deep economic crisis. These constituencies, however, were not the future labor market insiders who would benefit from higher education, or even their parents, but regional political interests for whom higher education was only one aspect of a broader political process of regional development.

This chapter describes the trajectory of Swedish higher education development and its role in the Swedish labor market regime. I focus specifically on the creation of new universities as a major development in Swedish higher education, allowing the Swedish public university system to absorb a large number of students throughout the late 20th century. I trace this process through a period of growth under Social Democratic government, and then a period of deregulation under center-right government and show that despite changes in government partisanship, the overall mission of higher education massification remained extraordinarily resilient to retrenchment.

From the partisanship perspective, classical accounts often focus on the shorter-term effect of partisanship on changes expenditure, for instance showing a connection between left party government and extent of redistribution (Huber and Stephens, 2001), while the newer account I use here emphasizes the importance of occupational groups as po-

\(^1\)See Table 2.1
Sweden: Early investment and higher education as the only way in political constituencies (Beramendi et al., 2015). These explanations fit with early developments in higher education where consolidated Social Democratic power formed a pathway for continuous incremental higher education expansion. In this period the Social Democratic Party drove higher education expansion as a labor market strategy that was tied into a broader regional development project which included moving other state functions into regional centers and out of Sweden’s main cities.

Later, however, policymakers in the center-right grew increasingly frustrated with state involvement that they perceived as hindering university decision making. They were unable, however, to find an alternative to consigning the majority of Swedish skill formation to higher education expansion, either by slowing down expansion, shifting it back to the original elite universities, or creating vocational alternatives. Center-right government nevertheless took action toward what they saw as steps the Social Democratic Party were unwilling to take. They deregulated the higher education system by removing emphasis on a labor market orientation for education, decentralizing decision making to the university level, and abolishing study lines which increased new universities’ ability to create study programs and increase the number of spots available. Because of the coalition formed around regional development, it was impossible for center-right parties to slow down state-led expansion of education. Therefore this case study will focus on showing how university expansion was a deliberate part of the development of the Swedish labor market regime, how university expansion was enabled by regional development, and how the coalition built around regional development protected the trajectory of university expansion from impediment or retrenchment.

Meaningful contestation over higher education reforms was present in the trajectory of university expansion. Center-left government was expansionary and relied on the creation of new university sites and expansion of public services (and subsequently public employment), while center-right government was concerned with autonomy from the state, quality monitoring, and at times preservation of tracked education. This categorization of partisan positions fits with similar patterns in other areas of education, for example Morgan (2022) finds in a recent study of early childhood care and education that left and right governments direct policy in similar ways. Parties therefore disagreed on many of these individual points, but both served to propel the higher education system towards mass academic education.

Several decisions early in the post-war period moved Sweden away from the elite-based university system that would persist in continental
Europe into the 21st century. While this section is dedicated to higher education reforms, it is important to note that one of the important factors enabling mass university attendance was the transformation of the primary and secondary school system from one which relied on early tracking of students into a comprehensive system that would make academic tertiary education more widely available in the population. The need for this transition was already noted in the 1955 University Survey (SOU 1959:45, 1959). The inquiry, initiated under the Erlander government in 1955, observed that an increasing number of pupils were attending education that made them eligible for university studies. Two arguments are included in the report which would become important for setting the path of a knowledge intensive labor market regime. First, the report highlighted that an expansion of university education would need to be based in the development of comprehensive secondary education. Second, the report recommends the formation of state forecasting bodies who could be responsible for coordinating the supply of higher education graduates with the needs of actors in the labor market and the integration of higher education into broader social planning.

Comprehensivization continued through the introduction of a nine year basic education in 1962 and the eventual elimination of tracked secondary schooling in 1969 with the introduction of the Gymnasieskola. Throughout the period of comprehensivization, the Social Democrats promoted the elimination of tracked schooling while the Conservative Party opposed a departure from early tracking (Lundahl, 1990). At the same time as comprehensive schooling was standardized Olof Palme, then Social Democratic minister of education, promoted comprehensive secondary education and expanded lifelong education as as a key to democratization and equality in society and part of the Social Democratic Party’s mission to reduce class barriers (Rusak, 1977; Askling and Foss-Fridlizius, 2000).

The political ambitions of higher education expansion were not limited to social goals of equality and democratization. An increased labor market orientation for mass higher education during this time was also pursued by policy-makers. Social Democrats promoted the idea that education had a functional need to match the demand of labor markets, proposing reforms to integrate labor market demands into higher education programs by replacing free-standing courses with study tracks that had a justification in labor market demands. Concerned about the loss of autonomy, traditionally conservative faculty allied with more left wing students to launch a protest movement against the removal of free standing courses. After a meeting with Palme, the groups agreed
to a compromise which retained study tracks but allowed them to be thematically broader\(^2\) (Josefsson, 1996). What is important about this development is that it shows an effort to integrate university education into an fundamental part of state led social planning and a tool whose function would be primarily outside of academic settings. This stood opposed to the university model in continental economies at the time which maintained universities as separate from the labor market, autonomous from the state, and driven by basic research and courses free of particular labor market oriented learning objectives.

After the 1968 protests, the newly formed Palme government initiated a number of reforms aimed at expanding higher education, making it more flexible, and aligning it with lifelong learning goals. Government reports\(^3\) from the early years of the administration show themes which further support the argument that higher education expansion during the time was an explicit part of a labor market regime, citing the need to develop public employment services which were adjacent to the higher education system and could offer better job-matching services to students with a discontinuous work biography as they moved between work and education. Furthermore, they included ideas common in more recent social investment literature (Morel, Palier and Palme, 2012), such as adult and recurring education rather than focusing on youth-only university education. Reports also suggested increasing the number of universities through geographic expansion and increasing the number of study places available and changes in eligibility criteria to accommodate different profiles of student. Furthermore, a school funding act was introduced\(^4\) which was the first to grant aid to students who were working part time or were studying temporarily due to combining periods of work with periods of study. The discussions occurring in the political space around higher education therefore show justifications for expansion that wouldn’t be taken seriously in some other countries until much later.

A period of center right government followed the first Palme government from 1976 to 1982. However, this was not a time that the center-right took advantage of to change the course of higher education policy. Rather, the government passed a reform whose preparatory work had been done throughout the 1960s and in connection to a de-

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\(^2\)See Proposition 1969:4, the proposal which was introduced as a compromise after the 1968 protests.

\(^3\)See SOU 1973:3 Högskolan : sammanfattning av förslag av 1968 års utbildningsutredning, SOU 1973:47 Högskolornas förvaltning

\(^4\)See Student Aid Act (1973:349)
cision to reform the university system in 1975\(^5\). The 1977 University Reform increased the labor market orientation of Swedish higher education and extended higher education’s reach further into the areas which would otherwise be considered vocational education. After 1977, all post-secondary education would be done within the higher education system. While vocational subjects were still taught within the university colleges (högskolor), these would be regulated in the same system as the academic universities, with the main difference between the two groups being the right to award doctorates.

The 1977 reform is also when regional expansion in Swedish higher education accelerated. Prior to 1977, university higher education was conducted in Uppsala, Lund, Gothenburg, Stockholm, Umeå, Växjö, Kalmar, and Linköping, with the latter six added between 1954 and 1977, and the last four between 1965 and 1977. A group of veterinary, forestry, and agricultural colleges were also grouped together and turned into the Swedish University of Agricultural Sciences, with several campuses throughout Sweden. Additionally, before 1977 university colleges only existed in Stockholm, but the reform divided Sweden into six higher education regions, each of which were to have at least one university and a number of university colleges, therefore six new university colleges were formed.

Expanding the geography of higher education at this time was deliberate, and a part of a broader process of distributing state functions across the country and providing state support for economic expansion outside of the largest Swedish cities. University expansion as a part of regional development was cited already in the 1968 university investigation preceding the 1977 reform. The report indicated\(^6\) (SOU 1973:2, 1973, p.332):

> The presence of a university or college is considered...to be the most dominant development factor for a region. Against this background, the choice of location for higher education can become an effective tool in long-term regional policy.

Regionalization at this time itself was a labor market strategy, with policy investigations and proposals noting the necessity for a combi-

\(^5\)See Proposition 1975:9

\(^6\)The report further states: “Localization of education affects regional development and should therefore be closely linked to regional employment and service planning. It is therefore necessary to see the localization of education together with the regional policy as a whole.”
nation of education, labor market training, and employment support grants as a part of the regional strategy\(^7\). During this time, the government also engaged in a large scale relocation of state agencies as well, spreading the employment of civil servants across the country instead of concentrating them in metropolitan areas\(^8\). This in turn would be a rationale for more local higher education, since there was a shortage in these areas of workers qualified for managerial positions in the public services sector (Nilsson, 1992).

University expansion as regional policy continued after the initial growth of university sites in the 1970’s. The role of higher education continued to be a part of regional development strategy\(^9\). The connection between regional development and regional universities was also important for social partners. The Swedish Confederation of Professional Employees (Tjänstemännens Centralorganisation or TCO), Sweden’s white collar trade union, was involved in promoting university education as a way to grow regional economies. The broad coalition involved in regional development can be exemplified by a conference organized by TCO’s industrial policy group in 1982 called “The universities roll for regional development” (Högskolans roll för den regionala utvecklingen)\(^10\). The two-day conference was headlined by the current minister of education Jan-Erik Wikström in the center-right Fälldin government on the first day, and on the second day by Ingvar Carlsson, former minister of education in the first Palme cabinet. Several documents from the late 1980’s show that TCO heavily advocated for regional universities and colleges as an infrastructural tool for economic development\(^11\). Higher education as a regional project therefore fostered a broad coalition throughout the country.

The process of expanding the higher education system through regionalization also reinforced the trajectory of the Swedish labor market

\(^7\)See Prop. 1970:75, based on the reports of a localization investigation created in 1968. Also see SOU 1970:3 Balanced regional development: interim report (Balanserad regional utveckling : delbetänkande

\(^8\)Suggestions for this are made in SOU 1970:29 Decentralisering av statlig verksamhet and SOU 1972:55: Decentralisering av statlig verksamhet : ett led i regionalpolitiken

\(^9\)See section 8.4, Prop. 1989/90:76: om regionalpolitik för 90-talet


\(^11\)For example, a report titled “Educating for [regional] development: social economics and public investment. The labor market 1985-1995” (Tjänstemännens centralorganisation, 1987)
Expanding higher education regime on the level of party politics. Although partisan theories suggest we should expect that the conservative parties would have a key interest in maintaining the position of the more elite universities in Lund and Uppsala, and further evidence will point to their preference for expanding education through regional satellites of these universities, it became politically impossible to reject new universities or to oppose the general massification of education as it would go against preferences for increased economic development held by their supporters outside of the university towns. The period leading up to the 1977 reform therefore built a path for Swedish academic education which was grounded in making higher education a pillar of support for the Swedish labor market, a core component of the social policy system, and was founded in an early project of democratizing education, reducing class differences, and promoting lifelong learning.

In 1991 government changed from the Social Democrats to a center-right coalition with a minister of education from the Moderate party. Unlike from the periods of center-right government in the late 1970's and early 1980's, the government had the intent to initiate reforms and the support in parliament to achieve goals that aligned with the parties preferences in education issues. The government initiated proposals\textsuperscript{12} and later changed the framework laws which regulate universities\textsuperscript{13} to substantially decentralize university decision making. Previous analyses categorized this period of government as one where the center-right made a significant number of reforms but did not result in path changing, although this conclusion focuses on whether the privatization efforts in the primary and secondary school systems (Busemeyer, 2014, p.88).

However, in higher education this period does reveal how partisanship can be limited by commitments to other reform processes, in this case a coalition that was built around regional expansion in which higher education was one component of regional development. The result of the center-right reforms was not to change the path of Swedish higher education, but that center-right reform, constrained by a labor market regime which relies on higher education and a regional coalition that relied on higher education sites as development hubs, further expanded higher education while still implementing conservative objectives. This is a unique outcome in social policy. Typically, ideological changes in government can be expected to cause discontinuity, stagnation, or reversals in the

\textsuperscript{12}see Proposition 1992/93:1, Prop. 1992/93:169
\textsuperscript{13}Higher Education Ordinance (1993:100) and the Higher Education Act (1992:1434)
Sweden: Early investment and higher education as the only way

trajectory of social policy institutions. In this case, despite a change in the partisan orientation of government, policy makers were significantly constrained by previous investment choices that allowed higher education expansion to build a broad political coalition that reached beyond the voters who benefit from higher education as direct beneficiaries.

Apart from increasing the numbers of students in the higher education system, by incorporating vocational fields into academic education and expanding higher education geographically into regions without educational institutions, a coalition that included regional interests severely limited options conservatives had for reform. With a broad range of interests under one unified higher education system, even with a motivated minister of education and some ideological opposition in the party to the way higher education was being expanded, restricting expansion heavily would hurt the party’s interests. Therefore in this case, changes in the partisan orientation in government resulted in reforms which bolstered the position of universities in the Swedish labor market regime rather than retrenching the large public education sector.

The politics of reforming education for the center-right included a set of options which were limited by the labor market regime and the politics which develop alongside it. The Moderate party itself was not in complete consensus on steering higher education, some divisions in the Moderates at the time existed around retaining any remaining segmentation of VET and academic education and disagreement over the desirability of regional universities among those who had preference for education organized at more elite institutions. Where the Moderate party did seem to find consensus was on quality issues, which was one of the main positions on higher education in the prior election platforms.\(^{14}\)

But there were few realistic options for those who had opposition to the direction higher education had taken in Sweden. As with the development of regional universities earlier, it was extremely difficult for elements of the Moderate party that were skeptical of rapid expansion to make any changes which would slow the growth of university education into the regions. Some in the Moderate party preferred a system which could either focus resources on well developed, elite universities such as Lund or Uppsala, or develop satellite campuses of these universities rather than new regional colleges or universities who were self-managed. Ryne Rudén, who was involved in education issues as an MP with the Moderates at the time, noted so in an interview:

I wanted the expansion to start with the large universities like Lund, and then to expand into what was called the “filial” like Växjö, and then once Växjö was big enough to function on its own, I wanted that to split off and then say OK, now you can go to Kalmar.... But there was an idea from the Social Democrats that they wanted a new högskola in almost every län.

However, it was not politically feasible to deny regions the economic benefits and local labor market development associated with having a regional hub for higher education. Evidence during the legislative process suggests Moderates, for example, in response to the legislation show interest in securing funding for regional universities from areas they represented 15, so internally within the party there could not be substantial changes from the expansionary pathway supported by regionalization. It would also be difficult within the governing coalition since for some in the Center party regional interests in higher education were particularly important. Sverker Gustavsson, state secretary in the Ministry of Education in the Carlsson government which preceded the 1991 conservative coalition, stated this was a part of how the expansion was able to take place earlier on:

The regional aspect of it was very efficient in political practice because parliamentarians from all over the country, the bourgeois [center-right] people in Småland or so on, they could not be against that....even if the university professors in Uppsala and Lund lobbied for not establishing anything more, the bourgeois people could not. I am not sure if my bosses at the time were conscious of that logic, but they acted according to that logic. It was very important to cover the whole country.

Rudén noted this political logic extended to the Moderate party as well:

In reality it was quite popular that we had an expansion. Look upon it from the point of view people had it in the countryside...it raised the level of the city. If you had a university....it will attract educated people, it attracted teachers, people who would be involved in the cultural life...It also

15Motion 1992/93:Ub1 N.d.
might be good for the enterprises in the area...that was very difficult to go against.

The roll of the Centerparty also increased the salience of the regionalization debate, their support was necessary for both the Social Democrats and the Conservative government. Gustavsson noted of the higher education development strategy at the time he was in the ministry of education, “it was important at that time that the Social Democrats were in parliament with the Centerparty, who had a regional policy approach, and so it was a regional approach. It was to establish a university or university institute in each region”. Bjarne Kirsebom, state secretary in the conservative coalition’s ministry of education, also reiterated the importance of a regionally focused party for higher education strategy:

The fact that we had a dozen or more smaller higher educations in many areas in Sweden created in all parties, including the Moderates, a pressure because politicians working on the regional level felt compelled to argue in favor of expansion of their university or university college....Per Unckel had strong views on this [regional universities] and felt that these really were a nuisance.....importantly, the Centreparty in the coalition was exactly in the opposite position. So there was tensions in the government in this issue of how much and to whom.

Therefore, even though there was opposition within conservative circles about the speed at which the higher education system was expanding, the desirability of the expansion was impossible to question since it risked alienated voters outside of regions that had well established universities. However, the center-right coalition had other areas which were successfully reformed. The legislative successes of the conservative coalition at the time was to substantially reduce the involvement of the central government in the day to day operations of higher education institutions. It is worth noting here that there was already some cross-party support for a certain level of deregulation in the higher education system, even among Social Democrats as some proposals which ended up in the 1993 reform had been worked on in the ministry of education under the previous Social Democratic government. However, policymakers within the Moderate party and the ministry of education had significant motivation to distance the state from university decision making.
The deregulation in the 1993 reform was substantial. Most of the labor market orientation from the 1977 reform was removed from the rules governing universities, study lines for degree programs were removed, and a substantial amount of decision making was moved from the ministry of education to the universities themselves. This meant that universities had more autonomy than at any other time in the contemporary Swedish higher education system to create programs and courses, manage teaching, and attract students. Competition also featured in the reform, the deregulation would increase the ability of schools to compete for students, and new quality evaluation methods were proposed along with a change of funding that would be based on throughput rather than the number of initial study spaces. What is important, however, is that the legislation did not contradict the expansion of higher education, rather it made it easier for these institutions to adapt to growing student numbers in ways that would have been more difficult if individual decisions had to be approved centrally.

One final aspect of this period, and perhaps one of the most revealing of how the growth of Swedish higher education differs from the other cases in this study, is that the period of conservative government was also a period of financial crisis in Sweden. Budgets were under pressure and unemployment was high, but this did not lead to retrenchment of the higher education system. Instead there was pressure to increase the number of study places available to absorb some of the unemployment. However, the government faced a problem, the position of the Moderates was that education was expanding rapidly and that quality was suffering. This posed multiple challenges. Kirsebom explained:

Higher education was in fact on of the few areas that did not suffer from cuts. ...in '92 and '93, there was rising unemployment...One of the ideas of how to fight this unemployment...was to increase the number of places in higher education. In the beginning we fought that idea, we knew that would simply worsen the financial situation for universities because putting more unfunded students into universities would of course reflect in statistics but not in quality, it would decrease the quality, and since that was the primary ambition the minister said no. It was not popular in the ministry of finance and it was certainly not popular in the ministry of labor...

Therefore, certain elements of government were willing to actively use higher education as labor market policy during the crisis as a tool to
manage unemployment, albeit with some reservations from the ministry of education because of doubts that universities could balance increased enrollment with quality standards. This stands in contrast to the Dutch case which will be examined later on, where quality was also chosen over other priorities, but was paid for not through resisting budget pressures but by offsetting costs for quality improvements by eliminating student grants. This was not the case in Sweden, and even during this budget crisis the willingness to use education as a labor market tool was great enough to pressure the government into increasing the budget to allow for an increase in enrollment while funding quality improvement, Kirsebom continues:

....in ’93 the minister of finance, Mrs. Wibble\textsuperscript{16}...said without any previous consultation with the minister of education that higher education should expand. ...Per (Unckel) called Mrs. Wibble and they must have had a magnificent quarrel in a way which made it possible for the minister to call me and say we had funding for a quality improvement in the humanities and social sciences, do something about it. So we did, it ended up with a couple hundred million...universities got more money for the basic number of enrollments and on top of that came this quality improvement money which was focused on humanities and social sciences.

Developing a massified higher education system in Sweden relied on a broader process of regional development. Among different labor market segments, the beneficiaries of these reforms were students who were yet to enter the labor market but would become labor market insiders after the completion of their education. Where before massification they may only find university education in two university towns, Lund and Uppsala, and in the major metropolitan areas, they could attend education throughout the country. But they could also become employed in those regions as state agencies had been moved from metropolitan areas as well, and regional development projects had invested heavily in growing employment across the country.

Taken in isolation, expansion of tertiary education was a labor market tool used by the Social Democratic Party to achieve employment goals but also to promote equality and democratic participation. It is difficult to refute partisanship based explanations or growth regime explanations during this expansionary period under social democratic rule.

\textsuperscript{16}The finance minister at the time
But this is primarily because the relevant coalitions that held this arrangement in place only became relevant once there was potential for conflict.

Once a center-right coalition came to government in 1991, the role of coalition partners in broader areas of society made it clear that open conflict with the development of massified higher education was politically impossible. This is not something that would be predicted by explanatory accounts which prioritize partisan electoral politics. The university educated civil service employees that make up the sociocultural professional group that is critical for pro-investment social policy is not the key constituency of the Swedish center-right. The Bildt government had no clear electoral reason for abstaining from an attempt to slow the growth of massification. Nor do accounts that rely on economic interests sufficiently identify the actors who were a part of the key coalition. While the growth regime literature points to Sweden’s encompassing trade unions, what this account misses is that the Confederation of Professional Employees itself advocated for university development as a means of achieving regional development. Whether this was because higher education was only a way to achieve a primary goal of regional development, or because regional development was a way to make their primary goal of massification successful, both accounts require regions themselves as a key part of the coalition for mass university education, a type of political coalition building that is neglected by both common explanatory accounts.

4.3 German higher education: Incremental adaptation against the odds

The development of German higher education shows how reform efforts are less successful when concurrent policy objectives in other policy areas divide the coalition that is needed to carry out ambitious changes. In the Swedish example, a strong coalition formed around regional development and higher education expansion was a component of the regional strategy, securing a committed, politically resilient coalition in favor of university expansion. As in the Swedish example, the period I focus on here begins with a center-left government and a social democratic ministry of education that had high goals for the expansion of higher education, through adapting to the degree structure introduced by the Bologna reforms, guaranteeing tuition free higher education, and involving itself in increased university infrastructure development. But during
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this time the German federal and state governments also committed to a reform of German federalism where the responsibilities between the federal and state levels would be clarified in exchange for a reduction in the veto power of the German upper house\(^\text{17}\). The higher education ambitions of the Red-Green\(^\text{18}\) Schröder government would derail the federalism process, and later efforts to restore federalism reform were only possible if the federal government retreated from university governance completely. The Bologna reforms stayed, implementation rested in the hands of the federal states\(^\text{19}\), but federalism reform curtailed any further ambition from the federal government. In this case a strong coalition for university reform could not be formed because the coalition was split by the federalism question that was more fundamental to the future of German politics.

This case study proceeds first by introducing the German context and why, according to current literature in the political economy of education, Germany is a least-likely case for massification, meaning the formation of a strong coalition would be absolutely necessary for the success of reform. Following this, I include a section on the role of tertiary education in the German labor market regime, showing that the early formation of tertiary education was highly segmented between an academic sector free of labor market influence and a vocational sector that was highly labor market oriented. I argue these production interests are part of the possible coalition that the politics of higher education can draw on for support, but for many scholars these interests are the primary drivers of the skill formation component of the German labor market regime. Then, I study the Bologna process as an important starting point to studying reform efforts in German higher education. I explain the politics of Bologna and the development of higher education as a part of Germany’s labor market regime, showing that the state, supported by higher education interest groups and even without the objection of dominant production interests did pursue massification, but failed primarily because the coalition for federalism reform was divided by efforts at higher education expansion. After this failure, I show that the remaining tertiary education coalition would include a network of co-

\(^{17}\)The Bundesrat, which represents the federal states in parliament.

\(^{18}\)A coalition which in this context refers to the Social Democratic Party of Germany and Alliance 90/The Greens, the German green party

\(^{19}\)Who benefited from coordinating institutions such as the Conference of the Ministers of Education and Cultural Affairs, Kultusministerkonferenz

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ordinating institutions, state governments, and industry groups, leading to an incremental adaptation of the segmented higher education system rather than path changing reform.

The German higher education system, at first glance, may be considered a least likely case for massification. Therefore forming a coalition that goes beyond the immediate beneficiaries of higher education reform would be crucial to any large scale changes. There are a number of reasons for this. First, higher education in Germany through most of the 20th century was difficult to access, beginning from young ages where students were tracked into education lines which were not permeable and which were not eligible for university education later in life (Krause and Schüller, 2014). This meant the cohorts of university students were small\(^{20}\) and therefore based on partisan explanations which rely on cohort size we should not expect massification because there is not a substantial electoral constituency in favor of university expansion. Second, the inner workings of German higher education institutions enjoyed norms regarding the academic role of higher education which insulated them from pressure to make universities a site of mass education or labor market preparation. Humboldtian university values were historically highly valued in deciding how universities prepared students, meaning universities were typically not considered tools for the labor market or being subject to particular learning outcomes decided by the state. Reflecting on the differences in resistance to the Bologna reforms between German universities and universities of applied sciences, Christian Tauch, deputy secretary-general at the German Rectors Conference (HRK) and who was involved with the HRK’s coordination of the Bologna process noted:

The emphasis on employability and making sure that your graduates would be able to succeed in the labor market was traditional thinking in the universities of applied sciences, it’s a part of their brand that they say what we do is geared towards applicability, whereas resistance came from the traditional universities who said, referring to Humboldt, academic research and teaching must be free of goals and objectives itself without having in mind the economic value you can generate. This resistance coming from traditional university circles can still be found today. They would say that

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\(^{20}\)In 1980 the entry cohort was about 20% (Geschäftsstelle des Wissenschaftsrats, 2002) while this is up to 57% in 2019 (BMBF, 2020)
Bologna introduced a very utilitarian ideology in something that should be free of such considerations.

Third, Germany’s federal structure made implementing broad reforms of the university system difficult, managing university affairs is the responsibility of the federal states and although the federal government played a leadership role in the Bologna process, the implementation of reforms is the responsibility of federal states with input from coordinating institutions such as the Standing Conference of the Ministers of Education and Cultural Affairs (KMK) and the German Rector’s Conference (HRK). The conflict that arose from federal attempts at education reform is a substantial focus of the latter part of this case study. Fourth, institutional arrangements in Germany’s production sector produced firms that were particularly well-equipped to conduct skill acquisition through the VET system and became comparatively more important than in other countries early on (Thelen, 2019).

In the partisanship and higher education literature, a number of perspectives offer interpretations for why Germany did not develop a mass higher education system. Several of these arguments focus on the distributive politics of education, which means they primarily focus on the politics of higher education finance. Ansell’s (2010) arguments about the partisan politics of education show partisan support for education are conditional on the level of enrollment. In countries with low enrollment and elite higher education, the primary beneficiaries of additional higher education are the middle or upper classes. Therefore, left parties have little incentive to fight for spending increases. Garritzmann (2016) adds to this framework with his “Time Sensitive Partisan Theory” which integrates assumptions about how the duration in office of left and right parties influences finance outcomes. In this framework, the duration of time the parties have in government conditions the partisan effect on education spending. Here Germany clusters into a group of countries in which left-wing governments govern for a relatively short period of time before right wing parties take back government (Garritzman, 2017). In this group, left-wing parties attempt to expand enrollment of lower-income children but are unsuccessful because these attempts are retrenched by right-wing parties.

This interpretation fits with the formation of the German higher education system. German policymakers, in particular before the Bologna reforms that are emphasized in this section, would have little incentive to deviate from elite-based higher education in response to pressure in electoral politics. First, as shown in Chapter 2, Germany’s tertiary edu-
Expanding higher education participation was low compared to other European countries and particularly low compared to the Swedish case. Since the cohort sizes are small, the benefit for raising a party’s profile with strong positions on university expansion and reform is low. Second, German students were tracked from a young age into academic and vocational educational lines which made it difficult for students later on in their lives to join higher education, implying a less heterogeneous student population (Krause and Schüller, 2014). These two taken together suggest that there would be fewer political incentives to expand broader higher education finance - left parties see it as a transfer to middle and upper income groups while right parties would be uninterested in new spending. Finally, the period before Bologna was governed by sixteen years of Christian Democracy, meaning few opportunities for the center-left to initiate higher education expansion even if it aligned with their electoral strategy.

