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Citation	Palier, B., and K. Thelen. "Institutionalizing Dualism: Complementarities and Change in France and Germany." <i>Politics & Society</i> 38, no. 1 (February 10, 2010): 119-148.
As Published	http://dx.doi.org/10.1177/0032329209357888
Publisher	Sage Publications
Version	Original manuscript
Citable link	http://hdl.handle.net/1721.1/84100
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Institutionalizing Dualism:

Complementarities and Change in France and Germany

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Key words: dualism, welfare regimes, labor market, industrial relations, institutional complementarities

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Acknowledgements: For very helpful comments on previous versions of this article, we thank Daniel Clegg, Johan Bo Davidsson, Silja Häusermann, Anke Hassel, Martin Höpner, Torben Iversen, Tomas Korpi, Cathie Jo Martin, Isaac Martin, Traute Meyer, Georg Picot, Jonas Pontusson, Britta Rehder, Martin Seeleib-Kaiser, Wolfgang Streeck, and Christine Trampusch, as well as the editorial board of *Politics & Society*.

Abstract:

The French and German political economies have been significantly reconfigured over the past two decades. Although the changes have often been more piecemeal than revolutionary, their cumulative effects are profound. We characterize the changes that have taken place as involving the institutionalization of new forms of dualism, and argue that what gives contemporary developments a different character from the past is that dualism is now explicitly underwritten by state policy. We see this outcome as the culmination of a sequence of developments, beginning in the field of industrial relations, moving into labor market dynamics, and finally finding institutional expression in welfare state reforms. Contrary to theoretical accounts that suggest that institutional complementarities support stability and institutional reproduction, we argue that the linkages across these realms have helped to translate employer strategies that originated in the realm of industrial relations into a stable new and less egalitarian model with state support.

Introduction

In the face of significant new challenges associated with changing international markets, increased competition in manufacturing, and the rise of services, many Continental European political economies have been significantly reconfigured over the past two decades. Although the changes have often been more piecemeal than revolutionary, their cumulative effects are profound.¹ Centralized collective bargaining has not broken down, but national contracts delegate more and more issues to firm-based bargaining. Labor markets have not been deregulated wholesale, but the number of “atypical” or “non-standard” employment relationships has risen sharply in recent years, as has the number of working poor. Welfare institutions and programs have not been scrapped, but rather “recast”² -- though in ways that make them very distant from those that prevailed twenty or even just ten years ago. One of the most interesting features of these changes is that some of the most significant have occurred under the cover of a high degree of formal institutional stability, and many have been negotiated and “sold” politically as a way of preserving, not undermining, traditional arrangements and the kind of social order they reflect and represent.

This paper tracks developments across three institutional arenas (industrial relations, labor markets, and social protection) in two important continental political economies, Germany and France. While some authors see developments in each of these realms as representing liberalization and a move toward the American model,³ we argue instead that both the politics and the outcomes point more toward the institutionalization of new forms of dualism – less harsh than the American model but also distinctly less egalitarian than before. In fact, we suggest that the very same cross-class coalitions that have allowed the continental European countries to avoid succumbing to liberalization

have also helped to promote dualization. In both France and Germany, actors in the “core” economy have been relatively well positioned to defend traditional institutions and practices for themselves, but they are no longer able to serve the leadership functions they once did of providing crucial collective goods for all.⁴ Thus, while France and Germany have been able to resist outright liberalization, they appear at the same time and for the same reasons to be especially vulnerable to dualization.

Our dualization thesis draws some inspiration from theories from the 1970s and early 1980s, when a group of economists and political scientists identified trends toward labor market segmentation.⁵ Some saw these developments as a response on the part of capital to changes in technology and product markets, while others emphasized political motives and the effort to control the labor process by cultivating divisions within the working class. Either way, this literature focused on the micro-level of firm strategies as employers responded to conditions of uncertainty emanating from the market or, in some cases, the upsurge in labor militancy in the 1960s. Some authors suggested cycles of change in which employers would pursue segmentalist strategies in tight labor markets, but could be expected to abandon these strategies “as fast as possible” in periods of high unemployment and intensified product-market competition.⁶ In contrast to these previous accounts, we find that current trends point to a more durable new pattern based on a stable cross-class coalition, progressively institutionalized across successive institutional domains, and increasingly underwritten by state policy.

More recent work on “dualization” incorporates the kind of macro political perspective we advocate here. The most prominent theory, by David Rueda, suggests that labor market insiders and outsiders have distinct (and in many ways, contradictory)

preferences with respect to labor market policy – with insiders preferring strong employment protections over more flexibility to ease the re-entry of outsiders into the labor market, and outsiders preferring the opposite.⁷ He argues that Social Democratic governments pursue policies that promote the interests of insiders over those of outsiders, and finds that corporatist arrangements that in principle should bridge the gap between the two -- through unified representation of labor interests – do not increase social democrats' propensity to bring the interests of outsiders on board.⁸

While we agree with some aspects of Rueda's analysis, we advance a different causal argument. To us, it is not clear that Social Democracy is, as Rueda contends, part of the problem (driving dualism) and in fact if anything it appears to be part of the solution (to resisting it). A growing literature shows that dualist trends are far more pronounced in the continental European countries than in the Nordic countries where Social Democratic parties are stronger and in some cases, near hegemonic.⁹ Our alternative explanation thus emphasizes instead the political-coalitional underpinnings that drive political outcomes in France and Germany, including under governments of different stripes. The coalitional vantage point that we adopt here also allows us to see connections between the trends that Rueda observes in labor market policy and developments in realms that he does not explore—above all, industrial relations but also other aspects of social protection beyond those that he considers.

In our view, the institutionalization of dualism has been tied up in the linkages—unexplored both in the earlier literature on labor market segmentation and in the current literature on insider/outsider cleavages – between industrial relations changes, labor market policy, and welfare state reforms. Here we rely on the political economy literature

that has underlined the importance of "institutional complementarities" in the functioning of economic and social models. In both France and Germany, the core industrial sectors traditionally defined the "standard employment relationship" that established the benchmarks for other economic sectors in terms of wages and working conditions, labor contracts and social protection. In Germany the economic model was premised on large export firms in manufacturing (e.g., automobiles and machine tools); in France it was rooted in nationalized "champions nationaux" such as Renault and large public enterprises such as EDF (electricity) or SNCF (railways) that traditionally played the role of « vitrine sociale » ("social window," i.e., providing a model for "good" social practices within companies). In both countries, the social partners from manufacturing industry, unions from the public sector, and state policies contributed to the diffusion, generalization and institutionalization of the standards set in these contexts to cover (almost) the whole population -- directly for male wage earners, and indirectly for their wives and families.

Some authors have suggested that the connections across related institutional realms operate as a stabilizing force, since would-be reformers in one area will have to consider as well the costs of possible "collateral damage" to complementary institutions.¹⁰ In the political economy literature for example, it has been argued that employers will be loath to undertake reforms in one arena if achieving the desired effects is contingent on adjustments in all other arenas as well.¹¹ But most of these accounts also acknowledge the possibility of a reverse effect, essentially an unravelling, as changes in one area destabilize relations in others. This second possibility is in fact more consistent with what we observe in Germany and France. In these cases, tight coupling among

institutional realms has been an important driver of change, as responses to emerging pressures in one arena created new problems and thus inspired or indeed required reforms in adjoining policy arenas as well.¹²

The basic sequence runs as follows: In both Germany and France, early responses to the economic crisis of the 1970s and 1980s were organized around saving the core manufacturing economy, which was the foundation for both the economic and the social model. This was accomplished by reducing the size of the workforce employed in the industrial sectors (the use of early retirement exploded in this period) and increasing the productivity among remaining workers through increased internal flexibility and intensification of work. As employers streamlined operations and outsourced less productive activities, they negotiated new kinds of company-based deals with the remaining workforce that traded job security against increased productivity.

This mode of adjustment, however, robbed the core industry of its ability to serve as lead for the rest of the economy. The side effect of these strategies of internal labor market closure was to create new types of jobs on the outside, contributing to the emergence of a secondary labour market made of (and for) various non-standard employment relationships. State policy came to support and indeed solidify these developments by institutionalizing these new types of employment that operate according to different rules: more flexibility, less security. The term “atypical jobs” itself implies that different rules apply. To the extent that such employment is considered “exceptional,” even as it grows, it is also not allowed to compete with the core sector (i.e. putting so much pressure on it as to compromise wages and security there).

The growth of the secondary labor market, in turn, generated financial and political pressure for the development of a secondary type of welfare protection. In systems such as the German and French that are premised on segregated risk pools, financed by social contributions paid by employees and employers (payroll and not general taxes), and where eligibility for benefits is based on past contribution,¹³ the increase in unemployment and in the number of jobs that are (partially) exempted from contributions was bound to undermine the financial basis of the traditional regime. This system was by definition not designed to finance the social protection of those who did not participate in the “normal” economy and contribute to the social insurance funds. Thus in a third step, welfare reforms were developed that were premised on sharpening the line between social *insurance* (for those who had paid their social contributions), and social *assistance* and in-work benefits for those excluded from the normal labor market and for whom the state was asked to take responsibility.

Each of the next three subsections sketches out the major changes in these three central areas of the German and French political economies. For each domain, we provide evidence of dualization processes, and give an account of the political-coalitional dynamics that are driving them.

Industrial Relations: Local “egoism” and the erosion of collective bargaining

Germany and France have always diverged sharply from one another in terms of the usual measures of labor organization and strength that matter for industrial relations institutions. Germany’s organization rate, which peaked at around 35% in the 1970s, has since dropped to below 25% today, while France peaked at about 20% of the workforce

in 1955 and is down to under 10% currently.¹⁴ The German labor movement has also been relatively centralized, featuring a few non-competing multi-industrial unions, whereas French unions are notoriously fragmented along ideological lines. Nonetheless, in both countries mechanisms were in place for much of the postwar period that provided for very high levels of collective bargaining coverage (at around 80% in both countries), as well as a relatively high degree of national level harmonization of working conditions and wages.

