SHIFTING THE EMPLOYMENT BURDEN: THE SOCIAL AND ECONOMIC FOUNDATIONS OF WELFARE STATE REFORM

DISSERTATION

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ABSTRACT

This dissertation examines how governments in advanced industrial nations are redefining the social contract through structural transformation of the welfare state, particularly the reform of employment promotion policies. By placing the unemployed back into the labor market, employment promotion not only provides individuals with a source of income, but it also helps to reduce welfare state costs and expand the tax base. Thus, these policies are seen as a sustainable form of social protection by domestic governments and international organizations alike. Yet, methods of employment promotion have changed over time and have varied substantially across countries, particularly in regard to who bears the primary responsibility for finding employment. While some governments have devoted substantial resources to job placement policies, through which the government bears the primary cost and responsibility for employment, many others have reformed employment promotion in such a manner that dramatically shifts employment responsibility onto individuals, therein reducing policy costs.

I use a two-level argument to demonstrate that the extent and variation in this shift in employment responsibility is rooted both in cleavages within labor markets based on employment risk, as well as in the power of labor unions to enforce workers' demands. At the individual level, I argue that workers' policy preferences are driven by their future employment expectations. Using a formal model of employment policy preferences, I demonstrate that, by contrast to the dominant models of the welfare

state, employment risk is a multi-dimensional concept, defined jointly by a worker's job security and reemployability in the event of job loss. I demonstrate further that these two dimensions of employment risk play integral and interdependent roles in shaping policy preferences, and to overlook one dimension will lead to underspecification of preferences that fails to adequately predict public opposition to welfare state reform. Utilizing this multi-dimensional definition of employment risk, I argue that the primary distributional cleavage in worker policy preferences is driven by structural changes in post-industrial labor markets. Specifically, I hypothesize that workers with higher skill levels, and those employed in the service sector, should perceive less risk than their lower-skilled and manufacturing sector counterparts. Analysis of employment policy preferences in 13 European countries confirms that these post-industrial cleavages indeed divide worker preferences for employment policies. Workers with higher levels of employment risk prefer that governments take on a greater share of employment responsibility, while those with lower levels of risk prefer that individuals take responsibility for their own employment.

Having identified the primary cleavages in policy preferences, I develop a new conception of power resource theory to explain how these divisions produce meaningful structural reforms in employment policies that shift the responsibility for finding work from government, through tax-supported activation policies, to individuals, who are increasingly responsible for reemployment. I build on the classic power resource notion that unionized workers are more capable of influencing political outcomes, but I depart from the conventional view that all unionized workers are locked in a class struggle and united in their pro-welfare preferences. Rather, I argue that distributional cleavages extend to all workers and that reforms are shaped by the relative power of high employment risk workers. Accordingly, the extent to which labor market reforms shift the employment burden to individuals is shaped by the degree to

which workers who are both unionized and have low employment expectations comprise a greater proportion of the labor force. Analysis of data on the restructuring of employment policies in 18 OECD countries confirms that risk-based distributional cleavages both within the labor force as well as within the union movement play a crucial role in government decisions to shift responsibility to individuals for finding employment.

For Krista.

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To suggest that completing graduate school has been a challenging task would be a bit of an understatement. It has taken an incredible amount of strength and perseverance, and simply would not have been possible without the support of many individuals. While I will surely forget to mention several who should be recognized, I would like to at least attempt to thank those who made this dissertation possible.

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to none and I would not be where I am today without his guidance. Finally, I simply could not have asked for a better advisor and chairperson than Sarah Brooks. For the last six years she has always looked out for my best interests, doing everything in her power to help me excel and reach my goals. Whether it was pushing me to expand on my ideas, commenting on chapters, convincing me to write that one additional grant proposal, or reading that same proposal for the third or fourth time, Sarah always went above and beyond what can be reasonably (or even unreasonably) expected of an advisor. For this, I am forever in her debt.

There are certainly scholars in addition to those on my committee that I owe a great deal of thanks. Philipp Rehm invested a considerable amount of time in my project and was particularly influential in introducing me to cross-national survey work and helping me to collect original data through developing my own survey. In addition to engaging me in a number of excellent conversations, William Minozzi provided crucial assistance in the development of the formal model presented in this dissertation. And finally, for for the past four years Jan Box-Steffensmeier has been an excellent mentor and provided me with constant support for which I am very grateful.

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Tom Cusack, Achim Kemmerling, and a number of interviewees that shall remain anonymous. Last but certainly not least, I owe most (if not almost all) of my success in the field to my colleague and very good friend Simon Vaut.

Beyond the purely academic, no one finishes a Ph.D. without a support group and my supporters were nothing short of exceptional. My fellow Musketeers Quintin, Daniel and Dino not only provided me with great feedback and requisite ribbings regarding my dissertation (among other things), but also brought a levity to this endeavor that made it infinitely more bearable. And without the regular support of Ally, Dana and various locations in Columbus area, this dissertation may have never made it past the first chapter.

My family deserves a great deal of thanks, especially two of my parents, Steven and Lynette Coggins. Pursuing a doctorate can appear to be an odd career choice for a promising young undergrad, particularly to those who are not familiar with the workings of academia and only know that their son gave up a good paycheck for a pittance, works all hours of the day and seems to be perpetually stressed. Yet, they never once questioned my choice and have shown me nothing but the utmost support.

Finally, words cannot describe how indebted I am to my wife, Krista. I have said on numerous occasions that she deserves a metal for putting up with me, but she deserves so much more than that. She is my rock, my muse, the love of my life. I owe her everything, and this is for her.

VITA

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CHAPTER 1

INTRODUCTION

Throughout the developed world, governments are turning to austerity measures and retrenching the welfare state as a means of reducing fiscal burdens. However, these reforms frequently do much more than simply reduce social spending. Rather, they can fundamentally redefine the social contract, transforming the welfare state from an institution of collective responsibility to one of individual responsibility. This change in the nature of social welfare has been illustrated in several welfare policies, as governments shift from defined benefit to defined contribution pension systems and reduce public services in favor of privatized healthcare (Brooks 2009, Hacker 2006). Yet, when looking to the role of the welfare state in the labor market, this shift has been largely overlooked.

While the welfare state has long protected the economic interests of workers through the provision of unemployment insurance, governments also play another very important function in the labor market; namely, employment promotion. In times of fiscal austerity, the state has a vested interest in placing dislocated workers into jobs. By placing the unemployed back into the labor market, employment promotion policies not only provide individuals with a source of income, but they reduce fiscal strains by alleviating welfare state costs and expanding the tax base. Thus, they are seen as a sustainable form of social protection by domestic governments and

international organizations alike (CEC 1999, OECD 1994, OECD 2006). But in promoting employment, governments face a crucial decision in *how* they will provide a social safety net for the unemployed and *who* will bear responsibility for finding work.

At its core, this study is an examination of responsibility, particularly of responsibility in the labor market. When workers are dislocated, who is responsible for finding them jobs? Is it the government or the workers themselves? The answer to this question differs not only from one country to the next, but more importantly, the last two decades have seen individuals take on an increasingly larger share of this responsibility in post-industrial democracies. It is this trend toward the individualization of employment responsibility that this study seeks to explain.

Shifting the Employment Burden

Employment promotion policies, which are also known as activation policies or active labor market policies, all serve the basic function of placing unemployed individuals into employment, or "activating" labor. However, this task can be accomplished through various mechanisms that entail differing levels of employment responsibility for the individual, relative to the responsibility borne by the government. As Martin and Swank (2004) have noted, activation policies are composed of both sticks and carrots. The sticks are manifested in government agencies that monitor the job search efforts of the unemployed and assist them in identifying which activities will expedite their transition back into the labor market. If job seekers are not complying with government expectations in their job search efforts, sanctions are implemented that can reduce the duration and level of unemployment insurance benefits. These "stick" policies, which will hereafter be referred to as negative activation policies, require the unemployed to bear the majority of the responsibility for finding a job. On the other hand, "carrot" policies exist in many forms such as retraining, job creation

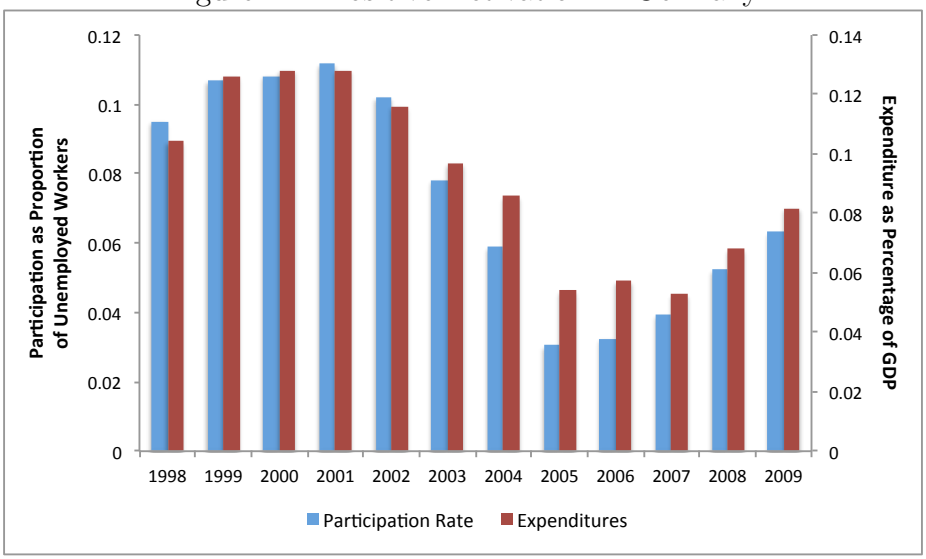
schemes and wage subsidization programs. These employment policies, which I will hereafter refer to as positive activation, are defined by governments actively placing individuals on a specified path to employment rather than requiring individuals to find employment on their own. Thus, governments take on a much greater share of employment responsibility in positive activation policies.

One can gain a fuller understanding of the distinction between positive and negative activation policies by examining a specific case, such as the Federal Republic of Germany. When a German worker becomes unemployed, she is required to inform the federal employment office as soon as she is notified of the dismissal. Once the worker is without work and receiving unemployment insurance benefits, she must have an initial consultation with a case worker in which she signs an agreement outlining which steps she will take on a weekly basis to find employment. She must then fulfill all the obligations outlined in the written agreement, including conducting a biweekly meeting with her caseworker where she provides evidence of all efforts taken to find a new job. If the worker fails to meet any of these obligations, the labor office will impose sanctions in which they withhold the worker's unemployment benefits for a period of twelve weeks. These negative activation policies place the responsibility for finding work on the individual and punish workers through benefit sanctions if they fail to meet these responsibilities.

Germany also has a set of positive activation policies in place in which the government plays a large role in directly placing workers on a path to employment. When workers first become unemployed and make their initial visits to the labor office, they are profiled and assessed on how likely they are to find work without government assistance. For those workers who are identified as least likely to find work through their own individual efforts, the government takes on a larger share of employment responsibility. This means that the labor office may assign a worker to a vocational

training program to upgrade her skills, place the worker directly into a public sector position or even provide startup funds for self-employment. Which program is chosen, these positive activation policies require the government to take on a larger share of employment responsibility.

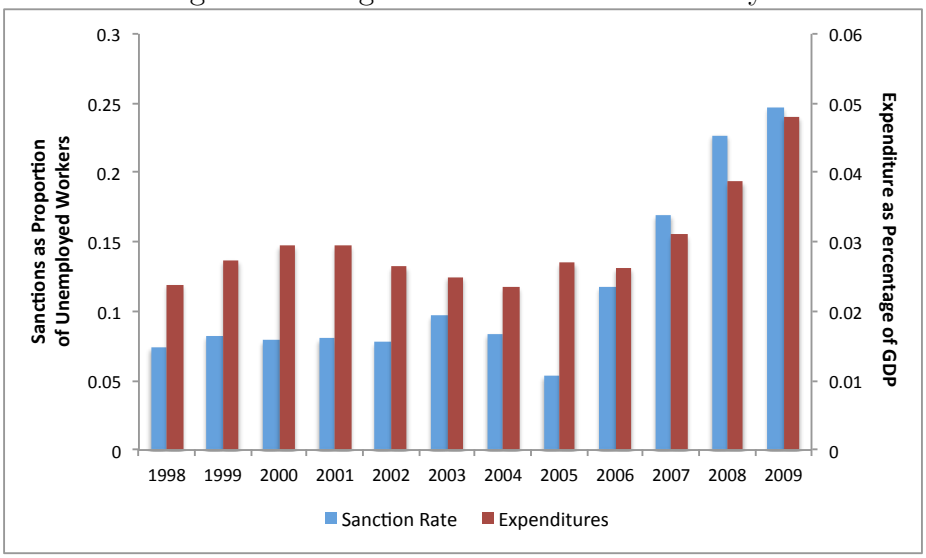
Figure 1.1: Positive Activation in Germany



Sources: Bundesagentur für Arbeit (2009*a*, 2010), OECD (2008*b*). Expenditures have been standardized by the annual unemployment rate.

However, Germany's current collection of positive and negative activation policies is much different than it was only ten years ago. From 2002 to 2005, a series of sweeping reforms made it much more difficult for the unemployed to granted access to positive activation programs, as well as dramatically increased the number of job-search obligations workers must fulfill in order to avoid benefit sanctions. These changes can be seen in Figure 1.1 and Figure 1.2. Figure 1.1 demonstrates changes in positive activation over time, with one series showing participation in vocational training and the other showing expenditures on all positive activation programs. The

Figure 1.2: Negative Activation in Germany



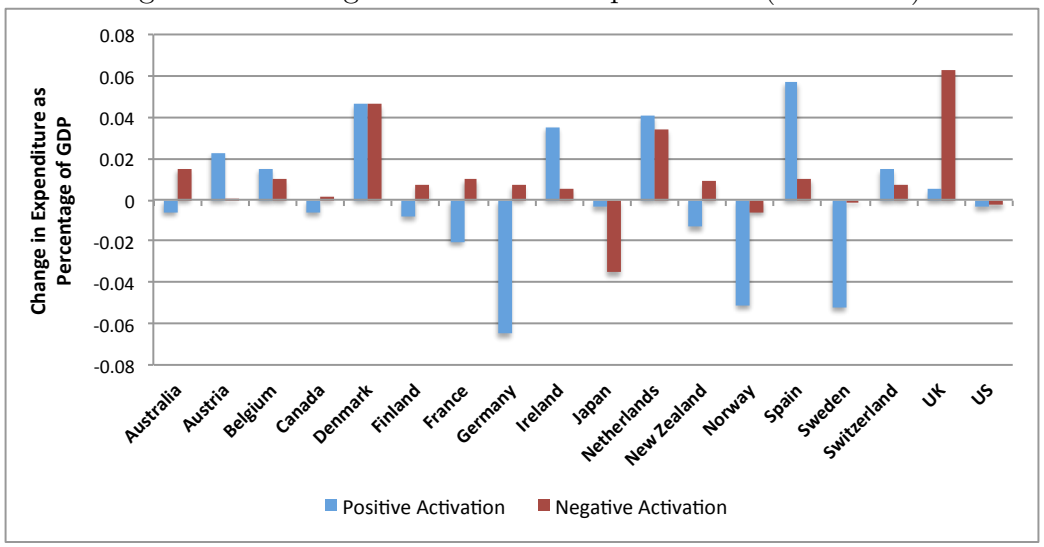
Sources: Bundesagentur für Arbeit (2009*a*, 2010), OECD (2008*b*). Expenditures have been standardized by the annual unemployment rate.

two series demonstrate a similar trend, which is a marked decline in both participation and spending over time. Trends in negative activation, however, are moving in precisely the opposite direction. Figure 1.2 shows both the number of benefit sanctions imposed on German workers as well as expenditures on all negative activation policies. Again, both series exhibit a similar trend, but negative activation policies are showing a clear increase over time rather than a decline. Taken together, this increase in negative activation and decline in positive activation demonstrates how employment responsibility is changing over time in Germany. In particular, the responsibility for finding a job is shifting away from the state and onto individual workers.

This transformation of employment responsibility is not limited to Germany. Several OECD countries have continued to promote employment through both types of employment policies and some have even increased their expenditures on policies that place large responsibilities on governments. However, in the majority of developed

democracies, the "carrots" of positive activation are disappearing. Looking at Figure 1.3, there is considerable variation in how countries have reformed employment policies over the ten year period shown. A third of the countries have followed reforms paths similar to Germany, dramatically shifting employment responsibility by reducing government support through positive activation and increasing negative activation. Others have increased government responsibility through positive activation, but not a single country did this while simultaneously reducing the responsibility of individuals. However, looking at Figure 1.3 as a whole, positive activation dominates policy retrenchment, while negative activation is overwhelmingly representative of those policies that have been increased. Indeed, of the 18 countries shown, more than half have reduced expenditures on positive activation and all but four of them have increased expenditures on negative activation policies. Overall, this demonstrates a general pattern of governments shifting responsibility away from the state and onto individuals workers.

Figure 1.3: Change in Activation Expenditures (1995-2005)



Source: OECD (2008*b*). Expenditures have been standardized by the annual unemployment rate.

These trends indicate a fundamental transformation of the way governments use the welfare state to protect the unemployed, and thus of the welfare state itself. When countries scale back employment policies that require greater government responsibility and augment the conditionality of insurance benefits, they effectively shift the burden of finding employment onto individual workers. Consequently, such policy reforms change the very nature of social protection from an institution where resources are pooled and risk is shared across all workers, to one in which risk and the consequences of unemployment are largely individualized. Yet, this transformation remains unexplained because existing studies have ignored the distinction in these two types of policies, frequently treating positive and negative activation policies as functionally equivalent and measuring these policies as a single variable. The shifting of employment responsibility, I argue, can be explained by divisions in worker preferences for positive and negative activation.

Recent studies have identified several pivotal changes in post-industrial welfare states (Clayton & Pontusson 1998, Hacker 2004, Huber & Stephens 2001, Iversen & Cusack 2000, Kitschelt 2001, Pierson 1996, Swank 2002, Vail 2008). Transformations in employment responsibility, however, have largely been overlooked as most scholarly attention has been directed toward changes in unemployment insurance (Allan & Scruggs 2004, Korpi & Palme 2003). Moreover, existing theories of welfare state reform are unable to provide a complete explanation of why governments are shifting the responsibility for finding employment onto individuals. Traditional explanations tend to focus on the role of political parties and how divisions in policy preferences are represented in party platforms (Boix 1998, Hibbs 1977). This is especially true of the historical relationship between labor unions and leftist parties and the ability of these groups to use their resources to promote and protect more extensive social policies (Bradley et al. 2003, Huber & Stephens 2001, Korpi 1989, Stephens 1979).

Yet, important questions remain unanswered. Employment responsibility has increasingly shifted toward individuals not only in countries with high levels of trade union organization, but also under governments of both the left and the right. Despite the remarkable effectiveness of power resource theories in accounting for postwar welfare state expansion, they have been less successful in explaining recent changes in social welfare institutions. Indeed, post-industrial transformations of the welfare state demand that we rethink labor power, particularly in terms of distributional cleavages within the labor movement.

Dissertation Summary

This dissertation examines how governments in advanced industrial nations are redefining the social contract through structural transformation of the welfare state, particularly the reform of employment promotion policies. While some governments have devoted substantial resources to job placement policies, through which the government bears the primary cost and responsibility for employment, many others have reformed employment promotion in such a manner that dramatically shifts employment responsibility onto individuals. I use a two-level argument to demonstrate that the extent and variation in this shift in employment responsibility is rooted both in cleavages within labor markets based on employment risk, as well as in the power of labor unions to enforce workers' demands. At the individual level, I argue that workers' policy preferences are driven by their future employment expectations. Using a formal model of employment policy preferences, I demonstrate that, by contrast to the dominant models of the welfare state, employment risk is a multi-dimensional concept, defined jointly by a worker's job security and reemployability in the event of job loss. I demonstrate further that these two dimensions of employment risk play integral and interdependent roles in shaping policy preferences, and to overlook one

dimension will lead to underspecification of preferences that fails to adequately predict public opposition to welfare state reform. Utilizing this multi-dimensional definition of employment risk, I argue that the primary distributional cleavage in worker policy preferences is driven by structural changes in post-industrial labor markets. Specifically, I hypothesize that workers with higher skill levels, and those employed in the service sector, should perceive less risk than their lower-skilled and manufacturing sector counterparts. Analysis of employment policy preferences in 13 European countries confirms that these post-industrial cleavages indeed divide worker preferences for employment policies. Workers with higher levels of employment risk prefer that governments take on a greater share of employment responsibility, while those with lower levels of risk prefer that individuals take responsibility for their own employment.

Having identified the primary cleavages in policy preferences, I develop a new conception of power resource theory to explain how these divisions produce meaningful structural reforms in employment policies that shift the responsibility for finding work from government, through tax-supported activation policies, to individuals, who are increasingly responsible for reemployment. I build on the classic power resource notion that unionized workers are more capable of influencing political outcomes, but I depart from the conventional view that all unionized workers are locked in a class struggle and united in their pro-welfare preferences. Rather, I argue that distributional cleavages extend to all workers and that reforms are shaped by the relative power of high employment risk workers. Accordingly, the extent to which labor market reforms shift the employment burden to individuals is shaped by the degree to which workers who are both unionized and have low employment expectations comprise a greater proportion of the labor force. Analysis of data on the restructuring of employment policies in 18 OECD countries confirms that risk-based distributional cleavages both within the labor force as well as within the union movement play a

crucial role in government decisions to shift responsibility to individuals for finding employment.

Chapter Outline

The next chapter develops my argument about individual-level policy preferences. I demonstrate how post-industrial distributional conflicts take shape by reconceptualizing the relationship between employment risk and demands for social insurance. Existing studies of welfare state reform theorize that risk shapes policy preferences either via a worker's level of job security or her reemployability, but not both dimensions of employment risk. Using a formal model of employment policy preferences, I demonstrate that employment risk must be fully conceptualized using both job security and reemployability when explaining policy preferences because focusing on only a single dimension produces a biased estimate of how much risk a worker is exposed to and how that risk maps onto policy preferences. Consequently, a failure to capture both dimensions misspecifies where the lines of distributional conflict are drawn in the labor market. By defining risk using a worker's employment expectations, which incorporates both dimensions of risk, I then use cross-national data on social policy preferences in 13 European countries to demonstrate how structural changes in post-industrial labor markets shape workers' employment expectations and, consequently, workers' employment policy preferences. The analysis confirms that workers' skill level and sector of employment define the primary distributional cleavages in the labor market, and predicts which workers oppose shifting responsibility to individuals and which do not.

Identifying distributional cleavages in the labor force is crucial to explaining employment policy reforms, but identifying which workers are most capable of enforcing their demands is just as important. In Chapter 3, I reconsider traditional power

resource theory in order to explain how labor unions shape social policy in post-industrial economies. Conventional power resource arguments claim that labor unions have long-standing relationships with leftist parties and that unionized workers are united in their pro-welfare policy preferences. I argue that this conventional view is outdated in post-industrial economies, and that a different conception of power resource theory offers considerable leverage in explaining employment policy outcomes. Using European survey data, I demonstrate that while unionized workers do prefer that governments take on a larger degree of employment responsibility, these workers consistently vote for rightist parties and, most importantly, distributional cleavages in policy preferences exist *within* union workers as well as outside of the labor movement. Thus, the relative power of unionized workers with low employment expectations plays a crucial role in government decisions to shift employment responsibility. I verify this claim with empirical tests of employment policy reforms in 18 OECD countries.

Chapter 4 investigates the confounding case of Germany, whose recent welfare and labor market reforms present a theoretical anomaly when approached using conventional theories of political economy. Known as the Hartz Reforms, this restructuring of the welfare state produced a significant shift in employment responsibility and resulted in a substantial reduction in the benefits received by the long-term unemployed. Yet, these reforms took place under a left government and in a country with strong unionization amongst high risk workers. After describing the Hartz reforms and detailing how the German government shifted employment responsibility onto the unemployed, I use a variety of evidence to explain how the distribution of employment expectations and a divided labor movement shaped the development of the these policies. Using original survey data collected during the summer 0f 2011, I demonstrate that the distributional cleavages identified in Chapter 2 indeed divide the policy preferences of the German labor force. I then use data collected during fieldwork in

Germany to explain how these distribution cleavages extended to the German labor movement and directly influenced the government's reform strategy. Specifically, the government crafted its policies with the concern of electoral punishment from workers with low employment expectations, particularly those in trade unions. Despite these concerns, the reforms as implemented shifted employment responsibility to a degree beyond the government's original intentions and, consequently, the SPD was voted out of office through the defection of high risk unionize workers.

The final chapter summarizes the contribution of the dissertation and discusses how additional evidence will contribute to this study's future development. Using Denmark and the United Kingdom, two countries that have recently implemented important labor market reforms, I demonstrate how further in-depth analyses of these two cases can be used to evaluate the hypothesized causal mechanisms of my argument. The two cases are selected based on crucial variation in several explanatory variables, particularly the relative power of unionized workers with low employment expectations. These workers are strongly organized in Denmark, where the obligations of workers has increased, but the government has also taken on a large degree of employment responsibility through positive activation programs. By contrast, high risk union workers represent a small proportion of the UK labor force and reforms have dramatically increased the employment responsibility of individual workers. After a brief discussion of how further examination of these cases will enhance the study of employment policy reform, I conclude with a overview of new questions that this dissertation has raised that are in need of future study in the social sciences.