An alternative strand of partisanship literature focuses less on the distributive relationship between constituencies and parties and rather on the position of parties relative to each other and what that implies for the direction of social policy. Picot (2013) analyzes the impact of partisanship on labor market segmentation in Germany by analyzing the party dynamics of unemployment compensation. He characterizes Germany as a case of “centripetal competition”. In these systems, center-left and center-right voters do not face threats from third parties to their left or their left capturing core constituencies, so parties primarily compete over voters in the middle. Picot qualifies this argument about Germany when discussing the development of unemployment compensation (Picot, 2013, p.96):

...to say that both dominant parties focused on the political centre does not mean that we cannot distinguish the policies pursued by either of them. The tendency of their policy proposals was strongly determined by the logic of competition, but the ideological starting point of each party could still be recognized.

Therefore, we can expect some variation in higher education policy depending on whether decisions come from the center-right or center-left, but there is little reason according to this literature to expect large differences in the overall goals of policy making.

These explanations may fit with the outcomes of the German labor market regime, but I argue they do not fit with the politics of it. I will show that the SPD-Green Schröder government did not act as victims of centripetal competition, pulled toward a political center that
German higher education: Incremental adaptation against the odds would minimally differentiate them from the center-right that had governed for the sixteen years prior. Nor did they act indifferently towards higher education, as we might expect from a country with small enrollment cohorts and an elite system of university education. Instead, the government embarked on an extensive expansionary reform agenda, changing federal legislation in order to overhaul the German university degree structure, banning tuition fees at all German universities, and increasing the federal government's role in the construction of university infrastructure. Reform ambitions were not curtailed because the parties lacked the electoral pressure to initiate reform, nor did it fail because the reforms were unpopular. It would fail, or at least become significantly curtailed, because it failed to generate a coalition that included the federal states, therefore setting university reform and federalism reform in opposition and forcing the federal government to ultimately choose one.

In this section, I provide a starting point for the analysis by describing the path on which German higher education was historically set. In addition, I show the types of interest coalitions that were historically important in German skill formation, where producer group interests were important reform partners but where federal states themselves were also key to furthering government objectives in higher education. Post-secondary education in Germany is built on industrial foundations, prior to a large influx of university students in the early 2000s German post-secondary education was highly concentrated in the VET system compared to other European countries. Although VET is not the focus of this project, it is worth reiterating how this system functions in order to contextualize the lack of development in academic education relative to the other case studies in this chapter. The German VET system is highly oriented toward meeting the needs of firms engaged in sophisticated manufacturing of products intended for export. This is done through the dual apprenticeship system (duale ausbildung) and to a lesser extent school-based vocational education (schulische ausbildung). For the former, no school-leaving certificate is required while for the latter a lower-secondary certificate is needed (Haasler, 2020).

The VET system, in particular the dual apprenticeship system which accounts for the majority of VET in Germany, requires significant coordination between firms and state governments since the trainee spends

\[21\] This difference persists today even with increased higher education attendance, in 2019 34% of Germany’s post-secondary students attended VET compared to 7% for Sweden, data not available for the Netherlands (OECD, 2021a)
Expanding higher education one to two days per week in a classroom and three to four days per week at a firm. While apprentices typically cost firms more than the productivity of their employment (Schönfeld et al., 2016), the apprenticeship system also acts as a recruitment pipeline where firms can recruit employees they are sure can match company needs. Therefore the firms share the costs of training employees with the state and firms are required to adhere to national standards regarding course content, structure, duration, and the professions eligible for VET, all of which are regulated by the Vocational Training Act (Berufsbildungsgesetzes or BBiG) and Crafts Code (Handwerksordnung or HwO). For small and medium sized enterprises and certain industries such as construction, which may lack breadth of expertise to host complete training programs or which do not have a fixed job site where training can take place, inter-company training centers (Überbetriebliche Berufsbildungsstätten) take the place of training at a firm, offering a solution where costs and training expertise are distributed among firms who otherwise would not be able to offer training.

The VET system is therefore grounded in a cooperative relationship between industry and the state. It also offers rewards for cooperation within industry as companies have an incentive to adhere to a common skills framework rather than teach skills which can only be applied at their workplace. There are two implications worth discussing here which are particularly important to this study. First, the design of the German VET system aligns with the institutional emphasis of the VoC and growth regimes approach outlined in Section 1.3. Companies are well organized into employers associations and chambers of industry and commerce which in turn can coordinate with the state to make sure the VET system matches the needs of the dominant forms of economic production, in Germany’s case high value added manufacturing (Palier and Hassel, 2020; Thelen, 2014). The emphasis on the preferences of industry is further strengthened by the organization of that cooperation, unions and employers negotiate within sectors, meaning their policy priorities represent those sectors very closely. This stands in contrast to Sweden, for example, where employer and labor interests are more encompassing of the entire economy (Thelen, 2019).

Second, and perhaps obvious considering the first point, the German VET system is highly oriented towards specific needs of the labor market. This is, of course, the purpose of vocational education and training, but the depth of cooperation in German VET between firms and the state and the extent to which German VET encompasses upper secondary and post secondary education means that the overall char-
acteristic of the system is that education policy within the VET tracks is highly labor market oriented, even up to the types of careers that exist within industry. What is important about this observation is the contrast with the academic higher education system. The Swedish case showed that the labor market orientation of academic higher education was frequently discussed during periods of reform, with the requirement that learning outcomes in higher education reflect the needs of the labor market. Additionally, Swedish higher education became more labor market oriented as a byproduct of bringing different vocational programs into academic institutions, “vocationalizing” the academic higher education system. The German higher education system avoided this, managing to maintain a focus on individual academic development free of economic interests or occupational learning objectives. Furthermore, before the Bologna process introduced new degree structures and more compatibility with international degrees, much of the teaching was based on academic standards set by individual professors, further removing higher education from the labor market. Higher education was more distant from pressure to adapt pupils to the labor market, and the German labor market could instead rely on occupationally specific education through the VET system.

Based on this short introduction to the industrial basis of German vocational education and training, the framework offered by the VoC and growth regimes literature offers a convincing perspective on why the German labor market regime focused so heavily on VET despite the growing importance of knowledge intensive production and employment in skilled services to many nations. This does not imply that high skills have not been necessary, German VET is often praised for its ability to produce highly technically competent employees. Rather, where adaptations to production required knowledge intensive skills, the adaptations were facilitated by the VET system rather than academic higher education. This makes it possible to accumulate high skills in sectors of the economy which are represented by prominent industrial sectors, but not the kind of mass academic education and development of general skills as described in the Swedish case. The pattern of keeping occupationally oriented training and academic higher education separate is also expressed in how the German skills system adapted to demands for more higher education before Bologna. As I discussed in Chapter 2, the level of German higher education attainment for most of the 20th century was comparatively low, as low as 5% of an individual age cohort (Gellert and Rau, 1992, p.90). Although levels of higher education were comparatively low Germany still faced some early pressure for growing
Expanding higher education which was accommodated through an alternative to the universities by establishing and expanding the universities of applied sciences (*Fachhochschulen*) (Gellert and Rau, 1992) which can include a variety of programs from classroom learning to a dual education with firm placement similar to the dual apprenticeship system in VET. This allowed for some vocational demands in the higher education sector to be met without disturbing traditional research universities where faculty would be reluctant to change teaching or lower entrance standards to expand education.

One effort to do so was the 1996 - 2001 Joint Special University Program III (*Hochschulsonderprogramm III* or HSP III) which was a joint initiative between the federal government and Länder to make the university system more internationally competitive (BLK, 2001). There are two important characteristics to note about this program before showing how it was used to develop higher education. First, it shows the nature of typical coalitions that are involved in university reform. Because of the structure of higher education governance, reforms explicitly involved a cooperative coalition between the federal and Länder governments. The period I study later in this chapter, when the Bologna reform was implemented and tuition fees were banned, cut across this type of coalition because it increased the role of the federal government at a time where federalism reform was working on clarifying and separating the roles of the federal and state governments.

Second, one of the reasons I highlight this program is that the topics such as competitiveness and internationalization that the HSP III covers show there were at least some demands in domestic politics already before Bologna to achieve reform in higher education. Among other purposes HSP III allocated funds that increased quality assurance and teaching evaluations at universities, proposed better integration of EU researchers at German institutions, and funded networks to grow knowledge transfer between higher education institutions, companies, professional organizations, and chambers of commerce. However, while the plan addressed the higher education sector as a whole, the proposals within it focus very specifically on the Fachhochschulen as the main institutions which need to be developed in accordance with the goals of integration with labor market needs. This would become an important trend in the development and expansion of Germany’s higher education system into the 2000s, industrial demands for skilled workers were accommodated through more firm oriented education at the Fachhochschulen rather than a general education that could be found in massified higher education systems.
While higher education was to a certain extent made more vocational before Bologna, this period was not a true massification of higher education. It meant that the university system was stratified along academic and vocational lines and that students from poorer socioeconomic backgrounds were not entering universities but rather entering Fachhochschulen with lower entrance requirements (Gellert and Rau, 1992). Occupations such as agriculture, for which new universities in Sweden such as the Swedish Agricultural University (Sveriges lantbruksuniversitet), were integrated into Fachhochschulen in Germany rather than the traditional university system. The pattern of expanding higher education through a vocationally oriented Fachhochschulen remains today, with 243 Fachhochschulen active in Germany (Hochschulrektorenkonferenz, 2021) compared to 120 Universities. for contrast, in the Swedish example there are 17 universities and 13 högskolor. Therefore one important aspect of coordination between German firms, labor, and the state is that it left higher education without the same labor market purpose as it may have otherwise had, and where demands for vocationalization did meet the German university system they were met through facilitating growing numbers of students through tracks outside of the academic research universities.

The Bologna process is an initiative throughout the European Union to create a common framework in higher education among member states. By signing the Bologna declaration, member states commit to making their higher education system follow a two-cycle program in higher education consisting of a first cycle bachelors degree, a second cycle masters degree, and third cycle doctoral studies. Each of these stages is measured in a common credit system, called the European Credit Transfer and Accumulation System (ECTS). It is then up to domestic reform to make adaptations to the local higher education systems in order to accredit programs to ensure that they provide the necessary quality and learning outcomes to qualify for ECTS and to make sure that higher education institutions follow the three cycle program.

When the Bologna process began with the signing of the Sorbonne declaration in 1998, significant reform was achievable in part because of problem pressure that came from university organizations themselves, producer interests that would accept massification out of a necessity for more skilled workers, and demographics that would make it difficult to continue on the course of segmented education. Immediately after the Sorbonne declaration a coalition of the SPD and Greens took office and produced a ministry of education which took an active roll in expanding education. The SPD did have a vision to use higher education reforms
for the SPD’s broader project of reducing inequalities in Germany, as explained by Edelgard Bulmahn, who was Federal Minister of Education during the time:

Education policy was and is at the heart of social democratic politics. Economic prosperity, cultural and political participation, the ability to meet the challenges of our time, all this requires an education system of high quality which offers each child and person a good education and qualification regardless of origin and social status. As social democrats we were deeply convinced that educational opportunities should not depend on income or family background. To say it in one sentence: Education is the sister of democracy and progress.

Furthermore, Bulmahn considered that these perspectives in education reform were a part of the SPD’s broader agenda:

Education and qualification played an important role in our innovation strategy. Our goal was to innovate the country in order to master the challenges of our future as climate change, globalization and the growing disparity in our society, also in education. We increased public financing and installed important reforms in our public school system as well as in the higher education-and research system. The Bologna Process which involved a change from the German study course system to the BA/MA study course system, the reform of the Federal Training Assistance Act and the legal regulation that the first studies up to the master degree should be tuition fees free were also part of the package.

This ambitious vision was put into practice through a number of reforms to Germany’s higher education framework legislation (HRG or Hochschulrahmengesetz). The most relevant reform here is a number of proposals organized under the sixth amendment to the HRG\textsuperscript{22}. The amendment made a guarantee that the first degree obtained by students at German higher education institutions would be free from any tuition fees, a reaction by the federal government to attempts made by certain federal states to impose tuition fees. In addition, the amendment codified the new bachelors and masters degree structure as a part of

\textsuperscript{22}Sechstes Gesetz zur Änderung des Hochschulrahmengesetzes (6. HRGÄndG) 2002

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implementing the Bologna process, moving it from the test phase to all universities. The main criticism launched against the SPD-Green government was stated strongly in the first parliamentary debates by CDU representative Thomas Rachel:23

Bulmahn wants a federal law to ban tuition fees for first degree students in all federal states. But this is an inadmissible interference in the affairs of the federal states and shows old thinking. According to the distribution of competences in the Basic Law, competence in the area of university financing clearly lies with the federal states...it is audacious for the federal government to want to dictate to the federal states how they should and should not finance the universities.

While the SPD-Green government had the strength in parliament to pass the legislation, and override objections from the upper house, the coalition that would be necessary to make these reforms permanent needed to include federal states as well. In this sense, the coalition building process behind reform was determined in part by the institutional configuration of German higher education governance. This process was clearly described by Edelgard Bulmahn, who was the SPD Federal Minister of Education during the 1998-2005 SPD-Green government, in an interview:

Profound reforms repeatedly provoke resistance. In Germany deeper reforms are made even more difficult by a lasting tension or struggle between the Federal Government and the Länder governments about responsibilities as well as financing. This makes it immensely difficult to enforce reforms. This was the case with the Tuition Fees Freedom Act, the Federal Training Assistance Act and also in the case in the Excellence Initiative but not in the case of the Bologna process. This declaration was signed by the Federal Government and the Länder government representatives. This power struggle between the Federal Government and the Länder is very pronounced in higher education politics and becomes even stronger with different political majorities on the national level and the Länder. A new law in the field of higher education does not come into force until all Länder have agreed. Ongoing negotiations and the organization of

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23 BT-Plenarprotokoll 14/222, Page 22116, Deutscher Bundestag 2002
majorities were and are therefore part of every day life for an education minister on the federal level.

This federal-state disagreement would become one of the critical turning points for higher education politics. This even became a part of the main conflict between political parties, since similar to how Bülmann framed the legislative process above, party politics could also take the form of federal-state politics. Peter Greisler, who was responsible for higher education policy and Bologna implementation at the Federal ministry recalled that competition between parties did effect the Bologna process, but rather than parties competing over the direction of higher education it was used as an example of parties competing over authority in the federal system:

Before the next change of government [from the SPD-Green government in the 2000’s] the conservative party tried to use the federal system as a topic to defeat the government. There was one prime minister in Hessen who sued the federal government for putting money into the Bologna process. We wanted to help the länder to organize the change because of course it was expensive .... We wanted to install an agency that would give advice to all the universities and professors. Normally the länder take the money, but he thought he could address the federal government there and sued the federal government in court for giving money to the länder because he said the federal government must not interfere, it is our policy. In the end it was a part of the election campaign of the CDU.

Conflict over the authority to provide funding was from the CDU minister-present of the federal state of Hesse, who objected to the SPD-Green government funding an initiative to facilitate the transition to the dual study structure. However, objections were not about the Bologna reforms themselves, or about the direction of higher education or its expansion. Rather, they were about preserving länder authority over higher education itself. Another six CDU/CSU government federal states filed a lawsuit with the Federal Constitutional Court against the federal government arguing that HRG 6 itself was unconstitutional due to the tuition ban.

The issue of authority between the federal government and the länder came to the forefront of the government’s higher education ambitions
during this time. A federalism commission\textsuperscript{24}, started by the SPD-Green government in 2003, was assignment the task of coming to an agreement to reform Germany’s federal structure, with one of the objectives being clarifying the roles of the federal government and the states and also reducing the amount of legislation for which the approval of the Bundesrat was necessary. This was a significant initiative that involved members from the Bundestag and Bundesrate from all political parties. Bulmahn herself gave a speech at Humboldt university to promote both the SPD vision of an education system which decouples social background and economic success and a vision for federalism in which there were clearer responsibilities divided between the federal states and federal government\textsuperscript{25}.

But keeping the two simultaneously was not possible. The SPD-Green government kept its ambitions for higher education governance, which ultimately destroyed the progress of the federalism commission. After more than a year of work, the federalism commission announced it would abandon negotiations due to irreconcilable differences in the area of university governance. In the final session of the federalism commission, Franz Müntefering, the SPD chairman of the commission stated\textsuperscript{26}:

Basically, there is a political position: the federal government should be outside in the area of universities - apart from small windows. My position was: the federal government stays in – with some changes in the structures and with financial improvements in favor of the states. – I don’t think it is politically plausible firstly to emphasize the special importance of higher education at this time and secondly to draw the conclusion from this that the federal government must withdraw completely. With regard to education and higher education, we had to realize that it was not possible to reach agreement.

After the collapse of the federalism commission, the SPD-Green government’s ambitions were further curtailed when in January of 2005 the German constitutional court decided in favor of the federal states that

\textsuperscript{24}\textit{föderalismuskommission}

\textsuperscript{25}Bulletin Der Bundesregierung Nr. 06-2 2004

\textsuperscript{26}Commission of the Bundestag and Bundesrat to modernize the federal system, 11th session. Berlin, Friday, December 17, 2004 - Shorthand report, p.279
filed a lawsuit against the federal government’s tuition fee ban. Any further regulation by the federal government of higher education finance would not be possible unless a federalism reform explicitly left the federal government with the authority to regulate tuition fees, something the 2004 failure of the federalism reform showed would be impossible. After the 2005 federal election removed the possibility of a third Schröder government, the SPD joined the CDU in a grand coalition with the agreement that the first Merkel government would pass federalism reform. This time, the federal government retreated from university government almost completely. This shows that the decisive factors dictating the direction of German university reform was not party politics, the SPD had the support to pass a robust higher education policy package. Rather, it was the coalition around federalism reform that included political actors at the sub-national level that had a decisive role, without them higher education reform was not possible. Ultimately, the federal government had to give up even further power in university education to complete federalism reform.

With the ability to reform higher education substantially weakened, the adaptation of German higher education relied on collaboration with the Länder through organizations such as the conference of ministers of education (kultusministerkonferenz or KMK) to implement proposals the two-cycle degree program and deal with some of the challenges that German higher education faced.

In the following section I focus mainly on the switch from the German Diplom degree to the two-cycle bachelor’s degree and master’s degree since this was a significant change to Germany’s education system and required reform at both Federal and Bundesland level, and involved coordination among Federal and Land governments, social partners, and industry. I show that CDU politicians, federal states, and social partners recognized the need for reform, but the primary problem had been the balance of federal and state authority implied by reforms. At times even, the multi-level nature of German education policy created opportunities for reform, noted by Birger Hendriks, former Bologna coordinator at the KMK:

It was an initiative that came ...from the international community that brought in ideas to Germany, and the ministers could say that it’s a good idea, or its not a good idea and we will discuss it, and that was for the ministers [of the länder] quite helpful to say ‘its not my idea and I’m not responsible for it, but the international community is and because we
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want to be international, we will accept it’...It was, in a way, a comfortable situation to say this is an international initiative, to discuss it, and then if the universities or the industry is not content with it, we can say that’s the way it goes.

But it was not as if Land governments rejected the goals of the federal proposals for reform. It was not the content of the SPD-Green governments decisions that made them unpopular, but the position that these debates had in wider discussions about federalism. Noted by Peter Greisler, who was responsible for higher education policy and Bologna implementation at the Federal ministry:

For most länder it was important to change the structures, they saw that the structures were not modern anymore and they wanted to be a part of Europe and not be behind the others. In a way it is easier for a Land to be European than to be federal, it was easier for them to say “we have to do this because the whole world is doing it and we cannot be the only ones who are not international...” than to say “we do what the federal government wants us to do”. This is because there is always a conflict between the länder and the federal government, they would never say that they want something because the federal government wants something...So this was a way for us to have a common policy, not by telling them to. So I think then we were able to build a consensus around changing the [degree] structure.

There were serious problems that policymakers identified in the higher education system, this case study shows that these were recognized at the federal level, state level, and in industry. In the lead up to the Bologna process and the 1998 signing of the Sorbonne declaration, German higher education faced problems such as low throughput which were recognized by many German economic interests at the time despite the earlier attempts to increase the capacity of the universities of applied sciences. The German ideal of the Humboldtian university which emphasized freedom of study for students, autonomy of the university, and control of the learning goals by the professors could not meet expectations from political and industrial actors. It is fitting then, that in announcing some of the changes that would be pursued in the future Bologna reforms the Federal Minister for Education, Science, Research and Technology at the time, Jürgen Rüttgers declared in his speech to
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the annual meeting of the German Rectors Conference (Hochschulrektorenkonferenz, or HRK), “Humboldt’s university is dead” (Hochschulrektorenkonferenz, 2010, p.27). In an interview after the speech, and in response to protests at universities over his statement at the HRK, Rüttgers framed the problems of the universities as one of competitiveness (Risch and Sommer, 1998).

With so much autonomy universities were isolated from competition with each other and from competition in the economy, and policy-makers perceived that the education they offered did not match the skills students would find necessary upon graduation. Rüttgers, a Christian Democrat, made similar arguments that the Swedish Moderates made when advocating for more competition in the university system: stricter quality controls and evaluation measures would make universities compete on quality for students. In the later SPD-Green government, the problems of the Humboltian university system would be framed as in terms of inequality, with a system that was tracked early in a students life and difficult to enter meaning education was not available to students with certain socioeconomic backgrounds. Although many interpretations would be given, Bologna was not completely imposed on Germany from the European Union, at least some degree of political and economic frustration existed within the pre-Bologna system from the political left and right as well as from organized business.

Industrial concerns were also important in shaping the debate during the change to two-cycle higher education. An interview with Stefan Küpper, the higher education policy coordinator for the Confederation of German Employers Associations during the beginning of the Bologna process, noted that employers associations within the confederation had difficulty employing the graduates from the university system. The study time was, in theory, a similar duration as a two-cycle education would be, but in practice studies took a long time (eight years was not unusual) and students would be substantially older by the time they entered the labor market than their vocationally educated counterparts. Furthermore, the rate of students passing final exams was not high enough and the content of education was too theoretical:

We were active in the beginning of the process and saw the advantages of the new structure for bachelor and master degrees. For us it was a very important subject, our students were too old when they passed their exam, with an average of 28 or 29 years by the time they come into the labor market. Too many also did not pass their exams, and if they did
pass their skills were not close enough to meet the challenges of the labor market, the studies included too much theory and not enough practical knowledge, and also not enough interaction with companies.

The introduction of the two-cycle program and a more robust accreditation system to equalize study programs to a common ECTS framework would in theory solve some of these problems. Furthermore, the two-tier system was something employers could take advantage of if employees who left school with the bachelor’s degree could work as a complement to the skills more qualified senior employees would have. The most common objection to the transition to the two-tier structure was a common theme in interviews: replacing the diploma of engineering (Diplom-Ingenieur). The Diplom was the higher education degree for most fields of study before Bologna, but the diploma offered to engineers was particularly prestigious and was sought after in many of Germany’s largest firms, especially those in technical manufacturing.

According to a Bologna policy coordinator at the Kultusministerkonferenz, the institution which coordinates the policy of culture and education ministries at the Bundesland level, this was one of the issues that divided federal states with a high concentration of technical industries from others during the Bologna process. There was substantial uncertainty among the diploma engineers that a bachelor’s level of education could be useful and that a master’s level would replicate the diploma. During the transition Daimler CEO Dieter Zetsche, a diploma engineer himself, publicly regretted the move to two-cycle education and the loss of an important trademark despite Daimler officially supporting the Bologna process.27 Years into the Bologna implementation process, Mecklenburg-Western Pomerania added the diploma of engineering back into the higher education legislation, with the minister of education saying to the press that it might give the state a competitive advantage compared to other states (Gardner, 2011).

From the perspective of the universities and those in government who saw problems with Germany’s university competitiveness, however, the Diplom posed substantial problems. Although the degree...

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27 Quoted in a newspaper article from University World News (Gardner, 2011). This exchange also came up in two interviews showing how the removal of the engineering diploma to facilitate adaptation to new centralized requirements was a particularly contentious issue in German industry.
Expanding higher education was prestigious within Germany, it was relatively unknown internationally. Christian Tauch, the deputy secretary-general from the Hochschulrektorenkonferenz (HRK), an association which represents almost all German higher education institutions, noted that the higher education sector was concerned that the term “diploma” even had a derogatory connotation in some countries where it implied lower education, and therefore made it difficult for highly qualified German engineers and other diploma occupations to have their credentials recognized abroad as highly as they should be, and reduced the attractiveness of German universities as study destinations for foreign students:

Germans were in particular proud of the diplom ingenieur, a one-tier five or six year degree that was at the level of a master’s. Before I joined the rectors conference I was in charge of the international office of a technical university in Dresden and we constantly had the problem that students who had come to Germany and did a very prestigious engineering degree would return to their country would automatically be considered equivalent to a bachelor’s.

This was a concern among employers organizations as well, that although the diploma was regarded well in German industry and posed a significant problem for the implementation of Bologna reforms, it wouldn’t be compatible with a more international labor market:

The main issue were the diploma holders, especially the diploma engineers. There were a lot of people, especially in technically driven companies, who said “we should prevent the loss of the diploma of engineering, its very important for the future”. We tried to explain that the diploma is quite unique in the world. In the US, for example, the “diploma” is not a worthy exam, there is a diploma of hair cutting and grass keeping and so forth. This was a hard issue. Again and again it was the discussion of the diploma engineer.

Objections to the two-cycle degree also included doubts about whether studies at bachelor’s levels would be long enough to be useful for employers or to provide an adequately challenging level of higher education. To alleviate some of the potential for bachelor’s qualifications not being recognized well in the labor market, efforts have been made through partnerships with employers organizations, large companies, and education ministries to promote employment of bachelor’s graduates.
The move to the two-cycle study program was therefore not uncontroversial, but the reluctance to accept a new set of qualifications in industry was not enough for firms to publicly push against Bologna. The Bologna process led a change in German higher education that expanded the number of students in higher education relative to VET, but rather than oppose the expansion, the industries which rely on VET aligned with political initiatives to increase the permeability of VET and higher education. Expanding the size of higher education by increasing the number of students was one important component of recent changes in German higher education, but reduction of barriers between VET and academic education the other important aspect of adopting mass higher education.

In the permeability debate, the extent to which vocational and academic lines should be separated at every step of education from secondary school through adult education has been debated, but permeability has consistently grown at least partly because of coalitions between egalitarian politics and industry. On the one hand permeability was pursued as an important goal in the SPD ministry of education between 1998 and 2005 as a method of reducing segmentation in higher education, noted by Bulmahn:

To open up the system of higher education to those who were trained within the vocational training system was another goal of the Bologna process. Increasing the permeability of the German education system and breaking down the barriers between educational training and higher education were important to me. Therefore I undertook profound reforms not only in our higher education system but also in our vocational training system. We started to introduce a credit point system to improve the recognition of the vocational training qualification courses as an academic achievement in a corresponding study course. We set up the pact for vocational training with the collective bargaining parties or the important changes in the law which regulates vocational training.

Producer group interests were therefore skeptical of the two-cycle degree reform, but adapted to it. Explanations of higher education reform that draw on economic interests would suggest that Germany did not develop a massified education system because of resistance from producer groups (Thelen, 2020). Furthermore, this literature suggests that
the state sector should be a leader in adapting to massified higher education, but the groups which did not develop two-cycle degrees were those who were most likely to be members of public employment and took the so-called “state examination” (*staatsexamen*). The state examination is a government license analogous to the master’s or former diploma but which is use for physicians, teachers, pharmacists, and legal professionals which is administered by the federal ministries. Stefan Küpper, higher education coordinator at the time of Bologna’s introduction and early implementation, noted that the bringing the public professions into the Bologna framework was one of the challenges of the process that policymakers were not able to accomplish:

Where we especially faced difficulties in bringing our ideas into the higher education system was in those studies that are close to the public sector, the legal studies, teachers, and the medical sector. There the decision was made that “the Bologna process is not for us”, it was only for the business studies, engineering, etc, but where you had the Staatsexamen they decided not to change. We said this is strange, it’s a political process and these three sectors are in the political system...we tried to advertise this process in our companies and say it’s a helpful way to do higher education but then you have to explain that the public sector itself has problems with it.

Peter Greisler, an education policy official at the Federal Ministry of Education tasked with coordinating Bologna implementation also noted that this was one of the areas where the Federal government could not gather consensus on moving forward with reform, and shows that divided authority over education posed significant problems even in areas that the state had more direct control over, since reforms posed objections from economic interests.