In Germany, this effect was achieved through the pace-setting role traditionally played by the manufacturing sector. High levels of employer organization, combined with pattern bargaining led informally by the powerful Metalworkers Union (IG Metall), allowed Germany in the 1970s and even 1980s to emulate the outcomes of the “more corporatist” countries of Scandinavia.¹⁵ In France, by contrast, the state loomed larger in securing similar outcomes. In that country, high coverage and high harmonization were traditionally achieved through the lead role played by nationalized companies as well as the *procedure d’extension* – a tool that extends sector- or national-level agreements to all firms active within the industry or the country, even if they are signed by only a minority of the trade unions and employers’ associations.¹⁶

In both Germany and France, however, the usual mechanisms for achieving harmonization/standardization have been severely compromised over the last three decades, as a result of a shrinkage in the traditional “core” and an associated “inward turn” on the part of firms and sectors that once led the economy. In Germany, the decline of manufacturing employment has been accompanied by falling organization levels among both workers and firms, as well as a decline in collective bargaining coverage.

Union density among the actively employed (excluding retirees and unemployed) dropped in the West between 1980 and 2004 from 32.7% to 21.7%, a result primarily of the decline of employment in manufacturing.¹⁷ Despite the shift in jobs away from industry, membership in German unions still largely reflects employment structures of the 1960s, with strongholds in manufacturing and low representation in services.¹⁸ The trends are similar on the employer side, where association membership among firms is low outside of manufacturing, so that collective bargaining coverage rates in emerging sectors are well below those in industry.¹⁹

Major shifts in the structure of employment have also taken their toll on French unions. Employment declined in the industrial sector (from 25% of jobs in 1978 to 14% in 2006) as a result of both industrial decline and restructuring, including outsourcing jobs to the service sector.²⁰ But in addition, leading public companies (another union stronghold in France) were successively privatized, beginning in the mid 1980s and increasingly after 1993. Large industrial firms (e.g., Saint Gobain, Rhones Poulenc, Usinor Sacilor, and Pechiney), as well as banks and insurance companies had been sold off by the end of the 1990s. In the process, some of the key “models” of socially responsible companies such as Renault and, later, France Telecom and Gaz de France were progressively passed on to the private sector as the state’s shares declined. Unionization in France fell from 17% to less than 8%, while (as in Germany) the composition of unions remained largely the same – with membership rates three times higher in big companies (public or private) than in small ones, and two to three times higher in industry than in the service sectors (including services to industry).²¹

As the traditional core shrank, it also turned inward in ways that compromised the ability of leading firms and sectors to continue to play their traditional role of defining the level of wages and protection for all. Already in the first oil crisis, firms in both countries had begun pursuing more conservative hiring policies organized around protecting core skilled workers – who themselves also naturally sought protection from the consequences of the crisis. In Germany the Revised Works Constitution Act of 1972 strengthened local bargaining rights in ways that made layoffs more difficult, while in France a similar effect was achieved through a 1974 law that required “administrative authorization for firing.”²² In an important sense, these and subsequent legal innovations (including those designed by left governments to strengthen unions) facilitated this “inward turn” by encouraging decentralized negotiations. In Germany, the 1972 legislation had empowered works councils in their negotiations with management but it also and at the same time enhanced their autonomy vis-à-vis the overarching industrial unions. In the 1980s, the French government sought to strengthen unions by anchoring their position in firms with the Auroux Laws of 1983. This legislation famously backfired and wound up weakening unions by giving unorganized groups a boost²³ at around the same time that a wave of privatizations was explicitly relieving large former state owned enterprises from their public responsibilities.²⁴ In both countries these developments set the scene for local labor representatives to use their powers to participate in personnel policies organized around stabilizing employment for the current workforce while accommodating market fluctuations through the use of overtime and similar measures.²⁵

In Germany, the last twenty years have seen a massive growth in company-level pacts for employment and competitiveness negotiated with works councils (*betriebliche Bündnisse zur Beschäftigungs- und Wettbewerbssicherung*).²⁶ While there is nothing new in local bargaining *per se*, the kinds of deals that have emerged since the 1990s embody a new and clearly more segmentalist logic, involving trade-offs and compromises in which managers secure cost-saving concessions on working times and some aspects of company-level pay packages in exchange for increased job security.²⁷ Such deals compromise the willingness of these firms to play the roles traditionally assigned to them in national level bargaining, and solidarities broke down rather dramatically in the 1990s -- on both sides of the class divide. In 1995, for example, the position of the powerful Metal Employers' Association (Gesamtmetall) collapsed when plant managers proved unwilling to disrupt relations with their local works councils, refusing to heed the association's call for a lockout.²⁸ In 2003 it was labor that suffered the key defections, as works councils in the West were unwilling to continue striking for gains that would redound to the benefit of workers in the East.²⁹

More generally, a divide has opened up within the labor movement between unions representing workers with different skill levels and different levels of organization. These divisions are manifest among other things in debates over the introduction of a statutory minimum wage. The German Food and Restaurant Workers' Union (NGG) – representing poorly organized workers with low skills – for more than a decade now has supported the introduction of a statutory minimum wage,³⁰ and by 2004 Germany's new (and more encompassing) United Service Sector Union (ver.di) was also in favor. However, manufacturing unions still enjoy considerable market power and

oppose this, fearing that a minimum wage would compromise bargaining autonomy and put downward pressure on wages in their sectors.³¹ The stronger unions are joined in their opposition to a statutory minimum wage by the main employer confederations, the German Employers' Association (BDA) and the Confederation of German Industries (BDI).³²

In France, industrial downsizing and widespread privatizations across a broader range of sectors have similarly undermined trade unions' capacity to negotiate favorable deals to cover a majority of workers. In the past, unions had relied on strikes or government action to settle conflicts at the industry level and establish a relatively high and uniform level of wages and working conditions. Now, however, "the French model of industrial relations appears increasingly oriented to outcomes that are negotiated and debated at the level of the firm rather than the sector."³³

Where state enterprises used to establish a model for emulation, new privatized companies operate under a different governance structure, and are centrally preoccupied with firm profitability.³⁴ Concern for "public duties," e.g., with regard to "social" wages, has been removed, leading large privatized firms to increase productivity by all means. The idea of channelling state social policy through its public companies has been progressively dismantled. Instead, each private firm defines and negotiates internally its own policy, often combining outsourcing and streamlining (by removing the least productive workers) with increased productivity and security for the remaining employees.

France continues to maintain a relatively high statutory minimum wage, and this has prevented strong wage dispersion among regular full time employees.³⁵ However, as

Michel Lallemand notes, in the previous (Fordist) model, “every job was linked to a coefficient included in salary scales that had been negotiated by unions and employers at the sectoral level...[But] since the 1980s . . . the range of wages has increased as firms have added different bonuses to a basic wage.”³⁶ Moreover, divergence has also occurred on a variety of other issues. As Pepper Culpepper notes, “the French political economy has seen the strongest individual employers (large firms) and the strongest individuals (public elites and managers) rely increasingly on their individual market power to improve their relative position.”³⁷ Industry bargains appear no longer to place a floor on local negotiations, as “a set of legal exemptions first introduced in the 1980s steadily eroded the primacy of the sectoral level, capped by a 2004 law on social dialogue which reinforced the autonomy of firm-level bargainers in almost every domain save wages.”³⁸

The compulsory minimum wage has also not impeded the emergence of a divide between workers that remained within large firms and secured favorable deals through local bargaining, and outsourced workers in smaller firms or employed under atypical working contracts, whose protection and working conditions have deteriorated. In fact, in large manufacturing firms, buying cheaper labor from the outside has progressively replaced hiring staff to perform services such as cleaning, security, recycling, and transportation. As INSEE shows, the share of services bought by firms multiplied by 2.5 between 1959 and 2006, to become the fourth largest category of intermediary expenditure.³⁹

Legislation in the 1990s on working time reduction in France was also important in widening the gap between firms with different organization levels and different union bargaining capacities. Each law on working time reduction (starting in 1993 with the

Robien laws and ending with the Aubry II law in 2000) called for local negotiations. In large industrial firms and the public sector – where unions maintain a presence – the typical deal was to trade working time flexibility and increased productivity for job security, while in small firms and low-skill service sectors, working arrangements and conditions have deteriorated and external flexibility has increased.⁴⁰ Thus while high skill and white collar workers were able to translate working time reduction into much-appreciated improvements in work and life quality, lower paid and less skilled workers suffered income losses, more variable schedules and intensified work.⁴¹

In short, in both Germany and France, industrial restructuring in the 1980s and 1990s mainly involved shoring up the competitiveness of core sectors by reducing the size of the workforce and increasing the productivity of the remaining workers. Massive use in both countries of early retirement allowed for a relatively orderly retreat, even if the departure of older workers did not – as advertised – make room for younger workers so much as it stabilized the remaining jobs whose inhabitants were also then expected to work harder and more flexibly than before.⁴² Contrary to accounts that mostly emphasize conflicts between labor and capital, some of the more destabilizing trends in German and French industrial relations in fact involved an intensification of cooperation between managers and workers in leading firms (in Germany in the manufacturing sector and in France in large companies, both privatized companies and also those in the remaining state sector), which however complicated rather than reinforced coordination at higher levels.⁴³ *Contra* Rueda, this was not the work of Social Democrats cynically protecting insiders but instead in many ways the unanticipated working out of developments in collective bargaining, some of which were designed to empower not

weaken organized labor. However, in both Germany and France we can see that the structures put in place in the 1970s and early 1980s to enhance labor's voice at the plant level ironically provided ideal vehicles for fuelling trends toward dualism when economic hard times hit.

Labor market reforms: the institutionalization of a secondary labor market.