CHAPTER 2

EMPLOYMENT EXPECTATIONS AND DISTRIBUTIONAL CONFLICT IN THE POST-INDUSTRIAL LABOR MARKET

Throughout the developed world, the welfare state has undergone considerable transformation over the last two decades. This is especially true when considering the welfare state institutions that assist the unemployed. Employment policies have long played a critical role in helping those without work to reintegrate themselves into the labor market as a way of protecting workers from a loss of income. Increasingly, these policies are seen as a desirable form of social protection by governments because they help to alleviate welfare state costs and expand the tax base by placing the unemployed into work. Yet, many states have dramatically restructured *how* they assist the unemployed by scaling back costly policies that directly assist the unemployed in finding work, while simultaneously increasing the number of requirements that the unemployed must meet in the job search process. As a result, these governments have shifted the responsibility for finding employment away from the state to individuals, and created a fundamental change in the nature of the welfare state from an institution based on the pooling of risk across society, to one based increasingly on individualized risk protection.

While some governments have devoted substantial resources to employment policies, many others have vigorously pursued reductions in policy costs by shifting employment responsibility onto individuals. What explains these differing paths of welfare state reform? I argue that shifts in employment responsibility are the product of new distributional cleavages in social policy preferences within the labor force based on varied expectations of employment risk, or how likely a worker is to experience a loss of income through unemployment. In contrast to dominant models of welfare state reform, I demonstrate that employment risk is a multi-dimensional concept, defined jointly by a worker's likelihood of keeping her job, or job security, as well as her ability to find work if she should become unemployed, or what is called reemployability. These two dimensions of employment risk play integral and interdependent roles in shaping policy preferences, and to overlook one dimension will lead to underspecification of preferences that fails to adequately predict public opposition to welfare state reform. Thus, I account for the roles of job security and reemployability in shaping policy preferences by defining risk through a worker's *employment expectations* and use this definition of risk to explain preferences for responsibility-shifting reforms.

Properly defining employment risk is crucial to understanding new forms of distributional conflict in society and explaining employment policy reforms. Since employment policies are designed to assist the unemployed, there should be a direct relationship between workers' opposition to reforms and workers' employment risk. Consequently, governments should be less willing to shift employment responsibility onto individuals when voters who are opposed to reforms make up a greater portion of the electorate. Utilizing a multi-dimensional definition of employment risk, I argue that the primary distributional cleavage in worker policy preferences that shapes employment policy reforms is driven by structural changes in post-industrial labor markets. Specifically, I demonstrate that workers with higher skill levels, and those

employed in the service sector, should experience less risk than their lower-skilled and manufacturing sector counterparts.

The purpose of this chapter is twofold. The first is to demonstrate the importance of fully conceptualizing employment risk through job security and reemployability when explaining social policy preferences. If the goal of research is to understand a worker's level of opposition to welfare reforms, then it is necessary to completely capture that worker's level of employment risk, which I define using employment expectations. The second is to identify the primary distributional cleavage in worker social policy preferences by explicating the role of structural change in post-industrial labor markets as a source of workers' employment expectations.

Theorizing Social Policy Preferences

There is a large body of literature in the social sciences that examines the relationship between the economy and preferences for social welfare policies. The foundational studies of Meltzer and Richard (1981) and Moene and Wallerstein (2001) both explore the role of income, particularly income inequality, in shaping the welfare preferences of individuals and, by extension, social policy outcomes. More recent studies, however, assume that the risk of income loss is precisely what individuals would like to insure against through government assistance. Consequently, they focus on labor market characteristics that influence a worker's exposure to employment risk and how these characteristics in turn shape policy preferences. Several scholars define employment risk through various characteristics that capture the demand for a worker's skill set in the domestic economy. Iversen and Soskice (2001) argue that workers with more position-specific skills favor greater welfare provision, while Rehm (2009) argues that

workers in occupations with higher rates of unemployment should be more supportive of social welfare.[1] Other scholars focus on the role of the international economy, maintaining that workers whose jobs are more likely to be lost as a result of globalization should also be more supportive of welfare policies (Mughan 2007, Scheve & Slaughter 2004, Walter 2010). Rueda (2006) builds on the insider-outsider framework of Lindbeck and Snower (1986) and defines employment risk using a worker's labor market status, arguing that workers whose jobs are more protected will be less supportive of social policies that assist the unemployed. Still others have examined how these characteristics of employment risk interact with each other in the development of policy preferences (Häusermann & Walter 2009).

Although these studies use differing measures of employment risk to explain social policy preferences, they all share a common theme. Regardless of which measures of employment risk are used, they address sources of risk that either affect the likelihood that a worker will lose her job or affect the ability of a worker to get a new job should she become unemployed. In other words, existing studies typically conceptualize employment risk in a way that relates to a worker's job security or reemployability, the two defining dimensions of employment risk. Yet, despite the critical role of job security and reemployability in defining employment risk, both dimensions are rarely theorized together in social policy preference arguments.

If the goal of research is to understand the effect of overall employment risk on social policy preferences and the resulting cleavages that these preferences produce, then the underspecification of employment risk is highly problematic. Without accounting for a worker's employment expectations using both job security and reemployability, a worker's vulnerability in the labor market can be misrepresented. For example, a worker with little job security should not necessarily by characterized as having a high

[1]See also Cusack, Iversen and Rehm (2006).

level of employment risk if the very same worker has a high level of reemployability. While this worker may be vulnerable to losing her job, she has the ability to find new employment quickly and maintain her income. Likewise, a worker with little reemployability is not necessarily at risk if her job is secure. Thus, both job security and reemployability are needed to completely capture a worker's level of employment risk.

When examining the literature that uses social policy preferences to explain welfare state reform, this focus on a single dimension of employment risk is just as prevalent. Existing studies that use risk-based divisions in policy preferences to explain welfare state outcomes can be divided into two primary groups, with the theoretical underpinnings of each group placing a heavy emphasis on one dimension of employment risk. Insider-outsider arguments are centered around job security and employment protection in particular (Rueda 2005, 2006, 2007). These theories argue that labor market insiders will not oppose reforms that retrench labor market policies designed to assist the unemployed, or outsiders, so long as governments preserve the protected status of insiders. Skill-based arguments, on the other hand, argue that labor market cleavages are centered around reemployability and skill specificity in particular (Iversen & Soskice 2001, Iversen 2005). They claim that the type of skills that workers invest in is directly related to employment risk, as workers with more specific skills should be much less likely to find a new job if they become unemployed. Due to this increased risk, workers with more specific skills should be more supportive of social policies that assist the unemployed.

As important and ground-breaking as these two research programs have been to the study of the welfare state, they are not without their shortcomings. While both arguments broadly acknowledge risk as the source of policy preference cleavages, neither fully conceptualizes employment risk due to placing too great a focus on one

dimension at the expense of the other. Consequently, each of these two theories develops a biased conception of the primary distributional cleavage within labor markets. The limitations of these two theories can be examined by considering each in further detail.

Insiders, Outsiders and Job Security

The insider-outsider argument primarily focuses on a worker's level of job security to explain employment policy preferences. It claims that workers who enjoy a protected labor market status are concerned with maintaining the policies which protect that status, but are not very concerned with the policies that assist the unemployed in finding a job because they are not highly concerned with unemployment. Thus, insiders and outsiders should be united in the preferences for employment protection, but divided in their preferences for policies that focus on assisting outsiders.

One limitation of this argument is that it rests upon a rather narrow definition of job security by focusing solely on employment protection. While employment protection policies, such as legislation governing dismissals or severance payments, clearly contribute to the overall level of job security, employment protection alone cannot hold back post-industrial shifts in labor market demand that reduce the level of job security for workers in contracting segments of the labor force such as those in manufacturing. The relative share of the labor force in the manufacturing sector has been shrinking for several decades in post-industrial economies. As a consequence of rising structural unemployment, workers in the manufacturing sector stand to benefit from policies designed to assist the unemployed despite their protected status.

Additionally, because the insider-outsider framework defines employment risk only along the single dimension of job security and under-develops the role of reemployability, it ignores potential vulnerabilities faced by insiders. Unless job security is

absolutely certain, every worker believes that unemployment is a possibility. However, the effect of losing one's job on employment risk is dependent on reemployability. If a worker has a relatively low probability of job loss but believes that finding a new job will be very difficult, this worker should have relatively low employment risk but expect to derive important benefits from employment policies due to her low level of reemployability. By adding this second dimension of employment risk, it is again evident how a protected insider can benefit from policies designed to assist labor market outsiders.

Specific Skills and Reemployability

Skill-based arguments have made substantial contributions to explaining worker social policy preferences, particularly by focusing on the role of reemployability. They claim that workers invest in skills that range from the general to the highly specific, and that workers who invest in more specific skills are exposed to greater social risk should they become unemployed because specific skills are less portable across firms or sectors of the economy. These workers thus have lower levels of reemployability and therefore should support social policies that require governments to provide more extensive social benefits such as direct assistance in finding work.

However, these arguments also have their limitations due to underspecifying the role of job security in shaping social policy preferences.[2] Assuming that workers with specific skills do in fact prefer higher levels of government involvement, this does not necessarily mean that all workers with general skills prefer less government involvement. If a worker has a high level of reemployability but is also in a position that

[2]While Iversen and Soskice (2001) do include the probability of losing one's job in their formal model, their theory of policy preferences is rooted in the link between skill specificity and reemployability.

is subject to high rates of job turnover, then that worker is exposed to greater employment risk than a similar worker with general skills but higher job security. Thus, workers that expect periods of unemployment to be short-lived could still prefer that governments take on more employment responsibility if they expect to be unemployed on a more frequent basis.[3]

An additional limitation of skill-based arguments is the theoretical conflation of skill specificity and reemployability as explanations of worker policy preferences, which presumes that all workers with more specific skills will have greater difficulty finding new jobs should they become unemployed. While this may be the case for many workers, this logic largely neglects the jobs in growing sectors of the economy that require highly specific skills, such as the IT sector, which are filled by workers that need little assistance in finding employment.

A Formal Model of Employment Policy Preferences

My claim is that job security and reemployability are both crucial in determining a worker's level of labor market vulnerability and both dimensions of employment risk must be fully incorporated into any theory that attempts to explain divisions in social policy preferences. Following the trend of recent welfare state literature, I treat social policies as a form of insurance against income loss (Iversen & Soskice 2001, Moene & Wallerstein 2001). However, employment policies are not social insurance *per se* because they do not redistribute income from a state of employment to a state of unemployment. Rather, they increase utility by reducing the likelihood of a worker experiencing an unemployment-related loss of income. Thus, the relevant question

[3]These workers may prefer more government involvement not only to share the burden of frequent job searches, but also because they believe that government involvement may place them in a position with a higher level of job security (e.g. through job retraining).

that I am asking is, how do the two dimensions of employment risk shape employment policy preferences?

Formalizing worker utility provides a useful mechanism for understanding the roles of job security and reemployability in preference formation because a formal model produces clear empirical implications regarding how each dimension of employment risk relates to worker policy preferences. A substantial literature currently exists in which researchers use formal models to examine how employment risk shapes social policy preferences (Di Tella & MacCulloch 2002, Hassler & Mora 1999, Saint-Paul 1996, Wright 1986). The model below builds on these studies by addressing two critical limitations in the extant literature. First, these studies model preferences for passive labor market policies, or unemployment insurance, as opposed to active labor market policies.[4] As a result, they are built on the assumption that taxes are used to fund unemployment benefits rather than programs that assist workers in labor market reintegration. Second, while most models do parameterize both job security and reemployability, they typically treat the two parameters as a single collective measure of risk when explicating how this employment risk affects policy preferences. Thus, existing studies do not examine both the independent and joint effects of the two dimensions of risk.

The framework of the following mathematical model is similar to that used by Wright (1986, 1996), Moene and Wallerstein (2001), and Iversen and Soskice (2001). I demonstrate not only that job security and reemployability each have an independent effect on employment policy preferences, necessitating their joint inclusion in any

[4] An exception to this is Saint-Paul (2000), who does attempt to formalize the role of active labor market policies. Saint-Paul models these policies as affecting reemployment probabilities, as does the model presented in this chapter, but Saint-Paul models the policies as exogenous. Thus, workers face no tradeoff between taxation and reemployment.

model of employment risk, but also that each dimension interacts with the other in shaping an individual's optimal policy.

Assumptions

The model below assumes that individuals maximize utility over two uncertain states, employment and unemployment. An individual wants to maximize consumption-based utility subject to her *employment expectations*, or the proportion of her remaining lifetime that she expects to be employed. Employment expectations are identified by the parameter α in equation 2.1 below.

$$V = u[\alpha \cdot c_{employed} + (1 - \alpha) \cdot c_{unemployed}] \tag{2.1}$$

Looking at the value function in equation 2.2, utility is derived from income (consumption), and the level of income differs depending on several variables. When individuals are employed, they earn a wage (w) and the amount of labor supplied by each individual is a negative function of the income tax rate, t. Thus, labor is defined as $1/(1 + t)$ and the coefficient on α is the level of post-tax income. When unemployed, individual income is supplied through unemployment insurance, P. It is assumed that employed income is greater than unemployed income ($w\frac{1-t}{1+t} > P$), making employment the preferred state.

$$V = u[\alpha \cdot w\frac{1-t}{1+t} + (1 - \alpha) \cdot P] \tag{2.2}$$

As defined in equation 2.3, employment expectations, α, is generally defined as the sum of the probability of keeping one's job, or job security (γ), and should one lose her job, the probability of reemployment, or reemployability (ϕ). For purposes

of model simplification, job security and reemployability can be thought of as being determined by a number of exogenous empirical factors.[5]

$$\alpha = \gamma + (1 - \gamma)\phi \tag{2.3}$$

In standard models, the parameters that determine a worker's employment expectations are assumed to be exogenous from social policies. However, when governments use employment policies to assist the unemployed, the definition of employment expectations must incorporate the effect of these policies and this revised definition can be seen in equation 2.4. The general purpose of employment promotion is to transition those who are out of work into employment. Specifically, they are designed to increase reemployability, both through positive activation policies in which the government bears a large portion of employment responsibility such as job training and wage subsidization, as well as negative activation policies that require individuals to bear greater employment responsibility through increased job search requirements and sanctioning. In equation 2.4, A represents spending on positive activation programs as a proportion of all employment promotion expenditures and, as a direct consequence, A is a relative measure of employment responsibility borne by the government.

$$\alpha = \gamma + (1 - \gamma)(\phi + (1 - \phi)A) \tag{2.4}$$

Finally, all tax revenue collected from income will be redistributed through employment policies (A), detailed by the budget constraint in equation 2.5. The budget constraint reveals how equation 2.4 represents the key innovation of the model. Standard models are typically designed to redistribute tax funds directly, using them to

[5]These exogenous empirical factors, such as skills and employment protection, are examined in the subsequent sections of the chapter.

fund unemployment insurance benefits (P). Taxation raises utility by increasing income when in a state of unemployment. However, in this model, P is exogenous and tax funds are used to augment employment expectations (α), which indirectly raises utility by reducing the amount of time that a worker spends in the unemployed state. Thus, individuals face a tradeoff between post-tax income and the government providing insurance against the risks of the labor market via employment policies. They optimize utility by considering that greater levels of government responsibility in finding a job have a higher cost, and then identifying which level of policy implementation provides the greatest marginal benefit.

$$\frac{t \cdot w}{1+t} = A \tag{2.5}$$

Theoretical Expectations

Using this model, it is possible to derive several theoretical expectations regarding how optimal policy preferences differ across types of workers. The assumptions above are used to derive an equation for the optimal tax policy, A^*, and comparative statics are then taken to produce the following results.[6]

Result 1: Job security and reemployability are negatively related to the optimal level of taxation.

$$\frac{\partial A^*}{\partial \gamma} < 0, \qquad \frac{\partial A^*}{\partial \phi} < 0 \tag{2.6}$$

This result states that as either job security or reemployability increases, the optimal level of taxation decreases and, by extension, so does the preferred level of employment responsibility borne by the government. As job security or reemployability goes up, workers anticipate spending less time in unemployment and requiring less

[6] A complete proof of the model can be found in the appendix.

assistance from the government in finding a job. This result reinforces the claim that both dimensions of employment expectations affect a worker's preferred employment policy.

Result 2: The relationship between job security and optimal taxation is mediated by reemployability. Likewise, the relationship between reemployability and optimal taxation is mediated by job security.

$$\frac{\partial^2 A^*}{\partial\gamma\partial\phi} < 0, \qquad \frac{\partial^2 A^*}{\partial\phi\partial\gamma} < 0 \tag{2.7}$$

This result states that the effect of one dimension of employment risk on optimal policy is mediated by the other dimension, and this mediation augments the effect rather than moderating it. For example, when a worker has a low level of reemployability, a unit increase in job security will result in a decrease in optimal taxation. However, when the same worker has a higher level of reemployability, a unit increase in job security will result in an even greater decrease in optimal taxation. This is because the worker with higher reemployability has a higher level of overall employment expectations and is in less need of government assistance when searching for employment. The same result holds when considering changes in reemployability rather than job security.

Empirical Verification

My primary claim is that employment risk must be defined using both job security and reemployability when explaining social policy preferences. Both dimensions affect workers' demands for welfare and the effect that each dimension has on these demands is mediated by the other. The analyses presented in Table 2.1 model social policy preferences as a function of both job security and reemployability. In these analyses, policy preferences are captured using a variable that relates directly to shifts

in employment responsibility. Specifically, the dependent variable is a measure of how responsible a respondent believes governments should be for providing citizens with jobs and is taken from the European Social Survey (ESS 2008).[7] It is scaled in such a way that larger values represent preferences for greater employment responsibility to be borne by the government. As for the independent variables, job security is measured by asking respondents to rate the truthfulness of the statement "My job is secure" on a four point scale ranging from "Not at all true" to "Very true." Reemployability is measured by asking respondents to answer the question "How difficult or easy would it be for you to get a similar or better job with another employer if you wanted to?" using an eleven point scale ranging from "Extremely difficult" to "Extremely easy." Both are taken from the 2004 European Social Survey (ESS 2004).

The analyses in Table 2.1 are regressions that used data combined from two separate sources.[8] Data combination must be used due to the fact that the dependent variable and primary independent variables exist in separate surveys. To combine the data, the job security and reemployability variables are averaged for each of 27 distinct occupational categories in the ESS 2004 survey.[9] The averaged values are then assigned to individuals in the ESS 2008 survey based on their occupation.[10]

Having described the data, the results of the theoretical model can be restated for

[7]The question reads as follows: "Tell me on a score of 0-10 how much responsibility you think governments should have to ensure a job for everyone who wants one." The variable ranges from 0, which means it "should not be governments responsibility at all", to 10, which means it "should be entirely governments responsibility."

[8]Countries included in the analyses are Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

[9]Occupations are defined using the ISCO-88 occupation classification system. Averages are taken for each of 27 two-digit classifications.

[10]For an existing example of this estimation technique and a proof of the unbiasedness of occupationally-derived estimators, see Iversen and Soskice (2001).

Table 2.1: Determinants of Employment Responsibility Preferences

	Model 1	Model 2
Job Security	-0.2923**	0.9762
	(0.1236)	(0.7457)
Reemployability	-0.1143**	0.7550
	(0.0530)	(0.5066)
Job Security*Reemployability		-0.3053*
		(0.1771)
Income	-0.1008***	-0.1002***
	(0.0086)	(0.0087)
Ideology	-0.1554***	-0.1555***
	(0.0107)	(0.0107)
Age	-0.0010	-0.0009
	(0.0012)	(0.0012)
Gender	0.2737***	0.2803***
	(0.0410)	(0.0407)
Part-Time Worker	0.0893*	0.0847*
	(0.0495)	(0.0494)
Unemployed Worker	0.2251**	0.2226**
	(0.0897)	(0.0897)
Non-Worker	0.1582***	0.1561***
	(0.0454)	(0.0453)
Constant	8.4239***	4.7860**
	(0.4337)	(2.1405)
No. of Cases	18278	18278
R^2	0.13	0.13

* p<0.10, ** p<0.05, *** p<0.01

Note: Survey data from ESS (2004, 2008). Estimates are derived using OLS with country fixed effects. Standard errors are clustered by occupation and country.

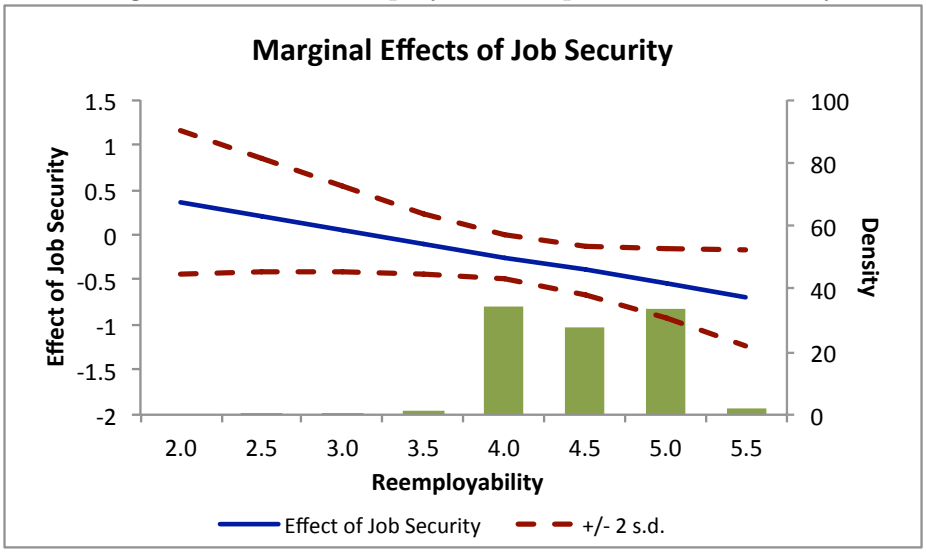
purposes of empirical testing. Result 1 states that both job security and reemployability are negatively related to the preferred optimal policy. Thus, the coefficients on both of these variables should be negative. Result 2 states that the effect of job security is mediated by reemployability and vice versa. This means that the two variables interact with each other and the interactive term should also have a negative coefficient.

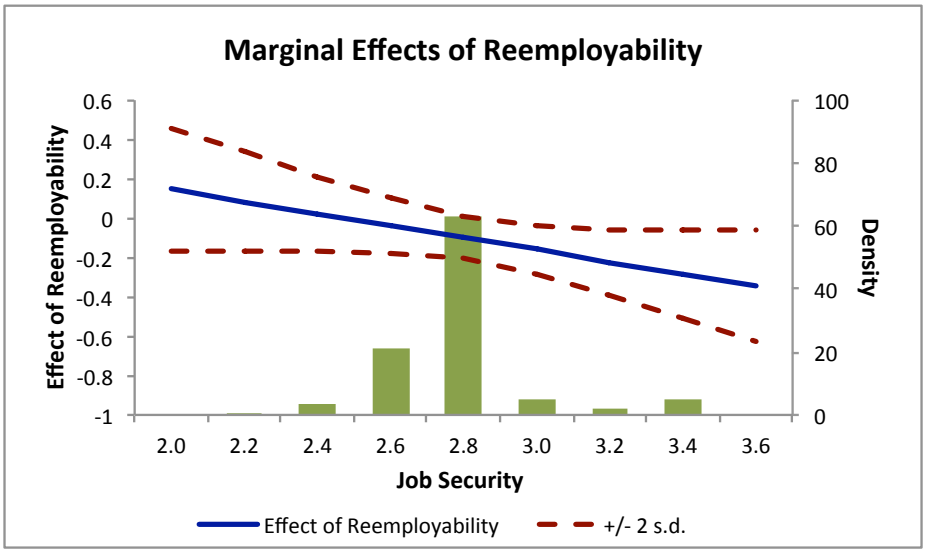
Looking at Table 2.1, these claims are supported. In Model 1, job security and reemployability are not interacted and both variables have negative coefficients that are statistically significant. As job security and reemployability increase, the preferred level of government responsibility for ensuring employment goes down, providing strong support for Result 1. Model 2 also supports the derived theoretical expectations. In this model, job security and reemployability are interacted and the interaction term has a negative coefficient, as expected. The effect of job security decreases as the level of reemployability increases and the same holds true for the effect of reemployability as job security increases. This supports Result 2 of the theoretical model.

However, looking at Figure 2.1 which plots the marginal effects for each independent variable, it is evident that support for Result 2 is somewhat limited, primarily because the effect of each variable does not maintain statistical significance across all values of the mediating dimension of employment risk. For example, the plots suggest that job security has a negative effect on policy preferences when respondents have a high level of reemployability but no effect when reemployability is low. This result is mirrored in the plot of reemployability. While the negative slope of each line does support the theoretical model, the expectation is that each line should be completely below the horizontal axis.

Nevertheless, these results still support my argument. It is not all that surprising

Figure 2.1: Marginal Effects of Employment Expectations on Policy Preferences





that, when remployability is low, an increase in job security has a small effect on policy preferences, potentially so small that the effect is statistically equivalent to zero. The same can be said for increases in reemployability. Overall, Models 1 and 2 reinforce the claim that job security and reemployability play both independent and interactive roles in shaping policy preferences. As a result, estimations of worker policy preferences could easily produce biased results when only one dimension is included in the empirical model specification rather than both.

Employment Expectations and Social Policy Preferences

One of the primary goals of this dissertation is to identify the sources of policy preference cleavages within the workforce and use these cleavages to explain social policy outcomes. While the theoretical model above explicates the multi-dimensional nature of employment risk, the reform of employment policies cannot be explained without identifying the primary distributional cleavage in worker policy preferences. As defined above and in equation 2.8, employment expectations (α) account for both the likelihood that a worker will lose her job (γ) as well as her ability to find a new one (ϕ). By incorporating both dimensions of employment risk, the level of job security that a worker has can mediate the effect that reemployability has on a worker's level of risk. Likewise, reemployability can mediate the effect of job security. Thus, employment expectations provide a full definition of employment risk that can be leveraged to understand divisions in worker policy preferences. However, achieving this understanding still requires answering one critical question: what are the objective sources of job security and reemployability? Or put differently, what factors are driving a worker's employment expectations?

$$\alpha = \gamma + (1 - \gamma) \cdot \phi \tag{2.8}$$

My claim is that the answer is found in post-industrial labor market dynamics. As economies undergo structural changes, the demand for different types of workers changes as well, which transforms the labor force in ways that directly affect workers' employment expectations. If a specific segment of the labor market is contracting, workers in that segment have greater concerns about job security and the drop in demand for workers in that segment of the labor force decreases the likelihood of finding a new job. Contrariwise, if a specific segment of the labor force is expanding, then workers in that segment have fewer concerns about their jobs being terminated and greater demand for these workers improves their likelihood of finding a different job should they be displaced.