The government was in general favorable to the Bologna process, but of course, parts of the Federal government some voices were against it, but they couldn’t change it because it wasn’t their responsibility. They could, however, change it in areas of their responsibility. For example, the health minister, the minister for economy, and the minister of law, they were a problem in a way because they had to change things [in their ministries]. We have, for example, medicine studies
that have a state exam in the end, and in these three ministries they wouldn’t discuss the education issues but they would just discuss opposition from pressure groups that the reform would bring...So in the end what we did in the government is avoided that discussion...There were problems with the other ministries but that didn’t happen publicly, and we made a lot of compromises because we didn’t want a fight that we could not win.

This is a notable difference from the Swedish case where preparation for public employment was taken out of the vocational training system and transferred to academic higher education. Opening up higher education in Germany still retained an emphasis on status protection of employment, but less in the industrial sector than in the public sector, contrary to what literature based in economic interests predicts.

In conclusion, the case study above shows that for a “least-likely” case of reform, there was both a considerable recognition that reform was needed as well as a broad range of actors ready to implement reform. This included an SPD-Green coalition that initiated substantial reform, coordinating institutions of federal states and university rectors that saw the need for an expanded tertiary education system and structural changes to universities, CDU politicians who saw the need for more competitive universities, and employer groups who worked to adapt producer interests to an expanding higher education system.

If I turn to conventional explanations of economic policy change, it becomes difficult to explain what happened in Germany during the period studied. Partisanship does not explain what happened. The lack of reform in German higher education was not due to the inability for electoral politics to produce a partisan arrangement in government favorable for university expansion. The SPD-Green governments from 1998 to 2005 pursued significant reform, and the failure of their efforts was not due to electoral backlash. Furthermore, there is little evidence to suggest university expansion was particularly unpopular among producer groups, at most the adaptation of the Bologna reforms to the preferences of producer groups was the outcome of the federal government’s retreat from higher education governance. The limited success of higher education reform did not rely on either of these key constituencies, whether electoral or economic, but rather the inability to form a coalition around the division of responsibility in Germany’s federal political system. The responsibility for higher education deeply divided this coalition, and successfully bringing it together required exchanging
reforms in higher education for a more efficient system of federalism.

### 4.4 Finance first in Dutch higher education

As with all postindustrial economies, the Dutch labor market faced a growing need for skilled labor market insiders, especially those who can contribute to employment in services. Chapters two and three showed that the policy choices around Dutch tertiary education have produced a labor market regime with a skills investment strategy that sits somewhere between Germany and Sweden. The key development I focus on in this case is the distributional politics of higher education. I argue below that this is one of the important differentiating factors of the Netherlands from the other two cases. As in the Swedish and German cases, the period I study in the Dutch case features a social democratic party in power, but what characterizes the content and success of reform is not just the partisan orientation of government but the reform coalition that is built and the trade-offs required to secure it.

The Dutch social democratic party (PvdA) wanted to make higher education finance more distributively fair by replacing universal study grants with loans, arguing that working class families should not have to finance middle class education through taxes. By turning the grants into loans, students who benefited from university degrees through higher wages would pay the cost of university education and resources could be diverted to institutions themselves rather than student income support. But there was never a majority or even clear constituency in support for this. Rather, what would allow the PvdA to reform student finance was a coalition in support of fiscal discipline, who would accept the conversion of study grants into loans as a cost saving measure, not as a preferred distributional outcome. In order to gain support, the government would need to recruit support from outside the coalition, including smaller left-wing parties whose influence would make the reform pro-outsider by introducing a larger, means-tested grant in addition to the new loan system. What this shows is that this major reform did not rely on organized constituencies who wanted a change in higher education policy. Rather, parties used the coalition around budget politics to introduce reform that aligned with their programmatic commitments, first with a push to make finance more working-class friendly, and then negotiating the final policy package that would make finance more targeted toward outsiders. In this case study, first I introduce the Dutch higher education system and then I proceed to a case study of the conflict between universal and means-tested student finance.
In the Netherlands, initial enrollment started at a lower level and lagged behind Sweden, the Netherlands expanded student numbers throughout the 2000s to achieve high current enrollment. Therefore in terms of quantity, the Dutch labor market features a large pool of job candidates who achieved high education. But the choices policy makers made have not been in favor of a system that is quite as generalized and well funded as the Swedish system. Rather, like Germany, there is a strong differentiation between types of tertiary education, featuring earlier tracking and more segmentation between academic and professional higher education. Furthermore, investment per pupil is also lower than Sweden, and financial support for higher enrollment numbers is sustained by high private spending in education.

As a continental market economy, expectations from welfare state and comparative political economy typologies suggest the Netherlands should have a skills system oriented toward status maintenance. Segmentation between vocational and academic education is, in accordance with those expectations, a feature of the Dutch higher education system, students are tracked early on in their education rather than attending schools with more comprehensive education. Entrance into the research universities is possible through fewer secondary school tracks than entrance into other forms of post-secondary education. The division between research and labor market oriented education is also strong, the research universities and the universities of applied sciences have a clear division between their roles in education, much like in Germany. Similar to Germany, the Bologna process involved adapting to this rigid differentiation between research and applied education. Although politically simpler than Germany due to the previous degrees resembling the Bachelor’s/Master’s structure in length, the Dutch opted to reemphasize the separation between research and applied universities by introducing separate Bachelor’s and Master’s degrees for each type of institution, adapting them to new degree requirements but keeping their separate status.

Its political development is also comparatively situated between Sweden and Germany. Similar to Sweden but unlike Germany, the Dutch government holds centralized authority over the higher education system in all aspects it chooses to regulate. The regulation and funding of Dutch universities and higher professional education institutions is centralized and falls under the responsibilities of the government ministries. However, while higher education has a closer relationship to the state, it did not develop similarly to Sweden. Rather, the center-right has had a more active role in shaping the initial trajectory of Dutch higher
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This influence of the center-right was associated with two factors. First, political pressure for deregulation and for market-type control mechanisms played a strong role in higher education reform. In Sweden, the push for this type of reform occurred mainly in the 1990’s during the center-right coalition government and began from an education system that was a highly centralized component of the national state, but in the Netherlands autonomy and competition reforms occurred earlier and formed a more permanent rationale for university governance. Second, the center-right was able to initiate reforms that went further than the scope of regulation and cut budgets in a number of austerity reforms, something the Swedish center-right did not even consider during the 1990’s financial crisis when budgets were tightened in many other areas of social policy.

This section will also include a policy area which developed uniquely in the Netherlands compared to the other two countries in this study, student financing. Student finance schemes in the Netherlands changed dramatically in several periods of reform. The reason for why this issue is particularly salient in mapping the politics was shown briefly in the international comparisons in Chapter 2, private spending in the Netherlands on university education is above average compared to other rich democracies and has made up a greater proportion of the growth in national spending on higher education. This stands in contrast to the other cases in this study. A dual system of one part grant and one part loan has been the basis of study support in Sweden since 1965 and faced no major political challenges since, and this system is almost identical to the Dutch system which has been the subject of intense political turmoil. In Germany, as I showed above, a tuition fee ban was passed by the Schröder SPD-Green government, and caused intense federal-länder conflict until it was struck down by the constitutional court and subsequently the federal government ceded its higher education authority completely in the 2006 federalism reform. But in both of these cases, private tuition fees are a small part of tertiary education spending, in contrast to the Netherlands where in 2018 28% of funding came from private sources\textsuperscript{28}.

Because private spending is more prevalent in the Dutch education system, distributional politics around who carries the burden for that spending is also a larger part of higher education politics. This point is particularly important in the context of the limited literature that evaluates the role of higher education in political transitions to knowledge

\textsuperscript{28}See Chapter 2

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intensive labor markets. Thelen (2019; 2020) notes that the growth in tertiary enrollment shows a similar pattern of growth compared to Germany, but the funding required to achieve it is not a focal point in explaining the Dutch knowledge labor market. Chapter 3, however, showed that the incidence of labor market segmentation in Sweden and the Netherlands is different, while the knowledge economy may be more developed in both countries compared to Germany, the labor market composition in the Netherlands favors atypical work much more. Therefore, this section examines the Dutch system of higher education as one which has moved towards massification but has not escaped certain conflicts, especially distributional conflicts, that have maintained a degree of dualism in the education system.

The funding debate around university tuition in the Netherlands fits into the broader focus of this project by showing how debates around universalism or targeting based on income and labor market status reveals information about how political parties prioritize insiders or outsiders. It also shows how universalism, while it may seem like a path towards decommodification, can be politically approached as pro insider. This project argues in later sections that in keeping the universal nature of some welfare state commitments, Sweden has moved toward a pro-insider orientation where benefits and favorable market outcomes accrue to insiders. A similar problem arose in Dutch higher education finance. In 1986 a means-tested tuition benefit was replaced with a universal grant that was at first paid to the students’ parents and then was later paid directly to the students. Several attempts to reform the grant system by the Dutch center-left party in the 2000s failed until in 2014 the universal grant was replaced by a loan, which would be paid back on different terms depending on the income of the student after they found employment. The focus of the later part of this case study is the politics of reforming the finance system from the universal system to the loans, and why a coalition that was formed around fiscal discipline made the reform around study support less oriented toward universalism in education, and more oriented toward outsider income support.

In this section I emphasize the salience of higher education finance in the politics of Dutch higher education. This is a case of higher education politics that was highly distributional in character, questions of what kinds of workers should be paying for what kinds of social investment were mixed with questions of how to best fund higher education, and policy-makers had to make choices about their priorities in financing the expansion and quality of institutions against prior commitments to universal income support. Furthermore, reforms were made possible due
to a reform coalition building process that included parties which were ideologically diverse, but who aligned in an opportunity to steer efforts at fiscal discipline towards their own distributional objectives. I begin with the introduction of the Dutch basic grant (basisbeurs), a grant that was paid universally to students in higher education. Then I show how concerns over the distributive effects of the basic grant grew in center-left politics, but who were unable to secure a coalition for reform of the distributional consequences of education finance. After initial failures, the question of reforming the basic grant and making quality investments was embedded in a process of fiscal reform which created an environment where a majority could be formed around replacing the grant with a loan system. This shows how key distributional politics can uniquely shape outcomes, but where when such reforms benefit politically weak groups they will be produced by politics around other issues which can gather a coalition, in this case an imperative to reduce budget deficits.

Until the 2000s, the distributional context of the basic grant was not a major point of contention in higher education politics. Rather, political discussions around funding blended ideas of distributional inequality with general budget concerns and needs to cut costs where possible. Although austerity was a goal even for Wim Kok’s government led by the labor party, the basic grant was left relatively unquestioned in public discussions, both in terms of its place in higher education finance but also in terms of the distributional consequences it had. In the 2000s, the discussion changed to reflect concerns that universal grants created undesirable distributive consequences. This began publicly with the PvdA, the Dutch center-left labor party, with an article written by two members of parliament Martijn van Dam and Jacques Tichelaar (van Dam and Tichelaar, 2004). The article outlined a number of problems with a higher education system that relied on a basic grant, including distributional consequences:

> We also have to recognize that financing higher education increases income inequality. The average Dutch person who has never studied himself pays a substantial amount through taxes to a facility that mainly benefits people who are already doing well thanks to their studies. Government spending on higher education and student finance contributes to income inequality.

It is worth emphasizing the impact of this article, as even other interviewees mentioned this article specifically as a turning point for the political discussions around the basic grant.
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redistribution, comparable to a mortgage interest deduction, and should be discussed for the same reason.

Initially, distributional inequality was only a part of the discussion. van Dam explained in an interview that the timing of the article was related to the internationalization of higher education, shifting more resources to a loan system would enable Dutch students to borrow sufficient funds to study abroad in a time of growing internationalization in higher education:

foreign students could study at Dutch institutions for higher education and Dutch students could more easily choose an education abroad. But still most foreign studies were out of reach for most Dutch students because the tuition fees in most other countries were much higher. If you didn’t have parents that could afford those tuition fees, studying abroad...was simply out of reach. We presented the idea of an individual subsidy...and the possibility to lend extra money in a social system that provided insurance for the inability to pay back. (After Bologna)

The quote above provides important context for how the transition from universal grants to loans was framed, it would be a part of a “social loan” system (*sociaal leenstelsel*). The social loan refers to how loans are repaid, where repayment amounts are based on income and therefore the government insures against the risk of low income after graduation. The extent to which proposed alternative finance mechanisms reflect a social loan would become an important part of negotiation between political parties, but for now it is sufficient to say that initial discussions of replacing the basic grant were situated in discussions about distributive inequalities created by the existing two-part finance system which consisted of a universal grant and, on the other hand, a loan system which did not differentiate high earning occupations from lower earning occupations. The van Dam and Tichelaar article envisioned a number of reforms in higher education, including more degree differentiation and more international study opportunities, but one of the longer lasting impacts of the article was that it was the starting point for controversial political discussions, within the PvdA and society more broadly, for replacing the basic grant with a social loan: “The article was the start of the debate and it led to a huge debate in the PvdA, in society and it led to several policy changes as well.”

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30 Interview with Martijn van Dam
During this time under the Balkenende II (2003-2006) and III (2006-2007) government, however, the PvdA was in the opposition. The largest governing party, the Christian Democratic Appeal (CDA), held the ministry of education and was not interested in student finance reform. The VVD, in government since the first PvdA-led Kok government (1994), had an education minister during the Kok II government (1998-2002) but also did not make any large changes. The minister, Loek Hermans, introduced some performance related limitations to the supplementary loan system but neither the VVD nor the PvdA made substantial changes to the basic grant a part of the coalition priorities.

The basisbeurs debate returned when the PvdA was in government with the CDA and Christian Union (CU) during the Balkenende IV government, in which the minister of education, Ronald Plasterk, was from the PvdA. Student finance reform was not a part of the coalition agreement, and the announcement that elimination of the basic grant was being considered came as a surprise. In 2007 Plasterk was dealing with a looming teacher crisis, and extra funds were needed to increase teacher salaries in the hopes of increasing recruitment. Since new funds were unavailable, the minister announced in a press interview that repealing the basic grant and replacing it with a loan was a possibility in order to pay for the increase in teacher salaries.

There was not a possibility of legislative changes, however, since the rest of the government was opposed to repealing the basic grant. However, this period of time is important. First, it is the first opportunity to analyze the party responses to a complete repeal of the basic grant rather than more restrained adjustments of the grant, particularly because in response to the announcement a crisis debate was called in the Tweede Kamer in which the parties responded to the possibility of repealing the basic grant. Second, Plasterk’s announcement of a potential repeal of the basic grant can be contrasted with the later successful repeal of the basic grant, showing how at this point the politics of the issue was different when the focus of the debate was around higher education in particular, rather than taking place in the context of some other political process around which a coalition was formed.

The crisis debate following the announcement that the basic grant was being considered for removal is important because it reveals some of the party positions on the basic grant. It should be clear from Plasterk’s announcement and prior activity around the basic grant that for the labor party, this form of financing posed distributional problems. At this time, however, several political parties who would later become allies in student finance voiced substantial concerns to even a suggestion that
the basic grant was up for discussion. A representative from GroenLinks responded in the debate\textsuperscript{31}:

\begin{quote}
...it’s outrageous that this Minister of Education even thinks about looting the wallets of students and then filling the wallets of teachers. More money needs to go to the teachers, but the bill cannot be unilaterally deposited with the students...The basic grant symbolizes the accessibility of higher education and frankly, I find this proposal by two Social Democratic ministers unpalatable...GroenLinks wants the entire cabinet to reconsider its priorities in order to find the necessary resources.
\end{quote}

Sentiment from D66 and the VVD was also similar in denouncing any attempt to trade the grant for a social loan, as put by one D66 representative\textsuperscript{32}:

\begin{quote}
The mere fact that this minister is seriously considering such an option shows that he completely does not understand what is going on with young people: that an 18-year-old is not waiting for a sky-high student debt, that there is a fear of borrowing and that loan system prevents people from going to college. I want to hear a stark denial from this minister tonight. Of course we will not let the student pay for the increase in the teacher’s salary.
\end{quote}

In the debate the CDA representative also indicated that the major reform to the basic grant was not a part of the coalition agreement and that as far as the CDA was concerned, no reform would be considered. However, what is particularly important during these debates is that parties all frame their support of the basic grant in the context of a budget that can potentially include both the basic grant and teacher salary increases. In other words, the parties take the stance that there is money available to keep up the basic grant and fulfill other priorities in the education budget. In instances where the budget was discussed, parties suggested alternative funding mechanisms, for example GroenLinks in the 2010 election platform suggested an “education tax”, where

\textsuperscript{31}Tofik Dibi, Crisis debate, October 17, 2007, page 976 (Handeling 31200-VIII nr. 14, 2013)

\textsuperscript{32}Alexander Pechtold, Crisis debate, October 17, 2007, page 976 (Handeling 31200-VIII nr. 14, 2013)
a progressive tax would be paid after students graduated with a degree, the most successful of them paying the highest tax rate (GroenLinks, 2010, p.25). Therefore, in an unconstrained environment, most parties wanted the best of both worlds, a robust universal grant system and expanding budgets for quality and teaching. Furthermore, teacher salaries were not a reform process around which political parties would coalesce in a way that would change the position on the basic grant.

In the late 2000s the salience of the debate on universalism and fairness in student finance grew. After Plasterk introduced the idea of replacing the basisbeurs, the discussion around the possibility returned after responses to the 2008 financial crisis put the budget under strain. In the annual speech to the lower and upper houses of parliament where the monarch announces the government’s budget and policy priorities, the Queen announced that the government would need to reduce spending by twenty percent to balance the budget after significant deficit spending in response to the crisis. In the Spring budget memorandum, it was also noted that pupil numbers were exceeding projections, likely due to more people entering education rather than a difficult labor market during the crisis (Kst 32395 nr. 1, 2010, p. 31-32). Basic grant reform had returned, and unlike in 2007, the politics of the reform would take place in an unprecedented situation for national budgets.

The goal of achieving the same social outcomes with a twenty percent reduction in expenditures significantly changed the higher education and student finance priorities of political parties. In the election prior to the financial crisis, none of the political parties indicated they would be interested in replacing the basic grant in their election manifestos. Only the PvdA mentions something close, indicating they would prefer expanding loans to facilitate travel abroad, and that even in light of efforts to make loan repayment terms based more on financial need, “the current student grant system is still far from working optimally.” During this period, the VVD explicitly stated in their platform that a social loan or education tax were not an option, and that the basic grant would be there to stay. GroenLinks, whose senate votes would become critical for the basic grants later repeal, stated in their platform that increases in the basic grant was necessary for keep students away from dependent on part-time work or their parents, and that this should be

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33Speech delivered by Queen Beatrix, September 15, 2009.
34Based on education policy in all major party manifestos for 2002, 2003, 2006 general elections
35PvdA election platform (PvdA, 2006, p.24)
funded by more income related repayment terms, similar the the PvdA’s position.\footnote{Groenlinks election platform (GroenLinks, 2010, p.10)}

In the debates following the 2010 Spring budget memorandum, however, it became clear the positions on this were shifting. In the context of commitments to cut budgets, parties had to choose between two parts of their platforms, maintaining commitments to universal funding schemes or increasing investments in education quality, something all parties mentioned in their platforms. The VVD made it clear their position was changing. Mark Rutte, at that time leader of the VVD, stated the party’s new position on higher education finance in the debate:\footnote{Parliamentary debate, September 16, 2009, p.44}

\begin{quote}
The VVD wants to invest more than 1 billion in higher education. It is not realistic to get this money from general resources. That would lead to higher taxes or an even higher national debt. That is why we opt for a fair distribution of the costs for higher education between the government and the student. As far as the VVD is concerned, student grants are converted into an accessible loan that students can repay on an income-related basis after graduation. In this way it is emphasized that a study is primarily an investment in one’s own future.
\end{quote}

The response from student groups led to protests around the Netherlands and the occupation of university buildings. In response, the PvdA changed its position slightly, the money saved from turning the basic grant into a loan would be reinvested in higher education institutions.\footnote{Although I could not locate the text of the debates where this occurred, several higher education media sources cited the change in position where the PvdA promised to take the approximately 300 million Euro savings from the basic grant and use it for higher education in May, 2010 (DUB Niews, 2010; ScienceGuide, 2010)} Despite student protests, other parties began changing their position on the basic grant. D66\footnote{D66 Election platform (D66, 2010, p.39)} also amended their positions to introduce an alternative to the basic grant structure of student finance with a social loan. In the election platform for 2010, GroenLinks shifted its position towards a “study tax”, an income-related tax for former students.\footnote{GroenLinks 2010 election platform (GroenLinks, 2010, p.25) In an opinion piece preceding the publication of the platform, a GroenLinks
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MP explained that this new position was formed out of necessity due to problems with the basic grant, the level of the payment was low, it was hard to increase without changes in taxation, and it was unfair (Dibi, 2010):

But I would like to remind students that wanting to invest in education is different from saying no to every possible reform. It is different from anxiously wanting to keep everything the same. For example, look at student grants. I really can’t believe there are parties that want to keep it the way it is. The basic grant is currently 266 euros per month, while the average room rent is 356 euros....I have another problem with the current student grant...the butcher on the corner helps pay for the lawyer’s studies.

But these changes were not occurring as a response to electoral demands for greater equity in who should bear the financial burden of higher education. Just three years earlier these parties, from the market liberal VVD to the left-wing GroenLinks, had all made substantial appeals to the beneficiaries of the basic grants in opposing the PvdA’s student grants. What had changed was a consensus emerging around fiscal reform, with almost all parties offering some way of financing deficit reduction through cuts to public higher education spending. This is an important point where it is worth drawing a parallel to the Swedish case. Here I also study a period where there was a financial crisis (the 1990-1994 Swedish financial crisis) but the higher education system was not used as a way to reduce budgets, providing at least some comparative evidence that the reversal on the basic grant was not an absolute necessity but rather a conscious prioritization of fiscal discipline over the basic grant.

The government formed after the 2010 election was a VVD-CDA minority government, and although the VVD preferred reforming the basic grant the CDA had defended funding the universities with increased tuition fees and would, later in the 2012 election explicitly call for preserving the basic grant. While the coalition was not ideal for student finance reform, there was intense pressure to reduce spending and the VVD and CDA agreed, as part of the coalition negotiations, to adopt a social loan system to replace the basic grant at only the masters level.

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41 CDA election manifesto (CDA, 2010, p.28)
42 CDA election manifesto (CDA, 2012, p.45)
43 2010 Coalition agreement (Regeerakkoord VVD-CDA, 2010, p.32)
In addition, while the basic grant (and an income related supplementary grant) would be retained in the bachelors phase, students who took longer than normal to complete their studies would pay more. In the policy memorandum 44 sent to parliament introducing the legislation, the budget was a key motivating factor for these two measures:

The government is faced with the task of getting public finances back in order. The economy and society must be sustainable now and in the future. ...In these financially difficult times, the government wants to improve the quality and efficiency of higher education. ...In order to finance the quality boost that is required, the ‘long-term students’ and the master’s students are required to invest more in their own study program in addition to the task of the educational institutions to increase efficiency.

In further preparatory work on the bill, a number of parties who support the general idea of a social loan system objected to the proposal 45. This included concerns that the loan and slow study fine were only being introduced as a budget reduction measure and that therefore an important opportunity would be missed to fulfill the true purpose of a “social” loan system. Furthermore, parties raised concerns that rather than being an investment measure, the bill would result in a net decrease in higher education investment and that funding was therefore not being reallocated but rather that the bill was purely an austerity measure. Ultimately, the Rutte I government fell after support from the PVV, necessary for the VVD-CDA minority government, was withdrawn following a budget proposal that included a number of austerity measures necessary to stay in line with the EU’s Stability and Growth Pact requirement that deficits not exceed 3% of GDP. This meant that the master’s finance reform was not allowed to proceed under the caretaker government.

After the 2012 election, the PvdA and VVD had a majority in the lower house and were able to start negotiations on a coalition agreement. Student finance was a part of the negotiations, but the PvdA’s desire to reform the basic grant was not a guarantee. Among the first official mentions of student finance reform came in a partial budget agreement

44Letter from the State Secretary of Education, Culture, and Science (Kst 31288 nr. 160, 2011)
45Summarized in a report by the standing committee for Education, Culture and Science (Kst 33145 nr. 6, 2012)
for 2013\textsuperscript{46} reached between the parties where they proposed eliminating a tuition penalty for students who studied for a long time\textsuperscript{47}. In the parliamentary debates following the announcement of the partial budget agreement, a representative from the Socialist Party (SP) expresses support for the slow study repeal, and they are aware of ongoing discussions to make repealing the basic grant a part of the governments agenda\textsuperscript{48}. The final coalition agreement, however, made intentions more clear. In addition to repealing the slow study act the government would also replace the basic grant with a social loan, making it clear that the income tested supplementary grant (aanvullende beurs) would remain outside the loan system and instead be paid as a grant\textsuperscript{49}. The positions that parties held during the 2007 repeal attempt and the lead up to the 2010 call for budget reduction compared to the positions developed during the 2012 election and government coalition formation show a clear system-wide coalition formed around fiscal discipline, around which many reforms would be agreed upon in order to bring a diverse set of actors in alignment for the goal of reducing budget deficits.

Government coalition negotiations were not the end, however. Passage of a basic grant repeal was not straightforward despite a majority in the lower house and a PvdA minister of education leading the initiative. A majority was necessary in the upper house as well, which the PvdA and VVD did not have. Prior to the 2012 election, both GroenLinks and D66 revealed in their party platforms that they would officially support the replacement of the basic grant with a social loan. But it still took some time, even with broad agreement about achieving budget reduction through replacing the basic grant, parties still disagreed on the distributive consequences of the reform. Although the 2012 reform to replace the basic grant in the masters phase only was suspended at the end of the Rutte I government, the parliamentary debate on the bill was reintroduced after the Rutte II government came into office. The

\begin{itemize}
  \item \textsuperscript{46} Explained in a letter from the informatuers to the president of the Tweede Kamer (Kst 33410 nr. 12, 2012)
  \item \textsuperscript{47} The slow study fine Langstudeerboete increased statutory tuition fees for students who did not complete their studies after one extra year in their degree program. The measure was adopted in 2011 and its repeal was announced in the 2013 partial budget agreement.
  \item \textsuperscript{48} Comment by Emile Roemer, debate on the letter from the informants in connection with the 2013 budget partial agreement (Tk 20122013-7-16, 2012, p.30)
  \item \textsuperscript{49} Coalition agreement (Regeerakkoord VVD - PvdA, 2012, p.17)
\end{itemize}
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Bill would eventually be withdrawn, since a new bill would be proposed that eliminated the basic grant in both the bachelor’s and master’s phase would be submitted, but the discussion in parliament on this earlier bill reveals some of the negotiating positions that would be taken by Groenlinks and D66. D66 noted that the party preferred repayment terms that were entirely proportional to income, meaning a lower income loan recipient could take a small payment for a longer duration, as well as stating there should be more controls over the interest rate and that it was undesirable to take on a large scale reform in small pieces by doing the masters phase first. Groenlinks further included four substantive objections, three of which were successfully negotiated into the final 2014 decision, expressed by Jesse Klaver in the debates around the basisbeurs when the legislation concerned only the master’s phase (Tk 20132014-35-8, 2012, p.1):

I would like to ask the minister to come up with a better and fairer proposal. ...First and foremost, there should be a supplementary grant for poor students, for students whose parents don’t have that much money. ...In addition, students in the new system must immediately benefit from better quality, from more money for higher education. They should immediately benefit from the fact that we are once again putting bildung more central instead of trying to run higher education like a factory. Tuition fees must also be included in the proposal. ...I think that the bachelor’s and master’s phases should be dealt with in a single proposal. We are not talking about it today, but of course the annual public transport card must remain as far as GroenLinks is concerned.

The items suggested here would become the main points for negotiation between the government (VVD and PvdA) and the opposition necessary for passing the bill, GroenLinks and D66. The bill which was eventually introduced by the PvdA minister of education to eliminate the basic grant in both the bachelors and masters phases did include a supplementary grant, but this was a topic of debate in the negotiations.