Achieving competitiveness through increased productivity and internal flexibility made it difficult to continue to align working standards for the less skilled with those of more productive workers in the core. Government policy responded to but also solidified the new and increasing divide that was emerging in the labor market between different types of jobs. Reforms did not impose a unified flexibilization for all, as theories of general liberalization would argue. In fact, the labor market reforms did not really touch the status of core workers in either country, so those in "normal employment" relationships continue to enjoy multiple protections. In Germany the safeguards include various legal stipulations, as well as provisions in collective contracts that protect, especially, older workers and employees with long tenure.⁴⁴ In addition, large and well unionized companies feature very strong works councils with significant rights in the area of plant personnel policy. In France, initiatives in the mid-1980s (under the Chirac government of 1986-88) removed mandatory prior authorisation for collective dismissals on economic grounds (which, as noted above, had been in place since 1974). However, as soon as Mitterrand was re-elected in 1988, the Rocard government re-instated protections for regular workers by introducing a new requirement, the 'social plan,' which again extended the role of the public administration and then courts of justice in controlling

economic dismissals. In 1993, this requirement was reinforced by a further law that required social plans to contain detailed provisions concerning the workers to be dismissed.⁴⁵

However, one of the consequences of the stabilization of employment in this shrinking core was to drive a general outsourcing of certain functions that were formerly performed within large companies to smaller firms that could make use of more flexible forms of employment. These trends, along with the progressive expansion of a broad range of services (e.g., construction, restaurants, goods delivery, childcare, and elder care, which are aimed at responding to the increasing demand for services by labor market insiders) have fuelled the rise of a secondary labor market, characterized by “non-standard” work contracts and lower standards (for pay, working conditions and social protection). Thus, alongside the stable and still well-protected jobs, various forms of “atypical” employment have been on the rise in both countries over the past two decades. While trade unions have successfully resisted major changes in employment protection for core workers, they experienced growing pressure to accept increased flexibility for other types of jobs.

In Germany, the increase in “atypical” jobs dates back to the mid 1980s but their numbers have increased steadily since the late 1990s even as their pay and benefits have declined relative to “regular” employees.⁴⁶ Reforms in the 1980s and 1990s relaxed restrictions on the use of agency workers, whose maximum terms were successively extended, up from three months in 1972 to 12 months by 1997 before the limit was abolished altogether in 2003. Restrictions on fixed-term contracts were likewise eased in reforms in 1985 and 1996, so that employers can now offer contracts for up to 24 months

without special justification.⁴⁷ In Germany, the use of temporary workers (negotiated with works councils) is providing flexibility in key industries. Ten percent of the workforce at the Mercedes Benz factory in Wörth, for example, consists of temps; at another auto plant the proportion is nearly a third (29%).⁴⁸

Other forms of atypical work (particularly the so-called minijobs) flourish in the less unionized service sector and at the service of the core sectors, as manufacturing enterprises increasingly outsource peripheral, low-productivity jobs such as maintenance or cleaning to this more flexible labor market.⁴⁹ Mini-jobs refer to low-level, part-time work that is not fully covered by social insurance contributions. These jobs have been around a long time. In the past, they were occupied by students, housewives and others who were covered through derived benefits and who preferred very low working hours and in any event did not rely on such jobs as a primary source of income or benefits. Because the holders of these jobs were covered in other ways, this type of employment was traditionally exempt from all contributions up to a threshold of earnings (in 1998 the limit was 630DM).⁵⁰ Employees paid no payroll taxes at all, and for their part employers paid a lump-sum tax amounting to 20% of the worker's earnings -- though they often passed this on to the workers, who in many cases were tax exempt (being high schoolers, university students, or retirees).⁵¹ As non-wage labor costs grew in the 1980s and 1990s employers found this arrangement increasingly attractive, and as a result the number of such jobs increased well beyond the originally intended clientele.⁵²

Over the course of two reforms (1999 and 2002), the Red-Green government under Gerhard Schröder "regularized" but also promoted the growth of these forms of work. The 1999 legislation replaced the employer tax with employer contributions into

the social insurance funds amounting to 22% of gross earnings (without, however, requiring matching contributions on the part of the worker). The 2002 legislation followed this same formula (unmatched employer contributions), while also (a) raising the threshold of earnings for minijobs (to a maximum €400 per month), (b) eliminating a previous limit of 15 hours per month, and (c) allowing minijobs as second jobs, something that had not been possible under the 1999 legislation.⁵³ Employers had criticized the first reforms (the switch to contributions) as overly bureaucratic, but they welcomed the later changes that lifted the earnings threshold and eased other restrictions.⁵⁴

The politics on the labor side were more complex. Service sector unions had sought to limit minijobs altogether and instead to promote regular part time work (with full benefits, and subject to the usual matched employer-worker contributions). Manufacturing unions were also opposed to contribution-free cheap minijobs but mostly because they worried about having to support minijobbers out of their own dwindling social insurance reserves. The solution crafted by the government in fact sought to address the crisis of the social insurance funds by maintaining minijobs but replacing the previous tax on employers with employer contributions to the funds.⁵⁵ This measure, according to SPD spokesman Dessler (speaking at the time of the debates on the 1999 reform), would bring 10 billion desperately needed DM into the strapped insurance funds. These additional resources, he noted, were “urgently needed” in order to avert another increase in social contributions on standard, full time jobs (which otherwise would be “nearly unavoidable”), and necessary as well to avoid a “zero round for retirees.”⁵⁶

The rub was that most minijobbers would not themselves see much of these benefits, because while they carry health insurance coverage through the public system, they are not entitled to unemployment insurance, and the pension entitlements on these minijobs are trivial, being tied to income on what are by definition very low earnings.⁵⁷ However, once the new proposals came out that tapped low wage work to *replenish* the social insurance funds, the major manufacturing unions sat back. Neither the metalworkers nor the chemical workers' unions submitted position papers on the final (1999) bill in parliamentary hearings and mostly they stayed quiet in the press as well, with the notable exception of the Metalworkers union which, after the passage of this first law, "welcomed" the new regulations as a way of moving beyond the shadow economy and stabilizing the social insurance funds.⁵⁸

Since 1999 the growth of mini-job employment has been substantial, increasing from about 2 million in 1991 to 4.7 million in 2005, and this does not include another 1.7 million minijobs as secondary employment (the increase in the latter coming strongly after the 2002 legislation).⁵⁹ As these jobs have grown most rapidly in the service sector, there is a strong gender component to these developments.⁶⁰ The growth of atypical work has opened new possibilities for women to enter the labor market, and participation rates have increased noticeably (by 8% between 1995 and 2007).⁶¹ While some research has shown that certain forms of atypical employment (e.g., fixed term contracts) can serve as a bridge to permanent jobs in Germany,⁶² this is not true for minijobs (which are far more prevalent in general, and among women in particular).⁶³ Some women's groups thus argued strongly against the expansion of "benefit-weak" minijobs in 1999.

However, in a context like the German one characterized by a long tradition of male breadwinners and derived benefits, these developments also activate conflicts of interest among women who participate in the labor market for different reasons and on different terms.⁶⁴ While single mother minijobbers in Germany would benefit from a regularization of benefits, many of them work alongside other women who anyway already enjoy benefits through their insider husbands and are simply supplementing family income. The latter are objectively identical in terms of their labor market situation, but *politically* they are often part of the (manufacturing based) coalition to preserve the transitional system – correctly perceiving that the prospects for defending the status and position of their insider husbands are far more promising than for securing new rights and benefits for minijobbers in a context of severe fiscal strain. Such tensions come through clearly in parliamentary debates, where representatives of key service sector unions (such as retail trade and the hospitality industries, in which women are heavily employed) worried openly about the incentives many female employees face in a context in which minijobs (being contribution-free on the worker side) in many cases yield higher take-home pay than regular part time work. Related to this, representatives of unions and women's groups expressed concern about perverse incentives with respect to wage increases, whereby minijobbers could fear increases that would take them above the upper earnings limit attached to minijobs, and push them into an employment zone (subject to contributions) that would drastically reduce their take home pay. So, the expansion of the low wage sector in Germany has certainly increased both incentives and opportunities for women to become more active in the labor market, though mostly the

legislation has been structured in ways that do not reduce and in some ways reinforce dependence on male breadwinners.

In France as well, the number of “a-typical” working contracts and jobs has expanded massively over the past three decades. In 1970, a-typical jobs (including fixed term, part time and agency jobs) represented just 3% of all employment, but this figure had jumped to more than 25% by 2007. Most strikingly, perhaps, 70% of the new job contracts are currently “a-typical.”⁶⁵ Even as developments in the late 1980s and early 1990s reinforced protections for those in standard employment relationships,⁶⁶ other reforms promoted the use of new fixed-term, temporary or agency work, and part-time contracts. In 1985, the socialist government passed a law that eased restrictions on fixed term contracts. This measure was followed by an ordinance in August 1986 (this one passed by the conservative government of Chirac) that enabled firms to hire temporary workers for their normal activities, and also extended the maximum term to two years. Employer contributions for these jobs are especially low in order to encourage the participation in the labor market of young people (under age 25). The socialist government of Michel Rocard, named by François Mitterrand after his re-election in 1988, did not reverse these trends and kept the reforms virtually intact.

As a result of such policies, atypical work of all varieties has been on the rise. The share of agency workers in the total workforce increased from 0.6% in 1982 to 2.5% in 2001 and 2.2% in 2005, which translates into 585,700 such jobs (full time equivalent).⁶⁷ On average, during the 2000s, about 10% of the French car industry’s workforce was temporary workers.⁶⁸ Fixed-term contracts have also risen from 4.7% of total employment in 1985 to reach a peak of 12.5% in 1996.⁶⁹ In 2007, such contracts

represented 8.5% of total employment (11.1% for women and 6.3% for men).⁷⁰ Part-time work has also grown, from 10.9% of total employment in 1985, to 11.9% in 1990, 15.5% in 1995 and 16.6% in 1997.⁷¹ By 2007, 17.2% of the employed were working part time (30.2% of women, and 5.7% of men).⁷²

In France another important source of atypical employment growth has taken place through an increase in state-subsidized jobs since the early 1980s. Starting in 1982 with “Travaux d’utilité collective,” and then “Contrats emplois solidarités,” followed in the late 1990s by the “emplois jeunes,” and then CIVIS in the early 2000s, there have been around 30 different types of these subsidized jobs (called “contrats aidés” in French). The number of subsidized fixed-term, low paid jobs for low skilled workers peaked in 2005 at around 500,000. In its “Rapport Annuel”, the French Cour des comptes states that in 2004, 7.3 billion Euros were spent on these jobs, to which one should add the social contribution exemption of 17 billion Euros for the low paid “normal” jobs.⁷³

In France, the creation of these jobs was part of the government’s “insertion policies” (*politiques d’insertion*) whose official goal was to enable the unskilled young and long-term unemployed to remain in the mainstream of society by providing a minimum income in exchange for some kind of activity, be it work or training. In contrast to the protected, permanent workers who were well represented by the trade unions, the young and the long-term unemployed represented a weak, poorly organised constituency. Thus targeted programmes were the favorite policy instruments for implementing Active Labor Market Policies (ALMPs) since the late 1980s, allowing various governments to avoid direct confrontation with the representatives of the more

permanent segment of the labor force, while allowing them to present subsidization as the price to be paid for job creation in the low skill service sector.⁷⁴