In post-industrial economies, structural changes in labor market demand are rooted in both the level of skills that workers possess, as well as the sector of the economy in which they are employed; trends in both of these factors are well documented in the social sciences. Post-industrial demand for more highly-skilled workers has increased markedly as a result of several factors such as skill-biased technological change (Berman & Machin 1998, Machin & Reenen 1998, Nickell & Bell 1995). Thus, the greater the skills a worker has, the greater her employment expectations should be. Just as important, the sector of the economy in which a worker is employed, which can be divided into manufacturing and services, plays a major role in shaping employment expectations due to the displacing effects of deindustrialization (Iversen 2001, Iversen & Cusack 2000, Kollmeyer 2009, Lee & Wolpin 2006). As labor markets continue to shift away from manufacturing and toward services, workers in the manufacturing sector should possess a lower level of employment expectations than that of their service sector counterparts.

Table 2.2: Determinants of Employment Expectations

Skill Level	0.0087**
	(0.0035)
Service Sector	0.0349***
	(0.0056)
Income	0.0079***
	(0.0011)
Ideology	0.0036**
	(0.0013)
Age	-0.0014***
	(0.0003)
Gender	-0.0118
	(0.0086)
Unemployed Worker	-0.2419***
	(0.0353)
Part-Time Worker	0.0127
	(0.0095)
Non-Worker	-0.0142***
	(0.0046)
Constant	0.7505***
	(0.0181)
No. of Cases	9244
$Adj.R^2$	0.09

* p<0.10, ** p<0.05, *** p<0.01

Note: Survey data from ESS (2004). Estimates are weighted and derived using OLS with country fixed effects. Standard errors are clustered by country.

Table 2.2 provides a test of the relationship between skill level, sector of employment, and a worker's employment expectations.[11] Employment expectations are defined using equation 2.8 and substituting standardized measures of subjective job security and reemployability for γ and ϕ, respectively. Skill is defined as a four level variable and each worker's level of skills is assigned based on her occupation.[12] Sector of employment is measured using a dummy variable that distinguishes between those who are employed in the service sector and those who are not.[13]

The results in Table 2.2 support the claim that skill level and sector both play a role in shaping workers' employment expectations. The coefficients of both variables are positive and have a high level of statistical significance. This suggests that workers in the service sector and workers with greater skills possess higher levels of employment expectations. Additional basic empirical tests confirm that these results are not driven by the various densities of groups in the labor market, such as the larger concentration of skills in the service sector. Difference of means tests reveal that each skill group has higher employment expectations than the one directly below it ($p < .05$). Additionally, service sector workers have higher expectations than those in manufacturing and, with the exception of the lowest skilled workers, this difference holds when each skill group is analyzed independently ($p < .005$). Overall, this suggests that skill level and sector of employment indeed both play a substantial role in influencing workers' employment expectations.

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[11] The measures of job security and reemployability are the same as those used for the analysis in Table 2.1. A detailed description of how employment expectations is measured can be found in the appendix.

[12] This definition of skill level is identical to that used by the International Labor Organization (ILO). Skill groups are defined using the ISCO-88 occupation classification system. Details can be found in the data appendix.

[13] Economic sectors are defined using NACE industry classifications. Details can be found in the data appendix.

Table 2.3: Skill Level, Sector, and Employment Expectations

	Skill Level		
	Low	**Middle**	**High**
Service	Low Expectations	High Expectations	High Expectations
Manufacturing	Low Expectations	Low Expectations	High Expectations

Using skill level and sector of employment as important sources of employment expectations, it is possible to identify the primary distributional cleavage that should divide worker preferences for employment responsibility. Low-skilled workers, regardless of sector, have the lowest levels of employment expectations across all labor market groups. Thus, they should support greater levels of government responsibility through policies that increase the likelihood of finding a new job and may provide them with a skill upgrade that increases their job security. Contrariwise, high-skilled individuals have the highest level of job security across skill groups and can derive few benefits from employment programs that target the less-skilled. Consequently, high-skilled workers should not be opposed to shifting employment responsibility onto the unemployed. Finally, middle-skilled workers should be divided in their policy preferences along sectoral lines. While both service and manufacturing workers in this skill group often have skill sets that are targeted toward their respective sectors, the demand for service workers is growing in post-industrial economies while the market is displacing those in manufacturing. As a result, middle-skilled manufacturing workers stand to gain much more from government employment policies than their service sector counterparts and should be opposed to any attempts to shift employment responsibility onto individuals. Overall, distributional cleavages based on employment

expectations should divide workers into two groups, which is displayed in Table 2.3: those with lower employment expectations who should oppose the shifting of employment responsibility (low-skilled workers, middle-skilled manufacturing workers) and those with higher employment expectations who should not oppose this shift (high-skilled workers, middle-skilled service workers).

Empirical Testing

The above section identified two crucial factors that shape workers' employment expectations: skill level and sector of employment. These factors can now be used to create two objective measures of employment expectations and test how well they explain employment policy preferences relative to existing arguments. Given that expectations should increase with skill level across all categories, and that service workers should have higher expectations than manufacturing workers within each skill level, it is possible to create an index of employment expectations. The lowest value represents the lowest-skilled manufacturing workers, followed by the lowest skilled service workers, and moving all the way up to the highest-skilled service workers. The second objective measure of employment expectations is dichotomous and represents the distributional cleavage defined in Table 2.3. Empirical tests using these two measures, as well as measures used in existing arguments to explain employment policy preferences, are presented in Table 2.4 below. All models use the same dependent variable, which is the same measure of employment responsibility preferences used in the tests of the formal model (Table 2.1).

Models 1 and 2 test the insider-outsider argument of Rueda (2007).[14] As argued above, while the policy preferences of insiders and outsiders may very well not be

[14]To clarify, due to the use of more recent data and different dependent variables, this is not a replication of Rueda's work. It is a test of his argument using concepts and variables that he has defined.

identical, there are many reason to suggest that the preferences of these two groups are far from divided. This is because insiders are a diverse group, many of whom may see themselves as having large potential for transitioning to outsider status. The labor market status of each individual is identified using definitions provided by Rueda (2005, 2006, 2007). Insiders are categorized as those in full-time employment with permanent contracts, while outsiders are categorized as those who are unemployed, employed part-time, or employed under a short- or fixed-term contract. Upscale individuals are those who describe themselves as managers or are self-employed.[15]

Model 1 presents an analysis of employment responsibility preferences that omits any employment expectations variables and this model provides little evidence in support of the insider-outsider argument. Statistically speaking, the coefficients on both insider and outsider status are no different than zero, which suggests that neither group prefers less or more government responsibility. Upscale status has a negative coefficient as expected and is statistically significant. Overall, this result does not support a strong distinction between the interests of insiders and outsiders, but it does support the idea that insiders are a diverse group in terms of employment risk, as I am claiming. Insiders may have job security in the form of protected status, but this alone ignores other sources of job security and the role of reemployability. Thus, it makes sense that labor market insiders would not clearly favor or oppose changes in government responsibility.

Model 2 allows for a direct comparison with the arguments presented in this chapter by including employment expectations in the analysis. This model does provide some support for the insider-outsider argument, as outsider status has a positive and statistically significant coefficient. This suggests that outsiders indeed prefer

[15] As a consequence of these definitions, the dichotomous variables for unemployed, part-time and self-employed workers are omitted from the first two models in order to avoid any multicollinearity with Rueda's variables.

that governments take on greater levels of employment responsibility. However, the expectation theorized by Rueda is that insiders should oppose government policies that assist the unemployed, resulting in a negative coefficient on insider status. Yet, the insider coefficient still lacks statistical significance, as does upscale status. Consequently, the support for the insider-outsider argument is not particularly strong. The insider coefficient's lack of statistical significance in Model 2 reinforces my argument that insiders have diverse policy preferences due to large variation in their employment expectations.

Looking at the expectations index variable, the coefficient is both negative and statistically significant. This means that as a worker's employment expectations increase, she prefers that governments take on less employment responsibility. Additionally, compared to outsider status, the expectations index has a much larger substantive effect. If a worker's placement on the index moves from the 5th to the 95th percentile, her employment policy preferences shift approximately half a point (.49). This effect is more than twice as large as changing from outsider to non-outsider status (.21).

Models 3, 4 and 5 present tests of the skill specificity argument of Iversen and Soskice (2001). Model 3 presents an analysis of employment responsibility preferences using skill specificity and a set of controls similar to that used by Iversen and Soskice (2001).[16] In this model, the estimates support the claims of skill specificity arguments. Skill specificity has a positive coefficient that is statistically significant. This suggests that workers with more specific skills prefer that governments accept a greater level of employment responsibility.

[16] Again, due to the use of more recent data and different dependent variables, this is not a replication of Iversen and Soskice's work. It is a test of their argument using concepts and variables that they have defined. National unemployment and political knowledge are excluded as control variables and ideology is used as a proxy for Left-Right party support.

Model 4 incorporates the employment expectations index into the model specification. Including the index has a dramatic effect on the coefficient of skill specificity, as the variable is no longer statistically significant. Employment expectations, on the other hand, has a negative coefficient with a high level of statistical significance. This suggests that workers with higher expectations prefer that governments take on less employment responsibility, while those with higher levels of skill specificity have no distinct preference once their employment expectations are controlled for.

The results of Model 4 could be a product of the expectations index and skill specificity both being constructed using a worker's skill level. Whereas skill level is one of the two primary components of the expectations index, it is used as the denominator in skill specificity as a means of standardizing the measure. Consequently, one could potentially be concerned that the loss of statistical significance on skill specificity in Model 4 is a product of how the variables are measured, rather than omitted variable bias. Model 5 address this concern by using a measure of "absolute" skill specificity, which is identical to the variable used in Models 3 and 4 with the exception that it is not standardized by skill level. While this is not the same measure used by Iversen and Soskice, it still captures the specificity of skills as they have defined it. As the results of Model 5 show, absolute skill specificity also fails to achieve statistical significance, but the expectations index has a statistically significant negative coefficient. Thus, models 4 and 5 both reinforce the claim that employment expectations play a strong role in shaping a worker's policy preferences, but the specificity of a worker's skills has no effect.[17]

[17]The resulting skill specificity coefficients in Models 3, 4 and 5 are a product the way in which Iversen and Soskice measure skill specificity. While their theoretical focus is on the specificity of skills and this is represented in the numerator of their measure, the denominator is skill level. As such, the measure essentially captures a weighted version of skill specificity that is negatively correlated with skill level. I would argue that it is these weights, or skill level, that is producing the coefficient in Model 3, rather than the specificity of skills. Consequently, once skill level is

Table 2.4: Expectations and Employment Responsibility Preferences

	Insider-Outsider		Skill Specificity			Employment Expectations	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Outsider	0.1141	0.2119*					
	(0.1093)	(0.1101)					
Insider	-0.0618	0.0446					
	(0.1160)	(0.1161)					
Upscale	-0.3231***	-0.0861					
	(0.0573)	(0.0801)					
Skill Specificity			0.2103***	0.0700			
			(0.0633)	(0.0640)			
Skill Specificity (Absolute)					0.0247		
					(0.0289)		
Expectations Index		-0.0696***		-0.0709***	-0.0754***	-0.0765***	
		(0.0156)		(0.0137)	(0.0125)	(0.0125)	
High Expectations							-0.2909***
							(0.0463)
Income	-0.0912***	-0.0750***	-0.0975***	-0.0777***	-0.0778***	-0.0774***	-0.0824***
	(0.0145)	(0.0126)	(0.0165)	(0.0133)	(0.0133)	(0.0134)	(0.0140)
Ideology	-0.1446***	-0.1479***	-0.1487***	-0.1476***	-0.1477***	-0.1480***	-0.1485***
	(0.0172)	(0.0179)	(0.0168)	(0.0180)	(0.0180)	(0.0180)	(0.0179)
Age	-0.0030	-0.0012	-0.0023	-0.0014	-0.0013	-0.0013	-0.0014
	(0.0027)	(0.0027)	(0.0028)	(0.0027)	(0.0027)	(0.0027)	(0.0027)
Gender	0.2381***	0.2558***	0.2717***	0.2662***	0.2658***	0.2597***	0.2464***
	(0.0480)	(0.0510)	(0.0558)	(0.0570)	(0.0570)	(0.0578)	(0.0572)
Non-Worker	0.1153	0.1957*	0.1441**	0.1175	0.1178	0.1179	0.1212*
	(0.1033)	(0.1040)	(0.0653)	(0.0689)	(0.0689)	(0.0688)	(0.0680)
Unemployed Worker			0.1182	0.0894	0.0899	0.0900	0.1085
			(0.0894)	(0.0842)	(0.0841)	(0.0839)	(0.0831)
Self-Employed Worker			-0.2132***	-0.1693**	-0.1689**	-0.1693**	-0.1828***
			(0.0577)	(0.0560)	(0.0559)	(0.0562)	(0.0569)
Part-Time Worker			0.1172	0.1101	0.1098	0.1038	0.1009
			(0.0738)	(0.0748)	(0.0750)	(0.0745)	(0.0745)
Constant	7.2427***	7.2198***	7.0192***	7.2525***	7.2796***	7.3174***	7.1248***
	(0.2828)	(0.2921)	(0.2465)	(0.2840)	(0.2814)	(0.2798)	(0.2609)
No. of Cases	19521	17899	18278	17899	17899	17899	17899
R^2	0.14	0.14	0.13	0.14	0.14	0.14	0.13

* p<0.10, ** p<0.05, *** p<0.01

Note: Survey data from ESS (2008). Estimates are weighted and derived using OLS with country fixed effects. Standard errors are clustered by country.

Models 6 and 7 directly test the relationship between employment expectations and employment policy preferences. Model 6 tests this relationship using the expectations index, which again has a negative coefficient with a low level of uncertainty. Income and ideology also have negative coefficients and achieve statistical significance, suggesting individuals with higher incomes and political placement further to the right prefer that governments take on less employment responsibility. Finally, the positive coefficient on gender reveals that women prefer that governments play a larger role in the employment process, whereas the negative coefficient on self-employment suggests that these workers prefer that governments play a smaller role.

Substantively, employment expectations has a considerable effect on policy preferences and ranks among the largest of all the variables in the model. Movement from the 5th to the 95th percentile in the expectations index lowers a worker's preference for government responsibility by more than half a point (-.54), with only income and political ideology having larger effects. Again moving from the 5th to 95th percentile, the effects of income (-.70) and political ideology (-.89) are about 30% and 65% larger than that of employment expectations, respectively.

Using a dichotomous measure of employment expectations based on the cleavage defined in Table 2.3, Model 7 provides the final test of the relationship between employment expectations and social policy preferences. This measure provides a direct test of the distributional cleavage identified in Table 2.3, and also provides a more conservative measure of employment expectation which addresses concerns that the coding of the expectations index may be driving the results in Model 6. Model 7 indeed supports the claim that workers are in fact divided in their policy preferences based on employment expectations. The coefficient on the high expectations variable

explicitly included in the model through the expectations index, skill specificity fails to maintain statistical significance. For a further discussion related to these issues, see Michael Tåhlin (2008).

is negative and has a low level of uncertainty. Thus, workers in the high expectation group prefer that governments take on lower levels of employment responsibility relative to workers with low employment expectations.

Taken together, the results of Models 6 and 7 demonstrate two key findings. First, employment expectations play a critical role in shaping a worker's employment policy preferences. As expectations increase, workers prefer that government play a smaller role and take on less responsibility in the employment process. Second, employment expectations define an important distributional cleavage in policy preferences, unlike existing explanations that theorize cleavages through an emphasis on a single dimension of employment risk. This cleavage can now be used to explain policy reforms in the remainder of the dissertation.

Conclusions

In this chapter, I have presented the foundation of my explanation of structural transformations in the modern welfare state that shift employment responsibility from governments to individuals. I have argued that employment risk is a multi-dimensional concept and that both job security and reemployability are crucial to a complete explanation of social policy preferences. Existing explanations of welfare state reform frequently focus on only a single dimension of employment risk and, consequently, misspecify the nature of distributional conflict. By defining risk through a worker's employment expectations and accounting for the independent and interactive roles of job security and reemployability in shaping policy preferences, I have presented evidence of a new distributional cleavage in policy preferences rooted in post-industrial employment risk.

Having demonstrated theoretically and empirically the role of employment expectations in shaping distributional cleavages in employment policy preferences, the

next chapter focuses on explaining shifts in employment responsibility. Utilizing the new lines of distributional conflict that I have just explicated, I argue that the extent of responsibility-shifting reforms is a product of the distribution of employment expectations in the post-industrial labor force and the political power of divisions within labor to influence reform outcomes. Specifically, I use a new conception of power resource theory to demonstrate that, while unionized workers exert greater influence in the policy reform process, distributional cleavages divide the preferences of unionized workers and the relative power of unionized workers with low employment expectations plays a crucial role in shaping employment policy reforms.

CHAPTER 3

DISTRIBUTIONAL CONFLICT, LABOR POWER AND WELFARE STATE REFORM

This dissertation seeks to explain the role of the state in reintegrating displaced workers back into the labor market. The first chapter introduced the concept of employment responsibility and detailed how many recent social policy reforms have resulted in governments shifting the responsibility for finding work away from the state and onto the unemployed. The previous chapter took the first of two steps in explaining this phenomenon by revealing a crucial distributional cleavage in social policy preferences. By defining employment risk as a multi-dimensional concept that is rooted in both job security and reemployabilty, the chapter identified which workers have the lowest employment expectations and, as a result, have the greatest opposition to reforms that shift employment responsibility. This chapter builds on these findings by demonstrating how this distributional cleavage explains employment policy outcomes. I argue that shifts in employment responsibility are shaped by the distributions of both employment expectations and political resources in postindustrial labor markets. Due to their riskier placement in the labor market, workers with low employment expectations will suffer the greatest costs of responsibility-shifting reforms. Thus, when these workers make up a larger share of the labor force, governments should be less willing to shift employment responsibility onto individuals for fear of electoral punishment.

Yet, the distribution of employment risk alone is not enough to fully explain recent labor market reforms because political influence is not the same for all workers. In particular, unionized workers have long been argued as having a greater influence over policy outcomes than their non-unionized counterparts (Korpi 1989, Stephens 1979). However, traditional power resource arguments emphasize the strength of trade unions as institutions and describe unions as united in their support of extensive social policies. Contrary to these theories, I argue that unionized workers are divided in their policy preferences by the same distributional cleavage that divides non-unionized workers. Moreover, unionized workers pose a greater electoral threat to governments due to the informational resources provided by union membership and the greater propensity for unionized workers to participate in political activities, namely voting. Thus, as governments look to avoid electoral punishment from reforming the welfare state, it is not only the distribution of employment risk in the labor force, but the distribution of risk among *unionized* workers that shapes employment policy reforms.

In this chapter, I demonstrate how both the distribution of employment expectations and the political power of a divided labor movement have played critical roles in influencing reforms that shift employment responsibility. After briefly reviewing existing explanations of social policy reform in the first section of the chapter, the next section presents a new formulation of power resource theory that leverages distributional cleavages in worker policy preferences to explain employment policy outcomes. The empirical section of the chapter is divided into two parts. The first uses survey data to test the claim that all workers, both unionized and not, are similarly divided in their employment policy preferences. The second empirical section builds on this cleavage and presents a model of employment policy reforms in 18 OECD governments.

Explaining Welfare State Reform

While existing explanations of welfare state change have provided important insights into the factors that shape social policy reforms, several questions remain unanswered, particularly in regard to employment promotion. Of these existing explanations, most can be described as focusing on either political partisanship or institutions. For instance, many partisanship studies concentrate on the power of the left in the reform of the welfare state. Some scholars argue that left parties are staunch defenders of social insurance and employment policies in particular (Allan & Scruggs 2004, Boix 1998, Hibbs 1977, Huber & Stephens 2001, Scarbrough 2000), while others claim that this history of welfare protection allows parties of the left to more effectively retrench welfare policies (Ross 2000). However, both contending streams of research share the assumption that all social policies will be equally favorable to leftist interests, ignoring divisions within the left over the potential benefits of various welfare policies, particularly those affecting labor markets. Such cleavages within the left, I argue, have become a vital predictor of contemporary welfare state reform patterns.

Power resource arguments examine the role of class politics, particularly the relationship between left parties and labor unions and how these groups use their resources to shape the welfare state (Bradley et al. 2003, Korpi 1989, Korpi & Palme 2003, Stephens 1979). Historically, left parties and labor unions have been closely allied through strong pro-welfare preferences and have used their authority to develop and protect social insurance. Other scholars have begun to focus on social pacts as evidence of not only a strong relationship between unions and political parties, but also as a mechanism through which unions can still influence welfare state reforms (Rhodes 2001). Yet, even though social pacts may represent agreements between unions and parties, they have no explicit link to policy-making; and, while pacts often directly engage the issue of wage bargaining (Mares 2006, Hassel 2006),

their relationship to welfare state reform is still largely uncertain. Additionally, both traditional power resource theories as well as social pact studies have a familiar limitation, often treating labor as a homogenous group and assuming away differences in intra-labor social preferences.

A few studies, however, have explicated certain divisions within domestic labor markets and how these divisions relate to political partisanship. Lindbeck and Snower (1986) have classified a divide in the labor market between what they refer to as insiders and outsiders. Insiders are defined as incumbent workers that have a privileged status in the labor market, not only in wages but also through employment protection. Rueda (2005, 2006, 2007) has built on the insider-outsider distinction by extending it to partisan politics, arguing that leftist parties have focused more on protecting the social policy interests of insiders as this labor market distinction has grown more pronounced. While these studies represent a major contribution to the study of both labor markets and welfare state reform, they leave open several questions regarding the specification of insider-outsider groupings and often ignore crucial variations in these labor markets divisions.

Distinct from partisan theories, institutional explanations of welfare state change more directly examine the structure of political economies and how these arrangements affect social policy reform. One prominent branch of institutional arguments focuses on the types of skills that economies employ, assuming that workers that invest in more specific skills are exposed to greater social risk should they become unemployed. In order to make this risk acceptable to workers, governments are said to develop more comprehensive institutions of social protection when their economies demand more specific skills (Hall & Soskice 2001). Since specific skills are valuable to firms and workers alike, both groups form a coalition that supports large welfare state policies as a way to ensure worker investment in these skills. Specific-skilled workers

also have a strong incentive to organize and collect the resources necessary to partner with political parties and gain substantial control over party platforms and leadership (Iversen 2005). Thus, retrenchment should be difficult to achieve in economies that utilize specific skills and have highly institutionalized parties, but reform should be easier when general skills are needed.

One limitation of skill-based arguments, however, is their homogenous treatment of the left-labor relationship within skill systems. Specifically, they do not account for variation in labor union influence, nor the differences in policy reform outcomes that result from this variation. Indeed, recent evidence in social insurance reform suggests that, to the extent that the policy divergence predicted by skill-based theories is occurring, it is not developing equally across all welfare state issues. Rather, countries with similar skill profiles, such as the UK and Ireland or Germany and Austria, have formulated significantly divergent labor market reforms that defy the predictions of prominent research in this vein (OECD 2008*b*).

Other institutional explanations emphasize the institutional factors mediating the political feasibility of reform (Tsebelis 1995, Pierson 1998, Swank 2001). While this research has varied in its specific focus, a common finding is that significant welfare state retrenchment is very difficult to implement, and at best, reforms will be incremental, leaving in place the principal substance of the welfare state. Pierson's general claim is that welfare state expansion creates organized interests that are disposed to mobilize in defense of the welfare state, making significant retrenchment difficult to achieve. This argument does point out the importance of organization among policy supporters, a crucial variable in explaining social policy reform. Yet, it leaves open the empirical puzzle of why governments have approved meaningful labor market reforms that were publicly opposed by labor unions, such as the recent remodeling of

employment policies in Germany and the United Kingdom. These puzzles, I argue, can only be solved by accounting for the diverse preferences of unionized workers.

Rethinking Power Resources

Although power resource theory has played a prominent role in the welfare state literature for several decades, it has played a minimal role in recent explanations of welfare state reform. This is arguably due to power resource arguments typically focusing on welfare state development as opposed to retrenchment. Yet, I argue that to dismiss power resource theory from explanations of welfare state transformation is to misunderstand the political underpinnings of the reform process. The power of unionized workers still plays a critical role in shaping policy outcomes, but in a manner that welfare state scholarship has thus far ignored. In order to understand how workers are able to influence welfare state reform, it is necessary to rethink power resource theory in a manner that accounts for the divided nature of the post-industrial labor force, both unionized as well as not unionized. Specifically, my claim is that shifts in employment responsibility are the result of distributional cleavages within the labor force and the ability of different groups of workers to enforce their policy demands. Rather than united in a class struggle, organized labor is divided in its social policy preferences and those workers who are most organized have a greater influence over policy outcomes because they have the political resources to punish governments for unfavorable policy reforms. Consequently, the relative power of groups within the labor movement, particularly of those workers at greatest risk of unemployment, plays a major role in shaping the structural reform of the welfare state.

The absence of power resource theory in recent studies of the welfare state is not necessarily surprising when considering the theoretical and empirical developments

that have steadily chipped away at its foundational claims. Rooted in Marxist ideology, power resource theory argues that several economic and political outcomes are the result of the distribution of power between capital and labor. Workers are united in a class struggle against capital and their resources are derived through two primary forms of organization. First, workers organize through unionization and use their power to influence economic outcomes through wage policy. Second, workers and unions use their resources to support leftist political parties, particularly social democratic parties, which in turn develop social and economic policies that benefit union constituents.