50 These were confirmed by GroenLinks senator Ruard Ganzevoort in an interview, whose vote would be necessary for the passage of the final reform: “Those were the key criteria. The only thing I had to do in the senate was to say make me an offer based on those criteria, because those are the only things I will evaluate the proposal on.”
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Apart from the loan system including income based repayment terms, GroenLinks wanted an increase in the means-tested grant in order to offset the risk that students from poorer families would be discouraged by additional loans. The public transport card was also a significant point of debate, the government's proposal eliminated the card which allows students to travel for free on public transit. After substantial debate on the topic, the travel card was retained since it was absolutely necessary for GroenLinks support, the supplementary grant was increased, and the final legislation specified that the money saved from eliminating the basic grant would be spent on quality improvements. Therefore, the negotiating positions of the different parties, based on distributive concerns, had a substantial influence on the long road to replacing the basic grant with the social loan system.

In conclusion, distributive conflict was particularly pronounced in the contemporary history of Dutch higher education. While the Dutch university system achieved a high level of tertiary education attainment in the population, this was attained through high private spending and a strong debate over what kind of students should get relief from the cost burden of higher education. This case study showed that decisions in student finance were made on the basis of other political objectives, however. In particular, there is useful within-case variation that illustrates how this occurred. Despite high enrollment in tertiary education, the Dutch labor party developed the position that providing universal student grants to help pay for tuition and living costs created an undesirable distribution of resources within higher education finance. But this distributional question only became particularly relevant when distributional concerns within government produced conflict over resources.

In 2007 the repeal of the basic grant was considered as a way to avoid budget problems in the ministry of education when the education budget was too small to accommodate necessary wage increases for teachers. But this budget crisis was contained to one ministry only, there was protest from Dutch students, and the potential for a repeal of the basic grant disappeared. From this point, it might have appeared that backlash from student constituencies was enough to ensure political support for the basic grant, but the 2014 reform would prove this untrue. In 2012 parties coalesced around fiscal discipline and produced a liberal-left coalition government that was committed to reducing budget deficits. During this time, the student constituency proved not to be powerful enough to dictate the path of higher education reform, rather outcomes in higher education policy would rely on a coalition that was primarily committed to reducing expenditures. However, due to the gov-
ernment’s minority in the upper house, the inclusion of smaller parties in the policy bargaining process led to distributive wins for low-income students in the form of a more generous means-tested grant. This shows that policy-making in this process was dictated by a reform coalition whose higher education goals were secondary to a primary process of fiscal discipline, but that the bargaining process involved in this produced gains for the weakest groups affected by the reform even though the motivation of this reform was never to enhance the income position of those groups.

4.5 Alternative explanations

Party politics

As explained earlier in this dissertation, prominent literature in comparative welfare state scholarship explains the development and reform of social policies through electoral politics. This literature assumes a clear constituency-beneficiary relationship. This literature assumes parties compete to represent different constituencies of voters by advocating policies which align with the distributational preferences of those constituencies. For example, this includes literature which is rooted in power resources approaches and argues that generous outcomes in social policy are linked to the organizational capacity of labor to mobilize political resources (Korpi, 2006; Esping-Andersen, 1990) and predicts that higher levels of left-party power are associated with larger redistribution (Huber and Stephens, 2001). What makes this process work is that core constituencies have an interest in receiving beneficial outcomes from electoral politics.

More recently, scholars who highlight the importance of electoral politics have approached their research with an increasingly refined way of understanding constituencies themselves. One strand of literature highlights the segmentation of the working class and therefore a difficulty for center-left parties to cater to a heterogeneous working class (Rueda, 2007; Emmenegger et al., 2012). Another strand of literature focuses on the shift to post-industrial society and how different occupational class categories within center-left support have different distributational preferences (Gingrich and Häusermann, 2015), sometimes across multiple dimensions (Beramendi et al., 2015). The latter argument set forth by Beramendi et al (2015) is used as an alternative explanation. In this framework, constituencies face a left-right trade off of strong or weak state intervention, and they also face a choice between consumption and
investment oriented policies.

As explained in Chapter 1, this theory predicts a mass higher education system should develop in Sweden with low distributional conflict. The Dutch political system should also produce a mass education system. More frequent coalitions between center-left and liberal parties may perhaps be reason to expect more distributional conflict in higher education, but on the other hand this is not obvious given that high enrollment should make left parties more open to spending more on universal higher education. Germany should be a least-likely case for comprehensive education reform because core center-left voters should be more concentrated in occupational classes who benefit more from vocational than general education.

Each case study presented above involved social democratic parties that behaved very differently. In particular, a highly egalitarian and universal higher education system was pursued by the Swedish Social Democratic Party, while the Dutch Labour Party chose to dismantle universalism in higher education finance in the name of distributive fairness. The German case involved a social democratic party that gained electoral support to pursue higher education expansion and egalitarian outcomes in finance, but was nevertheless unsuccessful in its long term reform agenda. What further complicates the case for a purely partisan explanation is that in the Swedish case, the center-right was unable to retrench university expansion despite a major economic crisis, and despite finding success in other areas of education reform such as secondary school privatization. Furthermore, partisan explanations argue that middle class, educated voters should be in favor of universally oriented investment reforms, and opposed to reform that is targeted or means-tested. But in the Dutch case, the recruitment of a green party with a largely middle class, educated electoral constituency made the reform more means-tested and particularistic.

While the theory predicts that coalitions between social democratic and liberal parties should lead to more distributive conflict, this is not what I observe in the case studies. In Sweden, social democratic minority governments often rely on support parties with a more liberal economic agenda, at times even with formal agreements about budget priorities in order to secure support (Bäck and Hellström, 2022). Yet here there is a remarkable lack of distributive conflict in higher education finance, the system of universal grants and loans that form Sweden’s generous study support system has not been substantially challenged since it was introduced in the 1960s. On the other hand, the political bargain that led to the abolition of universal student grants in the Netherlands emerged
Alternative explanations

from a liberal-labor coalition, and the inclusion of a party with left-wing economic priorities made the reform even more redistributive. Finally, we also see that while in Germany the SPD pursued an ambitious higher education expansion agenda, something we would not expect given that of the three cases, the German case is one where there is most reason to suspect that core SPD constituencies are more invested in vocational rather than university education. But the education agenda was not restricted because of electoral pressure, but because it became secondary to a reform process which divided the necessary coalition for reform to succeed.

Economic interests

The growth regimes literature includes a constituent-beneficiary logic, but it is less explicitly stated than in the partisanship literature. Governments should make decisions according to growth strategies that maximize the effectiveness of dominant production interests. Dominant production interests pursue policies that have preferences for policies that maximize their profitability and growth, and are beneficiaries of those policies when governments pursue them.

In Nordic economies, growth strategies are designed to maximize growth in high skill service exports. In the growth regime argument, the Netherlands is closer to a Nordic economy than continental, because of its comparative advantage in business and professional services. When it comes to developing higher education systems, however, the growth regimes literature makes the argument that economic constituencies are organized differently in the Netherlands compared to Sweden, where Sweden’s social partners are more encompassing than their Dutch counterparts. Encompassing producer group politics should lead to more general higher education based systems rather than firm-specific vocational education. The Swedish system should have mass higher education, while the Dutch system should be more segmented, even if both are service based economies.

While the conclusions of the growth regime argument here broadly fit with the pattern of expansion in higher education in both Sweden and the Netherlands, it cannot explain why distributional conflict is so much more prevalent in the Dutch higher education system than the Swedish. Furthermore, I showed that the white collar trade union in Sweden was indeed supportive of higher education expansion, but was also interested in promoting higher education as a component of regional development. This is an aspect of expansion that is not predicted by the economic
interests argument that rests on the preferences of social partners for certain forms of skill development.

In continental economies, growth strategies are designed to maximize growth in high quality manufacturing exports. This involves a focus on the core industrial workforce and manufacturing interests. In addition, the growth regimes literature notes that producer groups are more narrowly organized, implying key constituencies who have less of an incentive to invest in skills beyond the firm specific skills they benefit most from. Politics should therefore be less receptive towards higher education expansion, enrollment should be lower, and when higher education expansion does occur it should be adapted to manufacturing interests. Furthermore, to align with interests of core manufacturing workers, there should be an emphasis on low-skill rather than high-skill service employment, as this provides cheaper services for manufacturing employees. According to this literature, the expected result in Germany should be that governments do not show much interest in higher education expansion.

Here, however, the evidence from the case study above does not align with expectations for two reasons. First, this perspective predicts that Germany will not develop a massified higher education system because policy-makers have no motivation to move away from vocational education and training to more general, university based education. But despite the SPD being the party that has the clearest ties to German manufacturing interests, it was the SPD who embarked on an ambitious expansionary agenda for the higher education system. This itself is counterintuitive if we accept the argument that policy-makers are motivated primarily to align the skill system with manufacturing interests. Furthermore, this case study presented evidence from German employers associations who were receptive to adapting the German higher education system with more standardized two cycle tertiary education system encouraged by the Bologna reforms. They further wanted to increase permeability of the education system to make higher education more accessible to those from the VET track. If economic interests were sole explanatory factor determining reform failure in Germany, I would expect more reluctance from employers associations to stand behind equalizing VET and university education.

4.6 Discussion

In this chapter, I presented three cases. In one of these, Sweden, successful expansion of higher education was an important part of the country’s
labor market regime. In the other two, Germany and the Netherlands, government commitment to higher education expansion was more limited. Beneficiaries of higher education reform in all three countries are future labor market insiders, they are students who benefit from public expenditure on education that makes them more competitive in the future labor market. Where the higher education system includes high enrollment and spending, the largest number of beneficiaries enjoy labor market preparation for a low individual cost. But the success or failure of the reforms chosen in this chapter did not rely on these beneficiaries acting as political constituents. Rather, coalitions formed around other issues determined the course of higher education expansion.

In this section I compare these cases. I argue that a key period for studying Swedish higher education politics was the center-right government from 1991-1994. While a strong political and economic coalition was influential in the initial growth phases of higher education development, the SAP also benefited from relatively stable power and an unchallenged expansion of tertiary education. At the same time, governments embarked on a regional development strategy in which public agencies were decentralized and relocated to regions outside of the major Swedish metropolitan areas. Universities were also established regionally, both as a part of decentralizing Swedish public administration but also to facilitate it by making regional human capital compatible with the skill requirements for hosting important public agencies. But against the background of broad consensus during the early stages of higher education growth, the political role of regionalization only becomes clear if we look for conflict. We might have expected this during the center-right Bildt government, which included some skeptics of the pace of higher education and a ministry of education which achieved significant conservative reforms in other areas of education51, but because expansion was taking place at new regional institutions to such a great extent, regional interests that cut across party lines safeguarded the higher education system from retrenchment. What is even more surprising is that the strong coalition in support of higher education shielded it from retrenchment during one of Sweden’s worst economic crises, which provides contrast to the Dutch case, where the university

51For example, private secondary schooling was significantly strengthened by making private schools operationally equivalent to municipal public schools and introduced a grant system that gave private schools the same public funding as public schools, see Valfrihet i skolan Prop. 1992/93: 230.
system was not spared from budget pressure in the wake of crisis. Compared to the other cases, that type of coalition did not exist. In the German case, sub-national political interests were opposed to greater involvement in higher education because it endangered their governing autonomy in cultural issues. At the same time as the SPD-Green governments in the late 1990’s and early 2000s pursued an ambitious higher reform agenda, there was cross-party commitment to a project to reform the federal division of power in Germany. These two objectives were incompatible, and the blame for the failure of federalism reform rested entirely on the government’s ambitions in expanding higher education. Ultimately pursuing this agenda further would require a federalism reform that somehow overruled the objections from federal states or compensated them sufficiently to allow more responsibility for higher education to rest with the federal government. Therefore we see that the institutional configuration of higher education governance precluded the type of coalition that was powerful in safeguarding the Swedish system. This is despite political parties, economic interests, and federal state level interests expressing agreement that higher education expansion was desirable. This highlights the idea that while education policy is substantively important, it can take a back seat to other issues when the constituencies, in this case sub-national political actors, who are needed for reform do not benefit sufficiently. At the same time, those who do benefit are not important enough for force a resolution in their favor. A successful resolution would need to integrate a primary process that benefited important constituents in order for the secondary process to be successful. In this case the primary process, federalism reform, was incompatible with higher education ambitions.

In the Dutch case, the political coalition that drove a substantial change in university tuition finance was determined by the ability to gather a number of political constituencies in favor of pursuing fiscal discipline, specifically the EU’s Stability and Growth Pact’s requirement that public debt stay under 3% of GDP. Chapter 2 showed that the Dutch case is different from the German case in that while for the German case, expansion was held back, in the Dutch case expansion took place but without the same public financial commitment per student as in other higher enrollment countries. One place where this was evident was through the development of student grants, where the government was able to reduce spending on insiders by cutting grants. The removal of a universal tuition grant in favor of loans was a long-standing goal of the Dutch labor party. But the importance of a broader coalition in this case was made clear by the initial failure of this reform and then
its later success. Both attempts involved a government where the labor party was in the ruling coalition and had a labor minister of education. In the first, the repeal of the basic grant was considered as a way to solve a budget crisis in the ministry of education when there was not enough money to fund an increase in teacher salaries. But this budget crisis was confined to the ministry of education, and backlash from students and labor voters stopped the process almost immediately. Later, the pursuit of fiscal discipline was a major goal for the 2012 liberal-labor purple coalition, and the repeal of the basic grant was successful. However, because the government did not have a majority in the upper house, they recruited GroenLinks, a green party, as a coalition partner, which made the reform more means-tested and redistributive. Almost paradoxically, in this case the limitation of a commitment to higher education was beneficial to outsiders, as spending on insiders through the higher education system declined but with compensation that increased benefit generosity for outsiders. This shows how the coalition building process can change the distributive outcomes of policy, but where coalitions are based around wider processes which bring coalition partners into agreements.
Chapter 5

Minimum income benefits in labor market regimes

One way for governments to respond to labor market segmentation is to spend political effort extending benefits to labor market outsiders. They can choose to subsidize the living standards of workers who may have low wages, who may work in part-time positions, or who may have discontinuous employment biographies by offering targeted support through the welfare state. Chapter 2 and Chapter 3 showed variation among welfare states in the benefits available to citizens who rely on guaranteed minimum income benefits to supplement their income. These welfare state tools form a minimum income threshold through the provision of means-tested support in the form of social assistance benefits, family benefits, and housing benefits. More importantly, these chapters characterized this variation in terms of trajectories over time, showing that in Sweden the level of minimum income benefits stagnated and lost value over time, while in the Netherlands and Germany these benefits gained in value. This is somewhat puzzling from the perspective of typical welfare state regimes. It suggests a certain outsiders are worse off in more universalistic settings, while from a benefits perspective they have become better off in settings that are typically expected to prioritize the status of insiders and promote dualization.

Social policy developments in guaranteed minimum income benefits suggest that hard choices have been made in continental economies which trade insider benefit generosity for a focus on combining atypical work with benefits that supplement the wages of precarious workers. While this policy configuration accepts a dual status as a reality of the labor market, it also expends reform capital on introducing and reforming benefits which manage the relationship between outsider status and
economic well-being rather than focusing on status maintenance for labor market insiders, which not a clearly predictable outcome outcome in light of how dualizing countries are portrayed in some welfare state literature.

Within this framework, however, adaptations to precarious employment through minimum income schemes and combining benefits with work have been met with varying degrees of skepticism. Taking Germany as one example, Thelen (2014) categorized post-Hartz Germany as a dualistic form of liberalization, Blank’s (2020) recent analysis of the German welfare state argues it has retained its emphasis on social insurance, while Eichorst et al (2008) argue certain activation schemes signal a shift away from status-protection. Scholarly analysis is not helped by media reactions and popular discourse which often depict minimum income policy reform as a meager effort by political parties leading benefit systems toward a liberalized market like the United States. The purpose here is not to defend minimum income schemes, but to show that exploring their variety can reveal information about welfare state politics that other benefits do not. That said, the effects of minimum income schemes are extremely varied and these outcomes are difficult to incorporate into this study, so I rather focus on the politics and reform rather than the outcomes minimum income benefits produce. For example, a report from the EU that gave an expert rating of minimum income systems showed that the Dutch system was among the best at poverty reduction while the Swedish and German systems were not quite adequate (Frazer and Marlier, 2016). By social outcomes, therefore, the grouping is different than the way I group these policies. But the outcomes are also influenced by many factors beyond the scope of this study.

However, how should we understand minimum income based social assistance reform in the context of dualization? I argue that developments in the three welfare states selected for this study show that some discussion around the goals of the welfare state are necessary. The foundational account of classifying welfare regimes comes from Esping-Andersen’s (1990) observation that welfare states vary greatly in how much they commodify workers. Decommodification remains an important way of judging the redistributive nature of welfare states and what these welfare states imply for the relationships between workers, the state, and the market. However, the developments explored in Chapter 2 and Chapter 3 show that there is evidence of reduced decommodification in almost all welfare states. With higher job search requirements for benefits, lower activation budgets, and reduction of temporary work regulation, there are no promising candidates for a welfare state that truly
decommodifies. In the context of dual labor markets, this is problematic because in reading Esping-Andersen’s work ameliorating differences between insiders and outsiders would emerge best from solidaristic policy that decommodifies and therefore is available regardless of labor market status.

From the cases presented in the previous chapters, expanding welfare state generosity regardless of market participation is only becoming less likely politically as activation requirements and lower non-standard employment restrictions become ubiquitous. Does this mean modern welfare states are abandoning outsiders? I argue in these case studies that rather than decommodifying, governments in the selected continental countries have followed an effort to shift away from status maintenance to using benefits to support labor market participation. However, in the case of the universal welfare state, there was little support for increasing social assistance benefits and no mean-tested family benefits to compensate. Although there is increasing use of the social assistance system as a means of unemployment support, the benefit level of minimum income benefits has not been adjusted to meet its increasing usage as an unemployment benefit. In each case, the expansion of means-tested benefits was not a primary goal of reform, typically concessions to outsiders were achieved in a broader context of fiscal discipline or unemployment reduction. On the other hand, where minimum income benefits stagnated evidence points to the difficulty of bringing the interests of sub-national political actors into a reform coalition.

5.1 Case studies in benefit reform

Chapter 2 and Chapter 3 shows divergence in Europe occurred in income support policy. In two countries, Germany and the Netherlands, spending on guaranteed minimum income benefits increased and the difference in total benefits and post-tax/transfer income between workers with average pay and standard hours and workers with average pay from part-time hours decreased due to rising benefits and incomes for part-time workers. Meanwhile, in Sweden this gap stayed consistent or rose. These developments occurred against a background of relatively similar trends in unemployment insurance, employment protection legislation, and active labor market policy. This divergence suggests something that is relatively unexpected in light of typical classifications of welfare systems.

In two continental economies, developments seem to prioritize concerns of outsiders. In particular, while benefits that maintain the status
of insiders such as unemployment insurance or early retirement were cut in Germany and the Netherlands, welfare effort was spent on social assistance reforms and combing atypical working status with periodic increases in family and housing benefits. Depending on the literature and sources, this trajectory might be criticized as workfare or a movement towards a liberal system because policies are coupled with strict activation requirements, but for regimes which are characterized with a strong orientation to insiders, governments have made efforts to find an alternative to leaving the well-being of outsiders completely to the market. While these reforms may not be strongly decommodifying, the most likely scenario in this study for quality decommodification, Sweden, seems to fare worse in this regard.

A simple qualitative distinction can be made to illustrate this point by comparing the indexation of minimum income benefits. The Dutch participation benefit, closest to a true minimum income scheme among the three cases, is based on a minimum wage which is adjusted twice per year based on average collectively bargained wages. The benefit available to German social assistance beneficiaries is updated annually to follow a composite index, thirty percent is based on wage growth while seventy percent is based on price changes in a basket of goods and services. The national norm that the Swedish social assistance benefit is based on is updated once per year based only on the price changes in six consumer goods, and even then the decision to follow price developments is up to the discretion of the government, it is not a requirement. There are clear differences in how these benefits are tied to the market developments that insiders enjoy, and while neither system truly decommodifies outsiders they differ substantially in how resilient the quality of outsider oriented benefits are over time. Rather than ignoring outsiders, the two continental systems have sought, although to different degrees, to integrate outsiders into social life while recognizing that they are a reality in the labor market. The Swedish system, however, while maintaining a certain level of universality and generosity failed to make similar reforms in minimum income and as a result the value of social assistance benefits stagnated even though insider incomes have grown substantially (Davidsson, 2018).

The case studies here are therefore designed to examine the political considerations behind reforms which have targeted outsiders, asking why they were possible in the Netherlands and Germany but not in Sweden. In Germany and the Netherlands, I choose two similar benefit developments. In the Netherlands, the Work and Social Assistance Act (WWB) was introduced in 2004 as the primary benefit that would com-
plement a “work first” strategy that would combine benefit payments with labor market participation as much as possible. This also comes on the heels of a reform period in the 1990’s which significantly reduced the Dutch welfare state’s focus on labor market insiders by curbing generous disability policies and early exit opportunities (Visser and Hemerijck, 1997). This reform also coincided with a large increase of women into the labor market through part-time work and subsequent changes to family policy that would similarly focus on combining benefit with labor market entry (Morel, 2009), part of this is shown in Chapter 3 as family and housing benefits rise for some income earners in the benefit calculation presented in Figure 3.8. To examine these I discuss changes in family and housing benefits which took effect in 2008. Therefore this presents an opportunity to study a period where links between outsider entry into the labor market and benefits was strengthened. I also study in 2014 where family benefits for single parents were also substantially increased, an important comparative development for this study since it took place under the same government which repealed the basic study grant discussed in Chapter 4.

In Germany, I focus similarly on two fundamental transformations of the minimum income system and their place in a broader reform agenda called “Agenda 2010”. First, I focus on the Hartz IV reform, particularly on consolidation of the former social assistance systems into the Unemployment Benefit II (or ALG II) system. This turned social assistance into a benefit which could be claimed by a variety of different types of outsider, including those who were long term unemployed and no longer qualified for the main unemployment benefit system, or individuals who simply did not meet the minimum income threshold. While the Hartz reforms have received extensive academic interest, it is important to study from the perspective of dualization since while ALG II introduced a new social assistance scheme the creation of the new Unemployment Benefit I signaled one of the largest cuts to insider status maintenance in the Hartz reforms. In addition to the new social assistance system, a supplementary child benefit was introduced in 2005 as an addition to the regular childcare allowance, but targeted low-income earners who were around the ALG II income limit and would allow them to increase their childcare payments even if they did not meet ALG II requirements. In the benefit calculations shown in Figure 3.19, the supplementary child benefit accounts for some of the increases in income available to outsiders. It is worth investigating, therefore, why a center-left party at this time introduced a set of reforms that cut insider benefits an would set Germany along a pathway that would force a significant amount of
attention to outsider problems.

In Sweden, analyzing reform in minimum income benefits requires a case study of why changes have not been made. Chapter 2 and Chapter 3 showed that benefit generosity in minimum income benefits has declined in Sweden and that the net income difference between full-time and part-time workers has increased. Sweden has also had a period of prosperity relative to other European countries but has not spent this economic success on targeting outsider labor market status specifically, at least through income benefit legislation. Davidsson (2018) reaffirms this view by arguing that in the context of increases in disposable income and changes in employment protections the lack of investment in the poorest of the Swedish population shows a pattern of insider friendly policy decisions. In order to study this, I identify periods during which the ceiling for income protection was debated. This includes in 1998 when the national standard was introduced to equalize the social assistance benefit across municipalities, decisions in 2003 and 2006 not to follow the Swedish Consumer Agency’s advice to raise the benefit level in line with price increases in the basket of goods included in the basic amount, two rejected attempts to add new items such as internet subscriptions and local travel (especially to public employment service meetings) to the calculation of the basic amount, and two decisions (in 2006 and 2017) to increase the basic amount only for families with children only.

5.2 Deteriorating benefits for outsiders in Sweden

The benefits available to outsiders with a weak connection to the labor market in Sweden vary considerably in their eligibility criteria and how they target outsiders. Certain benefits, such as the child benefit (barnbidrag), are available to outsiders as a universal benefit. Benefit levels do not depend on income, only on the number of children. The unemployment benefit is not as universal, how much income the benefit replaces is based on voluntary membership in an unemployment fund, to be eligible requires employment history and the benefit is limited to 300 work days. For those without a qualifying employment history, or who have run out of unemployment benefits, there is social assistance (ekonomist bistånd). Over time, social assistance in Sweden has changed from a benefit of last resort meant to secure a livelihood for people who do not have the capacity to work, to increasingly be used as a residual unemployment benefit for those who cannot qualify for the regular
unemployment benefit scheme. At the same time, the generosity of the benefit has deteriorated relative to wages.

This section proceeds as follows. First, I discuss the changing role of social assistance in Swedish economic policy. This forms an argument for why social assistance is uniquely relevant in this case; it is puzzling why, as social assistance has become a more important factor in labor market policy, important labor market policy actors have not focused on improving the social assistance system. I describe a number of reform attempts, some successful some not, to describe the politics of social assistance. Finally, the section concludes by summarizing how relevant actors have approached, or not approached, social assistance.

Although in recent history few reforms were achieved in the social assistance system, the role of the social assistance benefit in Sweden changed from a temporary benefit of last resort for people in society who do not have the capacity to work to functioning as an alternative unemployment benefit or as a long term support for those who cannot find a foothold in the labor market. Starting with the 1956 Social Assistance Act, beneficiaries could be entitled to social assistance specifically due to incapacity for work, either physical or mental\(^1\). Unemployment alone was not a valid reason for a claim to social assistance, and it was up to the discretion of municipalities whether an adult without children was eligible to receive a benefit. For much of the initial development of the Swedish welfare state, the way policy was designed assumed that anyone with a potential attachment to the labor market would, rather than relying on social assistance, be covered by benefit arrangements which were attached to prior labor market participation. It was not until the last major reform of social assistance, the replacement of the Social Assistance Act with the 1982 Social Services Act, that a universal right to a subsistence minimum was established.

But the 1982 Social Services Act did not establish a minimum income or minimum standard. Even though social assistance became a universal right, the state did not make the administration of social assistance its responsibility. The responsibility for assessing practical eligibility of the benefit and the level of the benefit remained with the social services of Swedish municipalities. Since social assistance was not meant explicitly for unemployment, it did not connect to the national mechanisms for labor market policy or to labor market interest groups. Therefore, while national actors such as unions had a clear place in active labor market policy, employment regulation, and skills investment, social assistance

\(^1\)Social assistance act (SFS 1956:2, 1956, p.9)
remained outside the core interests of labor market policy actors because it was not intended as unemployment support. Furthermore, increasing the role of social assistance in the policy approach to the labor market meant that labor market policy would take place outside of national politics, ceding some authority to the municipalities.

Over time, however, the role of social assistance in unemployment compensation grew. In a historical analysis of the role of social assistance in Swedish society, Salonen (2000, p.40) notes that in the beginning of the 1900’s the typical social assistance beneficiary was an elderly woman living in the countryside with no other ability to support herself. By the 1990’s the typical beneficiary was young and able to work. He also notes that in 1959 only thirteen percent of social assistance recipients listed unemployment as a contributing factor to their need for social assistance (Salonen, 2000, p.50). In stark contrast, a 2011 long-term labor market inquiry commissioned by the government found that for forty percent of social assistance beneficiaries unemployment was the primary cause of their reliance on social assistance. This constitutes a striking shift in the function of Swedish social assistance from primarily supporting citizens who were unable to work to supporting labor market outsiders.

The 1990’s economic crisis put the idea that social assistance should not function as an unemployment benefit to the test. The number of social assistance beneficiaries increased sharply and spending on social assistance rose. While the overall growth of social assistance beneficiaries in the population rose from 5.6% in 1990 to 7.8% in 1996, this meant that over one third of households with low income were taking social assistance benefits. The largest increases in social assistance beneficiaries were among young and immigrant populations, two groups who had a weaker connection to the Swedish labor market and were less likely to be covered by unemployment insurance. Social assistance during the 1990’s also changed its character in duration, long-term use of social assistance benefits rose from 32,000 households in 1990 to 150,000 in 1996.

What this signifies is a significant policy drift in the Swedish welfare state which has been underappreciated. While the benefit was always meant for “outsiders” of a certain kind, the Swedish welfare state was designed to function with labor market participants in one benefit system and those who could not participate in the labor market in the social

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2Långtidsutredningen SOU 2011:11, p.179
3SOU 1999:46, p. 13
4SOU 1999:46, p. 19
assistance system as a last resort. However, with higher unemployment and a different type of beneficiary, that model weakened. As noted from a 1999 investigation into the functioning of the social services⁵:

A factor that is important...is the role of social assistance in the Swedish well-being model. The general Swedish social policy is based on the individual’s connection to the labor market. Social assistance functions as the ultimate safety net. As long as Sweden has had low or very low unemployment, the general social insurance system has been able to contribute to us having fewer poor people in Sweden than in most other countries.