Increases in all these new forms of employment stand against virtually stagnant “regular” employment. Looking across a range of different types of atypical work, Lallemand observes: “Between 1990 and 2000, people employed with a short-term contract grew by 60 percent, those who benefited from a training period or special contracts with public financing, by 65 percent, and temporary workers by 130 percent. During the same period, employment in “regular” jobs increased by only 2 percent. The victims of the kind of flexibility [represented by new forms of atypical work in France] are mainly found among youth, women, and groups with lower skill populations.”⁷⁵

As in Germany, we see in France strong resistance by unions to allow for a general flexibilization of the labor market, especially with respect to regulations governing hiring and firing, but tacit support for the development of cheaper and more flexible jobs on the periphery through the relaxation of conditions for the use of fixed term contracts, part time and agency work. In a detailed analysis of what he calls “dual reforms”, Johan Bo Davidsson analyses the position of French employers and unions. He shows that since the early 1980s, employers pushed for more flexibility on the French labor market, and unions resisted this general trend, while however accepting in “pre-negotiations” legislation that allowed more flexibility on the margins of the labor market.⁷⁶

For instance, in 1983, when the social partners agreed to negotiate on labor market changes, increasing flexibility was high on the agenda. Trade Unions however made it clear that they would not accept a repeal of the legislation concerning

administrative authorization of layoffs. Instead, employers obtained a protocol agreement that proposed that the duration of fixed-term contracts should be extended from 6 or 12 months to 18 months, along with an expansion of the terms under which hiring on such contracts could be justified (for the unemployed, for example, no justification was required). Under the agreement, the duration of agency-work contracts was also to be expanded from 6 months to 12 months in certain cases. The protocol agreement was not adopted in the end, but as Johan Bo Davidsson notes, the negotiations had already made it “clear that the unions did not regard a softening of the regulations surrounding temporary work as a threat to the *droits acquis*.”⁷⁷ In 1985, when the socialist government did in fact pass two pieces of legislation on flexibility (softening the regulation on temporary work and allowing companies more flexibility on working time⁷⁸), it secured the implicit consent of the unions for these measures in exchange for further working time reduction.

In 1986, Unions opposed the right-wing government which repealed administrative authorization for layoffs, and supported Michel Rocard in 1988 who introduced a social plan requirement in the case of collective dismissals. They did not, however, ask for a reversal of all the new flexibilities at the margins of the labor market that had been created over the previous several years.⁷⁹ As later examples analyzed by Johan Bo Davidsson also show, each time flexibility and employment protection was discussed: “When the unions have had the possibility to influence reforms they have prioritized to defend the employment protection legislation for regular workers and have instead agreed on the introduction of flexibility at the margins, in the form of easing the regulations concerning temporary employment, and thereby creating a *dual reform*.”⁸⁰

One could argue that the increase in contingency is beneficial, if it enhances mobility in the labor market and if people who start in temporary jobs end up with full-time employment. Gazier and Petit review several panel surveys to test this hypothesis and find that actually in France workers in short-term work contracts are trapped in this situation.⁸¹ As in Germany, there is a strong gender component, as most part time jobs are taken by women (80%) and as 30% of women are working part time (of whom 30% declare they would rather work more hours).⁸² Low skilled young people find it more difficult than before to get an open-ended contract.⁸³ Recent studies have also shown that migrants (especially of North African origin), often unskilled, are much more affected than others by contingency and atypical jobs, and children of immigrants, despite having French nationalities, continue to encounter difficulties in the labor market.⁸⁴ By contrast, average job tenure in the core economy has been rising slowly in France since the eighties, reaching levels (11-12 years) similar to Germany and Sweden. “This stability suggests that more and more well protected workers stay longer in their enterprise (possibly fearing the consequences of a mobility decision), while another group of less favoured workers is trapped into a circuit and alternate unstable jobs and spells of unemployment.”⁸⁵

Even the policies providing for state subsidized jobs and associated with government “insertion” efforts are seen to have contributed to re-enforcing dualism rather than reducing it. As Gazier and Petit note, “The results of [these] policies have been quite deceiving. They range from the successful integration into regular jobs for more and more skilled workers to persisting high levels of unemployment and a wide zone of situations intermediate between work and welfare, situations which tend to be durable,

notably for the less skilled and less favoured workers.”⁸⁶ In this way, the multiplication of subsidised (but poorly paid) jobs for a specific (low skilled) population – while clearly generating employment for significant numbers of French outsiders (mainly women and young workers of foreign origins) – has also contributed to increased segmentation of the labor market.

In sum, Ebbinghaus and Eichhorst’s conclusions with respect to recent developments in German labor market policy echoes French experts’ conclusions on the French situation: “labour market institutions foster a *dual* labour market with high security and stability at the core and higher turnover and instability at the margin. In order to enhance labour market flexibility without threatening the stability of regular employment, gradual reforms fostered atypical employment.”⁸⁷ This pattern -- division of labor markets (internal flexibility and work intensity but job security for the insiders, labour market flexibility and lower standards for the others) -- seems to represent a typical continental answer to the new economic context, and has had important implications for welfare policy, to which we now turn.

The dualising dynamic of Welfare Reforms in France and Germany

In both France and Germany, responses to the economic crisis of the 1970s and 1980s created a vicious cycle in which increasing numbers of inactive workers had to be supported by fewer active workers, driving up non-wage labor costs (in both cases to over 40 percent of gross wages) and dampening job creation.⁸⁸ A core problem in both countries was the growing number of workers who had not and would not make contributions *into* the system in proportion to what, under the existing laws, they would likely be drawing *out of* the system. In both countries, this applied to the increasing

number of long-term unemployed as well as the growing numbers of atypical workers just discussed. In Germany, these numbers also of course included very significant numbers of workers in eastern Germany, who did not have contribution records but were heavily supported under the existing laws.

In this context, the search for solutions to stabilize the Bismarckian insurance-based model came increasingly to focus on “clarifying” the line between occupational insurance/contributory benefits and non-occupational/non-contributory benefits – with the idea that the state should take more responsibility for the latter. The result has been to produce residual, income-tested and in-work benefits for some, with continued contributory benefits (albeit lower) for insiders that can be supplemented through collective bargaining or firm level deals.⁸⁹ Thus, while those with full-time permanent jobs continue to be insured, more people must now rely on other types of social protection than typical social insurance. These flat-rate assistance benefits, usually financed by taxation and run by the state, are targeted to the excluded. We deal first with the changes in France since that is where developments in this field started earliest.

The period between winter 1982 and spring 1984 was one of intense public conflict over unemployment insurance in France. But it was also a period during which an implicit compromise was being negotiated between the unions, employers, and the government over a way of adapting policy to an emergent preoccupation with fiscal austerity. This compromise respected the Bismarckian heritage of UNEDIC (unemployment insurance managed by the social partners), but reinterpreted it in a manner compatible with cost containment, if not – initially - retrenchment. The idea was to better distinguish between the sphere of insurance (benefits financed through social

contributions and managed by UNEDIC) and the sphere of ‘solidarity’ (benefits financed through taxes and managed by the state). An agreement signed by the social partners on February 24, 1984 excluded those with the shortest contribution records from any entitlement to unemployment insurance benefits.

The restriction, and then retrenchment, of unemployment insurance was negotiated in exchange for the state taking over responsibility for benefits that had previously been financed out of social contributions and managed by UNEDIC. The creation of state-managed, tax-financed unemployment assistance benefits – the *Allocation Spécifique de Solidarité* (ASS) for the long-term unemployed, and the *Allocation d’Insertion* (AI) for labor-market entrants – was the explicit compensatory measure agreed by the then socialist Minister of Finance Pierre Bérégovoy in the protocol agreement of January 1984, a concession that allowed the social partners to arrive, one month later, at an acceptable compromise over the reform of unemployment insurance. Relieving UNEDIC of certain responsibilities while simultaneously confirming the position of contribution-financed, social partner-managed unemployment insurance as the principal instrument of French labor market policy -- this *quid pro quo* was enough to help the social partners agree on the limited cuts decided at this time.⁹⁰

Due in part to these reforms, the number of ‘excluded people’ increased to become one of the most pressing social issues of the late 1980s. In order to cope with new social problems that social insurance was unwilling and unable to deal with, governments have been developing new policy instruments, with reference to new social policy goals. The creation of the RMI (*Revenu Minimum d’Insertion*) is the most important of these new social benefits. This non-contributory scheme, meant for persons with no or very low

income (in some cases having exhausted their right to unemployment insurance), was introduced in December 1988; it guarantees a minimum level of income-tested differential benefits to anyone aged 25 or over. RMI benefits are attached to an activation dimension, in the form of a contract between the recipient and ‘society.’ Recipients must commit themselves to take part in some re-insertion program, as agreed in a contract co-signed by a social worker. The program can involve intensified searching for employment, undertaking vocational training, or participating in activities designed to enhance the recipient’s social autonomy.

When it was created, this new benefit was supposed to be delivered to 300,000-400,000 people. However, by March 2009, 1.13 million persons were receiving RMI (with a peak in 2006 at 1.3 million),⁹¹ which means that fully 3% of the French active population have become involved. Besides RMI, France now has eight other social minimum income benefit programs. More than 10% of the French population is currently receiving one of these.⁹² Thus, through the development of new social policies and minimum income benefits, part of the French social protection system is now targeting specific populations and using new instruments (income-tested benefits delivered according to need, financed through state taxation and managed by national and local public authorities), and relying on a new logic (to combat social exclusion instead of guarantee income and status maintenance).⁹³

The creation of these assistance schemes eased cuts in the unemployment insurance system itself. Each time retrenchments were introduced, more people were shifted from insurance benefits to social assistance. Exemplary of this trend is the 1992 unemployment insurance reform, which was accomplished through an agreement

between one trade union (CFDT) and the employers' association. The reform replaced all previous unemployment insurance benefits with a new one, the *Allocation Unique Dégressive* (AUD), with benefits paid only for a limited amount of time and with support levels declining over time according to a mechanism called "degressivity."⁹⁴ Such arrangements were designed not to undermine the traditional insurance-based system but rather shore it up by strengthening its basic principle, i.e. 'contributivity.' Once an unemployed person's insurance benefits expire entirely (after 30 months), he or she must rely on tax-financed income-tested benefits. As AUD was delivering smaller benefits for a shorter period, the minimum income benefits increasingly functioned as a safety net for the long term unemployed.