However, the last two decades have seen several political developments that call these forms of organization into question, foremost of which is the significant decline in union membership across the developed world (Boeri & Calmfors 2001, Western 1997). Just as important, many studies have identified breakdowns in the traditional relationship between union members, leftist parties and social policy outcomes. As Kitschelt (1994, 1999) has argued, social democratic parties face multiple dilemmas in post-industrial societies when deciding general economic policy positions and many of these dilemmas are the result of growing divisions in the preferences of party supporters. As a result, parties of the left are increasingly taking a leading role in welfare state reforms and promoting policy changes that are in opposition to the traditional pro-welfare preferences of organized labor (Ross 2000). Other scholars have identified a significant decline in class politics, arguing that distributional cleavages in society do not necessarily map onto divisions between left and right. For example, several studies have explored the contributions that employers have made to welfare state development (Mares 2003, Martin & Swank 2004) and the role that christian democratic parties have played in developing substantial welfare states (van Kersbergen 1995), while others have identified alternative cleavages that cut across party lines (Iversen

& Cusack 2000). Yet, despite this wealth of scholarship that downplays the role of power resource theory in explanations of welfare state reform, it is my claim that unionized workers still play a critical role in shaping social policy outcomes.

The political influence of labor unions has typically been examined from an institutional perspective. As institutions, unions still have a number of mechanisms for influencing social policies and protecting the welfare state. They can claim to represent the interests of large numbers of workers and directly express the policy interests of these workers to governments via formal lobbying, as well as back up these policy positions with union-funded research. Additionally, organization ensures that these groups are still capable of disrupting economies through strikes and demonstrations, which place public pressure on governments. While they remain important sources of policy change, these mechanisms of policy influence have nevertheless suffered as a result of declining membership and weakened relationships with leftist parties.

Labor unions, however, are more than institutions. They are a collection of politically active but divided individuals and it is the threat of electoral punishment from these individuals that I argue is crucial to explaining the reform of employment policies. As Pierson (1996, 2001) has argued, the politics of welfare state development is fundamentally different from the politics of welfare state retrenchment and this is precisely the case concerning the role of unionized workers. While traditional power resource explanations of welfare state development have presented unionized workers as unified in their social policy preferences, my claim is that these workers have shifted from being united in a class struggle to being divided by post-industrial distributional cleavages and it is this division that shapes social policy reforms.

As I demonstrated in the previous chapter, workers are divided in their employment policy preferences by their employment expectations. Specifically, lower-skilled

workers and those in the manufacturing sector are in less demand than their higher-skilled, service sector counterparts in post-industrial labor markets. Thus, the former group has lower employment expectations and opposes the shifting of employment responsibility onto individuals, while the latter group has greater employment expectations and is consequently less opposed to responsibility shifting reforms. Contrary to conventional power resource arguments, which claim that unionized workers should be united in their pro-welfare policy preferences, it is my contention that this distributional cleavage extends to all workers regardless of whether they are unionized.

Yet, divided preferences alone does not fully account for the power of unionized workers to influence social policy outcomes. When governments decide how to reform employment policies, they are concerned with which groups will be affected as well as the electoral consequences of the reforms. Unionized workers are a greater electoral threat to incumbent governments than workers who are not unionized due to their access to political information and their higher rates of political participation, particularly their likelihood of voting. Labor unions are capable of disseminating knowledge of policy reforms to their voting members and translating this information in a way that clearly identifies the costs of reforms for their members. This mechanism of union political influence is of critical importance to governments when designing policy reforms because, as studies have demonstrated, there is a strong relationship between union membership and voter turnout (Radcliff & Davis 2000, D'Art & Turner 2007). While the reasons behind the higher electoral participation of unionized workers is beyond the scope of this study, the implications are clear: governments should be more concerned with unionized voters if they are more likely to show up at the polls and punish them for unfavorable policy decisions. Thus, the interests of unionized workers should have greater electoral consequences for incumbent governments, as

power resource theories suggest. The question is *how many* of these unionized workers have low employment expectations and, consequently, oppose shifting employment responsibility?

Having explicated the political role of unionized labor in post-industrial labor markets, it is still necessary to specify how distributional cleavages within the labor force shape responsibility shifting reforms of employment policy. Explaining shifts in employment responsibility, I argue, requires both identifying how workers are divided, as well as understanding which groups are most influential in shaping policy outcomes. The common approach in the political economy literature is to equate worker policy preferences with voter policy preferences and assume that political actors consider the preferences of all voters equally when crafting policy reforms. My claim is that, from the perspective of elected policymakers, a distinction exists between the policy preferences of all workers and the policy preferences *of workers most capable of punishing incumbent governments* as a result of unionization. Governments should be particularly concerned with workers that both are unionized and have low employment expectations, as they are more opposed to reforms that shift employment responsibility due to their higher risk of job loss and more likely to dole out electoral punishment. Thus, policy reforms should be shaped by the relative strength of these high risk *unionized* workers due to the greater electoral threat that these workers pose. Accordingly, the extent to which labor market reforms shift the employment burden to individuals is shaped by the degree to which workers who both are unionized and opposed to shifting responsibility comprise a greater proportion of the workforce.

The division of labor into those who oppose governments shifting employment responsibility onto individuals and those who do not, together with the greater political influence of unionized workers, produces several observable implications for

social policy reform. Workers with lower employment expectations face greater labor market risks than workers with high employment expectations and consequently derive greater benefits from positive activation policies that assign a higher portion of employment responsibility to governments. Thus, as unionized workers with lower employment expectations make up a greater percentage of the workforce, governments should retrench positive activation policies to a lesser extent to avoid electoral punishment. As these workers make up a smaller percentage of the workforce, governments should retrench positive activation policies to a greater extent, reducing the responsibility for employment borne by the government.

The observable implications for negative activation should be just the opposite. Workers with lower employment expectations face a greater likelihood of experiencing unemployment than those with high expectations, and consequently they are exposed to greater costs from negative activation policies that place increased demands and responsibilities on the unemployed. Thus, as unionized workers with lower employment expectations make up a greater percentage of the workforce, governments should expand negative activation policies to a lesser extent to avoid electoral punishment. As these workers make up a smaller percentage of the workforce, governments should expand negative activation policies to a greater extent, augmenting the responsibility borne by individuals.

To summarize the hypotheses derived from the above argument:

- H1: Cleavages within Unionized Labor. *Unionized workers are divided in their social policy preferences. Workers with high employment expectations prefer less government responsibility in finding employment.*

- H2: High Risk Labor. *As the labor force is composed of fewer low employment expectation workers, governments will retrench positive activation policies and augment negative activation policies to a greater extent.*

- H3: High Risk Union Labor. *As the labor force is composed of fewer unionized low employment expectation workers, then governments will retrench positive activation policies and augment negative activation policies to a greater extent.*

Empirics

My explanation of shifts in employment responsibility involves two primary claims: that unionized workers are divided in their policy preferences by post-industrial distributional cleavages, and that the relative power of high risk unionized workers shapes policy reforms. This section tests each of these claims in turn. Having spent a considerable amount of time discussing individual-level analyses in the previous chapter, I will not present detailed information regarding the data and variables used in the tests of union policy preferences, but this can be found in the appendix of Chapter 2. The data used in models of policy reform, however, are discussed in much greater detail.

Distributional Cleavages and Unionized Labor

Unlike traditional power resource theory, which presents union members as united and monolithic, my argument claims that unionized workers are divided in their social policy preferences. The level of employment expectations that a worker possesses (as defined in Table 2.3) affects her level of employment risk. Consequently, these expectations influence her social policy preferences and this distributional cleavage applies to all workers, regardless of union membership. Table 3.1 models individual preferences for the level of employment responsibility that governments should bear, dividing workers into those who are active labor union members and those who

are not.[1] Looking first at those workers that do not belong to labor unions, it is evident that several variables play a role in shaping policy preferences. First, the coefficient on high employment expectations is negative and has a high level of statistical significance, supporting the distributional cleavage argument from Chapter 2. As employment risk decreases, so do preferences for government responsibility in the employment process. Additionally, income, ideology, and gender all have statistically significant coefficients with the expected signs.

Turning to the estimates of unionized worker preferences, the most striking characteristic is the similarities across the two models. Most important, the employment expectations coefficient is again both negative and statistically significant.[2] If union members are in fact united in their pro-welfare preferences, employment expectations should not be a statistically significant indicator of preferences for employment responsibility. Although the magnitude of the coefficient for unionized workers is approximately a third less than that of their non-unionized counterparts, the models in Table 3.1 still indicate that the policy preferences of both groups of workers are similarly divided by employment expectations. Moreover, the similarities between the groups extend to other variables, particularly income, ideology and gender. Two variables that control for employment status, representing the self-employed and non-workers, are the only variables that exhibit statistical significance for one group of workers but not the other. This suggests that unionized workers are not united, but indeed divided in their social policy preferences and these preferences are influenced by a set of factors that is very similar to that of their non-union counterparts.

[1] All tables and figures in this section of the chapter include observations from the following countries: Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

[2] The relationship between high expectations and policy preferences also holds when the values of the dependent variable are dichotomized.

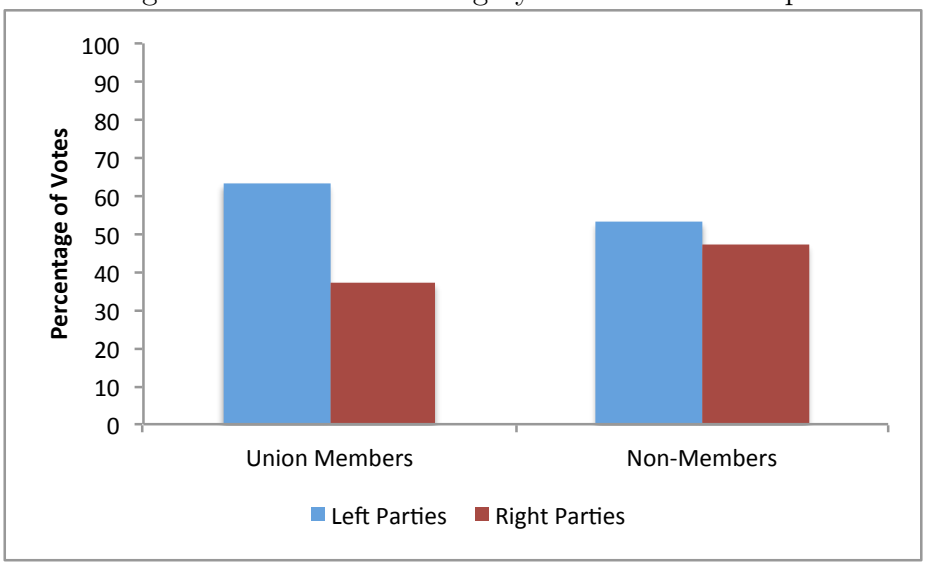
Table 3.1: Determinants of Employment Responsibility Preferences

	Unionized	Non-Unionized
High Expectations	-0.2199*	-0.3183***
	(0.1136)	(0.0425)
Income	-0.0670***	-0.0931***
	(0.0154)	(0.0188)
Ideology	-0.1390***	-0.1417***
	(0.0255)	(0.0206)
Age	0.0083	-0.0046
	(0.0047)	(0.0027)
Gender	0.2706**	0.2418***
	(0.0920)	(0.0574)
Unemployed Worker	0.1006	0.1270
	(0.1503)	(0.1157)
Self-Employed Worker	-0.2631	-0.1123*
	(0.2015)	(0.0574)
Part-Time Worker	0.0475	0.1179
	(0.1474)	(0.0827)
Non-Worker	0.0700	0.2207***
	(0.1494)	(0.0701)
Constant	6.5625***	7.1596***
	(0.2252)	(0.3053)
No. of Cases	5175	12724
R^2	0.11	0.15

* p<0.10, ** p<0.05, *** p<0.01

Note: Survey data from ESS (2008). Estimates are weighted and derived using OLS with country fixed effects. Standard errors are clustered by country.

Figure 3.1: Partisan Voting by Union Membership



Note: Data from ESS (2008). Proportions are weighted and represent votes in the previous national election.

Cleavages within the labor movement are not limited to preferences for social policies, extending into the realm of political behavior as well. While power resource theory argues that the political power of labor unions is derived through the support of leftist parties, union member voting records paint a very different picture. Figure 3.1 displays how respondents answered the following question: "Which party did you vote for in the last national election?" For each of the 13 European countries surveyed, all political parties have been coded as belonging to one of two ideological groups. Regarding major party types, all communist, socialist, social democratic and green parties are defined as left, while all christian democratic, liberal, and nationalist parties are defined as right. Comparing the voting behavior of union members to that of non-members, it is evident that a greater percentage of members voted for leftist parties, as power resource theory would predict. However, it also evident that union members are willing to vote on both sides of the political spectrum, as almost

40% of union votes went to rightist parties. Thus, union members are far from united in their support of the political left. Combined with the higher level of voter participation amongst unionized workers[3], this data clearly supports the claim that union voters pose a strong electoral threat to governments, regardless of which party is in power.

Labor Power and Shifts in Responsibility

At the macro level, my argument claims that shifts in employment responsibility are driven by the distribution of employment risk in post-industrial labor markets, particularly the distribution of risk among unionized workers. When low employment expectation workers comprise a greater share of the labor market, governments should be less willing to shift responsibility onto individuals. I test this hypothesized explanation of employment policy reform with a quantitative analysis of employment policies in 18 OECD governments from 1990-2005.[4] The analysis employs the following variables:

Dependent Variable: Structural Change in Labor Market Institutions

Positive and Negative Activation. Activation policies are generally characterized as those that expedite the unemployed into new employment. As stated in previous chapters, the distinction between the two types of employment policies is defined by the role the government plays in aiding the unemployed with their employment search. Positive activation policies are defined as those in which the government takes

[3]See the appendix for a model of voter turnout which verifies the higher likelihood of electoral participation of union members.

[4]Case selection is based on levels of economic and social policy development, as well as data availability. Included cases are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Japan, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

greater responsibility and directly assists the unemployed with job placement through various measures such as retraining, subsidized employment, and job creation. Negative activation policies, however, are defined as those in which individuals take on greater responsibility while the government indirectly assists the unemployed with their individual job searches through agency-based advising, as well as increases job-search monitoring and sanctioning incentives. All activation policies are measured using expenditures as a share of GDP. By identifying distinct types of spending, the two expenditure variables taken together are able to capture qualitative changes in the welfare state that shift the responsibility for finding employment. (OECD 2008*b*)[5]

Independent Variables: Labor Market Composition and Unionization

High Risk Labor. This variable captures the composition of domestic labor markets and is a proxy for the distribution of employment risk. It measures high risk workers as a proportion of all workers, with those in the manufacturing sector representing workers with low employment expectations and higher risk, and those in the service sector representing workers with high expectations and lower risk. This measure is a rough proxy for divisions in worker preferences since it does not perfectly map onto the cleavages that I am proposing. By lumping high- and low-skill workers together, it underestimates the scope of employment risk perceived by the high-risk group, or manufacturing workers, while overestimating the risk perceived by those in the low-risk group, or service sector. As such, it presents a conservative test of my hypothesis.

Although taking the manufacturing share of the workforce overlooks differences in skill levels that map onto differences in employment expectations, it is the best measure available. This is because workforce data that are disaggregated within

[5]Public employment service and administration expenditures are coded as negative activation. Expenditures on training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives are all coded as positive activation.

sectors are not available for many countries, particularly data that also disaggregate unionization rates. However, the measure provides for an adequate test of my theory because high-skilled workers account for less than 30% of manufacturing labor and low-skilled workers represent less than 20% of the service sector. Additionally, the variable offers a more conservative test because combining low and high expectation workers into the same cleavage group should make supportive results more difficult to achieve. This variable is measured as the proportion of the civilian workforce in each country that is employed in the manufacturing sector. (OECD 2008*a*)

High Risk Union Labor. This variable is used to approximate the relative power of unionized high-risk workers in the labor force. It is measured as the proportion of all workers that are both union members and employed in the manufacturing sector. Ideally, this measure would be procured by using the union density in the manufacturing sector alone, along with the size of the manufacturing sector, for each observation. This provides the total number of unionized manufacturing workers, which can then be calculated as a proportion of all workers. However, sector-level union density data does not currently exist in a complete time-series format. Thus, I use cross-sectional sector-level union density data, combined with time-series cross-sectional data on the size of the manufacturing sector, to calculate the number of unionized manufacturing workers for each observation. (OECD 2008*a*, Boeri & Calmfors 2001, Visser 2006)

Labor Union Density. In addition to the sectoral composition of labor union membership, the overall level of unionization within a country needs to be controlled for as a measure of unions' institutional strength. This variable should exhibit a positive relationship with changes in policies that increase economic security. Union density is measured as net union membership as a proportion of wage and salary earners in employment. (Visser 2009)

Wage Coordination. The centralization of labor union power within a country also plays an important role in assessing the ability of unions to influence labor market reforms. The level at which wage bargaining takes place approximates this element of labor power and is measured using a five point scale (1 representing the firm level, 5 representing economy-wide bargaining). As with union density, wage coordination should exhibit a positive relationship with changes in policies that increase economic security. (Visser 2009)

Table 3.2: Summary Statistics

Variable	**Mean**	**Median**	**Std. Dev.**	**Min.**	**Max.**
Positive Activation	0.68	0.62	0.50	0.05	2.52
Negative Activation	0.19	0.17	0.09	0.03	0.53
High Risk Labor	0.27	0.26	0.04	0.19	0.41
High Risk Union Labor	0.13	0.09	0.08	0.02	0.28
Union Density	0.38	0.31	0.22	0.08	0.84
Wage Coordination*	3.05	3.00	1.35	1.00	5.00
Right Cabinet Shares	0.38	0.25	0.39	0.00	1.00
Unemployment	0.08	0.07	0.04	0.01	0.24
GDP Growth	0.03	0.03	0.02	-0.06	0.11
Debt	0.65	0.61	0.27	0.16	1.75
Trade Openness	0.70	0.68	0.35	0.16	1.85

Note: *Ordinal Variable

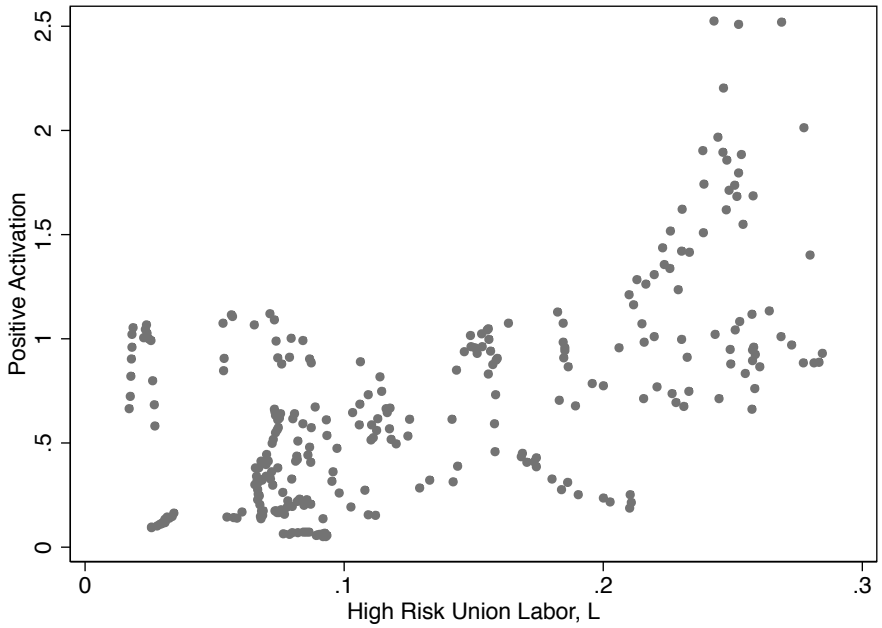
Control Variables

Political Partisanship, Unemployment, GDP Growth, Government Debt, Trade Openness.

One of the primary goals of this study is exposing economic divisions within partisan groups, particularly the political left. Nevertheless, right cabinet shares will be used to control for any potential effects of political partisanship. Additionally, domestic unemployment rates, changes in GDP, and trade openness will be used to control for

fluctuations in the demand for labor market policies, while government debt will be used to control for changes in the demand for reform as a means to reduce overall fiscal burdens. (Armingeon et al. 2009, OECD 2009)

Figure 3.2: Positive Activation vs High Risk Union Labor

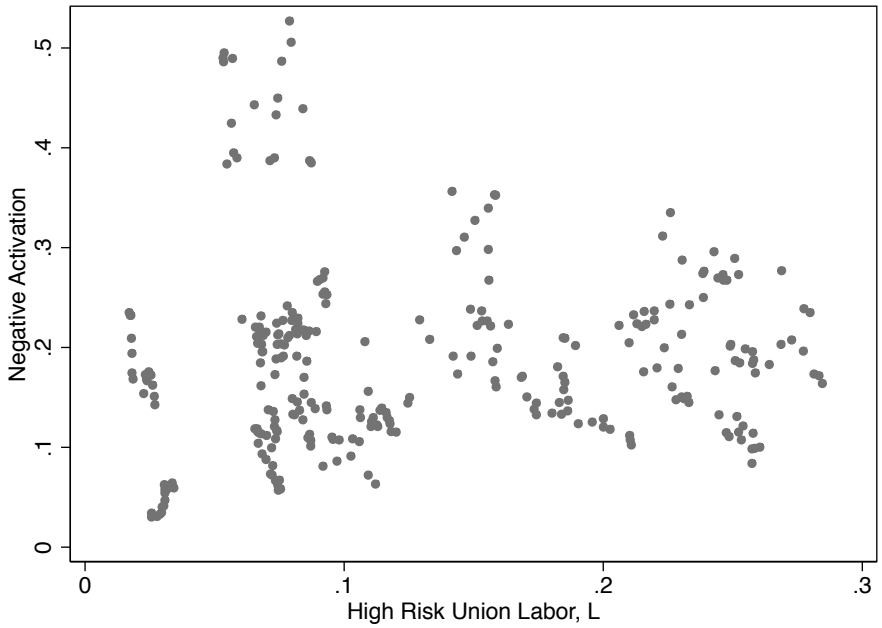


Method of Analysis

In order to test the relationship between risk, unionization and employment policy reform, I estimate general error correction models which are represented by the following equation:

$$\Delta Y_t = \alpha + \beta_1 Y_{t-1} + \beta_2 \Delta X_t + \beta_3 X_{t-1} + \epsilon_t$$

Figure 3.3: Negative Activation vs High Risk Union Labor



In this equation, Δ represents the first difference operator and t represents the time period. Interpreting the equation in terms of the research question, changes in employment policies are modeled as determined by the lagged levels of the policies themselves (Y_{t-1}), contemporaneous changes in the independent variables (ΔX_t), lagged levels of the independent variables (X_{t-1}), as well as a constant term and stochastic component. Although the general error correction model has many useful properties (DeBoef & Keele 2008), it is used in this analysis for two reasons. First, both dependent variables exhibit non-stationarity, rendering OLS models with a lagged dependent variable inappropriate (Keele & Kelly 2006).[6] Second, the general error correction model is a particularly robust method for modeling *changes* in the

[6]The data exhibit the existence of unit roots under a number of tests, some of which presumed a null hypothesis of unit roots in all countries (Harris-Tzavalis and Breitung tests) and some of which presumed a null of stationarity (Hadri Lagrange multiplier test).

dependent variable. The incorporation of both levels of and changes in all independent variables as regressors in the error correction model reduces the potential for omitted variable bias in the estimation.[7]

When using data that are both cross-national and time-series, problems of heteroskedasticity can arise when calculating standard errors. I use the procedures recommended by Beck and Katz (1995) and implement panel-corrected standard errors in the analysis. Also, to address issues of heterogeneity and ensure that no specific countries are driving the results of the analysis, I include country fixed effects. While these country-specific dummy variables do potentially account for a large amount of the variation in policy expenditures, they also provide more conservative estimates in the model. For purposes of presentation, fixed effects estimates are not included in the tables reporting the results of the analysis.

Results of Statistical Analysis

The statistical analysis produces three principal findings. First, the theoretical distinction between positive and negative activation is supported, as the two policy types have distinctly different sets of determinants. Second, the analyses of both positive and negative activation support the claim that distributional cleavages based on employment expectations influence policy outcomes. Third, conventional wisdom states that unionized workers are homogenous in their pro-welfare preferences. Yet, I find that sectoral divisions in the unionized workforce, as well as overall levels of unionization, play a crucial role in shaping reforms that shift employment responsibility.