The report goes on to explain that the rising costs of the system are a result of an increasing number of beneficiaries who do not fit within the typical income insurance system even though their reasons for needing support do not align with the purpose for social assistance. The “outsiders” that the social assistance system served were no longer those who were permanently inactive but rather those who were unemployed and would work if they could find the opportunity. In this period, therefore, the practical use of social assistance began to change, and it is useful to delve into the primary debates during this period about social assistance to understand the political response, if any. One starting point is in the 1998 revision of social services⁶. While the 1982 Social Services Act established the right to a reasonable standard of living, the 1998 revision was the clearest attempt to date where the state used legislation to define what constituted a reasonable standard of living.

While the introduction of a national standard (the so-called riksnorm) was only one item of many in the 1998 reform, it’s important to understand why a national standard was necessary. Prior to this, the National Board of Health and Welfare issued a suggested norm that included ten items⁷. However, the municipalities who administer the benefit could make choices which deviated from the suggestion issued by the National Board of Health and Welfare. Municipalities also had systematically different ways of deciding what constituted the normal

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⁵SOU 1999:97, p.184  
⁶Prop. 1996/97:124  
⁷Food, clothing and shoes, leisure, health and hygiene, household consumable goods, furniture (including utensils, TV and radio), newspapers, a phone, and TV license, household electricity, home insurance, and health and dental care.
Deteriorating benefits for outsiders in Sweden

payment for social assistance. In 1992, 225 municipalities had one standard for the benefit, while 61 municipalities had different norms based on long term or short term benefit duration. Within these categories, what could be included as long term or short term needs varied substantially. Because assessments were done individually, the payments could vary substantially, and court judgements upheld municipal decisions to exclude certain items from the municipal norms. Therefore, the social assistance system was administratively burdensome, provided lower benefits in practice than what central decision makers recommended, and varied substantially depending on the municipality.

Preparation for the introduction of the riksnorm stemmed from an inquiry initiated under the second Social Democratic Carlsson government. The inquiry was tasked with investigating the responsibility of the social services, and with unclear guidelines of what a reasonable standard of living meant, the practical responsibility for social services was shared among municipal decisions and the growing influence of courts. Central guidelines were frequently not followed. The legislation that emerged from this inquiry was a Social Democratic initiative with the support of the Liberal party and made two major changes to social assistance. First, social assistance would be split into two components, a riksnorm of six items and a municipal portion of the benefit that covered reasonable costs for housing, household electricity, home insurance, food, clothing and shoes, play and leisure, consumables, health and

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8SOU 1992:98, p.8

9For example, clothing could be divided into non-durable clothing, so-called consumer clothing, and perennial clothing. Municipalities differed on whether either category was included in a short or long-term benefit calculation, see SOU 1993:30, the preparatory work for the establishment of the Risknorm

10For example, see the decision RA 1994:58 from the Supreme Administrative Court upholding a municipalities decision to exclude several items from an individuals needs assessment.

11SOU 1993:30, p.177 notes that almost half of the appeal cases in the administrative courts were about social assistance norms, and it was not uncommon for beneficiaries to have to appeal multiple times over the course of their time in the social assistance system despite no changes in their income situation. The same report cites the poor budgetary situation at the municipal level as a reason why benefit assessments would often be below national recommendations, in turn creating a worse situation for the municipality as it became hard for beneficiaries to improve their situation on meager benefits.

12food, clothing and shoes, play and leisure, consumables, health and
ance, business travel, and trade union and unemployment insurance fund membership. Second, the municipalities would gain some authority for labor market activation since young people aged twenty five and under could be required to participate in municipal activation programs as a condition of benefit receipt.

The parliamentary debates about Prop. 1996/97:124 and the motions submitted reveal some information about what kinds of issues surrounding social assistance were important to the parties in parliament. In the debates the content of the riksnorm and fundamental design of social assistance were not a focus of political parties, although this was also clear from the preparatory work. In other words, while this was an opportunity to clarify the meaning of a reasonable standard of living on the national level, the purpose of clarification was about strengthening support for labor market outsiders only to the extent that the national standard would be clarified in order to regulate municipalities who systematically paid benefits well below the target set by the National Board of Health and Welfare.

A substantial opposition to the proposition was voiced by the Centreparty, the Moderate party, and the Christian Democratic party. The Centreparty articulated a position which highlighted the shortcomings of the income insurance systems’ ability to integrate young people and others whose primary motivation in joining the social assistance system was unemployment. But their main problem with the legislation was shared with the Moderates and the Christian Democrats, namely that the legislation would deteriorate municipal self-determination, in particular because the norm was decided nationally but the financial burden still fell on municipal budgets. This was a clear line of conflict, while it was articulated in different ways among center and right leaning parties, the most consistent objection to the proposal was that it reduced municipal decision making power.

The national-municipal conflict also divided the Social Democratic party. By the time the legislation came to the debates a more united argument was presented, but in the lead up to the legislation it was not obvious that the goal to standardize social assistance payments would outweigh commitments to municipal self-determination. In the 1991 committee directive to establish the inquiry Bengt Lindqvist, the Social Democratic deputy minister of Social Affairs, made it clear municipal

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freedom was important\textsuperscript{14}:

The municipalities have been deliberately given considerable freedom in the law to design the assistance based on varying local conditions and determine which standard of living can be considered to correspond to the law’s requirements for fairness...In my opinion, there is no reason to abandon the principle, according to which the municipalities have great freedom to determine the norms for social benefits themselves with certain restrictions.

In the press coverage between the initiation of the committee and the passage of the legislation,\textsuperscript{15} several articles cited internal disagreements within the Social Democratic party about the desirability of a riksnorm and whether the proposition to follow the suggestion for a six-item riksnorm were too high. This included Social Democrats in municipal government in Stockholm and other major cities, even those who agreed with a national minimum expressed that the riksnorm proposal was too high and placed an unfair burden on municipalities. This is an important part of the politics during this time, it shows that while outsiders may have been the primary beneficiaries of social assistance itself, municipalities were the important beneficiaries of social assistance reform.

Partners with the Social Democrats were not united in a pro-outsider perspective either. The representative from the Liberal Party\textsuperscript{16}, which helped produce a majority in favor of the legislation, while supportive of the idea of a national norm said that the party preferred to keep the distinction between a smaller short-term norm and a more generous long-term norm. The party also wanted to extend the municipalities’ authority to implement activation programs coupled with social assistance receipt beyond the age of twenty five to all age groups, a position that was articulated as well by the Moderates in a lengthy motion submitted to the bill\textsuperscript{17}. This would have meant an even further departure

\textsuperscript{14}Committee directive 1991:50, Översyn av socialtjänstlagen
\textsuperscript{15}Here a press archive search was made on the terms riksnorm, socialbidrag (previously the formal term for social assistance, still used colloquially), and försörjningsstöd (the formal name for the benefit). Articles published during the preparatory and legislative period between 1991 and 1998 were read for background.
\textsuperscript{16}Then Folkpartiet liberalerna
\textsuperscript{17}Motion 1996/97:So44 by Carl Bildt et al. (m)
from trade union preferences that labor market policy remain under the responsibility of the national state. In the debates, the left party was the only group who articulated a clear preference for a more robust riksnorm, arguing that additional items such as dental care should be specified at the national level rather than left to the discretion of municipalities.

The history leading up to the establishment of the Riksnorm, the preparatory work for Åndring i socialtjänstlagen, and the debates and motions in parliament show a clear picture of what the motivations were, and perhaps more importantly, what the motivations were not when it came to establishing a riksnorm. First, decision making does not seem to have followed certain economic interests. While I have not presented arguments about whether the riksnorm decision itself aligned with economic interests, trade unions do not support shifting responsibilities for activation policy from the national to municipal level. Since one of the major changes in the legislation was introducing municipal activation measures for young people, the reform was a step in the wrong direction for major economic interest groups. Although, activation in the area of social assistance recipients is less important for trade unions than for unemployment insurance beneficiaries. Second, the reform shows that policy making was substantially driven by political fragmentation. Within the Social Democratic party, municipal interests made it difficult to come to an agreement on a riksnorm even though the system before 1998 functioned poorly. Although the riksnorm was supposed to ensure higher benefits in municipalities which systematically underpaid relative to the suggestions by the National Board of Health and Welfare, because it reduced the norm component to six items from ten, reduced the ability to appeal municipal decisions, and made the municipal component of the benefit more prone to cost control\textsuperscript{18}, it was not designed as a long-term solution to a deteriorating position for outsiders either. Rather, because the reform coalition would necessarily need to prioritize municipal interests, there was no way to form a truly pro-outsider coalition because municipal cost containment was opposed to increased spending on outsider benefits.

After the introduction of the riksnorm, no substantial changes to the social assistance benefit were made until 2013 when additional employment incentives were introduced. Between this period, however, the riksnorm failed to grow at a rate that followed wage developments. Unlike some other social assistance systems, Sweden’s benefit is not automatically indexed. It is also not a decision made through updates to

\textsuperscript{18}For more discussion on this, see Bergmark (2016, p.22-23)
Deteriorating benefits for outsiders in Sweden

legislation which requires parliamentary approval, but rather the government meets every year and makes a decision to update the Social Service Ordinance (socialtjänstförordningen) with the level it has decided on. It takes guidance from price developments calculated by the Swedish Consumer Agency but is not obligated to follow these recommendations. Given that growth in the riksnorm increases pressure on municipal budgets, there is an incentive to contain costs, but since the decision is not made in a way that is open to much deliberation there are few opportunities to exert pressure for a higher riksnorm. Policy drift is exacerbated by the way benefit changes are designed, while the Swedish Consumer Agency continuously updates the goods that it includes in price forecasts of its reasonable standard of living, there is no policy mechanism for integrating these goods into the riksnorm without legislative changes to the Social Services Act.

For instance in 2003 the government, for the first time, decided not to update the riksnorm following the Swedish Consumer Agency’s recommendations (Socialstyrelsen, 2009, p.35). Comparing the Swedish Consumer Agency’s calculations of reasonable living costs\(^{19}\) to the value of the riksnorm for a single person, a report from the Swedish Trade Union Commission shows it is around this time that the riksnorm begins to fall under the recommendations for the reasonable cost of living\(^{20}\)(Almqvist et al., 2018, p.56). In 2004 the government again deviated from the consumer agency’s recommendations, in this instance the Swedish consumer agency included mobile phones and mobile phone subscription costs in their calculation. These are not a part of the six-item riksnorm, and so instead the government raised the regular category for telephone calls by a smaller amount (Socialstyrelsen, 2009, p.36). The following year, mobile phone costs were integrated into the category of telephones, newspapers, and TV licenses, but overall the risknorm fell because of decreased food costs (Socialstyrelsen, 2009, p.37).

In 2006, the government again decided not to follow the Swedish Consumer Agency’s recommendations. In this instance, the consumer

\(^{19}\)Here it may be important to note, while the riksnorm includes six specific items, the Social Services Act states that the purpose of social assistance is that “The individual must be ensured a reasonable standard of living through the assistance.”, Socialtjänstlag (SFS 2001:453), Chapter four.

\(^{20}\)While in 2003 the riksnorm was 100% of the Swedish Consumer Agency’s reasonable living costs, this declined to 70% of reasonable living costs (for a single person).
agency recalculated food costs based on new nutritional recommendations, included mobile phone usage for children over the age of eleven, and recommended including an internet subscription as a part of the reasonable standard of living (Ds2008:29, 2008, p.13). An increase in the riksnorm of this size would have increased municipal budgets substantially, up to 900 million SEK, and so the government decided not to follow the consumer agency. Instead, the government increased the riksnorm according to a consumer price index and the increase in the child benefit. This highlights another difficulty of the riksnorm. Childcare benefits are counted as income against the social assistance benefit, any increase in the childcare benefit is deducted from the amount eligible for social assistance. In order to match increases in the childcare benefit to parents in the social assistance system, the riksnorm needs to be raised. Otherwise, the extra childcare benefit is a subsidy to the municipality who can pay a lower benefit. While an inquiry from the ministry of finance and the ministry of social affairs recommended changes to the social services legislation that would tie the riksnorm to a consumer price index in order to help make decision making about the norm more reliable (Ds2008:29, 2008), the suggestion was never incorporated into legislation.

What this history shows is that after the establishment of the national standard, municipal cost control still made social assistance difficult to manage. In a review of motions submitted to the Social Affairs Committee in parliament and other records, many of the issues which have prevented the riksnorm from keeping up with the Swedish Consumer Agency’s recommendations or with other government policies have been addressed, although in ways which do not produce changes in legislation. For example, on the question of the value of the child benefit and its connection to the means test, the question was brought up in 2001 but only in a very limited context\textsuperscript{21} to the Social Democratic minister of social affairs who cited the municipalities freedom to raise the benefit if they saw fit\textsuperscript{22}, and a number of Social Democrats submitted a motion regarding excluding the child allowance from the means-test in 2012\textsuperscript{23}.

\textsuperscript{21}Written question 2000/01: 564 by Rigmor Stenmark (c)
\textsuperscript{22}Excerpt from the minister’s response: “The purpose of raising the child allowance was to improve the consumption standard of families with children. The Government assumes that these intentions are a guide in the municipalities’ assessment of the means-tested social assistance.”
\textsuperscript{23}Motion 2012/13:So339 av Phia Andersson m.fl. (S)
Deteriorating benefits for outsiders in Sweden

On the issue of items like computers and internet access, motions have been submitted by many parties including the Social Democrats, Left party, and one Christian Democrat but these motions do not become legislation and so far, no legislation has addressed whether the riksnorm continues to reflect a “reasonable standard of living” given how much the norm has drifted from both average disposable income and the standard of living calculated by the Swedish Consumer Agency.

Where legislation was able to make changes in the social assistance system has been with income disregards and activation requirements. Under the center-right Reinfeldt government, legislation was passed to disregard 25% of earned income for social assistance recipients who had claimed benefits for six months or more, and also increased the ability for municipal social services to refer social assistance beneficiaries to activation programs. The legislation was supported by all parties except the Left party, it is worth noting that during the debates the Social Democratic representative noted that the party had also submitted a similar proposal in its own budget the year before. While this proposal was initiated in a period of center-right government it does not seem that there was significant conflict with introducing an income disregard for social assistance or in marginally increasing the municipalities authority in labor market policy tied to social assistance.

In addition to the Left party’s objections to the legislation the Swedish Trade Union Confederation (LO) also submitted a consultation response to the legislation that outlined how this was a development away from the welfare system the unions were in favor of. LO’s position was primarily that an income disregard would undermine the tax and welfare system because someone working a low-income job might pay taxes for a social assistance recipient to work the same job, because it introduces financial incentives to labor market activation and undermines control-based mechanisms. On the role of municipalities in labor market

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24For example: Motion 2011/12:So227 Internetabonnemang bör ingå i riksnomen, Motion 2012/13:So307 Internet bör ingå i normen för ekonomiskt bistånd, Motion 2011/12:So467 Internetuppkoppling som försörjningsstöd, Motion 2012/13:So545 Riksnormen för försörjningsstöd, Motion 2019/20:744 Ekonomiskt bistånd för ökad jämlikhet


26Parliamentary record from May 23, 2012 (Prot. 2012/13:110)

27See the Swedish Trade Union Confederation’s written response (Löfgren, 2012)
Minimum income benefits in labor market regimes

activation, LO rejected a municipal alternative to the Public Employment Services, arguing that it would be impossible to ensure uniform quality in labor market policy. Earlier the same year, LO issued a report preempting the job stimulus legislation arguing that municipalities should be relieved of all labor market policy responsibilities and that an earnings disregard and further municipal labor market policy authority would undermine the legitimacy of the Swedish labor market policy model (Löfgren, 2012). The alternative suggested by LO, also supported by the Left party in the debates over the legislation, was to expand the insurance system so that more people whose primary reason for social assistance was unemployment could be covered through the national unemployment insurance and labor market policy model.

Further activation reform in social assistance was achieved in 2016 where activation obligations for benefit recipients were codified into national law.\(^{28}\) In practice, the National Board of Health and Welfare’s guidelines for administering social assistance instructed municipal social welfare boards that they should have the ability to require benefit recipients to be available for work, and primarily that this requirement should apply to working full-time.\(^{29}\) Furthermore, the preparatory work for the legislation, which included an investigation of activation practices across Swedish municipalities, found that most municipalities’ labor market participation requirements were as strict, and frequently even more more strict, than requirements within the unemployment insurance system.\(^{30}\) Nevertheless, the committee directive that the legislation initiates from motivated the investigation into codifying these requirements in a similar way as I have described drift in the social assistance system, more beneficiaries use social assistance as an unemployment benefit, and therefore policy makers sought legal clarification in national legislation that makes social assistance job search requirements as binding as job search requirements for unemployment insurance.\(^{31}\) The committee directive emerged from the Reinfeldt government, but legislation was passed under the first Löfven government, with all parties except the Left voting

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\(^{28}\)Prop. 2015/16:136 Arbetslöshet och ekonomiskt bistånd

\(^{29}\)Although part-time work could be permitted

\(^{30}\)SOU 2015:44, p.11

\(^{31}\)For instance, Committee directive Dir. 2014:39 states on page 6: “In summary, it can be stated that many people who receive financial assistance [social assistance] do so because of unemployment and lack of entitlement to, or insufficient compensation from, among other things, unemployment insurance.”
in favor of reaffirming activation requirements within social assistance. Reforms discussed here and above which dealt with activation efforts of social assistance, however, did not approach the question of benefit levels or outsider compensation in relation to activation requirements.

The section above showed that the relevance of social assistance for Swedish labor market politics has grown, especially in relation to the unemployment insurance system. However, reforms of social assistance have not included compensation for outsiders despite the declining real value of the benefit. While the proportion of social assistance beneficiaries who are outsiders\(^\text{32}\) has grown, this has not generated sufficient attention from policy-makers to respond with increased benefit generosity. Recent reforms have only managed to strengthen the activating components of social assistance but not the compensating components. Where reform was concerned with outsider compensation, as was the case with the creation of the national social assistance standard, it was strongly influenced by concerns for municipal budgets. Furthermore, when policy-makers were confronted with larger than usual price growth or new items that the Swedish Consumer Agency considered necessary to include in the standard basket of goods, governments chose not to follow advice that would increase the benefit, particularly because it would increase the burden on municipal budgets. This case study has therefore focused on a lack of reform. The growing salience of social assistance for managing the outsider labor market and decreases in the real value of benefits suggest a functional need for reform, but the politics of social assistance shown in this case study suggest the primary constituency governments are concerned with is not outsiders, but municipalities. Addressing the social assistance benefit in a way that emphasized outsider compensation would need some way to include municipal interests in the reform coalition.

5.3 Picking among outsiders in the Netherlands

Chapter 4 showed that in the Dutch case, funding higher education involved a distributive struggle where reform moved income support for students in higher education from universalistic to particularistic spending. With pressure for decreasing budget deficits, why should the

\(^{32}\)That is, individuals whose primary problem is a weak attachment to the labor market rather than disability, addiction, or other circumstances that prevent labor market participation
butcher pay for the son of the dentist? From what I showed in Chapter 3, we might already expect the lowest wage earners in the Netherlands to benefit from particularistic welfare policies as well. This is because the incidence of outsiderness is different in the Netherlands compared to the other two countries, and benefits available to minimum income earners differed between single people and couples in addition to depending on hours worked (or, put another way, attachment to the labor market). Unlike Sweden, where for instance childcare benefits are universal, in the Netherlands childcare benefits introduced a component that can depend on a person’s family type and income. Therefore, the design of these benefits becomes a part of how governments distribute to different groups, and these distributional particularities become a more important factor for the monthly minimum income benefits an outsider can rely on.

This section therefore reviews a number of decisions which were important in the social policy developments that were shown in Figure 3.8, primarily increases in child benefits (one in 2008, 2009, and 2015) which were relevant to people in the lower end of the income distribution, as well as reform in the social assistance system in 2004 to compare to the social assistance developments which are discussed in the Swedish and German cases. Typically, family benefits are not studied in context of labor market policy. But in the Dutch case, even without my comparison of benefits available to workers with marginal labor market attachments in Chapter 3, there would be a good reason to suspect that childcare policy might be a key area of minimum income benefit policy for Dutch social policymakers. This is because one significant change in the composition of the Dutch labor market is the proportion of part-time employment, facilitated by the entrance of women into the labor market, that made the management of care and labor market entry a policy challenge.

Until the mid 1980s, the Dutch labor market was characterized by low female labor market participation. The balance of paid work and un-

\[33\] An interviewee expressed frustration with this phrase. Although I agree it is crude, it expresses the distributive character of some of the debates at the time.

\[34\] Chapter 3 showed a much higher growth and prevalence of part-time and temporary work, for instance, compared to Germany and Sweden. This indicates that there are many in the labor market who fit different employment biographies.

\[35\] Shown in Figure 3.8
paid care responsibilities was more typical of a continental “male breadwinner” welfare state (Van Der Veen and Trommel, 1999). However, the 1990s were a decade of significant transformation in atypical work in the Netherlands. In the process of the so-called Dutch employment miracle, the Dutch labor market went from the highest unemployment rate in Europe to the lowest (Schmid and Helmer, 1997; Visser and Hemerijck, 1997) and added 900,000 people to its labor force between 1994 and 1999 (Van Oorschot, 2004b). A substantial portion of this was the entry of women into the labor market, with female labor force participation more than doubling, and the majority (nearly seventy percent) of women worked part-time jobs36 (Van Oorschot, 2004b, p.402).

Voluntary part-time work is considered an insider type of employment in some dualization literature, for example in Rueda’s work (2005; 2007). Much of the female labor force in the Dutch “one and a half worker” model works part-time on a voluntary basis, they are not working part-time only because they cannot find standard employment (Yerkes and Visser, 2006). Despite part-time work becoming more typical rather than atypical in the Dutch labor market regime, however, some of the social benefits that supplement part-time income and facilitate part-time employment for women are the same benefits that this study focuses on. Governments have recognized the connections between making part-time work more normal and what I have argued are pro-outsider income support policies. For example, during the rapid growth of part-time employment, a review of the social function of families the state secretary for Health, Welfare, and Sport was presented in a letter to parliament. Here several government inquiries into the balance of work and care are referenced, but the passage below notes how atypical work37 is viewed as complementary along child benefits and social assistance.38:

Labor, income and social security legislation takes into ac-

36Van Oorschot (2004b, p.411) puts it clearly: “...the largest number of new jobs (65 per cent) are part-time. Most of these part-time jobs are occupied by women, who entered the Dutch labour market en masse in the 1990s. One could conclude that the Dutch job machine mainly consisted of a giant redistribution of the work available. Grossly stated: full-time jobs held by men in an industrial economy have been replaced by service economy part-time jobs held by women.”

37At least atypical in an international context, again, in the Netherlands part-time work has gone from atypical to typical.

38Social position and the function of the family (Kst 24887 Nr. 1, 1996)
count the presence of children in the family through the social minimum and child benefits. In addition, reference can be made to student grants and individual housing benefits, including the recently introduced child benefit...as temporary support during the transition from benefits to work or education, 85 million has been set aside for the provision of childcare for single parents on social assistance. This is temporary support during the transition from benefits to work or during training.

The changes discussed in this chapter, therefore, focus on some of the attempts to make assistance and family care a part of the income available to working people in order to combine benefits, income, and labor force participation, even if it is not within the context of the standard employment relationship. Unlike the Swedish case above, childcare benefits are not universal and can vary depending on income. They can also be collected in addition to social assistance. Therefore they become a unique element of the minimum income package available to outsiders, even if the initial purpose was to create an insider part-time labor force through a welfare state that emphasized labor market participation. Furthermore, what the quote above shows, and a theme that was common in preparatory material and parliamentary debates that I will discuss below, was that a variety of tools within minimum income benefit policy were discussed as ways to manage the labor market, both because they contained activating measures but also because they supported particular outsider labor market statuses.

The centrality of family incomes and labor market participation in social policy debates was a part of reforming social assistance between 2002 and 2004 during the replacement of the General Assistance Act (Algemene bijstandswet) with the Work and Social Assistance Act (Wet werk en bijstand). While this reform did not alter the incomes shown in Figure 3.9 in Chapter 3, it is included here because it was a significant element of shifting the Dutch welfare state towards activation of outsiders. At the same time, it showed some of the limits to how much center-right government was able to require when it came to activating the labor force, as one significant obstacle to passage of the original bill.

39As put strongly by Mark Rutte, then State Secretary for Social Affairs and Employment, in a letter addressed to the parliament’s expenditure committee: “In the WWB, the activating function of social assistance is given a clearly stronger emphasis than the income protection function.”, (Kst 28870 Nr. 89, 2003, p.1)
was the requirements it set for single parents. Before explaining this, it is important to know that the Dutch social assistance system is different than the Swedish or German systems in that it is more strongly based on providing a guaranteed income. Since the 1960’s, the social assistance benefit has provided an income which is proportional to the minimum wage: a single person is entitled to 70% of the minimum wage, a single parent 90%, and a couple 100%. The minimum wage is adjusted twice per year in line with average collectively bargained wages.

The minimum income guarantee of Dutch social assistance is comparatively strong, it was not until 1996 that a reform of the General Assistance Act under first Kok cabinet, a coalition between the PvdA, VVD, and D66, introduced work requirements for social assistance that included single parents with children older than five years (Vanderborght, 2004). Vanderborght’s (2004) study of income politics in the Netherlands and Belgium shows that during several periods a true universal basic income was investigated in government reports and seriously considered as a viable alternative to the current social security system by several ministers and political parties in the 1990s. Basic income schemes were also introduced in several Dutch cities after the 2014 Participation Act gave municipalities the ability to use social assistance funds to experiment with alternative social assistance systems. All this is to indicate that the starting point of the Dutch minimum income benefits scheme is quite different than the others studied in this project, and although austerity has been a recurring theme in social assistance debates the minimum income guarantee has not been questioned.

The replacement of the General Assistance Act with the Work and Social Assistance Act (WWB) in 2004 by the second Balkenende government left the main benefit levels intact but accomplished three broad goals: it decentralized budgetary autonomy to municipalities, reduced spending, and strengthened activation. These were the primary social assistance goals around which parties coalesced. Decentralization was achieved by giving municipalities control over implementation of the WWB and making them responsible for active labor market measures. While there are financial incentives built into the legislation, both benefits and job integration are funded through separate budgets that

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40 Although the single parent premium was abolished in the 2014 Participation Act, as discussed later in this chapter
41 A so-called “purple” coalition of center-left and liberal parties
42 A coalition of the Christian democratic CDA, the liberal VVD, and the social liberal D66
43 For example, municipalities can keep surpluses and are required to
Minimum income benefits in labor market regimes are tax-financed and come from the central government’s general funds (Blommesteijn, Kruis and van Geuns, 2012). In this respect, decentralization differs dramatically from the Swedish system where municipalities bear the financial costs of benefit payments. Spending was reduced through the abolition of categorical assistance, a supplement to the benefit that could be paid according to certain characteristics (for instance, certain disabilities) and the reduction of subsidized employment. This would be done through individual assessments by municipalities. On labor strengthening activation, previous work requirements were changed from “suitable work” to “generally accepted work”, thereby dramatically increasing the types of jobs claimants could be required to take.

The liberal-Christian Democratic coalition was able to accomplish most of its objectives with the WWB. Although several issues were controversial in the debates, few motions could attract one of the governing parties needed to get a majority for a change in the legislation. Activation of single parents, however, was controversial, although was presented in the initial legislation because it was an important goal for the VVD. On this issue, however, left wing parties, labor, the Christian Union, and the Calvinist party were able to pass an amendment with D66’s support to give an exemption for single parents with young children, showing that although a number of elements of the proposal could find consensus, a coalition across interests could be found when it came to the relationship between parenthood and the labor market.