Overall, this whole 'clarification' process has re-enforced the distinction between workers who are still linked to the core labor market (even if temporarily unemployed) and those who are moving away from it, for whom assistance and in-work benefits have been created. In order to improve the incentives to go back to the labor market, the Jospin government in 2001 created a tax credit, called "Prime à l'emploi," which is a negative income tax for low paid jobs (in-work benefits). With that, a totally new rhetoric (unemployment trap, work disincentive) and a new type of social policy instrument (working family tax credit) have been imported into the world of poverty alleviation in France. In the same vein, in 2003, the Raffarin government wanted to increase incentives to work by transforming the RMI into RMA (*revenu minimum d'activité*) for those having benefited from RMI for two years.⁹⁵ Since June 2009, a new scheme, called *Revenu de solidarité active* (an income given to those entering subsidised low skill, low paid jobs), is planned to progressively replace RMI.

Like the French system, the German social insurance system became untenable in the 1990s due in large part to the staggering costs of supporting the early retired and the unemployed (particularly in the East). The division of labor between social insurance funds (administered by social partners) and state assistance became increasingly blurred and ultimately broke down, *de facto*, as the government was repeatedly called upon to bail out the insurance funds on a massive scale.⁹⁶ In the mid 1990s the Center-Right government carried out a series of reforms that first cut sick pay and then pension benefits, but these measures were revoked by the Red-Green government that came to power in 1998. Meanwhile, ongoing fiscal crisis drove the search for new solutions, as efforts at achieving a negotiated solution foundered.

The Red-Green government's solutions to these problems mirrored those adopted in France, drawing a sharper line between those who will be supported by insurance funds and on a contributory basis, and those who slip outside this system and into state-financed, income-tested assistance. As the head of the Federal Chancellery (and Minister in Charge of Special Tasks) under the first Schröder government put it, "social assistance should be concentrated on the neediest, and the line between contribution- and tax-based benefits should be drawn more sharply."⁹⁷ The most comprehensive measures in this direction were undertaken in the so-called Hartz reforms, of which Hartz IV is the most directly relevant in this context. Before Hartz IV, there were three levels of assistance: unemployment insurance (benefits related to earnings), unemployment assistance (lower benefits but still earnings related) and social assistance (means tested). Hartz IV brought two important changes: one was to reduce the duration of unemployment insurance (for older workers, from previous 32 months to 18 months, for other workers down to 12

months); the second was to do away with the middle tier of unemployment assistance altogether and instead merge this with social assistance (geared not toward status/income maintenance but basic poverty alleviation). In other words, under Hartz IV, workers who exhaust their unemployment insurance benefits drop immediately to flat-rate income tested social assistance.⁹⁸

The merging of unemployment assistance and social assistance produced a new benefit type – the so-called unemployment benefit II, *Arbeitslosengeld II (ALG II)*, which is designed for those of employable age who are “able to work” (and therefore also obliged to seek employment). The logic of ALG II is distinct from the system of unemployment insurance (ALG I) that continues to cover workers with sufficient contributions, at least through shorter bouts of unemployment. As Karl Hinrichs puts it, “only the unemployed with no prior or insufficient *ALG I* entitlements are dependent on the flat-rate benefit [in 2007, of € 347 per month] from the very start [of their claim]. *ALG II* is not merely a basic security scheme for the registered unemployed: rather, it is designed to serve all needy people of working age. As with social assistance before, *ALG II* may be paid as an in-work benefit if income from employment is too low to meet the needs of the household.”⁹⁹

Hartz IV is often characterized as part of a straight neoliberal offensive visited upon the German working class by a social democratic government that had abandoned tripartism and embraced unilateralism as the only way forward. And while it does seem clear (*contra* Rueda) that insiders also lost in the reform,¹⁰⁰ the politics were actually a good bit more complicated and played into the divisions that previous developments in industrial relations and labor market policy had generated. The very strong employment

protections cited above meant that workers in large core firms were not likely to become unemployed in the first place, and skilled workers (particularly in the West) are highly unlikely to stay unemployed for more than a year.¹⁰¹ This accounts for why centrist unions like the chemical workers union (classically representing highly skilled workers with stable employment) have overall been more willing to work with the government on these sorts of reforms.¹⁰²

Other manufacturing unions like the metalworkers took a more vocal position against the Hartz legislation as it worked its way through the parliamentary committees – though some evidence suggests that they were motivated to maintain unemployment support of long duration in large part because this had traditionally provided the “bridge” to full pensions on which early retirement agreements with employers rested.¹⁰³ In fact, the union confederation representative who was directly involved in a government reform commission at this time was herself “publicly critical of the tendency of the manufacturing unions to protect insiders.”¹⁰⁴ Low skill workers and service sector unions like *ver.di*, by contrast, were justifiably concerned both about the activation rules and associated wage effects, since ALG II recipients have to accept any legal job they are offered, whether or not it is covered by a collective bargain.¹⁰⁵

There is also a strong regional dimension to the impact of Hartz IV since the hardships it imposed were far more likely to be borne by workers in the East. There, long term unemployment is a much bigger problem than in the West and collective bargaining coverage (which, as noted, increasingly since the 1980s includes protections against layoffs of older and/or long-serving workers) is much lower.¹⁰⁶ Before the law took effect, there had been some protest in the West, but once the cuts to long term

unemployment assistance were being implemented, the demonstrations were almost exclusively concentrated in the East. When letters went out in July 2004 to all unemployment assistance recipients, to assess their eligibility for benefits under Hartz IV, this triggered weekly protests that ran through August. But the vast majority of these “Monday demonstrations” (harking back to the Monday demonstrations that had precipitated the fall of the communist regime) took place in the East.¹⁰⁷ While some low skill unions like ver.di participated, the national trade union confederation (DGB) declined to call its members out (citing possible political exploitation of the demonstrations by the radical right).¹⁰⁸ But what was very clear by this time – just one year after the metalworking strike had collapsed because western workers councils refused to shut down production in support of strikes in the East -- was that the willingness of western members to fight battles for eastern workers was fully exhausted.

Moreover, analyses that code Hartz IV as a straightforward instance of “liberalization” tend to focus almost exclusively on the cuts to regular workers on the benefit side. By doing so they miss the fact that, on the financing side, Hartz IV shores up the traditional model by preserving a social insurance logic for core constituencies – above all skilled workers in manufacturing – while for others less tightly linked to the labor market “social benefits break with the principle of status-protection and turn more and more into a basic protection regime.”¹⁰⁹ In some ways, this trend is therefore in line with demands made by the social insurance institutions already since the 1990s “that benefit components not based on contributions out of own earnings (*versicherungsfremde Leistungen*) should not be borne by the community of insured” but rather by the state.¹¹⁰ The Hartz reforms thus move toward a system organized more around poverty reduction

than income/status maintenance for labor-market “outsiders,” including – all important – financing that relies on taxation to support the (non-contributing) working poor. Thus, viewed from the finance (as opposed to benefit) side, this change has shored up the traditional insurance funds – so much so that contributions for regular workers (and their employers) could be lowered from 6.5% to 4.2% in 2007 and further, to 3.3% by 2008.¹¹¹

In sum, these measures preserve a social insurance logic for core constituencies even as they recognize that the days are over when benefits to male breadwinners in manufacturing will suffice to cover all. In this context it is noteworthy that recent proposals to revise Hartz IV do not attack the core logic that separates contributory social insurance from income-tested social assistance. They focus, rather, on (re-)extending insurance coverage to reincorporate long-time contributing “standard” workers. Thus in December 2007, the Grand Coalition government amended the unemployment rules to allow unemployed persons over the age of 50 to draw regular unemployment benefits for 15 (rather than 12) months, for 55+ year olds, for 18 months, and for 58+ for two years.¹¹²

Summing up developments in welfare reform in both countries we can observe that the last two decades served to reinforce the broader trend toward dualization. When the reform process began in the 1990s, the proposed changes were not presented as a means of dismantling the Bismarckian welfare state, but of shoring it up in a changed economic environment (slow growth, high unemployment, aging population). At that time and in later reforms, the main techniques and policies used to reduce welfare benefits often referred to the foundational principles of the system – i.e., the link between work and welfare rights. Recent reforms have increased the ‘contributivity’ of the

benefits, i.e. they have strengthened the link between the amount of contribution and the volume of the benefits (through a change in the calculation formula and/or stricter entitlement rules). They relied on the already existing logic of these social insurance schemes (where one earns the right to social benefits by paying social contributions), even though these reforms usually meant a shift away from redistributive (horizontal and vertical) towards actuarial principles and a reduction in the coverage of social insurance.

Moreover, many of these changes have been framed as part of a *quid pro quo*¹¹³ -- one that is based on the distinction between what should remain in the world of occupational social protection (and be financed through contributions) and what should be distinguished as a new world of social protection, aimed at those with an atypical employment situations (and financed through taxation). Retrenchment in social insurance programs thus reinforces dualism to the extent that it is accompanied by a clarification of responsibility and a shift in funding as the welfare system has come to rely more heavily on taxation to support the (non-contributing) working poor.