The models of activation policy reform are presented in Table 3.3. Changes in

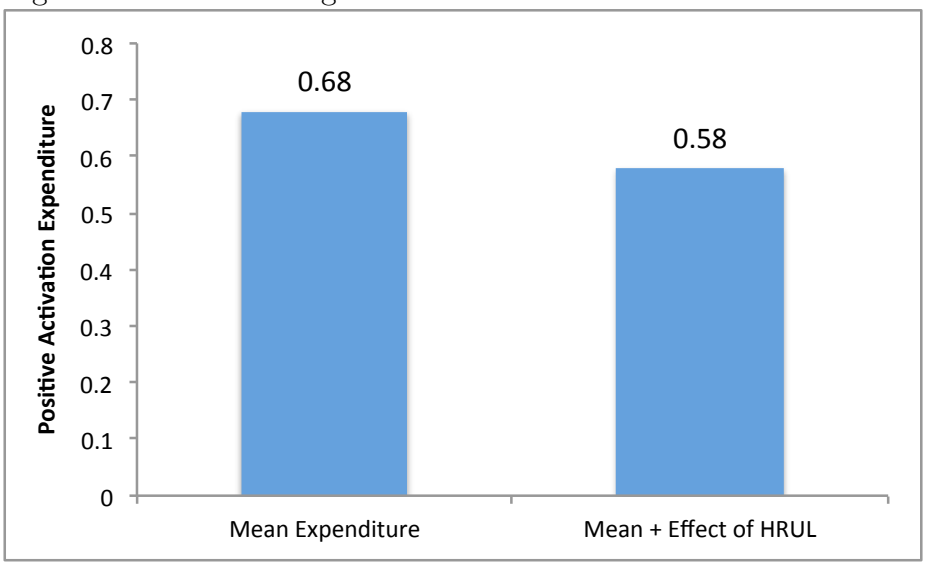
[7]Additionally, a time trend is not included in the estimated models. However, reestimating the models with an annual time trend produces trivial changes in the estimated coefficients and has no effect on the overall results presented in the next section.

positive and negative activation are both modeled twice; first without including unionization variables and then incorporating them into the analysis. In Model 1, changes in positive activation are estimated without the unionization variables, and this model suggests that both the composition of the labor force and political partisanship play a role in policy reform. This supports Hypothesis 2, which predicts a positive relationship between the proportion of low employment expectation workers in the labor force and changes in positive activation expenditures. However, once unionization variables are controlled for in Model 2, support for Hypothesis 2 drops away as both high risk labor and partisanship fail to maintain statistical significance. Yet, all three unionization variables are statistically significant and have positive coefficients. High risk union labor and wage coordination shape positive activation both in levels and first differences, while union density has an effect in first differences only. The additional variables exhibiting a statistically significant effect are unemployment, GDP growth, and debt.

The full model of positive activation reform provides strong support for Hypothesis 3, which states that a smaller proportion of high risk unionized workers in the labor force should lead to positive activation retrenchment. Both the level of and changes in high risk union labor have positive effects on changes in positive activation expenditures. Substantively, the effect of high risk union labor is considerable and can be seen in Figure 3.4. When high risk union labor decreases by one standard deviation, positive activation expenditures decrease by 0.10% of GDP. This change represents a decrease of approximately one fifth of a standard deviation in positive activation and, relative to mean expenditure, is a 15% reduction in these policies. Thus, Model 2 supports the claim that the relative power of high risk union workers influences policy outcomes.

The results of Models 1 and 2 clarify how labor shapes positive activation reforms.

Figure 3.4: Effect of High Risk Union Labor on Positive Activation



Note: Effect is calculated using a one standard deviation decrease in High Risk Union Labor.

First, it is clear that the relative power of high risk unionized workers influences policy outcomes. Positive activation is retrenched to a lesser extent when unionized workers with low employment expectations make up a greater proportion of the workforce, suggesting that distributional cleavages extend to those workers within the labor movement and these cleavages have an effect on government decisions to shift employment responsibility. Second, the composition of the overall labor force (both unionized and non-unionized) has much less influence over reforms when unionization variables are included in the analysis. This suggests that while distributional cleavages play a role in shaping policy outcomes, the preferences of *unionized* workers have greater influence, as power resource theories claim. Third, the positive coefficients on the composition variables suggest that it is the *demands* of workers, particularly unionized workers, in the labor force that lead to changes in policy expenditures. This result is in stark contrast to existing arguments that suggest changes in policies are shaped by deindustrialization and the needs of the unemployed, which should

result in negative coefficients on the high risk labor variables.[8] However, it is not necessarily evidence that these arguments are incorrect. Rather, it could suggest that the fundamental relationship between labor markets and welfare states has changed over time from one in which governments served the needs of the unemployed to one in which governments wish to retrench the welfare state at minimal political costs.

Compared with the estimates for positive activation, the models of negative activation reform present very different results, supporting the claim that these two types of activation policies are indeed distinct. One result that stands out is the surprisingly minimal impact of labor unions. The power of high risk union workers has no effect on the reform of negative activation policies, failing to support Hypothesis 3. Union density is the only unionization variable to achieve statistical significance and the estimated coefficient is positive. Additionally, comparing Models 3 and 4 provides further evidence of minimal union influence. Unlike the analyses of positive activation, controlling for unionization appears to have little effect on the statistical significance of other variables. The only large change is in the coefficient on unemployment, which more than doubles, but the estimated effect still has a rather high level of uncertainty. This suggests that, unlike positive activation, unionization in the labor force is largely unrelated to changes in negative activation. The only exception to this is the positive relationship between union density and negative activation expenditures. While the union density coefficient is positive and statistically significant, this result is not necessarily puzzling. Although negative activation policies shift employment responsibility onto individuals, they still facilitate the unemployed into work and this is an outcome that unions as institutions should support.

The other primary result is that high risk labor has a negative effect on changes

[8](Iversen 2005, Iversen & Cusack 2000)

Table 3.3: Determinants of Activation Policy Reform

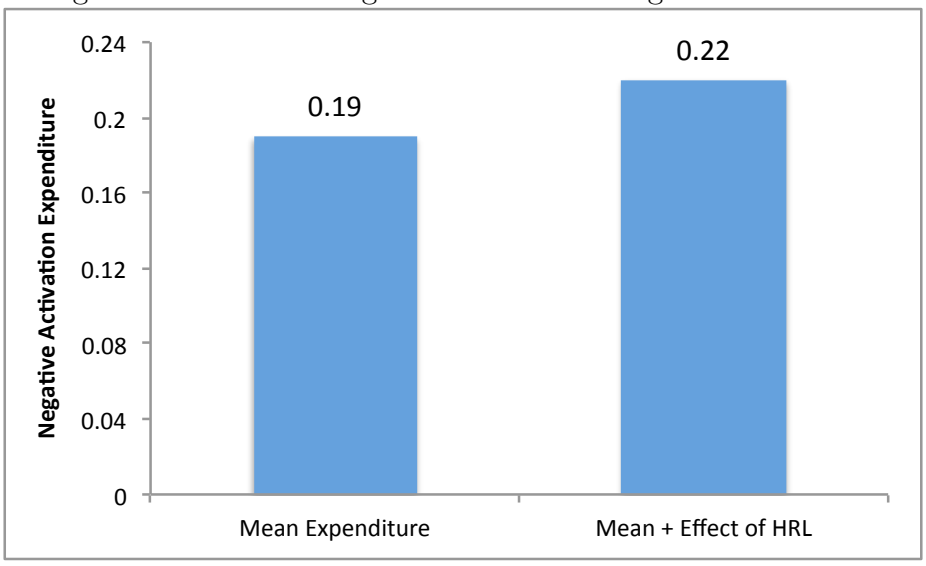
	Δ Positive Activation		Δ Negative Activation	
	Model 1	Model 2	Model 3	Model 4
Positive Expenditure$_{t-1}$	-0.1537***	-0.1878***	0.0242*	0.0201
	(0.0518)	(0.0503)	(0.0141)	(0.0146)
Δ Positive Expenditure			-0.0042	-0.0092
			(0.0172)	(0.0183)
Negative Expenditure$_{t-1}$	-0.0792	-0.0641	-0.3106***	-0.3175***
	(0.1754)	(0.1746)	(0.0856)	(0.0848)
Δ Negative Expenditure	-0.0611	-0.1224		
	(0.2297)	(0.2172)		
High Risk Labor$_{t-1}$	0.9712**	-0.3545	-0.4902***	-0.6817***
	(0.4525)	(0.6377)	(0.1516)	(0.1263)
Δ High Risk Labor	1.3895	-0.7261	-0.1209	-0.3381
	(1.3326)	(1.4011)	(0.3466)	(0.3610)
High Risk Union Labor$_{t-1}$		1.7824***		0.0639
		(0.5791)		(0.1347)
Δ High Risk Union Labor		1.9216*		0.0167
		(0.9914)		(0.2832)
Union Density$_{t-1}$		0.2237		0.1912***
		(0.3038)		(0.0664)
Δ Union Density		1.9780***		0.2305
		(0.7542)		(0.1792)
Wage Coordination$_{t-1}$		0.0631***		-0.0011
		(0.0190)		(0.0058)
Δ Wage Coordination		0.0577***		0.0013
		(0.0190)		(0.0073)
Right Cabinet Shares$_{t-1}$	-0.0442***	-0.0212	-0.0102*	-0.0090
	(0.0143)	(0.0161)	(0.0059)	(0.0060)
Δ Right Cabinet Shares	0.0092	0.0145	0.0105	0.0108
	(0.0303)	(0.0273)	(0.0116)	(0.0113)
Unemployment$_{t-1}$	-0.9847**	-0.8638**	-0.0623	-0.1525*
	(0.4000)	(0.3612)	(0.0892)	(0.0875)
Δ Unemployment	-3.0262***	-4.0277***	0.0234	-0.1417
	(1.0861)	(1.0874)	(0.2305)	(0.2437)
GDP Growth$_{t-1}$	-1.9739**	-2.0194***	-0.4625**	-0.4750**
	(0.7734)	(0.7511)	(0.1961)	(0.1924)
Δ GDP Growth	-0.4086	-0.3989	-0.2664**	-0.2678**
	(0.5903)	(0.5592)	(0.1354)	(0.1282)
Debt$_{t-1}$	0.0690*	0.1119**	-0.0173	-0.0240
	(0.0391)	(0.0503)	(0.0126)	(0.0160)
Δ Debt	0.7256***	0.8262***	-0.0618	-0.0449
	(0.2255)	(0.2183)	(0.0613)	(0.0612)
Trade Openness$_{t-1}$	-0.1882**	-0.0550	-0.0916***	-0.0693**
	(0.0860)	(0.0879)	(0.0256)	(0.0278)
Δ Trade Openness	-0.0863	-0.0051	-0.0261	-0.0072
	(0.1791)	(0.1664)	(0.0437)	(0.0406)
Constant	-0.0717	0.0166	0.1797***	0.2015***
	(0.1241)	(0.1566)	(0.0448)	(0.0396)
No. of Cases	281	281	281	281
R^2	0.29	0.37	0.25	0.27

* p<0.10, ** p<0.05, *** p<0.01

Note: All analyses use error correction models. Fixed effects estimates have been omitted from the table.

in negative activation, providing strong evidence in support of the theorized distributional cleavage and its influence over policy outcomes. The negative coefficient on high risk labor suggests that when the level of manufacturing workers in the labor force is lower (or the level of service workers is higher), governments increase negative activation expenditures. High risk labor has a substantial effect on negative activation and this is demonstrated in Figure 3.5. The left column represents mean expenditure on negative activation policies, while the right column represents how expenditure changes when high risk labor decreases by one standard deviation. This decrease in high risk labor results in an increase in negative activation by 0.03% of GDP. This represents an increase of approximately one third of a standard deviation in these policies and, relative to mean expenditure, represents a 16% increase in negative activation.

Figure 3.5: Effect of High Risk Labor on Negative Activation



Note: Effect is calculated using a one standard deviation decrease in High Risk Labor.

This result directly supports Hypothesis 2 and provides strong support for the claim that distributional cleavages based on employment risk shape the reform of negative activation policies. Due to the demands and responsibilities that these policies place on the unemployed, negative activation produces greater costs for high risk workers. Thus, governments are more willing to augment these policies when high risk workers make up a smaller proportion of the labor force and, consequently, pose less of an electoral threat to incumbent governments.

Taken together, the full models of positive and negative activation produce a powerful result. Governments are less likely to increase individual responsibility through negative activation policies when manufacturing workers, which proxy for workers with high risk and low employment expectations, represent a greater proportion of the labor force. Governments are also more likely to preserve positive activation policies when the interests of manufacturing workers are organized through unionization. Thus, when those in manufacturing are more represented relative to other workers, governments are less likely to enact reforms that shift the responsibility for employment away from the state and onto individuals.

Conclusions

This chapter explains the reform of employment responsibility through two primary claims. First, it builds on the microfoundations established in Chapter 2 to explain how distributional cleavages in postindustrial labor markets shape policy reforms. Workers with low employment expectations bear the greatest costs when governments reform labor market policies in a manner that shifts employment responsibility onto individuals. Thus, governments should be less willing to shift responsibility when workers with low employment expectations are capable of inflicting greater electoral

punishment for unfavorable policy reforms. Data on positive and negative activation policies in 18 OECD countries indeed support this claim, demonstrating that governments shift employment responsibility to a lesser extent when low expectation workers are more represented in the labor market relative other workers.

Second, this chapter explicates the role of a divided labor movement in shaping employment policy outcomes. While traditional power resource theories claim that unionized workers should be united in their support of social welfare, this chapter shows that all workers, both unionized and not, are divided in their social policy preferences based on their employment expectations. Consequently, the influence that labor unions have over policy outcomes is dependent on the relative power of unionized workers who are at the greatest risk of experiencing unemployment. Although unionized workers do pose a greater electoral threat to incumbent governments, these workers impede shifts in responsibility only to the extent that they are comprised of workers with low employment expectations, who are most likely to punish governments for enacting such reforms. Thus, the distribution of employment risk, particularly in the unionized workforce, powerfully shapes labor market reforms and the shifting of employment responsibility.

In the next chapter, I build on these findings and examine the causal processes that lead to shifts in employment responsibility. Specifically, I demonstrate how the distribution of employment expectations and a divided labor movement both played critical roles in shaping recent labor market reforms in the Federal Republic of Germany.

CHAPTER 4

SHIFTING EMPLOYMENT RESPONSIBILITY: THE CASE OF GERMANY

Thus far, this project has taken a broad, cross-national approach to explaining how the social contract has changed in postindustrial nations. I first explained how the social contract is changing for the unemployed by identifying a recent transformation of the welfare state in which governments shift responsibility for finding employment away from the state and onto the unemployed. After examining the varying degrees to which post-industrial governments have shifted employment responsibility through labor market reforms, I demonstrated that shifts in employment responsibility are explained by two factors: the distribution of employment risk amongst post-industrial workers, and the power of workers to influence policy outcomes through unionization.

In the next part of this dissertation, I utilize an in-depth analysis of an individual country, not only to provide a concrete example of how governments are shifting employment responsibility, but also to demonstrate further the causal processes through which the distributions of employment risk and unionization play crucial roles in shaping the extent to which governments can shift employment responsibility. In this chapter, I examine the Federal Republic of Germany, a country which has undergone substantial labor market reforms over the last decade. The case of Germany is confounding in two senses. First, it challenges traditional theories of power resources and welfare state reform. Germany has a long history of strong trade unions and

corporatist institutions, meaning it has precisely the kind of profile that should make social policy reforms very difficult to enact. Yet, over the last fifteen years, the German government has substantially shifted employment responsibility onto individual workers.

Second, these reforms appear to be just as puzzling from the perspective of the divided labor movement argument presented in the previous chapter. Specifically, it is not simply the fact that Germany has a large number of unionized workers that makes the German labor market reforms confounding, but that Germany also has a large number of *high risk* unionized workers. Thus, according to the theory of social policy reform espoused in this dissertation, the government should not have been willing to shift employment responsibility to such a large extent.

In this chapter, I demonstrate how the electoral concerns of the ruling Red-Green coalition and the policy preferences of a divided labor movement both played prominent roles in producing this confounding policy outcome. The first section describes individual elements of the Hartz reforms and explains how these policies shifted employment responsibility away from the state and onto individual workers. After a brief review of the extant literature, the second section uses evidence collected from a series of in-depth elite interviews to explain the development of the Hartz reforms. The third section examines the political fallout after the reforms were passed, with a particular focus on the electoral punishment of the social democratic party.

Shifting Responsibility in Germany

Beginning in the early 1990s, the German labor market experienced a number of events that produced dramatic consequences for unemployment and the German welfare state, the biggest of which was unification. When East and West Germany were

brought together once again as a single state, the reunified Federal Republic of Germany took on an additional ten million workers that had previously been employed in a planned economy (OECD 2011). Combined with the effects of globalization and an aging population, the sustainability of the German welfare state became a growing concern for the German government. By the late 1990s, Germany's unemployment rate had risen to 9.2% and was amongst the highest in western Europe, as was the generosity[1] of Germany's unemployment insurance benefits (OECD 2010, OECD 2011). Yet, by the end of the decade, only minor reforms had been attempted.[2]

In February 2002, an opportunity arose for the government to publicly examine the relationship between the labor market and the welfare state. After an investigation conducted by the federal audit office, it was found that the German public employment service had falsified its job placement statistics. Given the already deteriorating state of long-term unemployment, the public began to doubt the government's ability to the economy around as a result of the placement scandal, and in an election year no less. In order to demonstrate that it was taking both the scandal and the unemployment problem seriously, the ruling Red-Green coalition took the opportunity to form an independent commission that would evaluate the state of German labor market policies. The 15-member commission, which was headed by Volkswagen executive Peter Hartz, represented a broad range of interests that included academics, politicians, trade union representatives, and management consultants. Known colloquially as the "Hartz" Commission, the government charged the group with evaluating the state of German labor market policies and making policy recommendations that would lower long-term unemployment.

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[1]Generosity, in this case, is defined as the average income replacement rate of unemployment insurance benefits.

[2]This is a reference to the failed "Alliance for Jobs" program (Bispinck & Schulten 2000, Behrens & Niechoj 2003).

In August 2002, approximately one month before the federal election, the Hartz Commission issued its report. The chancellor, Gerhard Schröder, endorsed the recommendations and, after his Red-Green coalition won reelection in September, the government began drafting and implementing a series of "Hartz" reforms based on the commission's recommendations.[3] These reforms were established in four separate bills, known as Hartz I, II, III, and IV, and enacted between 2003 and 2005. The first Hartz act included several changes to the German social code that focused on reintegration of unemployed workers. These included a new system of training vouchers for the unemployed, redefining worker rights and responsibilities, and the establishing a public temporary work agency. The second Hartz act created entrepreneurial incentives for the unemployed and established new "mini-jobs" programs that allowed workers to engage in limited part-time employment without having to make any tax contributions. Hartz III reformed the public employment service, now known as the Bundesagentur für Arbeit (BA), both in terms of its management structure and the policies it used to assist the unemployed. Finally, the fourth act reformed the benefits received under the unemployment insurance and social assistance systems.

In order to understand the significance of the myriad changes that the Hartz reforms created in the German welfare state, it is important to provide a general characterization of benefits prior to the reforms. Consistent with characteristics of traditional conservative welfare state regimes, the postwar German welfare state placed a strong emphasis on paternalism and status protection (Esping-Andersen 1990, 1996; Palier & Martin 2007). So long as a worker was employed full time (*i.e.* a minimum

[3]While the reforms are commonly referred to as the Hartz reforms, their official names are the Acts for Modern Services on the Labor Market.

of 18 hours per week) for at least twelve months, that worker was entitled to unemployment insurance benefits that paid 60% of her employed wage.[4] This benefit could last for up to 32 months, at which point the worker would receive a long-term unemployed benefit, known as unemployment assistance, paying 53% of her employed wage indefinitely. Thus, all qualified workers received wage-based benefits for an unlimited period of time.

As a result of this long-standing reliance on a system that granted all full-time workers such substantial passive benefits, Hartz IV has received most of the attention from scholars and citizens alike. Hartz IV instituted a significant restructuring of unemployment insurance, reducing the duration of benefits to as little as six months, depending how long the worker has been employed. The changes to long-term unemployment assistance, however, was much more substantial. Although no limit was placed on the duration of unemployment assistance, the level of the benefit was significantly reduced. Rather than being based on a worker's previous wages, unemployment assistance was merged with social assistance and delivered as a flat-rate benefit.[5] This led to a large reduction in benefits for many long-term unemployed workers because, while the pre-reform unemployment assistance used a lower income replacement rate than that received by the short-term unemployed, it was still wage-based and substantially higher than basic social assistance. Thus, as a result of Hartz IV, an individual's income status was no longer protected and this marked a significant shift away from the postwar principles of the German welfare state.

Given this radical change in the structure of unemployment benefits, it is not surprising that Hartz IV has received a considerable amount of scholarly and public

[4]This rate assumes that the worker is childless. If the worker had children, the replacement rate was 67%.

[5]The flat-rate benefit varies from €287 to €359 per month, depending on the worker's family situation.

attention since 2005. What is surprising, however, is how little attention seems to be paid to the other elements of the Hartz reforms (Hartz I-III). To be sure, several scholars have evaluated both the causes and consequences of the reforms as a whole (Eichhorst, Grienberger-Zingerle & Konle-Seidl 2008, Jacobi & Kluve 2007, Kemmerling & Bruttel 2006, Vail 2008). However, the majority of political science scholarship related to the Hartz reforms has focused primarily on changes to the unemployment insurance system (Fleckenstein 2008, Hassel & Schiller 2009, Mares 2006, Palier & Thelen 2010).

This is surprising because the first three acts of the Hartz reforms constitute a fundamental transformation of the social contract in Germany. As detailed in Chapter 1, structural changes in social policy go beyond a basic reduction in benefit levels. Rather, they are defined by the individualization of responsibility and major changes to the rules governing benefits and eligibility (Brooks 2009, Hacker 2004, Pierson 1996). In the remainder of this section, I demonstrate that the Hartz reforms have created precisely this kind of change in German employment policies. When examining all of the Hartz acts together, as opposed to Hartz IV alone, it is evident that these policy changes have produced a shift in employment responsibility away from the state and onto the unemployed.

Active labor market policies are generally characterized as those social policies that reintegrate unemployed individuals back into the labor market. Yet, these policies can vary widely in *how* they assist the unemployed and *who* bears responsibility for finding employment. As we saw in previous chapters, positive activation policies are those in which the government bears a greater share of responsibility for finding employment and include such policies as worker training, wage subsidization, and job creation programs. Negative activation policies, on the other hand, are those in which individuals bear a greater share of responsibility for finding a job and the

government plays a more indirect role in assisting individuals with their job searches. Negative activation includes such policies as job-search monitoring, benefit sanctioning, and agency-based advising. A shift in employment responsibility is defined by both a retrenchment of positive activation policies as well as an increase in reliance on negative activation. As I will now demonstrate in detail, the four Hartz acts produced precisely this type of change in German labor market policy: a move away from positive activation and government responsibility, while increasing individual employment responsibility and the implementation of negative activation.[6]

Worker Segmentation and Paths to Positive Activation

One of the primary changes in post-Hartz labor market policy is in the usage of positive activation measures. Prior to the Hartz reforms, Germany was one of the largest spenders on positive activation programs in the OECD (OECD 2008*b*).[7] Unemployed workers needed to apply for access to such programs as vocational training, wage subsidization and job creation schemes. However, the formal barriers to entry were minimal and caseworkers within the BA were given considerable autonomy in placing workers into positive activation programs.[8] The specific barriers to entry varied by individual program, but the basic requirements included a necessity of program enrollment in order for the worker to reintegrate into the labor market and a minimum number of years worked by the individual prior to unemployment (Wunsch 2006).

[6]The remainder of the chapter will reference two bodies of legislation that constitute the legal foundation of German labor market policy. The *Arbeitsförderungsgesetz* (AFG) defined the social code through 1997, while the *Sozialgesetzbuch* (SGB) has defined the social code since 1998.

[7]In 2002, the year before the reforms began, positive activation spending in Germany was 1% of GDP, compared to an OECD average of 0.6%. Only Denmark, Sweden and the Netherlands spent more.

[8]The specific provisions dictating requirements for access to positive activation are located in the AFG §§33, 42-46, as well as the SGB III §§5, 77-78.

Consequently, the program requirements were not difficult to meet and the vast majority of workers could hypothetically obtain access to positive activation programs if the caseworker determined that the individual met these requirements. This meant that individuals could rely on the government to take responsibility for directly placing workers on a path to employment or into a job, reducing their risk of remaining outside the labor market for an extended period of time.

In the post-Hartz era, the formal requirements for admittance to positive activation programs are similar to those before the reforms were enacted. Workers still need to meet requirements regarding eligibility and the necessity of programs for workforce reintegration. What is very different, however, is caseworker discretion in assigning individuals to activation programs. Whereas caseworkers formerly had a large degree of autonomy, the reform of the BA under Hartz III has led to new guidelines under which caseworkers now implement a classification system when evaluating all unemployed individuals (BA 2006, BA 2009*b*). This classification system restricts the types of workers that can gain access to positive activation programs. Specifically, it requires that all workers be placed into one of four categories: "market clients" that require little to no assistance in finding new employment, "clients for counseling and activation" primarily receive counseling and possibly short-term training, "clients for counseling and qualification" are much more likely to receive long-term training and other positive activation measures to improve their marketability, and "intensive assistance clients" are given the greatest access to positive activation programs because they are at the greatest risk of transitioning to long-term unemployment.