The replacement of the General Assistance Act with the WWB was a step in orienting the Dutch minimum income system toward outsider activation by reducing the number of exemptions to work requirements, giving municipalities greater freedom over activation programs for social assistance beneficiaries, and introducing budget incentives for reducing social assistance claims. However, debates over activation show that certain groups of outsiders, in this case single parents, received significant attention from political parties despite the fact that they are a small constituency. Because of the government’s precarious majority, in order to generate agreement over the primary goal of strengthened acti-

\footnote{According to Frans Weekers of the VVD discussing single parent activation: “The VVD parliamentary party has been advocating for years to end the categorical exemption from the obligation to apply for social assistance mothers with young children” (Tk 20022003-4852-4920, 2003, p.4887)}

\footnote{Parties voting for the Noorman-den Uyl/Bakker Ammendment listed on page 5091 (Tk 20022003-5090-5096, 2003).
vation, unconditional work requirements for single parents needed to be removed from the legislation. In this instance, attention to a precarious labor market group was a part of the bargaining process for broader activation legislation rather than constituting a primary objective of any political party in particular.

Questions of how to best redistribute between insiders and outsiders are also present in the family benefits system. Between 2005 and 2009, consecutive changes to the childcare system were made which dramatically increased the amount of spending on childcare benefits in the Netherlands through direct transfers coupled with spending through the tax system in the form of tax credits. Additionally, subsidies for childcare services were rearranged in 2005 to allow more childcare services to qualify for subsidies\textsuperscript{46}, and the amount of subsidies paid under this scheme were expanded substantially which contributed to a threefold increase in Dutch spending on family policy (Bettendorf, Jongen and Muller, 2015). In 2008, a means-tested, family size dependent childcare benefit (\textit{kindgebonden budget}) was introduced into the system of means-tested benefits along side the universal childcare benefit (\textit{kinderbijslag}). The introduction of the mean-tested benefit alongside the universal benefit is why, in Figure 3.8, the benefit as a percentage of the average wage available to outsiders increases in 2008. Therefore, while the introduction of this benefit is perhaps small in the context of all of the changes in the child benefits system between 2005 and 2009, this change is meaningful to the outsiders whose benefits were modeled in Chapter 3.

The 2008 child budget originated in a reaction to a CDA-submitted motion during the general political considerations held in association with the 2006 budget memorandum\textsuperscript{47}. The memorandum itself\textsuperscript{48} made it clear that the government’s primary objective for social policy and the labor market was to increase labor market participation. The so-called general financial considerations follow, at which point there is a session in parliament where the budget is discussed and motions are submitted in response to the government’s budget priorities.

The motion that started the debate about means-tested benefits in

\textsuperscript{46} \textit{Wet kinderopvang} \\
\textsuperscript{47}The general political considerations begin in the Tweede Kamer the day after “Budget Day” (Prinsjesdag), an annual meeting on the third Tuesday of September where the government outlines its policy priorities and a memorandum is presented to parliament which outlines the main budget priorities for the year. \\
\textsuperscript{48}See Section 3.2, Kst 303000 Nr. 1
the childcare system proposed to increase the child tax credit (*kinderkorting*)\(^{49}\) and was supported by the government. In particular, the submission emphasized that this would increase the income for social assistance beneficiaries with children. The problem, as pointed out in the debates after the introduction\(^{50}\), was that while the justification for the tax credit was assistance to low income families with children, in practice many families cannot redeem the credit because their tax burden is too low. The debates in the following weeks\(^{51}\) focused on how this was a particular problem for parents working at the minimum wage, especially given the government’s goals for labor participation growth. Although many social assistance beneficiaries would benefit from the tax credit, single parents working around the minimum wage would not because employment related tax credits typically reduced the tax burden completely, leaving no room to redeem the child tax credit.

In response to the efforts to expand the tax credit, the PvdA later submitted a motion to change the payment mechanism for the child tax credit to pay the benefit as an allowance rather than a credit towards the parent’s tax bill\(^{52}\) to increase the value of child tax credits. While the CDA’s initial motion intended to increase the tax credit, particularly for social assistance beneficiaries, the alternative presented by the center-left was a new policy instrument that would have the benefit of traveling across labor market statuses since it could be redeemed regardless of the beneficiary’s tax obligations. With the help of D66 (in government at the time) the motion received a majority in parliament despite the two largest government parties, the VVD and the CDA, not voting in favor. The CDA and PvdA during the general political considerations both

\(^{49}\)Motion No. 10(30300), Tk 20052006-96-158, p. 127

\(^{50}\)Comment in debate by Femke Halsema, Groenlinks: “We know that the child discount will be related to tax revenue. The question is what it will mean for single parents on social assistance [later clarified as parents earning the social minimum] who have insufficient income to subsequently be able to receive that discount. (Tk 20052006-96-158, 2005, p. 127)”

\(^{51}\)In particular, see debate held October 6, 2005 pages 480-483 for an exchange among the state secretary of finance and representatives from PvdA and Groenlinks about the tax-credit problem (Tk 20052006-457-485, 2005). Here the discussion centers primarily around the activating incentives in the child care system and parents working at the minimum wage.

\(^{52}\)Motion by Ferd Crone, No. 38, Tk 20052006-505-526, p.506
Picking among outsiders in the Netherlands expressed a preference for getting aid to families at the lower end of incomes, but for the CDA the best way to get this done in a government with the VVD would be through the tax system. While the motion has sufficient support in parliament, it was not implemented because of a technical problem with the tax authorities’ ability to pay out an allowance.

After the 2006 general election, the caretaker Balkenende III government was replaced by the fourth Balkenende cabinet, a coalition with the CDA, PvdA, and Christian Union (CU). The question of means-tested family support returned as a separate policy proposal to create the so-called child budget. The legislation would achieve goals that were supported by the two largest parties, both had made it clear in the earlier two Balkenende governments that some form of family support for low income workers, particularly single parent working families, should be provided alongside the universal benefit. It also accomplished the Christian Union’s goal of making more money available for stay at home parents. The child budget would accomplish this through a means-tested transfer rather than a tax credit, and would be paid based on the size of the family with a larger benefit per extra child. While the child budget had clear support in government, it originated from a process that was not attached to specific reform of means-tested benefits.

Much like the debate around the basic grant and using education policy as income support, parties varied based on the extent to which they would be willing to use childcare as income support policy. In a 2004 review of means-tested assistance the second Balkenende government clarified the role of child benefits and income policy⁵⁴, the purpose of child-related social transfers was only to equalize the income of families with children with families without children. Support for lower income families would be through the tax system, therefore there were two distinct tools for different income support purposes. The VVD held onto this position during the debates over the child budget in 2007, arguing that the primary problem with introducing a means-tested social transfer was that it introduced disincentives for labor market activation⁵⁵. The

⁵³Wet op het kindgebonden budget
⁵⁴Interdepartmental memo on implementation of income-dependent schemes (Kst 29287 Nr. 2, 2004, p. 2-3)
⁵⁵As put by Stef Blok of the VVD: “for example, a bricklayer and his wife who work part-time in home care. This is precisely the kind of sector where a lot of part-time work is done and for which it would be very good if it was attractive to work more hours. Not with this scheme...the poverty trap, the transition trap, the part-time trap: all those traps
Socialist Party (SP), then the third largest party in parliament, emphasized that the child budget was a good first step but not far enough, in the debates the representative from SP advocated merging the universal and means-tested benefits into one means-tested framework to focus support most on lower income groups. When asking the PvdA why they wouldn’t support a comprehensive income-related benefit system, the PvdA representative even responded that this had been discussed in the party but that no consensus was reached.

The debates during both the Balkenende II and IV governments around which instrument to use, tax credits or means-tested benefits, therefore focused heavily on how to link benefits to labor market status and how different instruments were linked to different groups of outsiders. This theme was also relevant during discussions of the so-called poverty trap that occurs when benefit eligibility disappears above a certain income, therefore promoting lower working hours. This discussion is relevant for expressing what position political parties take regarding how the welfare state should promote outsider employment. In a response to similar discussions in the upper house, André Rouvoet, the Minister of Youth and Family Policy and leader of the Christian Union, explained what the purpose of the legislation would be in relation to employment (Ek 2007-2008-160-176, 2007, p.169):

You could put it [the effects of the bill in context of labor participation] even stronger: accepting a job from a minimum benefit level is made more attractive by the child budget, because this ensures that the disposable income of single parents and single earners at the statutory minimum wage level will rise sharply.

56 From Marianne Langkamp’s contribution to the debate: "Speaking of a fair distribution: we would have preferred to see all schemes become income-related. The SP is for income-related child benefit." Tk 2006-2007-4614-4637, p. 4622-4623

57 See exchange between Mariëtte Hamer and Marianne Langkamp, Tk 2006-2007-4614-4637, p. 4617-4618

58 In this case, the debate between a tax credit that would apply mostly to social assistance beneficiaries compared to a means-tested benefit that would apply both to social assistance beneficiaries but also to employed parents working around the minimum wage.
The quote above shows that the politics of targeted benefits involves considerations of what types of work governments want to support and provide incentives for. The 2004 review of means-tested schemes referenced above clearly stated the purpose of a general child benefit was only to equalize the incomes of families with children to families without children. But once childcare became an income-dependent benefit, the government had to take a stance on not just family issues, but promoting certain types of employment as well, and family policy became labor market policy. The introduction of the Dutch child budget therefore showed a willingness to accept outsider employment and ameliorate the precarious economic situation to outsider families.

Later, during the second Rutte cabinet, the question of how to best connect family, employment, and social policy returned in the form of a reorganization of the entire family benefits scheme that reduced the number of child schemes from eleven to four, but with a different partisan composition of government than in the fourth Balkendende government where the coalition was between labor and Christian parties. Because the PvdA-VVD coalition did not have a majority in the upper house, much like the debate the prior year around the basic grant for university students, the final character of reforms would depend on which parties the government would be able to coalesce with in order to secure the senate votes required to pass a budget and reform family benefits. To reiterate from the previous chapter, this government was concerned with reigning in the national budget after the 2008 economic crisis prompted higher spending. The goal in child benefits was to create a system that would, as much as possible, spur labor market participation and subsidize incomes where necessary while facilitating austerity. Two elements of the reform are primarily important here, the change to single parent benefits and the alterations to the bill that were necessary to get support in the Senate from opposition parties.

Figure 3.8 from Chapter 3 showed that this period of reform was not very meaningful for employed outsiders in a couple, the benefits available for a two-child household with fifteen and thirty hours per week only grew slightly. Rather, the full-time and part-time single workers benefit from the introduction of a single parent supplement to the means-tested

\[59(Kst 29287 Nr. 2, 2004, p. 2-3)\]
\[60The Child Scheme Reform Act, (Wet hervorming kindregelingen)\]
\[61A so-called purple coalition between the labor and liberal party\]
\[62Explanatory memorandum, Kst 33716 Nr. 3\]
childcare benefit that replaced a previous single parent tax credit. This was a substantial change in the legislation, at the time of implementation (2015) the new means-tested single parent supplement was worth €3,050 per year. In contrast, the means-tested monthly benefit for one child paid slightly above €1,000 annually. This increase came at a cost, the supplement to single parents on social assistance was abolished. This development was a result of the initial plans made by the VVD and PvdA to reform child benefits in the context of a budget that needed to meet the three percent deficit target of the EU’s Stability and Growth Pact, a goal especially important to the VVD.

What is equally important in this reform for how family benefits target insiders or outsiders was how the reform changed in response to the “Autumn agreement,” a change to the coalition budget that would recruit D66, the Christian Union, and SGP from the opposition for a majority in the senate. The goal of subsidizing low incomes was diluted by the need to reach out to these parties. The initial plan was to cut back on two universal pillars of the family benefit system: remove age differentiation in the income-independent benefit, which would pay a substantially smaller benefit to parents with children aged 6-11 and 12-17, and abolish free school textbooks. In return, the means-tested benefit for the first child would increase and the benefit for the second child would be doubled. Furthermore, tax credits would be reduced. This meant trading benefits that were available to higher income earners in favor of a targeted approach for earners who met the means-test in order to cut the budget while maintaining income support for certain outsiders.

The cuts to childcare proposed by the government would be difficult, and none of the opposition parties were interested in keeping the government’s family benefit plan intact. Moving to the left would involve negotiating with parties who favored making more of the benefit system income dependent and who found the reduction in the single parent social assistance benefit unacceptable. Many of the speeches in the debates

63Worth €947 plus 4.3% of taxable income up to €1319
64Before 2015 single parents on social assistance received 90% of the minimum wage as a guaranteed income, starting in 2015 single parents would make the same as single people without children, 70% of the minimum wage.
65An outline of the Autumn agreement (Herfstakkoord) was presented to the House of Representatives October 11, 2013 detailing the changes to the PvdA-VVD plan (Kst 33750 Nr. 19, 2013).
Picking among outsiders in the Netherlands

from GroenLinks and Socialist Party revolved around this. One way to negotiate this point would have been to raise the means-tested single parent supplement high enough to mitigate the losses felt by abolishing the social assistance supplement, but this would mean missing austerity targets, unacceptable for the coalition. Moving to the right would still reduce budget cuts, but would trade outsider spending for insider spending. This included keeping free textbooks, a reversal of cuts in the universal child benefit, and a halving of the increases in the means-tested child benefit. While this was not the preferred direction of the legislation for the PvdA, family benefits were not the only item which needed negotiation and to get a budget agreement with D66, CU, and SGP the government opted to trade an outsider focus to soften the blow to insiders. The bill still showed the Dutch labor market regime at work, however, with the goal of developing an outsider labor market that was subsidized through income supplements rather than focusing completely on either universal benefits or income supplements without labor activation. Partisan goals of smaller parties played a role in shaping the direction of a coalition that was initially brought together by a motivation to reduce budgets and boost activation, and in this case universal benefits was a goal of more right-wing parties at the expense of left-wing goals for a more targeted outsider oriented welfare state.

In conclusion, reforms to the benefits available to outsiders in the Netherlands were primarily based on accommodating labor market participation and austerity. Combined with a strong commitment to basic income guarantees in the social assistance system, reforms expanded outsider incomes by increasing the benefits available to low income earners.

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66 The beginning of the debates contain a lengthy exchange between the SP, GroenLinks, and VVD about this point, (Tk 20132014-59-3, 2014, p.1-4)

67 As put by the Minister of Social Affairs in response to questions from the upper house: “Working single parents with low incomes in particular benefit from this...the result is indeed that people on social assistance benefit are also losing out. The alternative to solve the poverty trap would be to increase the single parent head [supplement] even further. That is extremely expensive and we do not have a budget for it at the moment.” (Ek 20132014-33-15, 2014, p.5)

68 Opposed by the left, as put by Linda Voortman of GroenLinks: “Why should ministers and people with very high incomes get the school books for their children for free? Why should they get a child benefit at all?” (Tk 20132014-59-3, 2014, p.9)
with children. Reforms did more than target low incomes in particular, policymakers presented few arguments about poverty relief. Rather, supplementing low incomes was debated in the context of promoting outsider employment. One conclusion that can be made from the Dutch case is that the link between minimum income benefits and segmentation is not only theoretically relevant for this thesis, it is explicitly relevant for policy makers concerned with managing the status of labor market participants.

In the particular reforms I study, family policy was explicitly used as labor market policy in order to spur outsider employment but retain income security for atypical workers. Decisions that favored outsiders included the exemption from work requirements for single parents in the 2004 WWB, introduction of means-tested child benefits in 2007, and introduction of a single parent supplement in 2014. Changes that favored outsiders were not the primary goals of policy-makers at the time, each change was embedded in wider reform projects that either had the goals of labor market activation or fiscal discipline. Parties mattered for reforms, but the link between policy outcomes and the policy making processes is difficult to reconcile with assumptions from partisanship models. D66 was influential in all three instances of reform for securing a final reform coalition, but in the two reforms that involved questions of universal or targeted benefits, D66 chose targeted benefits in 2007 but universal benefits in 2014. This social liberal party would fall somewhere in the center of Beramendi et al’s (2015) strong-weak intervention dimension but on the universal side of the investment/universal - consumption/particularistic dimension. A similar observation could be made for the Christian Union, who sided with outsiders in 2004 and 2007, but not in 2014. The particular benefits to outsiders, however, were not the primary aim of any of these reform periods. Rather, aspects of the reform packages that focused on outsiders were only relevant for building agreements to support the primary goals of activation and budget reduction, playing an incidental role to the main parts of reform.

5.4 New tools for expanding outsider work in Germany

The German minimum income system is also based on subsidizing outsider labor market participation and allowing an atypical labor market to develop, and is perhaps the strongest case of creating a long-term
outsider labor market to avoid long-term unemployment of the three regimes covered in this project. Figure 3.19 from Chapter 3 showed that the total benefits available to outsiders relative to insiders increased in two rounds, first around the introduction of the Unemployment benefit II (Arbeitslosengeld II) and a means-tested family benefit (Kinderzuschlag) during the fourth stage of the Hartz reforms (Hartz IV), and second around two 2015 reforms which increased housing benefits and four family policy instruments that were a part of the means-tested benefit system that sits above the Hartz IV minimum. Therefore as a consequence of political decision making during the Schröder governments, German social policy shifted toward a focus on instruments that concentrated around minimum income earners. As I will discuss, Hartz IV was extremely controversial and hardly a “pro-outsider” reform in the eyes of most Germans, especially those on the left. But I will argue it did show a programmatic change in the German welfare state, trading insider benefit generosity and benefit generosity for those in income-related long term unemployment insurance for spending on outsiders who had a marginal position in the labor market, accepting and creating subsidies around outsider employment.

The political rationale behind reorienting the German labor market regime from status maintenance to concentrating more effort on interventions aimed at outsiders is difficult to explain with accounts that focus on concentrated political constituencies. Electorally, the decision to proceed with Agenda 2010, explained further below, did not seem designed to follow the preferences of the core SPD electoral constituencies. Using Germany as a case study of reform in status-oriented welfare states, Beramendi et al (2015, p.40-41) explain that this period of reform involved a change along both axes of social policy competition, from consumption to investment and from strong to weak state intervention, abandoning the working class core of the SPD in favor of business and sociocultural middle class groups. The authors argue in their general theory section that this type of choice should not be possible for policymakers, and that the SPD paid for this radical shift in priorities through electoral losses to a newly formed left party, die Linke.

The slogan often cited by SPD politicians at the time, “demand and promote” (Fördern und Fordern), summarizes the strategy: demand labor market activation and offer support in compensation. For example cited by Klaus Brandner of the SPD as the strategy behind Hartz IV in the Bundestag (Deutscher Bundestag, 2003d, p. 5749)

Schwander and Mannow (2017) present evidence of this electoral
These conclusions are more focused on the electoral consequences of this reform period, but do not particularly focus on the causes. From the perspective of this project, what is most important is an account of why outsiders, a politically unimportant group, were incorporated into the reform as beneficiaries. In this case study, I argue that a cross-party consensus formed around the issue of reducing mass unemployment. Both the major center-left and center-right parties had similar plans to reduce unemployment that involved cutting unemployment benefit eligibility for long-term unemployed and incorporating social assistance and unemployment assistance into one benefit. Any electoral outcome in the late 1990’s and early 2000’s would likely have led to reforms that decreased the status-maintenance properties of the German labor market regime and grew the outsider labor market. But in order to consolidate a center-left path to reform, the Schröder government built compensatory elements into the reform package including activation support, improvement of minimum income protection, and means-tested childcare benefits that improved the status of certain outsiders. After the fall of the Schröder government, the creation of these new policy instruments became ongoing tools for compensation of the outsider labor market. But these reforms did not arise because of appeals to electoral constituencies, the reforms discussed here were electorally unpopular. They also caused tension with key economic interests that represent core workers. Rather, they were a compensatory measure used for the center-left to consolidate political support around reorienting the German labor market regime around reducing unemployment.

The Hartz reforms were a series of four labor market and social welfare reforms undertaken by the second Schröder government, a coalition between the center-left SPD and Alliance 90/The Greens. The Hartz process was embedded in a period of liberalization for the German economy. During the first SPD-Green government Gerhard Schröder and Tony Blair jointly presented a paper outlining a future for social democracy in Europe that was focused around flexible labor markets, the idea that governments had reached the limits of public expenditure, and that social security systems would need to adapt to new social risks such as increasingly heterogeneous types of family and persistent poverty.\textsuperscript{71}

\textsuperscript{71}Blair-Schröder Paper, \textit{Der Weg nach vorne für Europas Sozialdemokraten / Europe: The Third Way}, June 8th, 1999
New tools for expanding outsider work in Germany

After securing another red-green coalition in the 2002 general elections Schröder folded those ideas into concrete policy proposals called Agenda 2010 that, against the backdrop of over 9% unemployment, would cut taxes, pensions, and unemployment benefits as well as reduce spending to meet the requirements of the EU stability and growth pact.

While Hartz IV, the primary focus of this section, was the most significant part of the Hartz reforms, it is worth briefly mentioning that the earlier parts of the Hartz concept already set the stage for a strategy of creating a new outsider labor market in Germany. Hartz I and II created new forms of employment that were explicitly targeted at the long-term unemployed. Hartz I lifted the ban on certain forms of temporary work and created an instrument called “Personal Service Agencies”, essentially temporary employment agencies that work under contract from the Federal Employment Agency to place the unemployed into temporary employment. Hartz II created so-called “Minijobs” and “Midijobs” in an effort to spur lower end employment and bring low-wage work into the formal economy. Minijobs are part-time jobs with a wage cap (at the time €325) that are tax-free, where employers pay a flat rate social insurance contribution for pensions and healthcare insurance but which do not entitle employees to unemployment insurance. Midijobs are similar, but pay unemployment contributions and taxes on a sliding scale up to €1000 at the time. Both of these were a clear effort to expand outsider employment, and to some extent include outsiders in the social insurance system, but steps had not yet been taken to compensate the marginal position of new employees with social policy instruments.

Hartz III and IV were related, the third reform reorganized the tasks of the central agency responsible for labor market policy and created the Federal Labor Agency, which would consolidate different labor market programs into fewer administrative structures and reorient the admin-

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72 Presented to the Bundestag on March 14, 2003, Schröder made it clear that he perceived structural problems created an imperative for large scale reform, for example: “Between 1982 and 1998, non-wage labor costs alone rose from 34 to almost 42 percent. There is only one consequence: the restructuring of the welfare state and its renewal have become unavoidable.” (Deutscher Bundestag, 2003a, p. 2481)

73 Mentioned on p.2481 of the introduction of Agenda 2010 to parliament (Deutscher Bundestag, 2003a)

74 PSA’s were abolished in 2008 when placement of temporary employment was absorbed into the general activation framework.
Hartz IV reduced the maximum duration of unemployment insurance (renamed Arbeitslosengeld I or ALG I) to twelve months and tightened eligibility criteria. Most significantly for this case study, however, is that it merged the federal unemployment assistance and municipal social assistance benefits into one federal means-tested flat rate benefit called Unemployment Benefit II (Arbeitslosengeld II or ALG II). ALG II is highly inclusive compared to the previous system, but for some of the long-term unemployed during the transition, ALG II meant a loss of income if the previous income replacement rate was higher than the new benefit or if eligibility lapsed (for instance if the partner's income put the household above the means test). A study by the Federal Institute for Employment Research found that 56 percent of former unemployment assistance recipients received less under ALG II and 44 percent received more. Those who lost out received an average of €150 less per month while those who received more under ALG II received about €220 more (Bruckmeier and Schnitzlein, 2007). Furthermore, for former municipal social assistance beneficiaries entering ALG II meant they would enter the social security system with health and long-term nursing insurance contributions being paid by job centers and while statutory pension payments were not paid the time under ALG II would be credited towards the statutory pension system. Social assistance beneficiaries would also become eligible for active labor market programs, which were not a part of the former municipal benefit. Therefore the Hartz III reform of the Federal Employment Agency was a part of adapting the agency for a much larger activation mission. Finally, like is shown in Figure 3.19, those working with wages under a certain threshold also became eligible for ALG II who were not a part of a benefit system previously.

From the perspective of labor market segmentation, the effects are
somewhat unclear. Insiders lost because the value of unemployment insurance decreased with a shorter benefit duration and eligibility criteria were tightened, although the tightening of eligibility criteria impacts workers in atypical employment as well as it becomes harder to qualify for insurance. To a certain degree, insiders were spared because there were no substantial cuts in the replacement rate. But financing short term income replacement was not the problem, when discussing the objectives of the Hartz reforms in the plenary debates both the government and opposition argued the financing of long-term unemployment and inactivity was the issue, so to a certain extent we might not expect that any political groups would push for cuts in the replacement rate below the 65% paid through ALG I. Therefore even though retrenchment through ALG I was softer than through ALG II, there is also little reason to expect this to have been a primary instrument for cutting costs and also hard to find this strong evidence of pro-insider center-left decision making.

Certain outsiders also lost, primarily those who either lost eligibility for a benefit or who were long term unemployed in the unemployment assistance benefit and for whom the ALG II benefit meant a cut to incomes. Other outsiders gained, either through income top ups, because their previous benefit was lower than ALG II, or because they were previously not eligible for active labor market programs. Furthermore, supplementary instruments like the supplementary child benefit (Kinderzuschlag) were introduced to target workers just above the Hartz threshold in order to provide an income supplement large enough to avoid requiring Hartz benefits. In the four segment model I introduced in Chapter 2, therefore, it seems the intent of Hartz was to make certain cuts to insiders and the unemployed (particularly long-term unemployed who qualified for generous replacement rates through previous insider employment) to benefit employed outsiders, and to keep the inactive in similar income supports but provide activation support that wasn’t previously available. The activation and income support components of the reform were what differentiated it from conservative alternatives, and show a compensatory logic in the formation of a reform coalition around unemployment reduction. In comparing the governments ambitions to the conservative alternatives, Thea Dücker of The Greens highlighted the compensation mechanisms of the government’s proposal\textsuperscript{75}:

\textsuperscript{75}Plenary debate October 17, 2003 (Deutscher Bundestag, 2003\textit{d}, p. 5744)
labor market policies. You will find access to it...They will also receive the initial assistance depending on the number of children they have. If they have low incomes, they will be able to claim a child supplement. Single parents will receive a supplement for additional needs and, in particular, help with childcare...You will get initial help, but different than in the Union concept, in which the benefit is first of all pushed below the subsistence level...there will no longer be two classes of long-term unemployed and that the benefit I have just described, for example access to active labor market policy, will in future be a better and more direct offer for all current welfare recipients...

The position of the Greens articulated above in the debates was well established by the time the legislation was formed. Already before the 2002 elections the SPD and the Greens clarified their positions on social assistance reform in a parliamentary motion. The paper describes challenges to the German labor market that caused a tripling of social assistance beneficiaries and a high fiscal burden on the municipally administered social assistance benefit. In response to these challenges, the motion suggested prominent features of Agenda 2010 such as increased demands for employment and activation measures, but the inclusion of securing a livelihood for children and young people was made because of demands by the Greens. After the 2002 election when preparation for the reform was under way, the Greens produced a report from their social policy commission where the creation of basic child security and enhanced support for single parents featured much more strongly than in the key issues paper that was later presented by the coalition members, representatives of SPD-led states, and Ministry of Economics and Labor. Combined with the later comparisons of the alternative to Hartz IV presented by the CDU during the parliamentary negotiations, this lends some support to the idea that reform coalition building for the SPD-Green plan involved introducing some compensatory measures for certain outsiders.

76 Parliamentary paper titled *Encouraging and demanding modern social assistance* (Deutscher Bundestag, 2001)
77 Pressure from the Greens on this cited in the press, for example an article in Tagesspiegel (Meisner and Woratschka, 2001)
79 (Koalitionsarbeitsgruppe von SPD und Grünen, 2003)
Despite the complicated distributive politics among insiders, employed outsiders, the long term unemployed, and the inactive, what should be clear is that the complete Hartz package was an attempt to shift from suppressing atypical labor markets to promoting them and compensating those within them\textsuperscript{80}. But what type of politics characterized the reform? Did the party composition of government matter? Can the preferences of coordinating actors explain this? Or would the reform have happened the same way regardless, because it fits a growth model that is advantageous for Germany?

Starting with the latter, Hassel (2014) argues that flexibilization at the margins of the labor market are advantageous for core industrial interests in the German economy. For instance on page 59:

Manufacturing firms, with the tacit support of their works councils, supported firms in service industries that lobbied for more liberal employment rules for non-core segments of the workforce. When the German government pursued activation strategies on the labour market, core firms and core workers did not veto the proposed measure of liberalization...