Before concluding, it is perhaps worth re-emphasizing that these changes, while significant, do not signal the “Americanization” of the French and German social models. A-typical jobs are still subject to extensive state regulation and even outsiders benefit from state support so that a minimum income is guaranteed. In Germany, for example, Hartz IV – widely considered the harshest of the recent reforms -- actually provided a boost for an estimated 1/3 of those who were previously in the lowest tier of the old social assistance system.¹¹⁴ Single mothers are no longer forced first to turn to their parents for support before becoming eligible for public benefits, enjoying instead for the first time an entitlement that is completely independent of their families.¹¹⁵ At the same

time, however, it is clear that the developments we have described here have played a role in the observed increases in income inequality and poverty that Germany has experienced since the mid 1980s – even if the overall levels are still well below those of the United States.¹¹⁶

France has actually fared rather better in this regard, with stable (and prior to 1995, even slightly declining) income inequality and poverty rates.¹¹⁷ Although somewhat paradoxical at first glance, it is also consistent with the logic of our argument that of the two countries we have analyzed here, the one with weaker unions and employer associations (but a stronger state) has so far been more successful in stemming the rise of inequality and poverty, through policies that compensate for trends unfolding in the market. The development of RMI and the eight other social minima in France guarantee that nobody can be left without any support. The new *Revenu de Solidarité Active (RSA)* is even promising a better situation for those who accept some activity, providing social contribution exemptions to employers hiring RMI beneficiaries or long term unemployed, and guaranteeing a negative income tax to the new low-wage workers so that they get at least 200 euros more than what the RMI would have provided. Despite increasing bifurcation in the logic of the old and new systems of social protection, the expansion of the basic safety net has provided some check on the growth of poverty in France.

Conclusion

By tracing the interrelated changes in industrial relations, labor market policy, and welfare reforms in Germany and France, we have shown that instead of a process of

liberalization within these “coordinated” market economies, continental CMEs like these two appear to be building a new (less egalitarian but possibly quite robust) equilibrium in order to adapt their political economies to the new, more competitive, international economic context. Recent developments and reforms across all three arenas have mostly spared the core workforce in the ways we have described above, even as they have involved some redistribution among the lowest income groups -- redounding to the disadvantage of low wage workers but benefiting some of the most marginal segments of society.

However, even if Germany and France have not sunk to the American model, the developments we document here represent an important break from the past. In each of the realms we have analyzed – industrial relations, labor market policy, social protection – the changes we observe have mostly been gradual and undertaken in the name of stability, billed as necessary adjustments to preserve core economic activities and the existing institutions around them. What has disappeared though is the capacity of the model to be encompassing and to cover all citizens under one type of work contract and social protection. In both countries, the industrial relations system has seen a gradual erosion that has proceeded not so much through rupture or even a full frontal attack by employers, but rather through the effects on the periphery of cooperation between labor and management in a still-solid core with its center, in Germany, in large manufacturing companies, and in France, in large manufacturing and large high-skill service sector firms. Related to this, labor market reforms have generally promoted developments in which the status and privileges of labor market insiders remain relatively well protected, with the flexibility necessary to stabilize the core being achieved at the expense of a

growing number of workers in “atypical” or “non-standard” employment relationships. Welfare reforms are also characterized by a gradual dualization, with a sharper line being drawn between occupational insurance/contributory benefits for core workers and a new but growing world of assistance and in-work/non-contributory benefits for labor market outsiders.

¹ Wolfgang Streeck and Kathleen Thelen, eds., *Beyond Continuity: Institutional Change in Advanced Political Economies*, (Cambridge: Cambridge University Press, 2005), chapter 1; Bruno Palier and Claude Martin (ed.), “Reforming the Bismarckian Welfare Systems” special issue of *Social Policy and Administration* 41, no. 6 (2007).

² Maurizio Ferrera, Anton Hemerijck, Martin Rhodes, “Recasting European welfare states for the 21st century,” *European Review* 8, no. 3 (2000), 427-446.

³ Andrew Glyn, *Capitalism Unleashed: Finance Globalization and Welfare* (Oxford, Oxford University Press, 2006); Chris Howell, “Varieties of Capitalism: And Then There Was One?” *Comparative Politics* 36, no. 1 (2006), 103-24; Wolfgang Streeck, *Re-Forming Capitalism* (Oxford, Oxford University Press, 2009).

⁴ The previous apparent universalism of continental CMEs – it now seems clear -- was premised on the now-absent capacities of the system to generate full employment. See Bruno Palier and Claude Martin (ed.), “Reforming the Bismarckian Welfare Systems:” and Cathie Jo Martin and Kathleen Thelen, “The State and Coordinated Capitalism: Contributions of the Public Sector to Social Solidarity in Post-Industrial Societies,” *World Politics* 60 (October 2007), 1-36.

⁵ Richard Edwards, Michael Reich, David Gordon, *Segmented Work, Divided Workers* (New York: Cambridge University Press, 1982); Suzanne Berger and Michael Piore, *Dualism and Discontinuity* (Cambridge: Cambridge University Press, 1980); Werner Sengenberger, *Der gespaltene Arbeitsmarkt: Probleme der Arbeitsmarktsegmentation* (Frankfurt: Campus, 1978).

⁶ See, for example, Werner Sengenberger, “Labour Market Segmentation and the Business Cycle,” in Frank Wilkinson, ed. *The Dynamics of Labour Market Segmentation* (London: Academic Press: 1981), 255- 256.

⁷ See David Rueda, *Social Democracy Inside Out: Government Partisanship, Insiders, and Outsiders in Industrialized Democracies* (Oxford, Oxford University Press, 2007). As such, Rueda’s view shares some similarities to the insider-outsider theories of economists such as Lindbeck and Snower who argue that job

protections and generous benefits stifle job creation (thus, contribute to unemployment) by making it costly for firms to hire. See Assar Lindbeck and Dennis Snower, *The Insider-Outsider Theory of Employment and Unemployment* (Cambridge: MIT Press, 1988). We note, however, that the idea that insiders and outsiders have opposite views on labor market flexibility is at least debatable; see Patrick Emmenegger, « Barriers to entry: insider/outsider politics and the political determinants of job security regulations », *Journal of European Social Policy* 19 (May 2009), 131 - 146.

⁸ On the contrary: using active labor market policies (ALMPs) as an indicator of efforts on behalf of outsiders, Rueda finds that social democratic government is negatively correlated with ALMPs when corporatism is high (and insignificant when corporatism is low). Rueda, *Social Democracy Inside Out*, 102-103.

⁹ See for example, Jonas Pontusson, “Once again a Model: Nordic Social Democracy in a Globalized World,” in James Cronin, George Ross, and James Shoch, eds., *Futures of the Left* (Durham, NC: Duke University Press, 2009), and Cathie Jo Martin and Kathleen Thelen, “The State and Coordinated Capitalism.”

¹⁰ See, for example, Paul Pierson, *Politics in Time* (Princeton, NJ: Princeton University Press), 150.

¹¹ Peter A. Hall and David Soskice, *Varieties of Capitalism* (Oxford: Oxford University Press, 2001), chapter 1.

¹² Wolfgang Streeck similarly draws attention to the destabilizing effects of institutional complementarities, although the causal argument he offers (for Germany) is somewhat different from ours. In Streeck’s model, capitalists are the drivers of change (for him, in the direction of liberalization) and institutional “exhaustion” (especially fiscal overload) is the central mechanism; our account of France and Germany, by contrast, emphasizes cross-class coalitions and dualization (Wolfgang Streeck, *Re-forming Capitalism* (Oxford: Oxford University Press, 2009).

¹³ Social insurance, whether for unemployment, old age or sickness, delivers "contributory benefits" to insured persons, i.e., the insured must first pay their social contribution to become eligible for full social rights.

¹⁴ On Germany, see Claus Schnabel, “Gewerkschaften und Arbeitgeberverbände: Organisationsgrade, Tarifbindung und Einflüsse auf Löhne und Beschäftigung.” Discussion Paper 34 (Erlangen, Friedrich-Alexander University, 2005), 8. On France, see Thomas Amossé and Maria-Teresa Pignoni, “La transformation du paysage syndical depuis 1945,” *Données sociales*, (Paris, INSEE, 2006), pp. 405-412.

¹⁵ Kathleen Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Cornell University Press, Ithaca, 1991), chapter 1.

¹⁶ Michel Lallemand, “New Patterns of Industrial Relations and Political Action since the 1980s,” in Pepper Culpepper, Peter Hall, Bruno Palier, eds., *Changing France, The Politics That Markets Make* (London, Palgrave, 2006), 50-104.

¹⁷ See John T. Addison, Claus Schnabel and Joachim Wagner, “The (Parlous) State of German Unions,” *Journal of Labor Research* XXVIII: 1 (Winter 2007), 8

¹⁸ Anke Hassel, “The Erosion of the German System of Industrial Relations,” *British Journal of Industrial Relations* 37:3 (September 1999): 501. In 1981, 58% of union members were blue collar workers and in 2002 the percentage was still over half (51.1%). The share of white-collar members has been rising (from 24.2 percent in 1981 to 32.5% by 2002), but this lags behind employment growth in those sectors. See Addison, Schnabel and Wagner, “The (Parlous) State of German Unions,” 9.

¹⁹ Hassel, “The Erosion of the German System of Industrial Relations,” 495.

²⁰ Xavier Niel and Mustapha Okham, ‘Les ressorts de l’économie des services: dynamique propre et externalisation’, *INSEE Premières*, N°1163 - novembre 2007.

²¹ DARES, “Le paradoxe du syndicalisme français” *Premières synthèses*, n°16.1 (Paris, Ministère des Affaires sociales April 2008).

²² Maurin, Eric, *La peur du déclassement*, Paris: Seuil, p.14.

²³ Chris Howell, "The Contradictions of French Industrial Relations Reform," *Comparative Politics* 24: 2 (January 1992), 182, 192.

²⁴ The text presenting the law of 2 July 1986 explicitly freed these companies to adapt to the new competitive environment as they saw fit (including of course through job reductions and outsourcing). Préambule, Loi 86-793 du 02 Juillet 1986, autorisant le Gouvernement à prendre diverses mesures d'ordre

économique et social.

²⁵ Sengenberger, *Der gespaltene Arbeitsmarkt*; Rainer Schultz-Wild, *Betriebliche Beschäftigungspolitik in der Krise* (Frankfurt: Campus, 1978); Gerhard Brandt, Otto Jacobi, and Walther Müller-Jentsch, *Anpassung an der Krise: Gewerkschaften in den siebziger Jahren* (Frankfurt: Campus, 1982); Paul Windolf, Hans-Willy Hohn, *Arbeitsmarktchancen in der Krise* (Frankfurt: Campus, 1984).

²⁶ Britta Rehder, *Betriebliche Bündnisse für Arbeit in Deutschland. Mitbestimmung und Flächentarif im Wandel* (Frankfurt am Main: Campus, 2003).

²⁷ Anke Hassel and Britta Rehder, "Institutional Change in the German Wage Bargaining System: The Role of Big Companies," MPIfG Working Paper 01/9 (December 2001).