Although the classification system does not establish a specific quota regarding how often caseworkers can assign individuals to positive activation programs, it does place restrictions on the types of individuals that are allowed access. For instance,

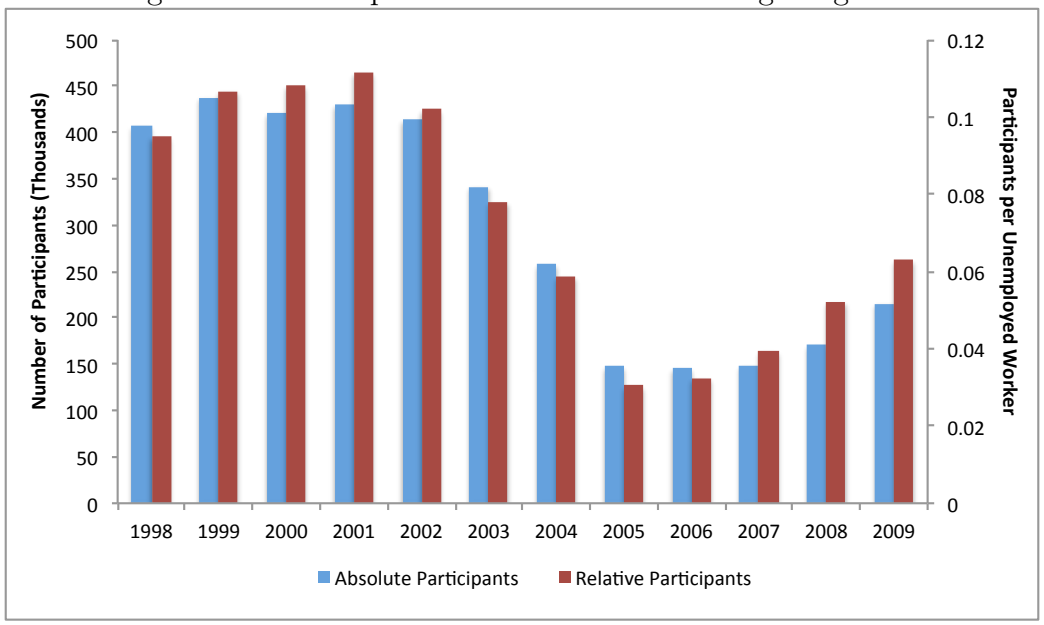
those assigned to the first two groups are almost assured of minimal access to government employment assistance through positive activation policies.[9] Thus, these individuals are responsible for finding their own employment. It is only those in the third and fourth categories that are likely to have access to positive activation programs due to their poor employment prospects, and with such access comes much greater assistance from the government in returning to paid work.

This classification system is a result of Hartz legislation aimed at reforming the BA such that the top management priority is cost-effectiveness, as opposed to preserving social or occupational status (Vaut 2004). Put differently, positive activation policies are expensive when compared to their negative activation counterparts and the Hartz reforms sought to limit access to these programs to those who would almost certainly remain on the dole without a greater effort and responsibility from the government to move them back into the workforce. To the extent that the government could save money by restricting access to such programs to only those with the lowest reemployment prospects, then the reform would provide the government with considerable cost savings.

While this categorization system is rather vague and it is possible that a large proportion of the unemployed are placed into the third and fourth categories, the evidence presented in Figure 4.1 suggests otherwise. The figure displays the number of individuals who have participated in vocational training programs, which are a primary instrument of positive activation and fund unemployed workers to upgrade their skills with the intention of improving their employment prospects. Looking at the last twelve years of available data, it is clear that the general trend is toward less participation in these costly positive activation programs. From 1998 to 2009, the number of vocational training participants dropped by almost half. Moreover, the

[9]The exception to this is access to entrepreneurial startup funds.

Figure 4.1: Participation in Vocational Training Programs



Source: Bundesagentur für Arbeit (2009*a*, 2010)

large drop in participation begins in 2003, which is the same year that marks the beginning of the series of Hartz reforms. Thus, by placing new restrictions on the types of individuals that could be granted access to positive activation programs, the Hartz reforms have significantly reduced access to programs in which the government takes on a greater share of employment responsibility. As a result, the reforms have dramatically reduced participation in these policies, shifting employment responsibility away from the government and onto individuals.

Protection of Occupational Status

A second important element of the Hartz reforms is the change in status protection ensured by the welfare state. Specifically, the short-term unemployed are not required to take up any job they are capable of performing. They are only required to take up "suitable work", which is partially defined as jobs that provide minimum

earnings related to previous wages and benefits (§§119, 121 SGB III). Prior to the Hartz reforms, the long-term unemployed received the same protection. Since the passage of Hartz IV, however, once workers transition to long-term unemployment and receive the new flat-rate benefit, they are required to take up any job that they are capable of performing, regardless of past earnings (§§1, 10 SGBII). Thus, when they reintegrate into the labor market, workers may now end up in a job in which they earn substantially less income than before entering unemployment.

This is a significant departure from the pre-Hartz principles of the German welfare state that espoused occupational status protection and the relative maintenance of income both in and out of work. While reductions in status protection were enacted as early as 1997, unemployed individuals were only required to take up a job that provided pay at least equivalent to unemployment insurance benefits after six months of unemployment (Eichhorst, Grienberger-Zingerle & Konle-Seidl 2008). However, because these benefits were based on previous earnings and not a subsistence flat-rate benefit, this initial status protection reform had a minimal effect. The Hartz reforms further reduced entitlements to occupational status and brought about a stronger enforcement of these principles through the reform of the BA. As a result, the long-term unemployed are no longer guaranteed the right to remain unemployed until a position with wages similar to their previous employment becomes available and their benefits are no longer connected with their previous wages.

Although the reform of status protection is not a direct example of changes to positive or negative activation, it is certainly related to it. The removal of status protection was deliberately included in the Hartz reforms as an incentive mechanism to push the long-term unemployed back into the labor market. By ensuring that previous living standards would not be preserved, the policy was designed to motivate the long-term unemployed to find work with earnings above the flat-rate benefit that

would bring their incomes closer to previous earnings. In this way, the reforms also shifted responsibility onto individuals to return to the labor market more quickly, even if it meant returning to a lower-wage job.

The Responsibility Contract

A third important element of the Hartz reforms that redefined employment responsibility in the German welfare state is the integration agreement. Another product of the reform of the BA, integration agreements are essentially responsibility contracts that outline the rights and responsibilities of each individual worker (§35 SGB III, §§2, 15 SGB II). The integration agreement is completed during a worker's initial visit to the BA and is written in conjunction with a caseworker. Although each contract is tailored to the worker's individual profile and needs, they all contain specific information related to the job search process. Aside from detailing what services the individual can expect from the BA, the contract also specifies the responsibilities of the individual. The latter commonly consists of required job search activities and regular meetings with the individual's caseworker.

The integration agreement itself is symbolic of an increased reliance on negative activation since the Hartz reforms. In contrast to past principles of letting workers collect unemployment insurance simply as an entitlement, the integration agreement clearly states that workers have obligations and responsibilities to seek out work while they are collecting unemployment insurance benefits. It represents negative activation is the sense that it details how workers, not the state, must play the predominant role in finding employment. Yet, the basic responsibilities laid out in the integration agreement are more that just symbolic of negative activation because a lack of adherence to the integration agreement can result in benefit sanctions, to which I now turn.

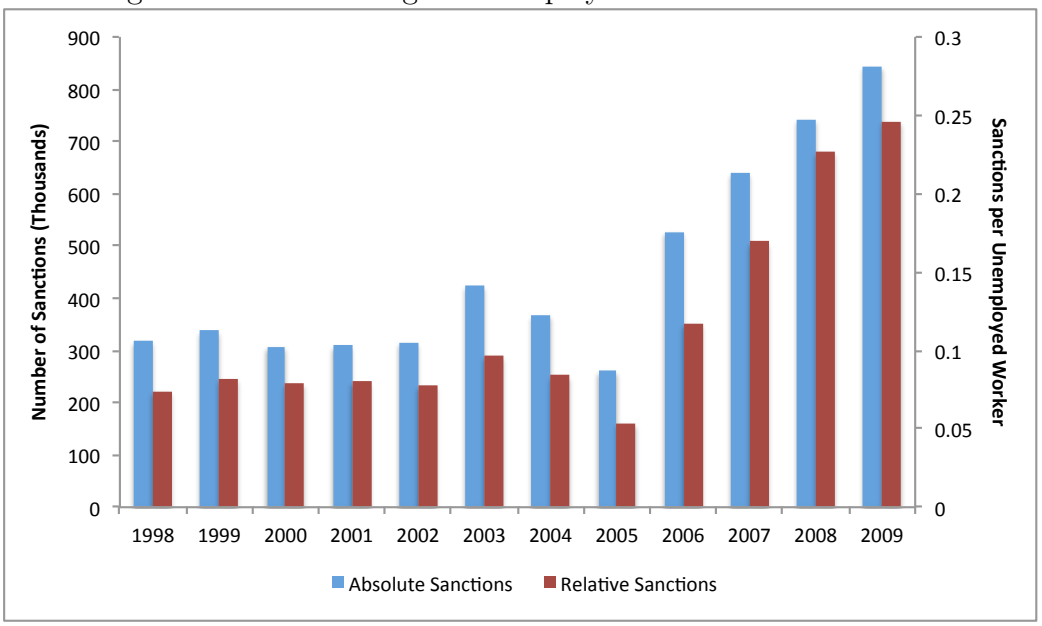
Sanctions

The fourth and final element of the Hartz reforms that transformed employment responsibility is the sanctioning of unemployment insurance benefits. If an unemployed individual does not comply with any of the responsibilities required for the collection of unemployment insurance, the BA can withhold the individual's unemployment benefits for a specific period of time, the standard penalty being twelve weeks. Specifically, benefits may be withheld if the individual refuses a suitable job or activation measure, voluntarily leaves her job without good reason, does not complete job search activities, or fails to notify the BA of an impending dismissal from employment (§144 SGB III). Thus, if a worker fails to meet these requirements, they will be disqualified from receiving benefits for twelve weeks. Moreover, the burden of proof related to sanctions rests with the individual. For instance, it is the individual's responsibility to provide evidence of job searches or demonstrate that a voluntary dismissal was with good reason (Eichhorst, Grienberger-Zingerle & Konle-Seidl 2008).

Sanctioning policies are at the very heart of negative activation. They are designed to motivate individuals to individually find employment through the threat of lost financial benefits. Thus, the state is not directly assisting the unemployed in finding work, but rather influencing individuals to take on greater responsibility for employment outcomes via sanctions. Similar to the changes in status protection, benefit sanctions existed within social policy legislation but were rarely implemented. In order to increase the credibility of sanctioning threats, the reform of the BA called for an increase in the number of caseworkers and a lowering of the unemployed-to-caseworker ratio. This increase in caseworkers was enacted to increase the ability of the BA to monitor the unemployed and ensure their compliance with unemployment insurance responsibilities, as well as to allow the caseworkers to devote more time to each individual client (GS071 2007, GS091 2009).

Looking at Figure 4.2, it is evident that the Hartz reforms have had a rather dramatic effect on benefit sanctioning. Prior to the first Hartz reforms in 2003, the number of benefit sanctions exhibits minimal change from one year to the next. Yet, with the exception of a dip in 2005, sanctions have steadily risen since the Hartz reforms were enacted and the number of sanctions has almost tripled from 2002 to 2009. This trend represents an increased use of negative activation policies and a stricter enforcement of individual employment responsibility. In this way, workers now bear a significant cost for failing to take on responsibility for finding employment.

Figure 4.2: Sanctioning of Unemployment Insurance Benefits



Source: Bundesagentur für Arbeit (2010)

Taken together, all of the Hartz reforms, not simply Hartz IV, have fundamentally changed the nature of the social contract in Germany. Moving well beyond simple reductions in passive benefits, Germany has increased its reliance on means-tested,

flat-rate benefits and greatly reduced the traditional protection of occupational status. The Hartz reforms have intensified the obligations that workers must fulfill in order to receive government assistance, as well as privatized the responsibility for integration back into the labor force. In short, by retrenching positive activation and simultaneously increasing reliance on negative activation policies, these reforms have produced a structural change in the welfare state in which individuals bear the greater share of employment responsibility that was once borne by the government. Having established the extensive transformation of social welfare that these reforms produced, I now turn to explaining how these reforms took place.

Explaining Labor Market Reforms in Germany

Explanations of the Hartz reforms in the political science literature have taken several forms, but the most prominent theories to date have focused on coporatist institutions, fiscal constraints, or policy diffusion. Scholars have used political and economic institutions to explain welfare state outcomes for decades, with the most prominent arguments embedded within the varieties of capitalism literature (Hall & Soskice 2001, Iversen 2005). These arguments claim that welfare policies are a product of the degree to which economies rely on specifically-skilled labor. The more an economy relies on specific skills that do not easily transfer to other jobs or industries, the more social protection that economy must provide for its workers in the event of job loss. As a country that relies heavily on specific skills, Germany is often invoked as the archetypal example of an economy in which the social partners work together to provide extensive social policies and ensure that workers invest in specific skills (Thelen 2004, Wood 2001). Thus, retrenchment should be difficult to achieve. Yet, recent labor market reforms in Germany have retrenched unemployment insurance benefits and shifted employment responsibility onto individual workers.

Since the passage of the Hartz reforms, several institutional scholars have produced revised arguments that offer explanations for how the reforms passed, despite Germany's reliance on specific skills and its long history of generous social policies. Both Palier and Thelen (2010) and Carin and Soskice (Carlin & Soskice 2009) argue that the corporatist institutions and cross-class coalitions that backed extensive social policies in the post-war era still exist, but in an altered form. Specifically, they claim that unions and employers have become fractured along lines that reflect a "dualized" labor market. As a result, non-standard workers, such as part-time workers and those in the low-skilled service sector, are exposed to greater economic insecurity, while the core of standard workers remains protected. Thus, cross-class coalitions still exist, but the dominant coalition aims to protect a narrower set of policies that are of greatest value to standard workers, while simultaneously sacrificing those policies of greatest value to non-standard workers.

These new institutional arguments have offered important insights into how German corporatist institutions have changed in the last twenty years and how these changes have influenced social policy reforms. Yet, at the same time, they do not offer a complete explanation for why the Hartz reforms took the shape that they did and why the government shifted employment responsibility to such a degree. In particular, while these explanations focus heavily on the role of unions and employers in shaping social policy outcomes, there is little mention of micro-level politics. Put differently, institutional arguments frame the reform process largely as if cross-class coalitions of political elites determine policy outcomes, overlooking the influence that electoral pressures may have on government policy decisions.

Others scholars have argued that recent changes in German labor market policy are political reactions to increasing fiscal burdens. Streeck (2009) claims that recent changes in German labor market policy are the result of "institutional exhaustion" in

which financial deficits accumulated to such a degree that the government was forced to enact drastic and far-reaching reforms. Hassel and Schiller (2009) also argue that fiscal concerns have prominently shaped labor market reforms, while additionally explicating the role of federalism. Specifically, they examine how federal institutions have produced decades of relatively minor welfare state reforms through the shifting of fiscal burdens between the central and local levels of government. Their primary claim is that the most recent reforms deviated from this pattern due to the inability of any level of government to absorb additional welfare costs, thus necessitating a complete structural transformation of unemployment insurance.

Fiscal arguments such as these have made important contributions to the study of the German welfare state by identifying the pressures placed on governments that led them to enact changes in social policy. Yet, these arguments still provide an incomplete explanation of German labor market reforms. While fiscal pressures played in important role in government decisions, these pressures again do not explain why the labor market reforms were designed to shift employment responsibility. Instead, fiscal explanations mostly focus on the merging of long-term unemployment insurance and social assistance in Hartz IV and largely ignore other elements of the reforms. Moreover, fiscal arguments frequently make little mention of the political consequences of the reforms and how this factored into the government's decision-making.

Finally, a number of scholars have examined the role of policy diffusion in shaping Germany's labor market reforms. The general focus of these studies is on the cross-national interdependence that is inherent in policy formation within increasingly globalizing economies, such as that of Germany and other countries in the European Union. Some scholars have examined different diffusion processes, such as policy learning and competition, that have contributed to the reforms (Kemmerling & Bruttel 2006), while others have traced the policy innovations implemented in the

Hartz reforms to other countries in Western Europe (Seeleib-Kaiser & Fleckenstein 2007, Fleckenstein 2008). These studies make a valuable contribution to understanding the various sources of policy information and potential political pressure that Germany was exposed to from abroad. However, while diffusion arguments provide valuable insights into how certain policies are placed on the reform agenda, they do not provide a political explanation for why reforms are passed. Thus, like other existing studies, those focused on policy diffusion do not provide a full account of why the German government implemented the specific mix of policies outlined in the Hartz reforms.

In the remainder of this chapter, I offer a new explanation of Germany's labor market reforms through two primary claims. First, as I have argued in previous chapters, distributional cleavages in voter policy preferences played a major role in shaping the content of the Hartz reforms. In the following section, I demonstrate that the preferences of individual voters, not just institutional actors, were a primary concern of the Red-Green government when drafting the reforms, and that the government was particularly concerned with an electoral backlash from workers with lower employment expectations. Second, unions played a significant role in shaping the reforms, but not in the traditional manner of uniformly supporting strong social welfare policies. Rather, unions were divided in their preferences for the content of reforms and the political response of union members powerfully shaped the general elections in 2005 and 2009, which saw the Red-Green government removed from power.

Crisis and Opportunity: The Genesis of the Reforms

The German economy experienced considerable growing pains following unification, not the least of which were problems in the labor market. By the mid 1990s, the unemployment rate had steadily increased from under six percent to over eight percent

and had reached almost ten percent by January of 1998. Thus, when the newly-elected Red-Green coalition led by Gerhard Schröder came to power later that September, reforms of the labor market had long been on the public agenda. However, only minor attempts to reform unemployment insurance had been made by the previous government led by Helmut Kohl. Early in its first term, the Red-Green government established the "Alliance for Jobs" as a measure to address the unemployment situation. The Alliance was a tripartite commission originally formed with the goals of reducing unemployment, bolstering vocational training and improving the overall competitiveness of the German economy. However, despite numerous meetings between 1998 and 2002, the Alliance for Jobs proved largely unsuccessful and ineffective due to vast differences in what issues the various parties were willing to offer up for negotiation (Behrens & Niechoj 2003, Funk 2003*d*). Thus, when an opportunity arose for a different mechanism to reform labor market policy, Schröder seized it.

In February 2002, it was revealed that the federal employment service, the BA[10], had grossly falsified data related to the success of job placement. Given the high level of unemployment in the country, the scandal added to growing sentiments that the Schröder government was incapable of turning the economy around (Boston 2002, Erlanger 2002, Scally 2002). However, Schröder used the the job placement scandal as a "window of opportunity" to implement hitherto unorthodox methods of labor market reform. Specifically, he took the opportunity to form a commission on labor market reforms that extended well beyond the standard inclusion of the social partners (*e.g.* the Alliance for Jobs). Rather, he assembled the fifteen-member commission from a broad range of fields that included academia, trade unions, business associations, consultancies, politicians, and various executives and board members from the

[10] At the time, the employment service was known as the *Bundesanstalt für Arbeit*, as opposed to the post-reform and current designation of *Bundesagentur für Arbeit.*

private sector. Most notably, Schröder appointed Volkswagen executive Peter Hartz as the chairmen of the commission, and as a result the commission unofficially took on his name.[11]

When considering the members of the Hartz Commission, those who were included is just as noteworthy as those who were *not*. While representatives from two trade unions and one business association were selected to the commission, representatives from the umbrella organizations of both unions and employers were noticeably absent. In particular, there were no representatives from the Federation of German Industries (BDI) and Confederation of Germany Employer Associations (BDA), nor the Confederation of German Trade Unions (DGB). While this absence was partially fallout from the extensive role the social partners played in the administration of the BA, thus linking both unions and employers to the placement scandal, as well as the failing negotiations of the Alliance for Jobs, excluding the umbrella organizations nevertheless marked a significant shift away from traditional postwar tripartism in which the social partners were heavily involved in decisions related to the German economy (Streeck & Hassel 2003).

The commission was given a specific mandate to propose new methods of lowering unemployment through reforming the BA, as well as active and passive labor market policies. After six months of deliberation, the commission presented its report in August of 2002 and Hartz stated that the goal of the commission's report was to cut unemployment in half within three years. In order to achieve this ambitious goal, the commission made thirteen specific recommendations that were organized into three more general categories. The first group focused on the creation of new jobs through a number of measures such as the creation of government-controlled temporary work agencies to place the unemployed on paths to more permanent work

[11] Officially, the commission was labeled the Commission for Modern Services on the Labor Market.

or into training. The job creation recommendations also included start-up grants for self-employment and the creation of "mini-jobs" that would raise the level of tax-free wages that could be earned by lower income workers. The second group focused on better placement of the unemployed through the creation of job centers, increasing the demands placed on the unemployed during the job-search process, and providing more training opportunities, especially for young workers. The third group was directed more at institutional efficiency, recommending a complete reform of the governing structure of the BA, as well as a merging of unemployment insurance and social assistance.

Initial opposition to the Hartz commission's report was rather minimal. Given the economic climate and the impending election in September of 2002, Schröder fully embraced the commission's recommendations and promised to implement them "one-for-one" if his government was reelected. Employers expressed the greatest opposition, not by rejecting the recommendations but by claiming that the reforms did not go far enough, and also claiming that the reforms could potentially increase the financial burden of employers (Kaiser 2002, Niechoj 2002). For their part, the trade unions expressed enough opposition to reductions in unemployment insurance that specific provisions in this regard were left out of the report, although the general recommendation to merge unemployment insurance with social assistance benefits was still included. However, beyond this provision and some additional details, unions praised the report on the whole. Michael Sommer, chairman of the DGB, reacted to the report by stating that "we are on the right track" and also stated that the Red-Green coalition's intentions for labor market reform represented "socially just modernization" (Kaiser 2002, Niechoj 2002). Leaders from metalworkers' union IG Metall and service sector union ver.di were included as members of the Hartz Commission and, unsurprisingly, echoed the trade union confederation's sentiments. Given

this overall positive response to the Hartz report, Schröder's dedication to the commission's recommendations helped secure the reelection of his Red-Green government in September of 2002.

The Hartz Reforms: From Recommendation to Reality

Despite the election victory, the time for celebration was short as the unemployment situation continued to deteriorate in late 2002 and early 2003. While the Red-Green coalition's embracing of the Hartz Commission's recommendations and corresponding intentions for policy reform had helped it win the election, the government also knew that a similar tactic would not be enough over the next four years. Thus, the government decided to take bold and unprecedented action to reform the German economy.

At the heart of the Hartz Commission's recommendations were the dual principles of "*fördern und fordern*", or "supporting and demanding" policies. The basic idea was that the government would place greater demands on workers when they are unemployed in order to promote quicker reintegration into the workforce, but in return the government would play a key role in providing various types of support that workers need in order to find a job and maintain a standard of living. Put differently, the government would provide unemployment insurance and various programs to promote worker placement, but workers would have mandatory obligations to search for work and take up suitable jobs if they wanted to avoid benefit sanctions. Crucially, these supporting and demanding principles are representative of the primary concept of this dissertation; namely, employment responsibility. While the supporting principle represents those policies in which the government bears responsibility (*i.e.* positive activation), the demanding principle represents those policies in which responsibility is borne by individual workers (*i.e.* negative activation).

The supporting and demanding principles laid out in the Hartz commission's report was at the very core of the Red-Green government's reform strategy.[12] At the end of 2002, the government had the daunting task of reforming the labor market in a manner that would lower unemployment, but it also believed that it had almost four years to achieve this goal. The reform effort was directly spearheaded by Schröder himself and his advisors in the chancellory, with a particularly prominent role being played by newly-appointed minister of economics and labor Wolfgang Clement. It was their belief that a massive overhaul of labor market policy was the only option to achieve a significant reduction in unemployment and, consequently, earn reelection to a third term. It was their opinion that they had no choice but to implement many of the recommendations of the Hartz Commission if they wanted to achieve another term in office because existing labor market policies had proven to be ineffective for reducing unemployment in Germany. Thus, they formulated a reform strategy based around supporting and demanding principles.

Schröder and his advisors firmly believed that demanding policies were best capable of reintegrating the unemployed back into the labor market. Yet, at the same time, they believed that strong demanding policies with no assistance from the government could produce an electoral backlash, particularly among elements of the coalition's base in the working class. Thus, the overall strategy was to push as far as they could with demanding policies, while still offering enough supporting policies to avoid the perception that they had abandoned and unfairly punished the unemployed and those vulnerable to unemployment. In short, they wanted to achieve a precise mix of supporting and demanding elements that would allow the government

[12]The information in the following three paragraphs related to the government's reform strategy was collected through several in-depth interviews, conducted with members of the Red-Green government who were directly involved in producing the Hartz reforms. (GG093 2009, GG092 2009, GG091 2009)

to reduce unemployment, while escaping electoral punishment by limiting the degree to which the reforms shifted employment responsibility onto the unemployed.

In no way did the government leaders believe that the strategy was foolproof or carried a high probability of electoral success. On the contrary, they believed that the reforms would carry considerable electoral risk because any reforms that included strong demanding elements would likely invoke resistance from certain groups within the political left. Indeed, the reforms would hit hardest those individuals that the left had long protected; namely, lower-skilled workers and the unemployed. However, they believed that with enough supporting policies and almost four years to improve the unemployment situation, they could avoid the perception of abandoning these groups and pull votes from the center by taking unprecedented action to reform the welfare state. Thus, the reforms would bring a higher probability of reelection than no reforms at all.

An examination of policy preferences in Germany reveals that the government had good reason to be concerned about the electoral consequences of the reforms. As detailed in Chapter 2, workers' policy preferences are shaped by their employment expectations, which are jointly determined by their subjective notions of job security and reemployability. As a worker's employment expectations increase, she should be less supportive of policies that require the government to bear a greater share of employment responsibility and more supportive of those that shift responsibility to individuals. Additionally, Chapter 2 demonstrated that skill level and sector of employment play a strong role in shaping workers' employment expectations. All workers with high skills and service workers with middle skills should have high expectations, while workers with middle skills in manufacturing and all workers with low skills should have low expectations, producing the distributional cleavage detailed in Table 2.3.

The models in the following two tables test these expectations in the German labor force. Table 4.1 uses original survey data collected during the summer of 2011 to test the relationship between subjective employment expectations and policy preferences. The measure of employment expectations is created using two questions from the survey: one that measures subjective job security and one that measures subjective reemployability, each on a scale from 0 to 10. These two measures are then standardized to vary between 0 and 1 and combined into a single employment expectations variable using Equation 2.3 from the formal model presented above.[13] The variable is then used to explain three different measures of employment policy preferences. The first is a direct measure of preferences for the distribution of employment responsibility, while the second presents respondents with a tradeoff between work opportunities for the unemployed and lower levels of taxation.[14] Both are coded from 0 to 10, with higher values representing preferences for greater levels of government involvement and responsibility. The third measure asks respondents how strongly they agree or disagree with sanctioning policies that allow a government to withhold a worker's unemployment insurance for failure to comply with job search requirements.[15] This

[13]In the formal model, employment expectations, α, is determined by the probability of keeping one's job, or job security (γ), and should one lose her job, the probability of reemployment, or reemployability (ϕ). The resulting equation is: $\alpha = \gamma + (1 - \gamma)\phi$.