This would offload pressure for flexibility onto the service sector with the added benefit of reducing the prices of domestic services for core workers. As long as core manufacturing jobs required standard employment contracts and fell under collective bargaining agreements, efforts to boost temporary, part-time, and low wage employment would not compete with core manufacturing work. Some of this rhetoric about liberalizing services could indeed be found in the debates, for example the Federal Minister of Economics and Labor stated (Deutscher Bundestag, 2003\textsuperscript{d}, p. 5740):

We also have to open up the goods and services sector in Germany more. We must further liberalize telecommunications services...However, we must also ensure that obstacles that exist for traditional reasons, whether in craft law or other professional regulations, are removed.

The note at the end about the crafts law refers to another portion of Agenda 2010 that reformed the crafts code and dramatically reduced

\textsuperscript{80}I deliberately say “attempt” here because evaluations of the effectiveness of Hartz have been mixed, and the reforms have not necessarily delivered the vision that the Schröder government argued the reforms would produce.
the number of crafts occupations which required a compulsory master craftsman certification to run a crafts business. These are not core manufacturing jobs, and so it lends some weight to the idea that occupations outside the manufacturing core were on the front lines of liberalization. The Hartz Committee, tasked by the Red-Green government with producing recommendations for reducing unemployment in Germany initially, was lead by Peter Hartz, the HR director of Volkswagen. Even this choice might imply that focusing on the needs of core industry was important for the path of labor market reform in Germany. But while the general liberalization of atypical employment fits with the growth regime approach, Hassel and Schiller (2010) note that Hartz itself was contentious for key economic interests, with union representatives calling it a “declaration of war” (Hassel and Schiller, 2010, p.266) because of tightened job search requirements for the unemployed, supported by other accounts of Hartz IV that characterize the reform as forming a rift between the SPD and organized labor (Beramendi et al., 2015).

But my argument doesn’t deny that the purpose of reforms in continental economies was to create an outsider labor market, but rather that alongside the creation of outsider labor markets the efforts to combat unemployment and reduce budgets would create an outsider labor market that was accompanied by compensatory measures at income supplementation that conformed to the distributive preferences of the coalition involved. The producer group politics argument would imply that if Hartz did pose a substantial threat to core manufacturing, the Red-Green government would not have pursued it. While this might be possible, this doesn’t mean that reform has been completely described, we might want to also ask: assuming that producer group interests aligned with Hartz, would Hartz have been the same under an alternative coalition structure?

Here we have some evidence for evaluating the counterfactual. It is safe to assume Unemployment Assistance and Social Assistance would have been merged into a benefit similar to ALG II inevitably. While the reforms originated from the Hartz Committee that was set up by the first Schröder government, the CDU also had similar plans. Even in the 1998 elections merging unemployment and social assistance into one benefit was a part of the CDU election platform, it involved a combination wage that included a social benefit combined with low-wage work\textsuperscript{81}.

\textsuperscript{81}The 1998 platform states: “We want to develop a combi-wage model that optimally combines standard low wages with a newly designed, need-based transfer benefit, taking into account the funds available for
During the legislative negotiations and debates over Hartz IV, the CDU further elaborated its plans by submitting a counter proposal in the CDU-led upper house, the Bundesrat, that originated from the federal state of Hessen, then led by Roland Koch of the CDU. The so-called Subsistence Act (\textit{Existenzgrundlagengesetz}, or EGG), suggested a similar benefit system of combining both tax-financed benefits into one new benefit. It differed, however, in two important ways. First, the benefit would be administered municipally. This would include both the administration of the benefit and also the activation programs related to its beneficiaries. Because the former unemployment assistance benefit was federally administered while the former social assistance benefit was municipally administered, the decision to merge the two would require a reorganization of authority and the federal proposal favored merging the two into one federal benefit and activation scheme\textsuperscript{82}.

Second, the activation requirements and relationship of the proposal to the low wage sector were significantly different. While Hartz IV had a stricter definition of suitable work than previous benefits, the EGG essentially required immediate labor market activation to receive any benefits. This would take place through mandatory jobs financed by the municipalities at low wages, with the difference between the wage and the subsistence minimum paid through the new minimum income benefit. The motivation for this process was described by Karl Josef Laumann of the CDU in the first plenary debate (Deutscher Bundestag, 2003\textsuperscript{b}, p.5112):

\begin{quote}
You mentioned the low-wage sector. Let’s have a very open and ideology-free discussion about it! Half of the people who receive unemployment benefits or social assistance have no professional training...Perhaps we will be able to raise one or this from social welfare and unemployment assistance.” (CDU und CSU, 1998, p. 5-6). This was later confirmed by the head of a CDU working group on unemployment to involve the merging of the two benefits (Discussed in \textit{Die Tageszeitung}, April 17, 1998, Issue 5509, and October 7, 1998, Issue 5349.)
\end{quote}

\textsuperscript{82}Within the debates over levels of authority was also a debate around financing. One of the problems with Hartz, from the perspective of the länder governments, was that to pay for the influx of beneficiaries at the federal level a reallocation of sales tax revenue would be required that favored the federal government at the expense of the länder, details of the funding alternatives can be found in Mauer and Roland’s (2003) analysis of the proposals shortly after their introduction.
the other to the level of vocational training or a journeyman’s certificate through qualification, but we will not be able to do this for everyone...There is no longer any work in Germany for people who can only carry out a simply structured activity...I represent a constituency here in which the textile industry plays a major role. Simple sewing jobs, like the ones that still existed in the textile factories when I started my work in the Bundestag, no longer exist today...But the people who did this job 20 or 15 years ago because of their job profile are still living in this country and they can’t leave either. This work will not take place here for hourly wages of 10, 11 or 12 euros, even if I would like that...What do you want to achieve with your entire labor market policy if there are no corresponding jobs on the primary labor market?

The solution was not through activation programs but through compulsory employment. The EGG suggested that any benefit recipient would be offered a job immediately. If a job did not exist on the primary labor market, the municipality would be obliged to provide a job offer itself. There were no grounds to consider a job unsuitable, and the employment would not include crediting or contributions for statutory health, long-term care, or pension insurance. In the consultation response to Hartz IV, the German trade union confederation (DGB) reacted strongly to the EGG proposal, noting that work under the EGG would crowd out regular employment that was subject to social security contributions and would replace demand for jobs that included social security contributions.

The discussion of wage levels appropriate for accepting work also divided the CDU proposal from the Red-Green position, as was discussed in the second plenary debate after the legislation returned back to the lower house from the Bundesrat. The debates around the nature of low-wage work, given that the offer of “reasonable employment” also caused concern during debates. This was because the EGG placed the burden of proof on the beneficiary to claim work was “unreasonable”, and therefore may be required to accept a job with an unacceptably low wage. Parties in government and representatives from the unions found this particularly problematic, the trade union confederation put

Page 17, Written statements by the invited associations and experts at the hearing of the Committee on Economics and Labor on October (Deutscher Bundestag, 2003c, p. 17)
it particularly strongly\textsuperscript{84}:

There is no limit for the reasonableness of work. Working on social security payments can lead to extremely low wages. The municipality has the opportunity to have some of its compulsory tasks done at low wages. The design of the work comes very close to a “forced labor system”.

In further negotiations within the government factions, the reasonability criteria was changed in the legislation to include a clause that would not allow a “reasonable” job offer to include wages below a specified threshold of local wages or collective bargaining agreements, eventually this would be a threshold of 30% below. There was broad consensus around the creation of an outsider labor market, but forming a coalition around creating that market for the governing coalition required at least some commitment to a clear standard for outsider employment. In the eyes of some from the opposition, this defeated the purpose of new labor market policy which should be to move away from collectively bargained wages that they blamed poor employment performance on, as put by Roland Koch of the CDU (Deutscher Bundestag, 2003\textsuperscript{d}, p. 5741):

Whether we like it or not, we are currently unable to offer work in certain areas with our wage structure. This is the point where you made another compromise in your group to secure a majority...They say that if someone has no work for an hourly wage of 7 euros - I will now name an amount that is probably in the range of what you have defined as local practice - then he simply has no work. They go on to say: if this person were paid 4 euros, that would be wage dumping...it means that you would prefer the 4-euro job to be in the Czech Republic than in Germany...They still think we live in an economy where the state or big collective bargaining bodies can determine how much is paid for work.

And reiterated by Guido Westerwelle of the FDP (Deutscher Bundestag, 2003\textsuperscript{d}, p. 5746):

What is reasonable? It is very good that we are confronting the different views in this debate. What is acceptable in this

\textsuperscript{84}ibid
country? They are convinced that simply paid work is not reasonable. That’s why - that’s the truth - you're introducing minimum wages through the back door. The reference to the local custom or to the collective wages in Art. 1 § 10 of your present law makes this almost obvious.

Finally, the SPD-Green plan included a means-tested child subsidy for earners above the Hartz IV threshold of €140 per month to keep them out of the Hartz system, and integration benefits to provide an additional supplement to the wages for new labor market entrants, especially those who had completed vocation training. Ten years later, when the SPD entered a grand coalition in the third Merkel government, reform would follow the path set by Hartz through further increases in benefits around the minimum, also shown as increases in Figure 3.19. This would include the child subsidy as well as three other family policy instruments and the housing benefit. This was a continuation of the process started during the Agenda 2010 period to shift the labor market regime from insider status maintenance to outsider promotion.

The conservative majority in the Bundesrat did influence the legislation, however. The balance of authority in administering the benefit and associated activation measures was shifted from a concentration at the federal level in the initial reform to a complex power sharing arrangement between the federal employment agency and municipal authorities into working groups (Arbeitsgemeinschaften), with an additional 69 municipalities, so-called option municipalities (Optionskommunen) that could administer the benefits completely on their own. Because of the German constitution, a municipality cannot be compelled to cooperate with federal authorities, and the number of Optionskommune has risen (Minas, 2014). The federal-municipal working groups were difficult to administer, so were abolished and transformed into a new administrative form called “Jobcenters” that still require collaboration between federal and local authorities. Therefore while the benefit side of Hartz IV stayed similar to the Red-Green choice, the administrative structure was significantly changed by the conservative majority in the Bundesrat.

As mentioned above, Hartz IV had an impact on reform in the future in 2015 through growth in means-tested child and housing benefits which supplement working incomes above the Hartz IV threshold in order to reduce entrance into the ALG II benefit. A decision to increase these benefits is shown in Figure 3.19 under the CDU-SPD Merkel III

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85 Although this supplement is not guaranteed.
86 The child supplement, or Kinderzuschlag
New tools for expanding outsider work in Germany
government. Increasing child and housing benefits were to a some extent reforms of necessity rather than clearly reforms of choice. The ALG II benefit is indexed to wage and price growth while the child supplement and housing benefit are not. As ALG II grew, the child supplement was no longer generous enough to keep the financial costs of childcare from pushing parents into ALG II and the housing benefit did not match rent increases. The growth in ALG II was also cited as the reason why a number of other childcare benefits, such as tax credits and the universal child benefit were also increased in the same legislation as a part of fulfilling objectives of the coalition agreement87.

The fact that the benefits were being increased to keep up with ALG II growth and increases in rents was the main criticism made by both the Left party and the Greens, since it was framed as a reform that was forced due to circumstances rather than a commitment to more robust benefits. Furthermore, parties in the opposition cited problems with the reform’s additional focus on tax benefits which benefit higher income earners more than lower earners88 and that tax instruments were not re-deemable for many low income beneficiaries, especially single parents89. Unlike in the Dutch case where similar points arose and were turned into successful motions, however, the CDU and SPD had a majority of 80% of the legislature, and therefore there was little room for small parties to have an impact on negotiations. Nevertheless, the legislation during this period indicated a focus on outsiders, extending also to other areas of reform including the introduction of a statutory minimum wage (Marx and Starke, 2017).

In conclusion, the reforms discussed above were a part of the German labor market regime that has changed how it segments the labor market. Rather than benefits primarily focusing on status maintenance of insiders, German welfare state reform has focused on creating outsider employment and subsidizing employees in the resulting low wage sector. But where benefit increases for outsiders occurred, it was not because of an electoral strategy to appeal to core constituents of the center-left. The Hartz reforms were extremely unpopular among core

87Effects of ALG II growth on child benefits discussed by Michael Meister, state secretary for the ministry of finance (Deutscher Bundestag, 2015a, p.9561)
88Among others, discussed by Richard Pitterle of The Left (Deutscher Bundestag, 2015b, p.10717)
89For example, Discussed by Lisa Paus of the Greens on p. 10720 (Deutscher Bundestag, 2015b, p.10720)
Minimum income benefits in labor market regimes

SPD voters (Schwander and Manow, 2017). Rather, I have argued that similar reforms to reduce spending and unemployment were perceived as inevitable, both the center-right and center-left had plans to increase work requirements and merge unemployment insurance and social assistance benefits into one unemployment assistance benefit. The resulting legislation from the 2002 SPD-Green government, however, included compensatory measures as a way to generate agreement on wide reaching labor market reforms. These included a higher benefit level than would have been offered in a more conservative option, investment in activation support, wage standards for acceptable work, and means-tested childcare benefits. The latter focus on childcare was included because of negotiations with The Greens, which I argued suggests outsider support was not the primary purpose of Hartz but rather a product of the negotiation process, and therefore largely incidental to the primary purpose of the legislation.

While some parts of the “demand and support” concept of the period during which the Hartz reforms were accomplished did not sufficiently materialize, such as the promise of a much more robust investment in activation support, the benefits laid the foundation for later increases in minimum income benefits available to outsiders in 2015. The introduction of statutory minimum wages during this same period has been described by Marx and Starke (2017) as a turn in the German welfare state towards outsiders because of public backlash against the Hartz reforms, signaling how unpopular the decision was. But these decisions have a similarity to the strategy started in the Agenda 2010, even if it was partially unsuccessful in the “support” aspect of demanding and supporting. The efforts to require that job acceptance be conditional on wages that adhered to a collective agreement or prevailing local wage norms even brought accusations that the SPD was “introducing minimum wages through the back door”\(^90\), and when in 2015 benefits that were designed to function around the Hartz IV minimum were increased, they were cited by the policy makers responsible for reform as a coherent social policy strategy that included the minimum wage\(^91\). All of these have in common an expansion of the outsider labor market, and political efforts at reorienting the benefits system with particular attention to how benefits interact with atypical forms of employment, but which in their origin were deeply unpopular with core electoral and economic

\(^{90}\)See Guido Westerwelle quote above
\(^{91}\)Manuela Schwesig, SPD Federal Minister of Family Affairs (Deutscher Bundestag, 2015a, p.9563)
Alternative explanations

interests and which served an important compensatory function for the primary goals of unemployment and budget reduction.

5.5 Alternative explanations

Party politics

How should we expect a minimum income benefit system to develop in the three countries studied here, given what the party politics-based model suggests? Recall Beramendi et al suggest that reform takes place along two dimensions. The first is similar to a standard “left-right” dimension, where intervention in the economy can be strong on the one side, and weak on the other. The second dimension, which cuts across the first, concerns the type of intervention and its distributional consequences. On one extreme interventions are completely investment oriented or universal, and on the other extreme interventions are completely consumption oriented and particularistic. To illustrate, a comprehensive, public early childhood care and education system is a strong state intervention because it does not rely on private markets, is universal because it includes all children regardless of the parents’ income, and is investment oriented because the social return on spending occurs in the future in the form of more capable adults and the parents’ future labor market participation. Taking another example, an unemployment benefit with a high replacement rate but narrow eligibility criteria constitutes a strong state intervention but its distributional logic is particularistic, and its purpose is consumption oriented\(^2\).

In their model, governments aren’t free to choose any combination of state intervention and distributional logic, they are constrained by electoral constituencies whose occupational profiles correspond to certain distributional preferences\(^3\). The occupational groups who support strong intervention include high skill service workers in sociocultural occupations as well as low skill service workers, but also manual and

\(^2\)For a graphical representation of these two dimensions, see Beramendi et al (2015, p.29)

\(^3\)Their argument also recognizes that there are path dependent policy legacies and institutional constraints, but the focus on their argument is on electoral coalitions and therefore the primary constraint is the preferences of occupational groups, for a more detailed account and a graphical representation of these electoral constituencies, see Beramendi et al (2015, p.23)
clerical lower skill manufacturing workers. Business professionals, managers, and petty bourgeoisie are the primary constituency for weak state intervention. Theorized socioeconomic preferences for investment and consumption, however, cut across this first dimension. Sociocultural professionals and business professionals prefer universalism or investment while the low skill service workers, manual and clerical lower skill manufacturing workers, and petty bourgeoisie prefer particularism and consumption based benefits.

Looking back to the model presented in Chapter 2, all else equal, increasing the generosity of minimum income benefits favors outsiders. Minimum income benefits are particularistic, they target a particular group, and their purpose is to supplement or replace a market income so that households can meet consumption needs. In a very stylized manner, previous research on the electoral base of center-left parties’ offers some expectations about the differences between the three countries presented here. Gingrich and Häusermann (2015) show that center-left parties in both Social Democratic and Christian Democratic regimes shifted from a majority working-class electoral base to a majority middle-class base (Gingrich and Häusermann, 2015, p.59). Given these broad trends, the base of center-left parties in Sweden, Germany, and the Netherlands should support investment oriented social policy. If the base finds allies toward the more market-oriented right, policy should stay investment oriented but state intervention should weaken. If the center-left base finds allies in the working class, social policy should remain the responsibility of the state but become more particularistic and consumption based.

This model suggests two separate starting points for reform trajectory based on regime type. An equality oriented capitalist country, which is what the authors call countries like Sweden and Denmark, is

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94 The authors show that in 1980, employed voters with a working class occupational profile were approximately fifty percent of the electorate in both Christian Democratic and Social Democratic Regimes while employed voters with a middle class occupational profile were under twenty percent in Social Democratic regimes and slightly over twenty percent in Christian democratic countries. In 2012 middle class workers were sixty percent of the vote for the center-left in Christian Democratic regimes, and over sixty percent in Social Democratic regimes. Working class voter support for the center left fell to approximately twenty percent of the center-left electorate in both regimes.

95 The authors also call this direction segmentation.
characterized by strong state intervention and investment or universal distributional priorities. From there, coalition possibilities for reform include partnering with managerial or business coalitions and weakening the state\textsuperscript{96}, or partnering with working class coalitions and keeping the strong state, but making redistribution more particularistic\textsuperscript{97}. In Sweden, therefore, depending on coalitional dynamics and electoral competition, benefits should become either less universalistic or more market based. This fits with what I described in the chapter above. Social democratic politics saw the expansion of activation requirements in social assistance and described these developments during parliamentary debates as an outcome of a neglected unemployment insurance system. Ideally, they would have preferred a more comprehensive, universalistic general insurance system. However, without the political opportunity to do so, they saw merit in a social assistance system that would turn more toward marketization with a heavier emphasis activation and wage income over benefits for securing outsider livelihoods. Where benefit levels were the focus of reform, as was the case in the introduction of the riksnorm, they relied on the Liberal party for support, precluding an outcome that would have lead to more generous means-tested benefits.

A status oriented capitalist country, which is what the authors call countries like Germany and the Netherlands, is characterized by strong state intervention and particularistic or consumption based distributional priorities. From there, reform possibilities include coalitions with more middle class groups, particularly sociocultural professionals, to keep a high level of state intervention but making social policy more investment based or universal\textsuperscript{98}, or by coalescing with the petty bourgeoisie and keeping social policy particularistic and consumption based but lessening the reach of the state in economic matters \textsuperscript{99}.

For these cases, the partisanship model does not account for observed outcomes of this chapter. In the Dutch case, I use calculations made by de la Sota et al (2021, p.272) of the average class and education characteristics of the Dutch electorate from 2010-2017 as rough guide for how to place parties in the model suggested by Beramendi et al\textsuperscript{100}. Taking

\textsuperscript{96}A trajectory the authors call marketization
\textsuperscript{97}A trajectory the authors call segmentation
\textsuperscript{98}A trajectory the authors call inclusion
\textsuperscript{99}A trajectory the authors call capture
\textsuperscript{100}While some reforms take place a few years earlier than the period de la Sota et al use to calculate their statistics, I assume there are not dramatic changes in party constituencies in short periods of time.
the 2008 introduction of the means-tested child benefit, the motion to introduce a transfer rather than tax credits came from the PvdA. This alone does not conflict with Beramendi et al’s model, but the adoption of the motion critically depended on D66, in government with the VVD and CDA at the time, supporting the motion. From 2010-2017 D66 had the second highest proportion of voters with tertiary degrees, behind only the VVD, their partner in government. They also had the second highest concentration of top 10% income earners and upper class voters, again behind the VVD. A move towards more consumption based, particularistic benefits should come from lower-skill working class interests in the partisanship model, not an upper-class, highly educated electorate. Outcomes also confound the partisanship model in 2014, where the VVD and PvdA presented a plan to cut government expenditure in the childcare system by reducing universal benefits and increasing means-tested support. Beramendi et al make clear predictions for the policy preferences of this type of coalition, they should be firmly in support of universal expenditure.

In the German case, the Schröder government embarked on a series of reforms which were unpopular with core parts of their constituency, reducing the status maintenance aspects of the German welfare state that were important for workers in high quality manufacturing. Evidence points to this reducing support for the SPD among working class voters but an increase in support among middle class voters (Schwander and Manow, 2017). This aligns with some electoral changes in the SPD, where the share of higher educated voters compared to less educated voters has consistently grown (Kosse and Piketty, 2021). But while an increasingly well-educated SPD electorate may explain why Schwander and Mannow (2017) find that middle class voters rewarded the SPD for Agenda 2010, it doesn’t explain the origin of these reforms considering how many groups Agenda 2010 alienated. The compensatory efforts in Hartz IV also do not align with an increasingly middle class SPD electorate, where low skilled individuals who previously did not qualify for social assistance gained from inclusion into the new basic security benefit and outsiders from means-tested childcare benefits. Therefore while the overall direction of Agenda 2010 might signal a deprioritization of working class interests for a new middle-class focused SPD, consistent with the argument I present, it does not explain the benefits to outsiders specifically because they were incidental to the overall objectives of Agenda 2010.
Economic interests

In the previous chapter, I discussed how scholarship which prioritizes growth models over partisan politics expects skills investment to align with dominant production interests. This chapter discusses compensation of those at the bottom of the distribution of labor market outcomes. Similar to their place in electoral politics, their place in growth regimes is marginal but not completely insignificant, and in some labor market regimes is growing. A key question for evaluating the compensation available to some of the worst-off outsiders is whether minimum income benefits are oriented towards expanding the low-wage sector or avoiding the development of a low-wage sector, and whether that choice aligns with what we can expect from a perspective which prioritizes growth regimes as a way of explaining policy design. The chapter on higher education showed that countries vary in how they invest in skills, there is a trade-off between a more general-skills, massified tertiary education system compared to a specific-sills, segmented education system. This chapter shows a similar decision between trying to maintain a more comprehensive employment structure where most labor market participants are under one employment structure compared with a segmented structure where minimum income benefits are coupled with employment, creating an expanded low-end labor market alongside the primary labor market.

From a growth regime perspective, Sweden, Germany, and the Netherlands fall into export oriented regimes (Picot, 2020), but of the export oriented regimes, Sweden is more clearly “dynamic services” export-led while Germany is clearly “high-quality manufacturing” export led, with the Netherlands leaning more toward the former than the latter (Palier and Hassel, 2020). Both will have growth in service employment, but the authors argue that the characteristics of service employment matter, with service employment broadly containing dynamic service\textsuperscript{101}, non-dynamic services\textsuperscript{102}, and welfare services\textsuperscript{103} (Wren, 2020). Wren (2020), comparing employment developments in Germany, Sweden, and the UK from the growth regime perspective, shows that non-dynamic service employment increased more in Germany than in Sweden\textsuperscript{104}.

\textsuperscript{101}High productivity, e.g. finance, information technology, professional services
\textsuperscript{102}Low productivity, e.g. personal care services, hospitality
\textsuperscript{103}State employed, e.g. public administration, education
\textsuperscript{104}The latest data showed non-dynamic services were about 25% of total employment in Germany and slightly above 20% in Sweden (Wren,
Given the differences in comparative advantage (service vs. manufacturing exports) and service composition (dynamic, non-dynamic, welfare), how would the growth regime perspective inform expectations about how minimum income benefits would develop? Subsidizing outsider employment with minimum income benefits would likely concentrate welfare effort on adding employment to non-dynamic services. Therefore, one way of thinking about minimum income protection is that where wages in service employment are compressed, subsidizing poor wages damages solidaristic labor market practices. This is consistent with Wren’s argument that service wages were protected in Sweden by the state sector (Wren, 2020). But this doesn’t explain the drift characteristic of the Swedish social assistance system. With the social assistance benefit increasingly functioning as an unemployment benefit, the dramatic decline of the real value of minimum income benefits shown in Chapter 2 signals a decreased commitment to wage compression, since lower wage jobs are more attractive as the value of benefits declines.

The developments in Germany also do not follow the growth regimes explanation. While Agenda 2010 did allow a low-wage sector to develop, meaning cheaper “non-dynamic” services available for insiders, the Hartz process was incredibly unpopular with core manufacturing interests, so much so that a comprehensive study of Hartz noted trade unions saw the reforms as a “declaration of war” (Hassel and Schiller, 2010, p.266). In the third Merkel government, the SPD led changes that increased means-tested childcare benefits, housing benefits, and introduced a minimum wage, which confounds the idea that the primary purpose of reforms like Hartz would be to make low-wage services cheaper. In total, these reforms angered organized labor that works in core industries for the German growth regime, incurred losses to insiders working in core industries because of reduced unemployment insurance generosity, and compensated low income outsiders.

Where the growth regimes argument tells a more coherent story is in the Netherlands. This is because of the roll played by the entrance of women into the labor market during the 1990s and 2000s, who have remained disproportionately in part-time employment. The decision makers 2020, p.261). Wages in these sectors historically were quite similar, slightly more than 20% below the intersectoral average, until 1995 where Swedish non-dynamic service wages held constant while in Germany they declined to about 30% lower than the average wage, showing growing intersectoral inequality in Germany but not in Sweden (Wren, 2020, p.263-264).
ing described by this chapter has led to reforms that made it easier for
women to combine care and lower wage part-time employment. But
Dutch policy did not always unambiguously support female workers,
the 2014 reform to reduce spending in childcare cut universal benefits
in favor of means-tested benefits. the explanation I put forward, which
relies on arguments from government documents which suggested re-
trenchment was a primary objective of these reforms more completely
explains why some benefits were cut to achieve a primary objective, and
other benefits were strengthened as compensation. Nevertheless, there is
some overlap between the growth regimes perspective and my argument
in this case.

5.6 Discussion

In this chapter I investigated the politics of minimum income benefits
in Sweden, the Netherlands, and Germany. For a starting point, I used
policy developments that I described in the second and third chapters of
this thesis where I described spending patterns of means-tested benefits
and modeled the benefits and incomes available to representative insiders
and outsiders. Those findings meant that the Swedish case would involve
explaining non-reform, while the German and Dutch cases would involve
explaining growth in benefits available to certain labor market outsiders.
In the Swedish case, I picked instances of reform that did occur, even if
they did not substantially change benefit levels, to try to learn about the
main conflict lines when benefit levels are in question. I also picked failed
reforms. For the Netherlands and Germany, I picked reforms associated
with benefit increases modeled in Chapter 3 but also paid attention to
the broader implications of these reforms, not just for the groups whose
income I modeled in Chapter 3.

In this section I discuss these cases in comparison, arguing that re-
form processes in the Netherlands and Germany explicitly focused on
labor market outsiders and greater participation in the labor market,
combined with compensatory measures for certain groups. But while the
focus of policy-makers during preparatory stages, negotiations, and in
parliamentary debates included deliberation around how to use targeted
social benefits as labor market policy, the primary objectives of reform
were not to promote outsider well-being, but to increase labor mar-
ket participation, reduce unemployment, and reduce spending. This is
why compensatory measures in reforms tended to involve smaller groups
as critical decision-makers, for instance D66 in the Netherlands or the
Greens in Germany. Reforms needed to be agreeable for these groups if
the primary goal was to be achieved and outsider compensation was one way of negotiating a new course. In Sweden this never happened, and the main priority for social assistance politics was containing municipal budgets while welfare effort continued an emphasis on the primary insurance system and universal benefits. Unlike the two other cases, where social assistance reform was undertaken it was not as part of a wider package of reforms but was generally the sole focus. In these cases, municipalities formed a strong political constituency whose interests were predictably more influential than outsiders.