²⁸ For a full account see Kathleen Thelen, "Why German Employers Cannot Bring Themselves to Dismantle the German Model," in Torben Iversen, Jonas Pontusson, David Soskice, eds., *Unions, Employers and Central Banks: Macroeconomic Coordination and Institutional Change in Social Market Economies* (New York, Cambridge University Press, 2000).

²⁹ *Süddeutsche Zeitung*, June 24, 2003, 20 and June 25, 2003, 6.

³⁰ Torsten Schulten, Union Demands Statutory Minimum Wage, EIROnline 1999/11 (November 28, 1999).

³¹ Heiner Dribbusch, "Debate on Introduction of Statutory Minimum Wage," EIROnline 2004/09 (September 22, 2004).

³² Ibid.

³³ Pepper Culpepper, "Capitalism, Coordination and Economic Change," in Pepper Culpepper, Peter Hall, Bruno Palier, eds., *Changing France, The Politics That Markets Make* (London, Palgrave, 2006), 40.

³⁴ Goyer, Michel, "The Transformation of Corporate Governance in France", in Culpepper et al., eds., *Changing France*, pp.80-104.

³⁵ Wiemer Salverda and Ken Mayhew, "Capitalist Economies and Wage Inequality," *Oxford Review of Economic Policy* 25: 1 (2009), 126-154.

³⁶ Michel Lallemand, "New Patterns of Industrial Relations," 56.

³⁷ Culpepper, "Capitalism, Coordination," 45-46.

³⁸ Culpepper, "Capitalism, Coordination," 37.

³⁹ Niel and Okham, “Les ressorts de l’économie des services.”

⁴⁰ See Bernard Gazier and Héloïse Petit, “French Labour Market Segmentation and French Labour Market Policies since the Seventies: Connecting Changes, *Socio-Économie du travail, Économies et Sociétés AB* (28), 2007, p. 1027-1055

⁴¹ Anders Hayden, “France’s 35-hour Week: Attack on Business? Win-Win Reform? Or Betrayal of Disadvantaged Workers? *Politics & Society* 34, no. 4 (2006). See also Méda D. and Orain R., « Transformation du travail et du hors-travail : le jugement des salariés sur la réduction du temps de travail », *Travail et emploi*, n° 90, (2002)

⁴² Note that the pressure to increase productivity put on workers inside big firms has eventually also led to worsening working condition and increasing ‘stress at work’ for insiders, as for example the series of suicides in Renault in 2008, and within France Telecom in 2009 shows. On the issues of the human consequences of increased internal flexibility and productivity in France, see for instance: Christian Baudelot and Michel Gaillac, (eds.), *Travailler pour être heureux?* (Paris, Fayard, 2003) or Philippe Askénazy, *Les désordres du travail* (Paris, Seuil, La république des idées, 2004).

⁴³ Kathleen Thelen and Ikuo Kume, “Coordination as a Political Problem in Coordinated Market Economies” *Governance* 19:1 (January 2006), 11-42.

⁴⁴ In fact, the number of collective bargains that include provisions containing these kinds of safeguards has increased over the last 20 years. Whereas in the mid 1980s only 23% of employees who were covered by collective agreements enjoyed such protections, now 56% of those who are covered by collective agreements have such contracts. Bernhard Ebbinghaus and Werner Eichhorst, “Distribution of Responsibility for Social Security and Labour Market Policy, Country Report: Germany,” Amsterdam Institute for Advanced Labour Studies Working Paper Number 07/52 (University of Amsterdam),” 26.

⁴⁵ See M. Malo, L. Toharia and J. Gauthié, “France: the deregulation that never existed,” in Gøsta Esping-Andersen and Marino Regini, eds., *Why Deregulate Labour Markets?* (Oxford, Oxford University Press, 2000), 245-271.

⁴⁶ Peter Bleses and Martin Seeleib-Kaiser note that “in the early 1970s the relationship between regular employment and atypical work was 5:1, by the mid-1980s the relationship had dropped to 3:1, and by the

mid-1990s it had reached a level of 2:1. Peter Bleses and Martin Seeleib-Kaiser, *The Dual transformation of the German Welfare State* (New York, Palgrave, 2004), 33.

⁴⁷ See Ebbinghaus and Eichhorst, "Distribution of Responsibility," 19-21; also Ronald Dekker and Lutz C. Kaiser, "Atypical or Flexible: How to Define Non-Standard Employment Patterns: The Cases of Germany, the Netherlands, and the United Kingdom," Tilburg Institute for Social Security Research and German Institute for Economic Research, 5; and Lars W. Mitlacher, "The Role of Temporary Agency Work in Different Industrial Relations Systems," *British Journal of Industrial Relations* 45: 3 (September 2007), 584-85.

⁴⁸ "Schnell Rein, Schnell Raus," *Der Spiegel* 1/ 2007, 60; and Lars W. Mitlacher, "The Role of Temporary Agency Work," 591-92. Temporary agency workers are more concentrated in manufacturing than in services in Germany (34.8% of temps work in manufacturing, as against 15.5% in services) (ibid, 582).

⁴⁹ See especially Werner Eichhorst and Lutz C. Kaiser, "The German Labor Market: Still Adjusting Badly?" Forschungsinstitut zur Zukunft der Arbeit, IZA Discussion Paper NO. 2215 (July 2006).

⁵⁰ Stephen Silvia, "The Rise and Fall of Unemployment in Germany," *German Politics* 11: 1 (April 2002), 14

⁵¹ Parliamentary proceedings Bundestag Protokoll.

⁵² Silvia, "The Rise and Fall," 14.

⁵³ Earnings between €400-800 are subject to reduced contributions on a progressive scale rising to regular levels. See Renate Neubäumer and Dominik Tretter, "Mehr atypische Beschäftigung aus Theoretischer Sicht," *Industrielle Beziehungen* 15, no. 3, 256-78.

⁵⁴ Lothar Funk, "New legislation Promotes 'minor jobs,' EIROnline 2003/02.

⁵⁵ Currently, employers pay a lump sum of 30% of gross wages (up from 25% since 2006) that goes to health insurance contributions and pension contributions. Ebbinghaus and Eichhorst, "Distribution of Responsibility," 21.

⁵⁶ Handelsblatt, 11 August 1998.

⁵⁷ Minijobbers can make additional, voluntary contributions but of course few can afford this. We thank Anke Hassel for clarifying the benefit entitlements for this type of employment.

⁵⁸ Münsterland-Zeitung. May 12, 1999. The metalworkers were at the time occupied in a rather intense

bargaining round organized around the theme of “an end to wage restraint.”

⁵⁹ Bernhard Ebbinghaus and Werner Eichhorst, “Distribution of Responsibility, 22; see also Gerhard Bäcker, “Was heisst hier ‘geringfügig?’ Minijobs als wachsendes Segment prekärer Beschäftigung,” WSI Mitteilungen 5/2006. Mitlacher cites a study that shows that between 20 and 40 percent of all low-skilled Germans work in minijobs. Mitlacher, “The Role of Temporary Agency Work,” 585.

⁶⁰ Studies have shown that over 2/3 of these jobs are in the service sector, and about the same percentage (64%) are held by women (e.g., Eichhorst and Kaiser, “The German Labour Market,” 17).

⁶¹ Wolfgang Streeck, “Flexible Markets, Flexible Society,” MPIfG working paper 08/6 (2008), 7.

⁶² Vanessa Gash, “Bridge or Trap? Temporary Workers’ Transitions to Unemployment and to the Standard Employment Contract,” *European Sociological Review* 24, no. 5 (2008), 651-668.

⁶³ Women make up only 14.7% of total fixed term contracts, but 45.8 percent of part time workers, which include minijobbers. Bäcker’s analysis suggests that women in minijobs are mostly “shunted into the traditional role of supplementing family income.” Bäcker, “Was heisst hier geringfügig?” 259.

⁶⁴ See also Torben Iversen and Frances Rosenbluth, *Women, Work and Power: The Political Economy of Gender Inequality* (New Haven: Yale University Press, forthcoming 2010).

⁶⁵ Robert Castel, *La montée des incertitudes* (Paris, Seuil, 2009), 165.

⁶⁶ As indicated above, the part of the 1986 reform that removed mandatory prior authorisation for collective dismissals on economic grounds was subsequently changed by the (left-wing) Rocard government in order to better regulate economic dismissals, and legislation in 1989 and 1993 established additional hurdles for laying off regular workers.

⁶⁷ Xavier Niel and Mustapha Okham, ‘Les ressorts de l’économie des services : dynamique propre et externalisation’, *INSEE Premières*, N°1163 - november 2007.

⁶⁸ Christine Erhel, Gilbert Lefevre, François Michon, « L’intérim: un secteur dual, entre protection et précarité », in P. Ashkénazy, E. Caroli, J. Gauthié, *Les bas salaires en France* (Paris: Albin Michel, forthcoming 2009).

⁶⁹ M. Malo, L. Toharia and J. Gauthié, “France: the deregulation that never existed,” 268

⁷⁰ INSEE (institut national de la statistique et des études économiques), “Une photographie du marché du

travail en 2007, résultats de l'enquête emploi" *INSEE première*, n°1206, August 2008.

⁷¹ M. Malo, L. Toharia and J. Gauthié, "France: the deregulation that never existed," 268

⁷² INSEE, "Une Photographie du marché du travail en 2007."

⁷³ Cour des comptes, "*Rapport au Président de la République*", Chapter 6, 'Les dispositifs d'évaluation des politiques d'aides à l'emploi de l'Etat', p.221.

⁷⁴ Anne Daguerre, Bruno Palier, "Francia", in Martin Rhodes, Maurizio Ferrera, (ISFOL), *Sistemi di welfare e gestione del rischio economico di disoccupazione*, (Milano, Franco Angeli, 2004) pp.195-236.

⁷⁵ Lallemand, "New Patterns of Industrial Relations," 57.

⁷⁶ Johan Bo Davidsson, « The Politics of Employment Policy in Europe: Two Patterns of Reform », paper presented at the ECPR conference in Lisbon, 14th to 19th of April 2009. Despite a low level of unionization, and their fragmentation, French Trade Unions are still able to act as veto players in labor market and social policies, because of both their mobilizing capacities, and their institutional roles within employment and social policy bodies and negotiations. On this apparent paradox, see Bruno Palier, *Gouverner la Sécurité sociale*, or Chris Howell, « The Transformation of French Industrial Relations: Labor Representation and the State in a Post-Dirigiste Era », *Politics & Society*, vol. 37 (2009), 229 - 256.