[14]The text of the questions is as follows. Responsibility: "On a scale from 0-10, how much responsibility should the government have to ensure a job for all unemployed workers who want one?" Tradeoff: "Most government programs that assist the unemployed in finding work are paid for by taxes. If the government had to choose between increasing taxes and providing more work opportunities for the unemployed, or decreasing taxes and providing fewer work opportunities for the unemployed, which should it do?"

[15]The sanctioning question reads as: "Recent labor market reforms have increased the job search requirements that the unemployed must meet in order to receive unemployment insurance. Such requirements include providing evidence of job applications and appearing for regular meetings with the employment office. Please state the extent to which you agree or disagree with the following statement: If an individual does not complete all job search requirements, the government should withhold a portion of that individuals unemployment insurance benefits."

Table 4.1: Determinants of Employment Policy Preferences

	Employment Responsibility	Tax/Policy Tradeoff	Benefit Sanctions
Employment Expectations	-0.9823*	-1.8063***	0.6518*
	(0.5804)	(0.5632)	(0.3577)
Income	0.0828	0.0549	0.0592*
	(0.0575)	(0.0576)	(0.0304)
Ideology	-0.2770***	-0.2827***	0.1808***
	(0.0977)	(0.1016)	(0.0513)
Age	0.0017	0.0066	-0.0009
	(0.0102)	(0.0104)	(0.0054)
Gender	-0.2526	0.0586	0.0491
	(0.2646)	(0.2586)	(0.1408)
Self-Employed Worker	-0.4022	0.0982	0.2829
	(0.3513)	(0.3675)	(0.1718)
Part-Time Worker	-0.0102	0.5206	0.1482
	(0.3481)	(0.3342)	(0.1630)
Constant	9.1687***	7.8953***	2.4240***
	(0.8638)	(0.9137)	(0.4660)
No. of Cases	363	353	360
R^2	0.05	0.07	0.08

* p<0.10, ** p<0.05, *** p<0.01

Note: Survey data from Powell (2011). Estimates are weighted and derived using OLS with robust standard errors.

is measured on a five point scale with higher values representing greater approval of the sanctioning policies.

Looking at Table 4.1, the most striking result is the consistency of employment expectations. Across all three of the models, the employment expectations coefficients are statistically significant with the expected sign. Workers with higher employment expectations prefer that governments take on less responsibility in the employment

process and also prefer lower taxes over greater work opportunities for the unemployed. They are also more approving of policies that sanction workers' unemployment insurance benefits.[16] Ideology is the only other variable to achieve statistical significance. Given the results and the variety of dependent variables used in these models, the estimates in Table 4.1 suggest that the employment expectations of German workers indeed influence their employment policy preferences.[17]

Table 4.2 uses the objective measures of employment expectations based on skill level and sector of employment, replicating the models found in Chapter 2. The dependent variable asks respondents how much employment responsibility should be borne by the government, similar to the first model in Table 4.1. Again, the models provide strong support for the claim that German workers' preferences are shaped by their employment expectations. Both the expectations index in Model 1 and the high expectations variable in Model 2 are statistically significant and have negative coefficients. Thus, as expectations increase, preferences for government responsibility go down. Moreover, the substantive effects are larger than those in the cross-national models in Chapter 2, as both employment expectations coefficients are at least 50% larger. Thus, the models provide strong evidence that the distributional cleavage theorized in this dissertation powerfully shapes employment policy preferences in Germany. Overall, the collective evidence in Table 4.1 and Table 4.2 directly reinforces the logic behind the government's "*fördern und fordern*" reform strategy, and its electoral concerns over policy reforms that would shift increased employment responsibility onto workers with low employment expectations.

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[16] Given that preferences for sanction policies is measured on a five point scale, this model was also estimated using ordered profit rather than OLS. The general inferences from the model continued to hold and the estimates exhibited lower levels of uncertainty in the standard errors.

[17] In the Powell (2011) survey, only employed respondents were asked questions related to subjective employment expectations. Thus, status as unemployed worker and non-worker are not included as control variables in Table 4.1.

Table 4.2: Determinants of Employment Policy Preferences

	Model 1	Model 2
Expectations Index	-0.1351***	
	(0.0343)	
High Expectations		-0.4426***
		(0.1426)
Income	-0.1639***	-0.1772***
	(0.0298)	(0.0293)
Ideology	-0.2018***	-0.1989***
	(0.0384)	(0.0384)
Age	-0.0038	-0.0046
	(0.0049)	(0.0049)
Gender	0.4363***	0.4263***
	(0.1406)	(0.1407)
Unemployed Worker	-0.2770	-0.2454
	(0.3419)	(0.3421)
Self-Employed Worker	-0.0099	-0.0438
	(0.2561)	(0.2570)
Part-Time Worker	0.0723	0.0641
	(0.1741)	(0.1748)
Non-Worker	0.1221	0.1499
	(0.1793)	(0.1791)
Constant	7.8558***	7.4935***
	(0.3800)	(0.3682)
No. of Cases	1927	1927
R^2	0.07	0.07

* p<0.10, ** p<0.05, *** p<0.01

Note: Survey data from ESS (2008). Estimates are weighted and derived using OLS with robust standard errors.

Before detailing the development of the Hartz legislation, it is important to note two conclusions that can be drawn from the government's reform strategy. The first is that the strategy was based on a political calculation, which focused on two things: unemployment and votes. The government was convinced that its future political success was based on winning votes through lowering unemployment and simultaneously not alienating too many voters in the process. This stands in start contrast to existing institutional theories of social policy reform that emphasize the importance of tripartism and the roles of unions and employer associations. Far from being negotiated, the reform strategy was a unilateral political gamble by the ruling coalition. One official within the government asserted that the plan was never to gain universal approval for the reforms before implementing the policies because dissent was inevitable, especially within the SPD. Rather, the plan was to push ahead in spite of this and win the approval after demonstrating the merits of the policy changes(GG092 2009). This is not to say that the government was wholly unconcerned with unions and employers. I demonstrate below that the government was indeed concerned with the public support of trade unions during the reform process. However, it does demonstrate that these concerns were secondary to electoral concerns or, in other words, the opinions of individual voters.

The second conclusion that can be drawn from the government's reform strategy is related to cleavages in policy preferences among the electorate. As stated above, the government believed that its reform strategy involved considerable political risk and that the new policies, particularly the demanding elements, could alienate enough voters to cost the Red-Green coalition the next election. These concerns stand in stark contrast to contemporary insider-outsider arguments in political science (Rueda 2005). According to insider-outsider theories, political parties, particularly those of the left, respond to the preferences of full-time labor market insiders

when making policy decisions, often at the expense of part-time or unemployed labor market outsiders. Policies should only benefit outsiders in economic downturns when insiders are exposed to greater employment risk. However, the strategy of the Red-Green government shows that the cleavage of primary concern to the ruling coalition was not that between insiders and outsiders. Such a division carries little political risk as insiders should always represent a clear majority over outsiders, yet the government perceived the reforms to be very risky from an electoral standpoint. Additionally, as I demonstrate below, the reforms posed a considerable threat to those labor market insiders at greatest risk of becoming unemployed, and the reforms were enacted during a downturn in the German economy no less. Consequently, there is little evidence of concern for an insider-outsider cleavage in the government's strategy, as it did not involve satisfying all insiders. Rather, the concern was to satisfy only enough of them to win reelection.[18]

Hartz Legislation and the Divided Role of Labor

At the beginning of 2003, the first two Hartz acts went into effect.[19] Hartz I redefined the responsibilities of the unemployed in the job-search process, promoted vocational training, and established the temporary work agencies, or personnel service agencies (PSAs), to employ and hire out unemployed workers. Hartz II defined tax-exempt employment in the lower-wage sector through mini-jobs and also established self-employment grants. These particular measures passed into legislation quickly and without much political resistance, but they also included the least controversial recommendations of the Hartz Commission.

[18] Other scholars, most notably Hassel & Schiller (2009) and Palier & Thelen (2010), have also drawn attention to the shortcomings of insider-outsider theories in the context of the Hartz reforms.

[19] The pieces of the Hartz legislation were officially labeled as the First, Second, Third, and Fourth Acts for Modern Services on the Labor Market.

In March of 2003, Schröder gave a speech announcing the government's "Agenda 2010" reform package, which distinctly marked the end of cooperation between the government and many trade unions on the issue of labor market reform. Agenda 2010 was a broad and extensive set of proposals designed to reform the German economy as a whole. Reaching far beyond labor market policy, the proposals included the reform of healthcare, pensions, and employment protection. However, the proposals also included the more controversial elements of the Hartz recommendations that had yet to be legislated. These included an institutional reform of the BA, additional demanding policies, and the merging of unemployment insurance and social assistance, crucially defining the new single benefit as flat-rate and setting it at the much lower level of social assistance.

While business leaders were pleased with the Chancellor's proposals, most other reactions were immediately negative, particularly from the left. Michael Sommer of the trade union confederation denounced the package as "immoral" and similar negative sentiments were expressed by the president of metalworkers' union IG Metall. The president of service sector union ver.di accused the government of promoting income inequality and perpetuating policies of the center-right, but even then-opposition leader Angela Merkel commented that the proposals were "surely not a master plan" for Germany (Funk 2003*a*, Williamson 2003). Yet, despite this reaction, the government pressed forward with the final two pieces of Hartz legislation.

Judging by the union reactions and the government's willingness to continue with its reform plans in spite of them, it could be inferred that the government was altogether unconcerned with trade union opposition. However, there is much evidence to suggest that this was not the case. A leading official within the coalition government claimed that the government held a private meeting with union leaders to

press its case for the Agenda 2010 reforms prior the Chancellor's speech announcing his proposals (GG092 2009). While the precise outcome of this meeting remains unknown[20], the decision to hold the meeting itself demonstrates the government's concern for union approval. The fact that the government was inclined to hold the meeting and seek out union approval is particularly noteworthy, especially given the structure and political position of German trade unions. At the time, the unions were widely perceived to be politically weakened as a result of their role in the placement scandal. Additionally, German trade unions hold no institutional veto powers over policy decisions and it is the trade union confederation (DGB), not the individual unions, which holds the dominant position in working with the government on social policy.

Why would the government be concerned with individual union approval despite all this? The answer is in its election-focused reform strategy. Institutionally, the unions were not capable of blocking the reforms, and the government's willingness to push through the reforms despite the public opposition of unions is evidence of unions' institutional weakness. Rather, the primary reason the government was concerned with union approval relates to unions' abilities to shape the perception of reforms amongst their members, as well as the public at large. As stated above, part of Schröder's reform strategy was to avoid an electoral backlash and unions have the ability to filter the information that their members receive regarding the costs and benefits of reforms. Indeed, a former leader within IG Metall stated that elections were the strongest tool the unions had to influence policy outcomes (GU093 2009).

[20]The interviewee expressed that the meeting had been held and that all union leaders present eventually gave their approval for the proposals (GG092 2009). However, this has never been substantiated by the unions themselves and given their disapproval with specific elements of the Hartz recommendations (*e.g.* the reduction of unemployment insurance benefits), it would have been an abrupt change in the opinions of several union leaders. On the other hand, given the quick deterioration of the economy at the end of 2002, it is also not out of the question that the leaders could have changed their positions.

Thus, the government was seeking the public support of all unions in an attempt to minimize electoral punishment, particularly from union members.

Further evidence of the government's reform strategy can be found in its attempt to strike the right balance between supporting and demanding policies. Throughout the remainder of 2003, the coalition government was engaged in a long legislative process to pass the third and fourth Hartz acts. Hartz III transformed the internal institutions of the BA in an attempt to model the public employment service more along the lines of a private corporation, striving for greater efficiency and accountability in job placement. This act also minimized the role played by the social partners within the BA, reducing their role to members of the tripartite budgetary board (§379 SGB III). Hartz IV merged unemployment insurance and social assistance, setting a lower flat-rate benefit for those unemployed for longer than six months, and also required workers to take up any legal job they were capable of performing, regardless of pay. Put differently, Hartz IV lowered the benefit levels of the long-term unemployed and stripped them of any status protection.

The final pieces of legislation, however, were not written as the Schröder government originally intended. Throughout the legislative process, the government's attempt to strike the right balance between supporting and demanding policies was evident. Status protection was not intended to be removed under the government's original reform proposals, but the opposition center-right controlled the upper house. Consequently, status protection was removed in order to appease the opposition and ensure the passage of Hartz IV, attaching an additional and significant demanding

element to the reform (Dribbusch 2004*a*).[21] Regarding supporting elements, the government demonstrated a strong backing of training programs on multiple occasions. During his speech introducing the Agenda 2010 reform package, Schröder threatened to raise taxes on companies that did not offer enough vocational training opportunities for workers (Funk 2003*a*). After the reforms were passed, the labor ministry, BA, and employers assosciations issued a joint statement on their collective commitment to vocational training opportunities to help alleviate unemployment, especially among younger workers (Stettes 2005). Crucially, however, the Hartz legislation contained no training guarantees and the responsibility for assigning the unemployed to training programs was given to the BA. Left to its own discretion and under new leadership that emphasized cost efficiency, the BA dramatically reduced training opportunities for the unemployed.[22] Finally, PSAs, or personnel service agencies, were meant to be one of the cornerstones of supporting policy created by the reforms. However, the PSAs were found to be largely ineffective and after enrolling 28,000 workers in 2004, this number quickly declined and was down to only 1,000 workers by 2009, leaving the program essentially defunct (BA 2010, Jacobi & Kluve 2007). Thus, the government fell far short of its stated intentions to provide supporting policies.

Policy Dissent and Divided Labor

Both during the legislative process and after the third and fourth Hartz acts were passed, certain trade unions voiced their disapproval of the reforms on several occasions. However, it is critical to recognize that this disapproval did not come from *all*

[21] To clarify, all legislation that affects the state governments must be approved by the upper house, or Bundesrat. Thus, all four Hartz bills required the approval of both the upper and lower houses of the federal government. Status protection simply represents a unique instance in which the Hartz legislation had to be altered from its original form in order to receive the approval of the right-controlled upper house.

[22] See Figure 4.1

trade unions. As mentioned above, the metalworkers' union IG Metall and service sector union ver.di both stated their opposition to the lowered benefit levels of the long-term unemployed, as did Michael Sommer of the DGB. The same three groups also voiced their opposition to the loss of status protection in the bill, and the DGB later criticized the government's inability to provide the training opportunities that it had backed when the reforms were first announced (Dribbusch 2004*a*, Stettes 2005). Other unions, however, were much less vocal of the reforms and others even voiced support for them. Hubertus Schmoldt, leader of the mining, chemicals, and energy union IG BCE, voiced some specific concerns, but praised the reforms on the whole and claimed that they were an "important signal" for the viability of welfare reform in Germany (Williamson 2003, Dribbusch 2004*a*, Bloomberg 2003).

Further evidence of divisions in union preferences can be found in the events leading up to the 2005 election, especially regarding the opposition to reform of IG Metall and Verdi. The Hartz reforms, and Agenda 2010 more broadly, resulted in a portion of the SPD's membership splitting away and forming *Die Linke*, or the Left Party. As Hassel and Schiller (2009) point out, approximately one half of the members of parliament elected from the Left Party in 2005 were trade union officials that belonged to either ver.di or IG Metall. Additionally, it is worth noting that the two trade union representatives on the Hartz Commission came from these same two unions. While it could be argued that these two unions were selected to the commission due to their large membership size, it is also possible that they were selected because the government was concerned about the likelihood of their opposition to reforms.[23]

The distinction between those unions that actively voiced their disapproval and

[23] Additional discussions of divisions in union preferences can be found in Hassel and Schiller (2009), Streeck & Trampusch (2005), and Palier & Thelen (2010).

those which did not is not a random one. In Chapter 2, the primary distributional cleavage between those who oppose reforms that shift employment responsibility and those who do not is defined by workers' skill levels and the sector of the economy in which they are employed.[24] Low-skilled service sector workers and those in the manufacturing sector with low or mid-level skills should be the ones to oppose reforms, and these are precisely the workers that ver.di and IG Metall represent. While the membership of ver.di does include workers with a variety of skill levels, the majority of its members belong to the low-skilled service sector and the union regularly defends the interests of "outsiders" in non-standard employment positions (GU092 2009).[25]

IG Metall, however, is another matter entirely. The metalworkers' union represents a significant portion of the most protected "insiders" in the German economy. Yet, these workers have low or mid-level skills in the manufacturing sector and, according to the theory in Chapter 2, have low employment expectations. Consequently, many provisions of the Hartz acts were perceived as threatening to these workers. Although the union did not oppose certain demanding elements of the reforms, such as placing greater job-search demands on the unemployed, it clearly perceived the reduction in unemployment benefits as harming its members. Moreover, the union perceived status protection and certain supporting policies such as vocational training as essential when it originally approved the Hartz Commission's report (GU093 2009). Thus, IG Metall also opposed the reforms as legislated because the Hartz acts did not protect the interests of its members.

In summary, unions were not united in their opposition to the Hartz reforms. Rather, their opinions were sharply divided. Those unions who represented workers

[24] See Table 2.3 in Chapter 2.

[25] The most significant portion of high-skilled union members is in the public sector and is represented by the German Civil Service Association, which is not a member of the trade union confederation.

with low employment expectations were very vocal in their opposition to the third and fourth Hartz acts, while others did not state a strong opposition and some even stated their support. Given this divide in union preferences, the government's decision to move ahead with the reforms despite union disapproval is less confounding. The government's primary concern with union support was not based on the institutional power of the unions, but rather on their ability to affect electoral outcomes. Losing the support of IG Metall and ver.di was not in the interest of the government's reform strategy. On the contrary, the government knew that the lost support would likely cost it votes among its traditional electoral base. Yet, this loss also was not enough to force the government to back down on the reforms. Schröder and his advisors believed that, even without full union support, the passing of the reforms still gave the coalition the greatest likelihood of reelection due to the presumed effect that the reforms would have on unemployment and the resulting votes that would be gained from the political center.

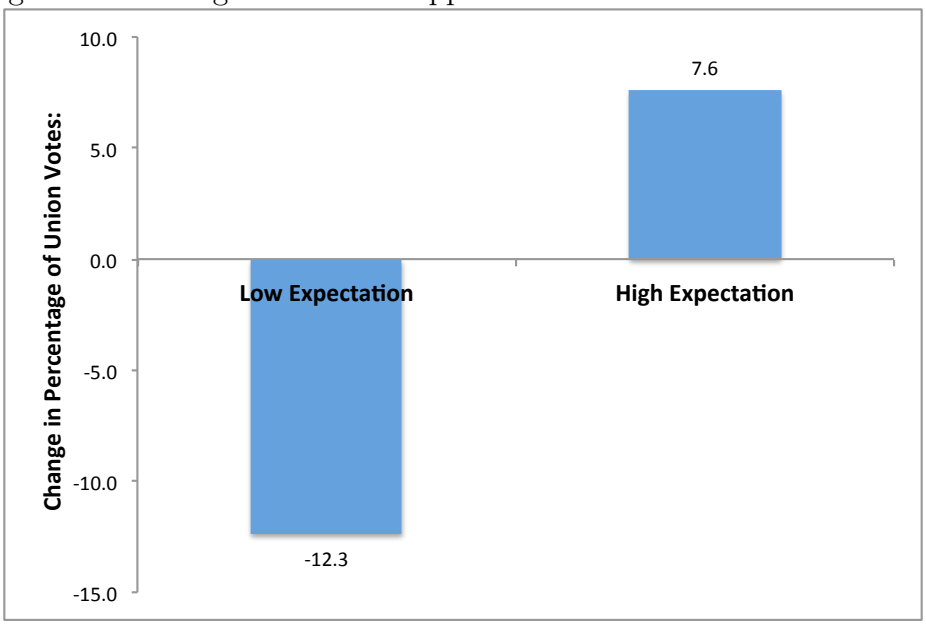
Unions, Voters, and Electoral Punishment

The final pieces of the Hartz legislation went into effect in January of 2005, giving the Red-Green coalition up to a year and a half to demonstrate the effectiveness of the reforms before the next federal election. However, there were two developments in 2005 that the Schröder government did not foresee when it formulated its election strategy around the Hartz reforms. The first was that the immediate effect of the reforms was to drive unemployment up, not down. In actuality, the reforms had not caused any workers to lose their jobs. The increase in the unemployment rate was merely a statistical artifact of merging unemployment insurance and social assistance,

which now defined certain individuals as unemployed who did not have that designation under the previous system. Nevertheless, in the public's eye, this increase in unemployment was associated with the reforms.

The second development was the decision of the government to call early elections in September 0f 2005, one year prior to the end of the coalition's term. Given the statistical increase in unemployment and the fact that the reforms had been given very little time to reduce unemployment as the government had hoped, this decision appeared rather perplexing. However, due to the jump in unemployment and increasingly bitter disputes over the merits of the reforms, particularly within the SPD, Chancellor Schröder did not believe that he could hold the coalition together for another year (GG093 2009). Consequently, he called for the early elections.

Figure 4.3: Changes in Union Support for the SPD from 2002 to 2005



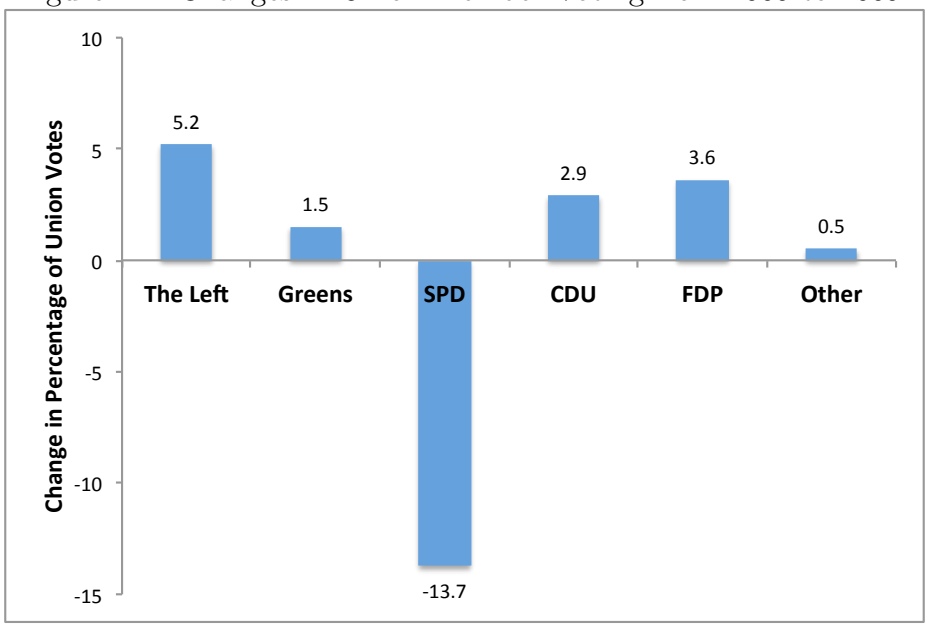
Source: ESS (2004, 2008)

The 2005 federal election produced a disappointing result for the Red-Green coalition, as it was punished by voters and the coalition failed to gain reelection. The SPD received 34.2% of party votes, while the Greens received 8.1%. The SPD was relegated as the junior partner in a grand coalition with the CDU and the Greens were removed from the ruling coalition altogether. Given that the SPD was still in government and the election resulted in a forced agreement between the SPD and the CDU rather than a center-right coalition, one could argue that the punishment from voters was not all that severe. However, distributional cleavages in employment policy preferences can help explain this result. Figure 4.3 presents voting data for unionized workers across two elections. Specifically, it shows how union support for the SPD changed between 2002 and 2005. The data demonstrates a striking difference between workers with low employment expectations relative to those with high expectations. The former group should be most opposed to shifts in responsibility due to its higher employment risk and it punished the SPD accordingly. SPD support from unionized workers with low expectations dropped 12.3%. It should also be noted that these are the same workers whose union leaders publicly opposed the reforms, thus demonstrating the ability of unions to influence the political actions of their members. On the other hand, unionized workers with high employment expectations, for whom the reforms are less costly and whose union leaders either refrained from direct opposition or supported the Hartz reform agenda, increased their support for the SPD across the two elections by 7.6%. Consequently, the electoral actions of a divided labor movement mitigated the punishment inflicted on the SPD in the 2005 election.

Additionally, the amount of time that elapsed between the final implementation of the reforms and the early election was only nine months. Thus, it is possible that voters did not have enough time to fully observe and internalize the effects of the

reforms. Looking forward to the 2009 federal election, the punishment was still delivered and with much greater force, handing the SPD its worst election performance in the postwar era. The party received support from only 23% of voters and this punishment was in no way limited to voters outside of trade unions.

Figure 4.4: Changes in Union Member Voting from 2005 to 2009



Source: Deutscher Gewerkschaftsbund (2009)

Figure 4.4 shows how the proportion of union member votes changed for each major party between 2005 and 2009. Looking at those who voted for the SPD in 2005, 14% of all voting union members switched their votes to other parties in 2009.[26] This demonstrates a crucial point about the left-labor relationship. Despite strong historical ties, union members are indeed willing to abandon center-left parties when

[26]These figures refer to *Zweitstimmen*, or second votes, which are cast for political parties rather than individual politicians.

they pass legislation that is not in these workers' interests. Moreover, the defection of these workers is not limited to other parties of the left. On the contrary, German union members defected to all of the other major parties in the election, with the liberal FDP gaining even more votes than the center-right CDU. Thus, this supports the claim that union members have a broad range of political preferences.