The argument I present in this thesis relies on the idea that key partisan and economic interests are not sufficient to explain why governments act in support of diffuse and powerless labor market groups. Both explanations require that the beneficiary of a reform is also an important constituency to political decision makers. In the Dutch and German cases, substantial political effort was expended on reforming benefit systems to respond to an activated outsider labor force that earned lower wages. By tracing the origins of these reforms, I showed many were embedded in larger projects whose primary purpose was unrelated to outsiders. The 2014 reform to Dutch childcare benefits that increased means-tested benefits and introduced a single parent supplement began from efforts to contain budget deficits\textsuperscript{105}. The Hartz reforms emerged out of Agenda 2010, an economic strategy by Gerhard Schröder advocated that heavily emphasized increasing employment rates and cutting budgets deficits, particularly to stay in line with the EU stability and growth pact\textsuperscript{106}. Compensatory measures were built into this period as well, with the participation of the Greens leading to an increased emphasis on activation support as well as a new means-tested childcare benefits in labor market regimes

\textsuperscript{105} For instance, it is put quite clearly in the governments explanatory memorandum: “At € 10.1 billion, the current system of child benefits accounts for a significant part of the government budget. The government must take a comprehensive package of measures to put public finances in order. That is why the system of child benefits is not only being reformed, but also being cut back.... The main thing is that the government can continue to provide income support where it is most needed.” (Kst 33716 Nr. 3, 2013, p.1).

\textsuperscript{106} As Schröder put it when presenting these ideas to the Bundestag, “The dramatic economic situation is forcing us to strike a new balance between consolidation, economic stimuli and tax relief...That is why we are sticking to the goal of budget consolidation and the stability pact that we agreed on.” (Deutscher Bundestag, 2003\textit{a}, p. 2481-2482)
benefit.

Where there was less of a directly incidental political dynamic was in the 2008 introduction of the Dutch means-tested childcare benefit. In this case, the benefit was not a part of a larger package deal but was introduced through its own standalone legislation. Even here, however, it is difficult to say that outsiders as an important electoral or economic constituency motivated reform. The origins of this benefit began four years earlier as an amendment during annual budget negotiations where the CDA proposed an increase to the purchasing power relief granted by a tax credit. This ignited a debate about the best tool to use for supplementing incomes for incomes around the minimum, which convinced the smallest government party, D66, to align with parties calling for a new means-tested benefit. Even in this case, politics did not follow a clear beneficiary-constituency logic, but emerged from a change in the level of one instrument to an introduction of a new one.

In Sweden, similar reforms did not happen. Rather, the real value of minimum income benefits has declined substantially. Because childcare benefits are universal, one of the only tools for targeting outsider incomes specifically is social assistance. The chapter has shown that opportunities to change the social assistance that have been limited in ambition, whether this was through standardizing the benefit level, foregone increases in benefit levels despite price increases, or failed motions to introduce new items into the national norm. Through many of these instances, the constituency that was prioritized was not outsiders but municipalities, whose budgets would be harmed by any increase in benefit levels. Social assistance, however, often involves a municipal component, we might ask why this was not a problem in the other two countries. The Dutch social assistance benefit, which has the most generous indexation, has retained its income guarantee despite increasing involvement of municipalities in social assistance. For instance, the 2004 WWB gave municipalities more decision making power over benefit conditionality and made municipalities financially responsible for benefit payments. But the budget for social assistance was still provided by the central government, and therefore while there is an incentive to move beneficiaries out of assistance and into the labor market in order to keep any potential surplus, increases in benefit levels do not cost the municipalities. In Germany, introducing the ALG II benefit was in part a way to relieve municipalities of social assistance obligations, since the new benefit would be administered by the federal government. When introducing Agenda 2010, the relief to municipal finances is the only motivation Schröder chooses to mention for merging unemployment

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minimum income benefits in labor market regimes (Deutscher Bundestag, 2003a, p.2482):

From January 1, 2004, we will relieve the local authorities of the payment for social assistance recipients who are able to work. This means that in future the Federal Labor Office will be materially responsible for up to 1 million recipients of social assistance. This relieves the municipalities of billions of euros.

Therefore in Dutch and German minimum income benefits, benefit growth is not as problematic to municipalities, whereas in Sweden even regular benefit increases to keep up with inflation have to be weighed against potential harm to the financial situation of municipal politics. Because benefits are not indexed to wages or prices, each decision to increase benefits must be made in consideration of the costs to local politics. In the German case, municipalities were even the beneficiaries of minimum income reform. Therefore in the two cases where national politics has focused more on outsider income support, both managed to mitigate financial pressure on local political actors. These comparisons indicate that if outsider focused minimum income reform were to take place in Sweden, we would expect compensation for municipalities. Without this, outsiders as a constituency would need to be more important than municipal politics, an unlikely scenario given the unimportant status of outsiders as electoral constituencies.

Finally, this chapter has also shown that the logic of labor market regimes I argued for in previous chapters is present in debates about social assistance. In Chapter 2 and Chapter 3 I motivated the choice of these cases partly because I argued they fit two distinct regimes. One promotes outsider work and compensates the marginal position of outsiders, the other rejects outsider work and invests in growing insider jobs. Almost every parliamentary debate or explanatory memorandum in the Dutch reforms I studied above included conversations about the best way to complement benefits with atypical work, most often with part-time employment. I also showed similar discussions during the Hartz IV process, where debates featured claims about how to encourage

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107 One of the quotes that best articulates this conflict was given by Kees Vendrik, GroenLinks MP, while debating the problems low-income working parents would have redeeming the child tax credit. He claims that not only has every minister involved framed the reform in terms of its effect on marginal employment, but that the reform as presented is insufficient for these purposes: “If the child tax credit does not reach single working mothers, they will lose even more. That is absurd, since
the development of a more precarious secondary labor market. These show that the purpose of minimum income benefits in these countries are not limited to poverty reduction but are an important of a labor market tool next to active labor market policy or employment regulations, but rather than being used as tools to regulate the primary labor market they are used to encourage the secondary labor market.

This is more difficult of a claim to make when it comes to Swedish minimum income policy, few reforms focused explicitly on benefit levels. But the last two Swedish reforms studied in this chapter indicate some resistance to the idea that social assistance should be a primary tool in steering the labor market\textsuperscript{108}. In the 2012 reform, which allowed 25\% of labor income to be excluded from the means-test and increased municipal activation authority, representatives from opposition and government parties placed the blame for social assistance's role in the labor market on deteriorating conditions in unemployment insurance\textsuperscript{109}. Those views suggest that while social assistance is taking a more primary role in labor market policy, policy-makers believe that this is a step in the wrong direction and that social policy programs should ideally not acknowledge a segmented labor market. In the preparatory work for the 2015 codification of work requirements, the investigation concludes that work requirements follow the National Board of Health and Welfare's guidelines that assistance recipients has a responsibility to primarily look for full-time work, with part-time work as a possibility but not the primary objective\textsuperscript{110}. Compared to Dutch and German reforms, there is less acceptance of minimum income schemes as an important tool for labor market policy, and a lesser acceptance of atypical employment as an acceptable consequence of social policy.

the Minister of Finance wants to stimulate the labor supply, the Minister of Social Affairs and Employment says it wants to promote women's economic independence and the government says it wants to tackle unemployment in particular.” (Tk 20052006-457-485, 2005, p.483)

\textsuperscript{108}Proposition 2012/13:94 \textit{Jobbstimulans inom det ekonomiska biståndet} and Prop. 2015/16:136 \textit{Arbetslöshet och ekonomiskt bistånd}

\textsuperscript{109}As succinctly put by SAP MP Meeri Wasberg: “The changes we are proposing today might not have needed to be made if unemployment insurance had been worth its name.” (Prot. 2012/13:110, N.d.)

\textsuperscript{110}Proposition 2015/16:136.
Chapter 6

Conclusion

This dissertation’s goal was to answer two research questions. The first asked what combinations of labor market, social, and education reforms have been undertaken in Western Europe. The second asked why governments have adopted different reforms that were important for the trajectory of labor market regimes. To answer the first question, I suggested in the introductory chapter that a broader policy-based model of segmentation was a necessary theoretical improvement for understanding how policy-making interacts with segmentation and what governments do in response to segmentation. I argued that this was the case because current policy models of dualization do not capture important theoretical dimensions of how policy intervenes in labor market status. Current theoretical models of segmentation are based on either insuring against the risk of unemployment, regulating employment status, or making outsiders more competitive. What this means is that not only do they frame the policy content of labor market segmentation in a narrow way but they preclude important theoretical channels through which policy-makers intervene in labor market status, namely through investment and compensation.

In response to this argument I proposed expanding this policy model based on two factors. First, given that human capital investment is a part of managing national labor markets, current policy based models of dualization only weakly incorporate investment by including active labor market policy. ALMP only invests in some outsiders, and national governments spend far more effort on investing in the future balance of segmentation in labor markets by providing tertiary education. If we want policy-based models of segmentation to reveal information about what governments do in response to segmentation, we must consider that one of their strategies might be to avoid it altogether by maximizing the
number of qualified insiders produced through education.

Second, policy-based models of dualization readily accept the idea that the number of outsiders is not only an outcome of the market, but that government decision-making produces outsiders because of how it regulates the labor market. Yet these models would suggest that the only option governments have is to change these regulations. In reality, significant policy effort is spent not trying to regulate outsiders but to ameliorate outsidersness with the tools of the welfare state. This point has significant implications for the politics of dualization. In a model where regulating insiders and outsiders involves a zero sum trade-off, as is the case with employment regulations where stricter protection always protects insiders at the cost of outsiders, theory excludes the possibility for politics to compensate outsiders for the precarious situation that is created by regulations. Because of this, I suggested that minimum income benefits should also be a part of a policy-based model of dualization.

These two points suggest we should accept an expanded theoretical model of what policies matter for studying segmentation. I also argued we should go one step further and consider that these policies do not exist in isolation, but that the combination of policies also matters. This is why I introduced my model as a labor market *regime*. I argued that combinations of policy matter, both in how we describe segmentation and how politics theoretically influences dualization. This point situates my dissertation in between narrow approaches to dualization which focus on a small number of policies and studies them more individually and broad approaches to comparative welfare state research which address variation in the welfare state as such. My approach borrows from both traditions to find a middle ground that addresses a specific problem, segmentation, but which is based on a model that recognizes an accumulation of policies reveals information that individual policies do not.

In Chapter 2, I showed that the contribution of a regime-based model of segmentation was not just theoretical, valuable empirical variation was demonstrated that could not be accounted for by traditional approaches. In particular, I showed common trends within employment regulations and labor market policy across Europe. Despite predictions from comparative literature that suggests variation among European countries in terms of how their economies are organized, the policy focus from previous approaches in the segmentation literature would suggest convergence in how policies interact with segmentation in Europe. Regulations for standard employment contracts seldom changed, on bal-
ance countries deregulated temporary work, activation budgets fell, and unemployment benefit conditionality increased. However, by adding tertiary education and minimum income benefits, more variation was revealed in the strategies governments use to address labor market insiders and outsiders. While tertiary enrollment grew across Europe, significant differences in the level of educational attainment persisted, and spending per student varied substantially. Moreover, some countries increased investment per student in tertiary education dramatically while others stayed the same or decreased spending. Far from the convergence in investment spending suggested by ALMP data, there are differences in both the level and trajectory of investments into the skill structure of national economies in Europe.

Chapter 2 also showed substantial variation in how governments spend on individuals with weak attachments to the labor market through minimum income benefits. In 2020 the value of benefits guaranteed to outsiders ranged from twenty five percent of the median income to sixty one percent, and from 2001 some countries increased the value of their benefits by up to twelve percent while others decreased the value of benefits by twenty-five percent. Most surprising, however, is that these trends did not match with expectations from foundational welfare state literature, some “dualizing” welfare states increased the real value of benefits while other “solidaristic” welfare systems saw the value of these benefits fall. Taken together, no country in the sample both invested highly in insiders and compensated outsiders. Some countries invested heavily but compensated less, others compensated more but did not invest as much, while some did neither. This lends strength to the idea that studying policies in combination gives greater meaning to policy development than studying them in a more piecemeal approach.

Chapter 3 added more detail to my regime argument by taking an in-depth look into policy developments in the Netherlands, Germany, and Sweden. This chapter emphasized the similarities among these countries in regard to policies typically used in models of segmentation. While a review of policies found some evidence of re-regulation in terms of flexible employment, the overall trend in regulations was that insiders have stayed protected and that flexible work was deregulated over time. By disaggregating ALMP spending I showed there was even more fine-grained convergence among these three countries, most effort in ALMP is devoted to pro-market policies that serve a matching purpose rather than an upskilling purpose, with training expenditures falling to almost zero across all three countries. This gave further support to argument that if skills investment is important to models of segmentation, we must
include tertiary education in addition to labor market policy since this is where governments spend resources. Furthermore, by modeling the income position of six representative labor market participants, Chapter 3 showed that in Germany and the Netherlands, minimum income benefits composed of social assistance, means tested childcare benefits, and means tested housing benefits gradually made the position of outsiders more similar to insiders over time. In Sweden, these groups diverged, with insiders even becoming relatively better off over time compared to outsiders. This reaffirmed the central finding of Chapter 2, one labor market regime invests less in insiders but compensates outsiders, while another invests heavily in insiders but does not systematically compensate outsiders.

Taken together, Chapter 2 and Chapter 3 defended a theoretical and descriptive answer to the first research question. The second research question asked for an explanatory account of the descriptive inferences generated in the first half of this dissertation. As I explained in the introductory chapter, I started with the two main strands of explanatory theory used to explain economic policy outcomes in political science literature. One relies on the preferences of electoral constituencies to explain government behavior, while the other relies on economic interests and production regimes. But while these explanations fit for decision making around policies which generate political contestation among clearly defined groups of beneficiaries, I argued that these explanations may struggle with explaining outcomes that benefit less clearly organized beneficiaries. Because both policy areas I argued should be added to a policy-based model of segmentation benefit diffuse groups in society\(^1\), I developed a theoretical argument that relies on reform coalitions which are built around other political processes that secondary reforms are attached to as a part of a political bargain, as a way to achieve a larger political project, or as a way to reorganize policy responsibilities. This means reforms can rest on important constituencies but still benefit unimportant groups as an incidental element to a primary reform.

In Chapter 4 I studied the development of higher education in the Netherlands, Germany, and Sweden. I argued that while Sweden developed a robust higher education system that achieved high enrollment, high investment, and low costs for students, an overlooked element of its success during one of the most expansionary periods of higher education was not that students were an important electoral constituency, but rather that higher education expansion was a component of a long term

\(^1\)One being students, the other being outsiders
process of regional development. This highlighted that my approach involves a broader notion of what a “constituency” is. In this case, regional interests that cut across political parties had an interest in keeping higher education expansion going. The importance of this coalition became clearer when retrenchment became a threat but was unsuccessful because the regional constituency was a component of many different political groups. I explained how in Germany, despite a government with ambitious goals for higher education expansion, higher education became a secondary process to reform of federal division of power. Because responsibility for higher education divided reform coalitions necessary for federalism reform, ambitious higher education projects were scaled back and eventually abandoned as a necessary part of institutional reform. In the Dutch case, enrollment itself did not signal a weaker commitment to higher education massification but rather student finance did. In the Swedish case student finance was robust, in Germany reformers wanted to guarantee tuition free education but could not because of the problems described above, while in the Netherlands tuition grew and subsidies fell. In this case, outsiders won but the higher education system as a whole (and the insiders who benefit from it) lost, because a cross-party commitment to fiscal discipline convinced policy-makers to repeal universal tuition grants to save money. The bargaining process to secure reform, however, actually led to more means-tested financing for students from poorer backgrounds. But this process was incidental to the overall goals of fiscal discipline, there is no evidence to suggest that means-tested grants would have been increased outside the context of this political bargain. All of these examples show that the outcomes in these policies were secondary to some primary goal, and where the primary goal was able to create a constituency that aligned with the possibilities for higher education expansion, higher education became a prominent part of the labor market regime. In cases were expansion was less successful, the coalitions which formed around some other process precluded the ability for a political agreement leading to expansion. In none of these cases, however, were the primary beneficiaries of higher education the motivating constituencies behind reform.

Finally, in Chapter 5 I studied the development of minimum income benefits available to outsiders in the Netherlands, Germany, and Sweden. Drawing on evidence from Chapter 2 and Chapter 3, I argued that in Germany and the Netherlands expanded the package of benefits available to outsiders with a weak attachment to the labor market compared to full-time employed insiders. Meanwhile, in Sweden there was comparatively little reform in this area and through a process of
neglect, the real value of social assistance benefits fell. At the same

time, where growth in benefits did occur, as is the case in universal

case in universal

child benefits, these are deducted from the means-test for social assis-
tance. As a consequence, the benefits available to insiders grew while

the benefits available to outsiders fell. In the Netherlands and Germany,

reforms to means-tested benefits were undertaken either as ways to fa-
cilitate agreements over policy packages which intended to either reduce

unemployment, reduce budgets, or both. None of the reforms originated

from legislative proposals whose sole purpose was to increase benefits

for outsiders, but either as a way to compensate for the expansion of

low-wage labor or as a bargaining process to secure support for a reform

package.

In the Swedish case, there was problem pressure for a more consist-
tent national norm for social assistance because many municipalities paid

benefits that were below the recommendations by national authorities

and because more and more social assistance beneficiaries were using

the benefit as an unemployment benefit (a problem which has grown

since then). But rather than implement a robust norm with a generous

(or even legally binding) indexation practice, concerns over municipal

budgets precluded any ambitious pro-outsider focus of reform. In subse-
quent periods where raising the national norm was discussed, municipal

budgets and decision making autonomy were often a focus of discussion.

This was not a problem in the other two cases, since in Germany re-
forms to social assistance were undertaken to relieve municipalities of

the budgetary burden of social assistance, and in the Netherlands al-
though some responsibility for administering social assistance budgets

was devolved to the municipal level the financial burden still fell on the

central government.

The case studies presented throughout this dissertation can be put

in context with both the “narrow” and “broad” policy approaches out-
lined in Section 1.2 of this dissertation. The narrow approach referred to
dualization literature that has a focus on policies which are directly con-
cerned with the labor market, namely employment regulations and labor
market policy. As I detailed above, my approach showed cross-national
variation in labor market strategies that is not shown by previous ap-
proaches. Chapter 2 and Chapter 3 showed the benefits of taking invest-
ment and compensation into account, even if governments choose to uni-
formly enforce barriers between insiders and outsiders through regula-
tions their broader labor market strategies can still differ. Furthermore,
the case studies in Chapter 4 and Chapter 5 showed that policies which
are concerned with investment and compensation are often extensively,
sometimes even primarily, discussed in the context of labor markets and labor market segmentation. These chapters also showed that reform processes often include considerations across multiple policy domains, meaning a regime model that takes investment and compensation into account doesn’t just reveal variation in outcomes but in processes as well. The results of this dissertation also raise implications in relation to the broader comparative welfare state literature. The chapters above suggest that assumptions about universalism and status maintenance from comparative welfare state literature may not transfer completely to models of policy-based labor market segmentation. Furthermore, the reform dynamics described in Chapter 4 and Chapter 5 are a novel addition to the power resources frameworks that were emphasized by large studies in classical comparative welfare state literature. This shows how the mobilization of working class power resources is not the only pathway through which benefits for marginalized labor market groups can grow, coalition building around complex reforms can result in successful representation of smaller groups who do not have a majority.

The answers I gave to both research questions have implications for economic inequality and for how we should think about democratic government. The main theoretical and descriptive contribution of this dissertation reveals information about what governments do when faced with today’s labor market problems. On the one hand, I argued one strategy is to accommodate outsiderness. This is done through targeted welfare benefits that increase the incomes of outsiders, that mitigate costs for childcare, but that also come with demands for labor market participation. We also saw that from the politics of reform that this strategy is not pursued on the merits of mitigating poverty, it is done primarily to promote employment, even if it is non-standard. But this strategy also emphasized investment less, higher education participation was more fragmented, more expensive, or more difficult to access. The main concern for this strategy has always been that policy-makers risk promoting higher employment at the expense of higher inequality, even if minimum income benefits can make the lower end of the labor market more tolerable. But some pessimism is warranted here, neither case study made benefits generous enough to mitigate concerns about growing poverty or inequality. Moreover, barriers to higher education risk “locking in” outsiderness, regardless of how well outsiderness is compensated by the welfare state.

On the other hand, the other strategy invests in insiderness. Far from merely protecting insidersness in the form of employment protection legislation, promoting insiderness in this model involves substantial
investment in universally available higher education that broadly encompasses paths to different parts of the labor market. The goal is that an academically competent workforce that will not only fit well into current demand for employment but will be flexible enough to meet demands in future labor markets. The implications for inequality in this model is that high employment in decent jobs should lead to decent pay for all, and an adaptable, high skilled workforce should act as a buffer against future risks of rising inequality. But the main criticism is that the safety net of this system has deteriorated. While many may work in decent paying jobs, some will not. Especially for those new to the country or who were not able to succeed in higher education, state investment in building a long-term insider labor market does little to alleviate the experience of outsiderness. Therefore while the strategy is well suited for reducing inequality in the long-term, it misses a necessary component: compensating the residual portion of the labor market for whom the investment-oriented strategy cannot help. One implication of this dissertation is that even in a highly advanced labor market with leading levels of education investment, some degree of outsiderness must be addressed.

These implications for inequality warrant further research. How much does compensating low-wage work really “lock in” outsiderness? Is it even possible for the welfare state to mitigate the long-term impact on inequality that encouraging outsiderness implies? How much can additional investment in higher education reduce the incidence of outsiderness? But more importantly, following from one of the main theoretical points of this dissertation, how are these strategies and trajectories as a whole, not just individual policies, linked to inequality? These questions have further implications for broader political debates around the merits of universal basic income, the value and purpose of a university degree, and the basic role of the welfare state in the labor market.

While the preceding paragraphs are marked with some pessimism about how successful governments were in forming an answer to the problem of dualization, the explanatory theory presented in this dissertation is optimistic about the ability for governments to make decisions for which there is not a concentrated constituency. What I call “constituency-beneficiary” politics is one example of what many see as a strength of democracy: policy-makers have an incentive to adopt positions that are meaningful to the people they represent. But decisions policy-makers take on issues which are not linked to an organized public are often cast in a negative light. In these cases we often assume that
policy-makers respond to less visible, more elite-oriented interests.

This is sometimes called “quiet politics”. Busemeyer et al (2020), in a study of education reform refer to “loud” politics occurring around high salience issues where public opinion becomes important for agenda-setting and steers the policy positions of parties while “quiet” politics occurs when issues are lower salience and are decided more by relevant interest groups. Culpepper (2010), in his account of the politics of corporate control and ownership, argues that under the conditions of low issue salience quiet politics is even more removed from the interests of the electorate. In his argument, decisions under these circumstances are made through private interest governance by business and state elites. This is the type of argument that is often made when government decisions are not based on popular will, that outcomes necessarily benefit elites. But this dissertation suggests that in the absence of pressure from strong constituencies, policy-makers can take decisions that favor powerless groups. Rather than freeing them to take decisions on the behalf of elites, it frees them to take decisions that seem to align with more programmatic visions of policy than they otherwise would be able to make if decisions were constrained by organized electoral constituencies.
Appendices
Appendix A

List of interviews

Sweden


Uno Westerlund, TCO education and research policy 1970s-1993, Email, July 2022

Mats Essemeyr, TCO Senior Research Officer, 1995-2020

Anna-Kirsti Löfgren, LO Labor economist, Stockholm, May 2022

Joa Bergold, LO Welfare policy investigator, Stockholm, May 2022

Sara Karlsson, Social Democratic Party MP 2010-2018, Video Call March 2022

The Netherlands

Martijn van Dam, PvdA MP 2003-2015, Email, February 2022

János Betkó, Vice President Dutch Student Union 2008-2009, Groen-Links Education Working Group chairman. Video call, January 2022
Ruard Ganzevoort, GroenLinks senator, 2011-2023. Video call, February 2022


Jo Ritzen, Minister of Education 1989-1998, video call, March 2022

Germany

Edelgard Bulmahn, Federal Minister of Education and Research from 1998 to 2005, Telephone call, July 2021

Christian Tauch, Head of the Education Division at the German Rectors’ Conference (HRK), Video call, July 2021

Birger Hendriks, Bologna Representative for the Standing Conference of the Ministers of Education and Cultural Affairs (KMK) 1999-2012, Video call, October, 2021

Stefan Küpper, Head of Department for Education Policy, Confederation of German Employers’ Associations 2002-2005, Video call, October, 2021

Isabel Rohner, University policy advisor 2013-2021, Head of Department for Higher Education policy 2021-, Confederation of German Employers’ Associations, October 2021

Peter Greisler, Deputy Director-General, Federal Ministry of Education and Research, video call, October 2021
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Prop. 1975:9. N.d. *Regeringens proposition om reformering av högskoleutbildningen m.m.*


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Sammanfattning på svenska

Denna avhandling undersöker politiska reformer som föranleds av uppdelningen av arbetsmarknaden i ”insiders” och “outsiders”, det vill säga å enaidan löntagare med trygga tillsvidareanställningar och å andra sidan arbetslösa och löntagare som har osäkra, tidsbegränsade anställningar eller arbetar deltids ofrivilligt.

Den första frågan handlar dels om vilka politikområden som är mest relevanta för att förstå konsekvenserna av uppdelningen i insiders och outsiders, dels om hur dessa policyområden faktiskt har utvecklats i de europeiska demokratierna. Avhandlingen utvecklar en modell av olika ”policyregimer” på arbetsmarknadsområdet. En policyregim kännetecknas av att olika politikområden hänger samman med varandra på ett sätt som skapar vinnare och förlorare på arbetsmarknaden. I avhandlingen framförs uppfattningen att tidigare studier har haft ett alltför snävt fokus eftersom de främst har fokuserat på hur villkoren för ”insiders” och ”outsiders” påverkas av arbetsmarknadsregleringar och i vissa fall också av aktiva arbetsmarknadspolitiska program och utformningen av arbetslöshetsersättningen. Avhandlingen argumenterar för att olika regeringars politiska strategier på detta område också bestäms av utbildningspolitiken och välfärds politiken. För det första har regeringar möjligheten att investera i utbildningsväsendet för att på sikt öka andelen ”insiders” på arbetsmarknaden. För det andra kan regeringar välja att med hjälp av nya slags välfärdsprogram kompensera de arbetstagare som missgynns av den tilltagande uppdelningen på arbetsmarknaden.

Den andra forskningsfrågan handlar om vad som förklarar att olika stater valt olika strategier på de två utvalda politikområdena. Varför genomfördes vissa reformer och inte andra? Avhandlingen argumenterar för att varken expansionen av högre utbildning i vissa länder eller ökningen av ekonomiskt bistånd i andra länder är ett resultat av politiska krav från inflytelserika väljargrupper. I stället lyfter avhandlingen fram betydelsen av politiskt koalitionsbyggnad som en avgörande faktor för reformer på utbildnings- och välfärdsområdet. Denna förklaring jämförs
med två andra inflytelserika förklaringsmodeller. En av dessa betonar konflikter mellan olika politiska partier; den andra framhåller i stället de stora företagens intressen och behov.


Den andra forskningsfrågan besvaras genom fallstudier av ett antal centrala reformprocesser när det gäller högre utbildning och ekonomiskt bistånd i Sverige, Tyskland och Nederländerna. Fallstudierna visar att viktiga politiska beslut på dessa områden har fattats med hänsyn till situationen på arbetsmarknaden och att centrala reformer i flera fall ägde rum trots att de väljargrupper som gynnades av dem var dåligt organis erad och hade en låg grad av politiskt inflytande. Reformen som syftade till att skapa en större grupp “insiders” eller till att kompensera “outsiders” var i stället inbäddade i bredare politiska processer. Reformerna låter sig inte förklaras av de traditionella förklaringsmodeller som pekar på betydelsen av partikonkurrens eller ekonomiska intressen.
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Labor market segmentation and the politics of investment and compensation

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Stockholm Studies in Politics 202

Doctoral Thesis in Political Science at Stockholm University, Sweden 2024

Department of Political Science

ISSN 0346-6620