⁷⁷ Johan Bo Davidsson, « The Politics of Employment Policy in Europe », 6

⁷⁸ On temporary work: the duration of fixed-term contracts was extended from 6 or 12 months to 24 months for the long-term unemployed; on working time: the new provisions allowed working times to be averaged on a yearly rather than a weekly basis for companies that adopted a 38 hour work week.

⁷⁹ Although a 1990 *loi Soisson* reduced the duration of fixed-term contracts to 18 months and restricted their renewal to one time.

⁸⁰ Johan Bo Davidsson, « The Politics of Employment Policy in Europe, » 15.

⁸¹ Among other studies, Gazier and Petit summarize the following ones: "Sauze (2006) was able to show that, on the whole, only one fifth of fixed term contracts were converted into long term ones. The conversion rate of fixed term contracts into long term ones has cyclical variations but, overall, always oscillated around 20%. In the end, the increase in the share of contingent contracts is high enough to be

interpreted, at least partly, as an increase in the share of secondary labour market jobs... Calandrino and Gagliarducci 2004 focussed on the transition rates between such states as employment (short term and long term contracts), unemployment and inactivity, in the E.U. 15 countries from the mid-nineties to 2001. They found in the case of France quite low rates of transitions from unemployment to employment, and weak rates of transitions between short-term and long-term employment.” See Gazier and Petit, “French Labour market Segmentation.” See also D Sauze (2006), *Le recours aux contrats de travail à durée déterminée en France : une analyse sur données d’entreprise (1985-2000)*, Thèse pour le doctorat de Sciences Economiques, Université Paris I, Décembre and Calandrino M. and Gagliarducci S. (2004), “Labour market transitions and advancement: temporary employment and low pay in Europe”, *Employment in Europe 2004*, The European Commission, ch. 4, pp 159 - 186

⁸² INSEE, “Une Photographie du marché du travail en 2007.”

⁸³ Gazier and Petit quote Yves Fondeur, who examined the proportion of each cohort being employed after seven years, and the proportion having a stable job, and found that “For the 1975 – 1980 generations, after seven years the proportion of workers in a stable (long-term) job reaches 95 %. From 1986 to nowadays, the proportion goes down slowly to 90 % and the trend remains in this downwards orientation” Gazier and Petit, 2009, quoting Fondeur Y. (2005), “Les générations entrant sur le marché du travail”, in IRES 2005, *Les mutations de l’emploi en France, La découverte* pp 61 – 74.

⁸⁴ The unemployment rate of immigrants is double that of non-immigrants; immigrant workers are more concentrated in low skilled jobs than non-immigrants; and 25% of female immigrants occupy non skilled jobs. INSEE, “L’activité des immigrés en 2007”, *INSEE première*, N°1212, October 2008. On immigrant youth see Dominique Meurs, Ariane Pailhe, Patrick Simon, « Persistance des inégalités entre générations liées à l’immigration: l’accès à l’emploi des immigrés et de leurs descendants en France » *Population-F*, 61(5-6), 2006, 763-802.

⁸⁵ Gazier and Petit, “French Labour Market Segmentation,” 17.

⁸⁶ Gazier and Petit, “French Labour Market Segmentation,” 18.

⁸⁷ Bernhard Ebbinghaus and Werner Eichhorst, „Distribution of Responsibility,” 11-12. For France, see, M. Malo, L. Toharia and J. Gauthié, “France: the deregulation that never existed,” 252.

⁸⁸ Wolfgang Streeck and Christine Trampusch, "Economic Reform and the Political Economy of the German Welfare State," *German Politics* 14, no. 2 (June 2005), 176; Bruno Palier, *Gouverner la Sécurité sociale* (Paris, PUF, 2005), 209 for France.

⁸⁹ See, e.g., Christine Trampusch, "Industrial Relations as a Source of Social Policy: A Typology of the Institutional Conditions for Industrial Agreements on Social Benefits," *Social Policy & Administration*, 41(3), 251-270 and Bruno Palier (ed.), *A Long Goodbye to Bismarck? The Politics of Welfare Reforms in Continental Europe*, (Amsterdam, Amsterdam University Press, forthcoming)

⁹⁰ Daniel Clegg and Bruno Palier, "From labour shedding to labour mobilisation: The staggered transformation of French labour market policy", paper presented at the 2007 Annual Meeting of the American Political Science Association, August 30th-September 2nd, 2007

⁹¹ DREES, « Le nombre d'allocataires du RMI », *études et résultats*, N° 693, june 2009

⁹² Palier, *Gouverner la Sécurité sociale*, chapter 6.

⁹³ The use of this new repertoire of social policy has also been extended to health care. In 2000, a new scheme was created to provide free access to health care to the poorest, and free complementary health insurance to those who would otherwise not be able to afford such coverage. This new scheme is income tested.

⁹⁴ The AUD increased the minimum contribution period required for access to any unemployment insurance benefit from 3 to 4 months in the last 8 months. It also sharply reduced the duration of benefit entitlements for those with only 6 months of contributions in the last year, from 15 months of benefits for persons under 50 years old (21 months for those over 50) to only 7 months (for unemployed of all ages).

Daniel Clegg and Bruno Palier, "From labour shedding to labour mobilization."

⁹⁵ This would have provided social contribution exemptions to employers who hired people under RMA and also guaranteed state income supplements to the RMA employee. However, this did not work, since firms by and large declined to hire people under RMA.

⁹⁶ Streeck and Trampusch, "Economic Reform."

⁹⁷ *Frankfurter Allgemeine Zeitung*, November 9, 1998.

⁹⁸ Karl Hinrichs, " Social Insurance State Withers Away. Welfare State Reforms in Germany – or: Attempts to Turn Around in a Cul-de-sac" in Bruno Palier, ed., *A Long Goodbye to Bismarck?*

⁹⁹ Hinrichs, “Social Insurance State Withers Away,” 16. ALG II thus allows other types of in-work benefits (e.g., the mini-jobs discussed above), so that in October 2006, about 1.2 million persons combined *ALG II* and income from waged work — an increase of 500,000 compared to early 2005.

¹⁰⁰ See especially Anke Hassel and Christof Schiller, “Bringing the State Back in: The Role of Fiscal Federalism for Welfare Restructuring,” Paper presented at the meeting of the Society of the Advancement of Socio-Economics,” Paris, July 16-18, 2009.

¹⁰¹ Recall as well the increase in collective bargaining contracts that include job guarantees for older workers and workers with long tenure cited in footnote 44 above.

¹⁰² Wolfgang Streeck and Christine Trampusch, “Economic Reform and the Political Economy of the German Welfare State 14:2 (2005), 185; see also Stefan Zagelmeyer, “German Social Democracy and the Third Way: Is there a Future for SPD-Trade Union Relations? EIROnline 08/99 (August 28, 1999), and Heiner Dribbusch, “Coalition Agreement Receives Mixed Reactions from Employers and Trade Unions,” EIROnline 11/2005 (November 29, 2005).

¹⁰³ Hassel and Schiller note that extended periods of unemployment based on earnings-related benefits were centrally important to early retirement strategies, with long benefits (often topped up by employers) carrying them to retirement (Hassel and Schiller, “Bringing the State Back in,” 15-16, 18). And Hinrichs notes that despite measures in the late 1990s discouraging the use of early retirement, the reversal in this practice did not really set in until 2000 (Hinrichs, “A Social Insurance State Withers Away,” 8). And in fact some unions were still calling for retirement at 60 as late as 1999 (Streeck and Trampusch, “Economic Reform,” 181).

¹⁰⁴ Hassel and Schiller, “Bringing the State Back in,” 19. Hassel and Schiller argue, however, that the weight of the fiscal crisis pushed the government to undertake reforms that went well beyond what these unions would have preferred, cutting also into the interests of their core constituencies by in fact drastically limiting the duration of earnings-related unemployment benefits.

¹⁰⁵ Heiner Dribbusch, “Major Protests Against Cuts in Unemployment Assistance,” EIROnline 2004 (September 6, 2004).

¹⁰⁶ See Ebbinghaus and Eichhorst, “Distribution of Responsibility,” 60 (for figures on the incidence of

long-term unemployment in East and West) and 26 (on collectively bargained job guarantees).

¹⁰⁷ Compare the numbers: 20,000-30,000 showed up in Leipzig, 15,000 in Magdeburg, 5,000 in Rostock and only 1,200 in Dortmund. On the demonstrations, see Dribbusch, “Major Protests,” and Dieter Rucht and Mundo Yang, “Wer demonstrierte gegen Hartz IV?” *WZB-Mitteilungen* 106 (Dezember 2004), 51-54.

¹⁰⁸ Dribbusch, “Major Protests.” However, Rucht and Yang found no evidence of right-wing influence, “Wer demonstrierte gegen Hartz IV?”, 51.

¹⁰⁹ Eichhorst and Kaiser, “The German Labor Market,” 22.

¹¹⁰ Hinrichs, “Social Insurance State Withers Away,” 13.

¹¹¹ Hinrichs, “Social Insurance State Withers Away,” 17.

¹¹² Heiner Dribbusch, “Germany: Industrial Relations Developments in Europe 2007,” EIROOnline, September 23, 2008.

¹¹³ Giuliano Bonoli « Pension Politics in France: Patterns of co-operation and Conflict in two recent reforms », *West European Politics*, (1997) volume 20, n°4, pp.160-181.

¹¹⁴ Jan Goebel and Maria Richter, “Nach der Einführung von Arbeitslosengeld II: Deutlich mehr Verlierer als Gewinner unter den Hilfeempfängern,” *Wochenbericht des DIW Berlin* Nr. 50 (2007), 753 and passim.

¹¹⁵ Hassel and Schiller, “Bringing the State Back In,” 13-14.

¹¹⁶ OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries* (Paris: OECD, 2008), especially Table 11.1, 286.

¹¹⁷ Ibid. The minimum wage noted above also played a role in preventing greater wage dispersion (Salverda and Mayhew, “Capitalist Economies and Wage Inequality”).