Looking to the causes of these defections, survey evidence suggests that the passage of the Hartz reforms played a prominent role in the 2005 and 2009 elections. As discussed earlier in this chapter, I conducted an original survey in Germany during the summer of 2011. In addition to collecting information on labor market policy preferences, the survey also recorded how respondents voted in the past three federal elections and asked respondents specific information about their voting decisions if they changed their votes across time. Looking at the voting data from the survey, 38% of Germans who changed their party votes in 2005 or 2009 stated that the reasoning behind the change was explicitly due to welfare state reforms. Thus, the Hartz reforms were clearly on some voters' minds during both elections. The Hartz reforms also had a likely effect on vote choice via influencing unemployment. As stated above, the passage of Hartz IV resulted in an immediate jump in the unemployment rate and negatively influenced public perception of the reforms and the government. Yet, the reforms also had an effect after the election. Between the 2005 and 2009 elections, unemployment dropped almost four points to 7.8% and several scholars have attributed much of this drop to the Hartz reforms (OECD 2011, Jacobi & Kluve 2007, Fahr & Sunde 2009). However, since the Red-Green coalition was no longer in power, much of the economic success was attributed to Chancellor Merkel and the CDU. Importantly, an additional 25% of Germans who changed their party votes in the 2005 or 2009 elections claimed that the decision was due to the state of the German economy, again linking vote choice to the Hartz reforms.

Trade unions opposed to the reforms and particularly the trade union confederation were also doing their part to inflict electoral punishment on the SPD. After the Hartz legislation had taken shape, DGB chairman Michael Sommer stated that the unions were "smarter than in 1998 and 2002" referring to the support that the DGB had given the SPD in the previous two federal elections (FAZ 2004, Schiltz 2004). He followed through on his threat, as the DGB made no recommendation to support the SPD in 2005 as it had in 1998 and 2002 (GU091 2009). Thus, the trade union confederation made a direct effort to punish the SPD at the polls as a result of the party's creation of the Hartz reforms.

Conclusions

According to the theories presented in this dissertation, reforms that shift employment responsibility to such an extent as that produced by the Hartz reforms should be politically unfeasible in Germany. Due to the strong unionization of workers with low employment expectations who will bear substantial costs as a result of the reforms, governments should be unwilling to enact large shifts in responsibility for fear of electoral punishment from these workers. However, when examining the evidence in greater detail, this theory is indeed supported and the Hartz reforms are not as confounding as they first appear.

First, evidence from in-depth elite interviews supports the claim that electoral punishment resulting from the reforms, as well as electoral reward for lowering unemployment, was the primary concern of the coalition government. The government designed the reforms by balancing both supporting and demanding elements, presuming that they would indeed be punished by those voters more vulnerable to unemployment if the proper balance was not achieved. However, the reforms as designed and the reforms as implemented were two very different things. Of particular importance

was the loss of workers' status protection in the legislative process, the failure to utilize training programs to reintegrate the unemployed back into the labor market, and the ineffectiveness and abandonment of the personnel service agencies. Consequently, the government did not intend to shift responsibility to the extent that it did and the set of reforms that became a policy reality were not the reforms that the government originally believed could win them reelection.

Second, trade unions played an important role in the government's reform strategy, but not in the manner predicted in traditional corporatist arguments. The government wanted the support of all trade unions, but mostly for their ability to influence elections, not simply because of their institutional power. The government moved ahead with the most controversial elements of the reforms when it believed it had full union support, which was later withdrawn. Even without this support, the government continued with its plans because it believed that the merits of the reforms were its best option to win reelection, despite the opposition of certain unions. Additionally, trade unions were divided in their support for the Hartz acts and this division maps onto predicted cleavages based on employment expectations. Specifically, the unions most opposed to the reforms represented those with the greatest employment risk, low-skilled workers and medium-skilled workers in the manufacturing sector.

Finally, the coalition parties did not pass the Hartz reforms and victoriously remain in office. On the contrary, the two parties were indeed punished for shifting employment responsibility onto individuals. The SPD in particular bore the brunt of this electoral punishment in the 2005 and 2009 federal elections, while the CDU appeared to reap the benefits of a falling unemployment rate in the most recent election. Trade unions played a prominent role in punishing the SPD through their members defecting to other parties, as well as through the trade union confederation withdrawing its support for the SPD.

In summary, a divided labor movement and electoral punishment from workers with low employment expectations were both crucial to the reform process in Germany, despite the confounding policy outcome. In the next chapter, I begin to examine how these variables produced very different reforms in Denmark and the United Kingdom.

CHAPTER 5

CONCLUSION

This dissertation has identified fundament changes in how states assist the unemployed. In response to increased fiscal austerity, governments across the developed world have turned to employment policies as a tool to move individuals off of welfare state benefits and into the labor force. Yet, the manner in which governments promote employment varies considerably across countries and over time. Some policies, such as job training and wage subsidization, directly facilitate dislocated workers on a path to employment. These positive activation policies require governments to take on a large share of responsibility for placing individuals into a job. On the other hand, negative activation policies such as job search monitoring and benefit sanctioning incentivize workers to find employment through their own efforts and require much less direct assistance from the state. As this dissertation has demonstrated, governments are increasingly turning to negative activation policies to promote employment and, as a consequence, shifting the responsibility for finding work away from the state and onto workers. In this manner, governments have rewritten the social contract by transforming the welfare state from an institution that pools risk across the labor force to one that individualizes the responsibility for finding work.

The first part of my argument focused on redefining how employment risk is conceptualized in the welfare state literature. When theorizing the relationship between risk and social policy preferences, existing studies tend to build their arguments

around a single dimension of employment risk. Some focus on job security, arguing that workers who are more likely to lose their current jobs are more supportive of government policies that assist the unemployed. Others focus on reemployability and claim that workers preferences should be divided based on how likely they are to find a new job should they become unemployed. However, as I have argued, focusing on only a single dimension of employment risk cannot fully capture a worker's level of employment risk and and will improperly characterize the primary cleavage that divides workers in their policy preferences. Rather, as I demonstrated through the development of a formal model, job security and reemployability jointly shape a worker's employment policy preferences and both must be accounted for to understand a worker's position in the labor market. Using this two-dimensional definition of employment risk, I argued that the primary distributional cleavage in social policy preferences should be influenced by post-industrial labor market dynamics. Specifically, those workers in the manufacturing sector and with lower skill levels should be at higher risk of experiencing unemployment than those in the service sector and with higher skill levels.

Having fully conceptualized employment risk and identified the distributional cleavage that shapes employment policy preferences, the second part of my argument focused on leveraging this cleavage to explain policy outcomes, particularly shifts in employment responsibility. I argued that these shifts can be explained by examining not only how employment risk is distributed in the labor force, but also the relative political power of those individuals at greatest risk of experiencing unemployment. Traditional power resource arguments claim that unionized workers should be united in their support of the welfare state and that these workers should have a greater influence over policy outcomes due to their organization and alliances with leftist political parties. I offered a revised version of traditional power resources, claiming

that unionized workers are indeed more influential, but also that they are divided in their policy preferences just like their non-unionized counterparts. When deciding how to reform employment policies, governments face a tradeoff between shifting responsibility away from the state and risking electoral punishment from those who are most likely to bear the burden of increased employment responsibility. Consequently, when workers who are both unionized and exposed to greater levels of employment risk make up a larger portion of the labor force, governments should be less willing to shift employment responsibility onto individuals in order to avoid electoral punishment.

Over the previous three chapters, these theories have been tested using a multimethod research design, which presented both quantitative and qualitative evidence from a number of sources. Chapter 2 examined the microfoundations of policy reforms, unpacking the relationship between employment risk and social policy preferences. The first section provided an empirical test of the formal model using survey data from 13 OECD countries, and the results of these tests demonstrated two important points about respondent preferences for the amount of responsibility that governments should have for placing individuals into work. First, the results demonstrated that each of the two dimensions of employment risk have independent effects on policy preferences. Individuals with higher levels of job security preferred that governments take on less employment responsibility, and this result held for those with higher levels of reemployability as well. Second, job security and reemployability also have a joint effect on policy preferences, with one dimension mediating the other. The effect of job security decreased with higher levels of reemployability, and and the effect reemployability decreased with higher levels of job security. Overall, the tests of the formal model supported the argument that employment risk is

a two-dimensional concept and both dimensions must be accounted for in order to understand a worker's policy preferences.

The second section of Chapter 2 defined this two-dimensional conception of risk as a worker's employment expectations and validated that skill level and sector of employment are indeed two crucial objective determinants of a worker's employment expectations. These two characteristics of post-industrial labor markets were used to define the primary distributional cleavage in employment policy preferences and create objective measures of employment expectations. Finally, measures of risk from the extant literature were tested alongside the measures of employment expectations in order to determine how well the various theories explained workers' employment policy preferences. The results of the tests provided strong support for the role of employment expectations, while those explanations which theorized preferences with an emphasis on only one dimension of risk found little support. Specifically, neither a worker's status as a labor market "insider" nor her level of skill specificity had a statistically significant effect on policy preferences. Employment expectations variables, however, were both statistically significant and had large substantive effects. The evidence demonstrated that workers with lower expectations prefer that governments take on greater responsibility in the employment process, and that employment expectations define an important distributional cleavage in employment policy preferences.

Chapter 3 built on these empirical findings and used them to test the explanation of employment policy reform. At the individual level, survey evidence was utilized to test the expectations developed in the revised power resources argument. First, a model similar to those in Chapter 2 was used to demonstrate that the distributional cleavage based on employment expectations extends to all workers, both unionized and non-unionized. Although the effect of this cleavage was somewhat

smaller for unionized workers than that of their non-union counterparts, workers with high employment expectations preferred that governments take on less employment responsibility. This validated my claim that unionized workers are divided in their policy preferences, as opposed to united in support of the welfare state as traditional power resource theories suggest. Additionally, survey evidence also demonstrated that unionized workers are more likely to vote than workers that do not belong trade unions, reinforcing the claim that union workers pose a greater electoral threat to incumbent governments.

At the country level, time-series cross-section data spanning 16 years and 18 OECD governments was used to test the relationship between risk, power resources, and employment policy reform. Policy expenditures for each country-year were disaggregated into positive and negative activation, and a separate analysis was carried out for each policy type. The model of positive activation confirmed that changes in policy expenditures were shaped by the relative power of high risk union labor. When workers that are both unionized and at greater risk of experiencing unemployment make up a greater portion of the labor force, governments retrench positive activation policies to a lesser extent and, consequently, take on a greater share of employment responsibility. In the models of negative activation, unions appeared to have little influence over policy outcomes. However, the distribution of employment risk still played an important role, as governments increase negative activation expenditures to a greater extent when the labor force is composed of fewer high risk workers. Taken together, the models of positive and negative activation demonstrated that the distributional cleavage defined by workers' employment expectations, particularly among trade union members, powerfully shapes the reform of employment policies and the ability of governments to shift employment responsibility away from the state and onto individuals.

Chapter 4 took an in-depth look at the recent labor market reforms, known as the Hartz reforms, in Germany in order to further explicate the causal mechanisms of employment policy reforms. From the perspective of this dissertation, German labor market reforms represent a perplexing case. Despite a high proportion of high risk union labor in the German workforce, the German government nevertheless enacted reforms that shifted employment responsibility onto German workers. Evidence from a number of sources explained this confounding outcome, as well as demonstrated how the German reforms support the arguments presented in this dissertation. First, evidence collected from a series of elite interviews in Germany explicated how the reform strategy of the Schröder government was developed. In particular, this evidence showed the government's desire to strike a balance between positive and negative activation policies that would maximize its chances of reelection, as well as the government's concerns with winning the approval of unionized workers.

Second, original survey data was used to establish that distributional cleavage based on employment expectations indeed extends to the German labor force. Using a number of different measures of preferences for employment responsibility, analyses of the survey data verified that German workers with lower employment expectations prefer the government to take on greater responsibility in the employment process. Third, evidence collected from additional field interviews and secondary sources demonstrated that German trade unions were indeed divided in their opinions of the Hartz reforms, rather than united as traditional power resource theories suggest, and these divisions fell precisely in line with the theorized cleavage between workers with high and low employment expectations.. Moreover, these divisions extended into the electoral arena during the elections that followed the enactment of the Hartz reforms.

The ruling Red-Green coalition was voted out of office, with unionized, low expectation voters overwhelmingly punishing the coalition relative to their high employment expectation counterparts.

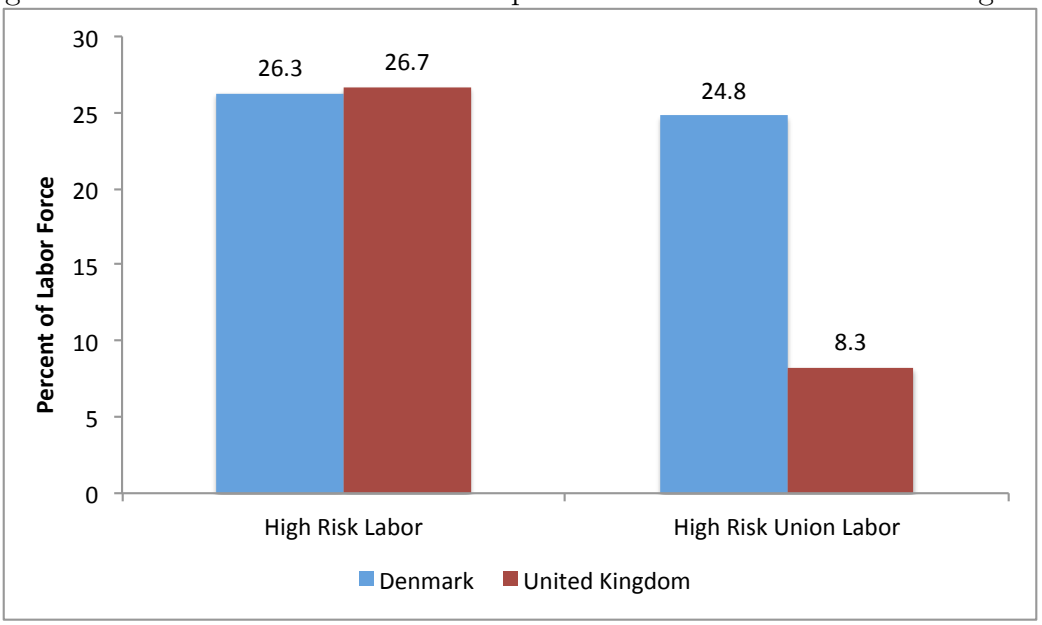
Looking to Additional Cases

Throughout the investigation of labor market reforms in post-industrial economies, this dissertation has presented evidence from a variety of different sources. Yet, the evidence presented is not without its limitations, particularly in the presentation of case studies and the examination of the causal mechanisms driving employment policy reforms. While 18 OECD countries were analyzed in the quantitative analyses, only the case of Germany was analyzed in depth. As this project moves forward, further case studies would provide additional evidence to flesh out the reform process and demonstrate the roles that employment expectations and a divided labor movement play in policy reforms.

Denmark and the United Kingdom are two cases that could be used for future structured comparisons to better understand the political underpinnings of the policy process. Both countries have experienced dramatic labor market reforms in the last two decades and offer critical variation on key explanatory variables. In addition to undergoing substantial reforms, both countries exhibited several important similarities. First, both countries were undergoing transitions to leftist governments at the time of their respective reforms. In Denmark, the Social Democrats had come to power for the first time in over a decade, while the UK was ending the Thatcher era and beginning the leadership of New Labour. Second, both parties came to power with the intent to reform economic and social policies. When the Social Democrats took over the leadership of the Danish parliament in 1993, unemployment had hit historic levels and risen to 10.7%. At 7%, the unemployment situation was less dire

in the UK when New Labour came to power in 1997. Nevertheless, the party had resolved to fight poverty through reforms that would end a culture of benefit dependency and "make work pay" (Daguerre 2004). Additionally, both countries had largely passive systems of unemployment benefits. Although the level of those benefits differed substantially[1], both governments sought to improve social and economic conditions through the activation of labor markets and boosting employment through policy reforms.

Figure 5.1: Risk and Union Membership in Denmark and the United Kingdom



Note: Data is represented of the year reforms were enacted in Denmark (1993) and the UK (1997). Source: OECD (2008*a*)

When examining the key explanatory variables espoused in this dissertation, Denmark and the UK exhibit yet another similarity as well as a critical difference. Looking

[1]In 2001, the average net income replacement rate of unemployment insurance benefits was 68% in Denmark and 54% in the UK (OECD 2010).

at the distribution of employment expectations in Figure 5.1, both countries have a similar proportion of high risk workers. Using sector of employment as a proxy for risk, approximately 26% of each country's labor force is in the manufacturing sector, or high risk employment. However, looking at the proportion of high risk *union* labor, the countries are dramatically different. While 25% of Denmark's labor force is is both unionized and in high risk employment, these same characteristics apply to only 8% of workers in the UK. Thus, the UK has a much smaller contingent of workers that are most likely to electorally punish governments for policy reforms that shift employment responsibility onto individuals. As I will now detail, the policy reforms in Denmark and the UK developed along divergent path and in accordance with such disparate distributions of high risk union labor.

Employment Policy Reforms in Denmark

Prior to the 1990s, the Danish welfare state was characterized by generous unemployment benefits and passive employment policies. In order to receive unemployment insurance, workers needed to engage in qualifying employment for twelve months. If an insured worker lost her job, she received benefits that replaced her income at a rate of 90%. Moreover, these benefits had a potentially unlimited duration. So long as the unemployed actively sought work, the only limitation on receiving benefits was that a worker had to be employed for at least six months over the previous three years (Larsen 2005). Although this limitation could end a worker's benefits in theory, this was rarely the case in practice because active labor market policies were used to renew workers' benefit entitlements. Specifically, positive activation policies such as job training and job creation schemes were designed to temporarily employ workers for a period of at least six months, which made them again eligible to receive unemployment insurance. Put differently, the primary purpose of activation policies was to preserve a worker's income, rather than permanently reintegrate them into the

labor market. This transition between unemployment and temporary work through activation policies was known as the "benefit carousel" and could go on indefinitely (Kvist, Pedersen & Köhler 2008).

As a result of the high income replacement rate and potentially unlimited duration of benefits, workers did not have strong incentives to break the cycle of the benefit carousel. Unemployment steadily rose throughout the 1980s, placing an increasing fiscal burden on the Danish government. When unemployment rose above 10% in 1993, the government acted to address the problem through the reform of employment policies. The changes were legislated through labour market reforms I (1994), II (1996), and III (1999), as well as the Social Assistance Act of 1997, which together developed what is now known as the Danish model of flexicurity (Torfing 1999). The reforms were designed to reduce unemployment through a "golden triangle" of three core concepts: flexible regulation of hiring and firing in the labor market, generous unemployment insurance policies, and active labor market policies that stressed new rights and obligations for Danish workers (Madsen 2008).

The reforms had little effect on the level of unemployment insurance benefits and the replacement rate remained at 90%.[2] What the new policies changed markedly, however, were the other benefits that workers became entitled to and the obligations that workers had to meet in order to receive them. Most important, the defining feature of the reforms was the recasting of positive activation policies as both a right and obligation of employment. No longer a tool to assist workers in renewing their benefit eligibility, employment is now guaranteed through enrollment in positive activation programs to all Danish workers who have been on benefits for longer than six months. Yet, enrollment in these programs is not only a right, but also an obligation. If a

[2]This replacement rate only applied to low income earners due to the existence of a maximum monthly benefit. Consequently, the average net replacement rate was approximately 63% (Kvist, Pedersen & Köhler 2008).

worker refuses to participate after a specified period of unemployment, she could be temporarily or permanently ineligible to receive unemployment insurance benefits.[3]

Regarding negative activation, Danish workers must fulfill a number of obligations to avoid the reduction of benefits through sanctioning. Specifically, workers cannot choose to abstain from labor market participation, such as voluntarily leaving ones job without good reason or refusing to take up a new position, nor can they refuse to participate in positive activation measures. Such actions will result in the sanctioning of benefits for a period between three and ten weeks, depending on the number of prior sanctioning incidents. Other obligations include readiness to participate in the labor market and workers must actively search for employment in order to receive benefits. However, workers are not required to provide evidence of their job search unless a case worker suspects that a benefit recipient is not complying with this obligation. Finally, a worker's income status is protected for the first three months of unemployment and workers are not expected to take up any job that is not comparable to their previous employment. After that period, the definition of "suitable work" is expanded and workers must accept all jobs that they are capable of performing (Kvist, Pedersen & Köhler 2008).

Employment Policy Reforms in the United Kingdom

Labor market reforms in the United Kingdom took on a profoundly different nature than those in Denmark. In the early 1990s, the UK faced a troubled labor market. In addition to unemployment rates reaching over 10%, long-term unemployment presented a considerable problem. Those out of work for more than a year represented over a third of the unemployed, creating a high risk of falling into poverty for those

[3]The activation period begins at various points depending on an individual's position in the labor market. Currently, standard workers must participate after a year of unemployment, while younger workers must participate after only six months.

who lost their jobs (Nickel 1999). Prior to the labor market reforms enacted in 1995-1997, much of the unemployment problem was thought to be rooted in the passive nature of the benefit system. Unemployed workers received contribution-based insurance benefits for approximately ten months and indefinite income support after these benefits expired. Yet, workers had to meet relatively few obligations to receive these benefits. Workers were required to check in with the insurance office once every two weeks and to actively seek work while receiving unemployment insurance. However, the biweekly check-in was merely to establish a worker's presence, not verify search efforts, and workers who failed to comply were rarely sanctioned (Finn & Schulte 2008).

In 1995 and 1996, the government made a number of changes to the insurance system in order to address the unemployment problem, one of which was a transition to the flat-rate "Jobseekers Allowance" insurance benefit and a duration of benefit receipt that was reduced to six months. Importantly, one of the primary goals of the reforms was to change the passive nature of the system in the hopes of activating benefit recipients back into the labor market. Thus, the government increased the obligations that workers must meet in order to receive flat-rate benefits or, put differently, the government augmented negative activation policies. First, workers must now actively seek work every week and take additional steps to improve their probability of finding work. Second, workers must enter into a jobseeker's agreement, or responsibility contract, that details what steps the worker will take to become reemployed. If workers refuse to complete a jobseeker's agreement, they will not receive unemployment insurance benefits. Finally, workers are now subject to a much stricter sanctioning mechanism. Workers can be disqualified from receiving benefits for 2 to 4 weeks if they refuse to comply with the directions of a case worker, and a period of up 26 weeks if they voluntarily leave a job or refuse a job offer.

Beginning in 1997, the New Labour government sought to reduce unemployment and poverty by expanding on these activation policies. The administration of unemployment insurance benefits and job search assistance was consolidated with the creation of Jobcentre Plus, which allowed for increased monitoring of job search efforts. Rather than simply checking in, workers must present evidence of job search activities every two weeks in order to continue benefit receipt. Moreover, the conditionality of benefit receipt was extended to individuals beyond those directly claiming the benefits. Any individuals receiving assistance from the government, whether it be unemployment insurance, income support, or disability benefits, are required to meet the same obligations if they are deemed capable of working. Again, these changes were a core element in New Labour's strategy to alleviate poverty in the UK by reducing benefit dependency through employment (US081 2008).

The government also developed a new system of positive activation policies, known as the New Deals, in order to balance the increased demands placed on benefit recipients and ensure that, overall, the reforms provided "work for those who can and security for those who cannot" (DSS 1998). Depending on certain characteristics of the worker, these positive activation programs can potentially provide workers with benefits such as training and temporary or full-time job placement. However, access to New Deal programs is quite limited. Workers between the ages of 18 and 24 can gain access after six months of unemployment, but most workers are not granted New Deal benefits until they are out of work for 18 months (Finn & Schulte 2008). Moreover, most New Deal programs provide participants with more intensive guidance and counseling through caseworkers, but stop short of further measures such as training, education and job placement. As of 2006, approximately 0.3% of the UK labor force was participating in positive activation programs (OECD 2008*b*).

Comparing Shifts in Responsibility

Moving forward, further examination of employment policy reforms in Denmark and the UK will provide a considerable amount of evidence to strengthen this study. First, the inclusion of these cases demonstrates two very different paths of policy reforms and methods of restructuring how employment responsibility is distributed between workers and the state. Prior to the 1990s, both Denmark and the UK had largely passive unemployment insurance institutions that required few obligations of as a condition of benefit receipt. And while both countries desired to reform their labor market policies in an attempt to improve social and economic conditions, they took very different approaches to doing so. Looking at positive activation policies, the governments in both countries do not step in and take on a large share of employment responsibility until workers have been unsuccessful in their job searches for a specified period of time. However, that is where the similarities largely end. In Denmark, the government takes direct action to place workers on a path to employment, most often through vocational training or wage-subsidized job placements, and this action is taken after twelve months of unemployment . By contrast, the UK government takes on greater employment responsibility after 18 months and the initial assistance offered to workers consists of more intensive job-search counseling, only turning to policies more focused on training and direct placement as a final option.[4]

Changes in negative activation policies demonstrate an even greater difference between the two countries. Thinking of negative activation as policy tools that provide workers with incentives to find work through their own efforts, Denmark and the UK again have certain similarities. Both countries require the unemployed to be available for work as well as be actively seeking work, and the unemployed can

[4]In both countries, young workers are an exception to these conditions and receive assistance through positive activation after six months of unemployment.

have their benefits suspended through sanctioning if they fail to meet certain obligations. However, exactly what those obligations are is what makes the policies of each country so distinct. In Denmark, the primary incentive mechanism is the threat of a job, or at least placement onto a direct path to a job through positive activation. Individuals have little choice in the type or location of the work and their benefits will be withheld if they refuse to participate in the activation measure. In the UK, workers have a much longer list of obligations that must be fulfilled in order to avoid benefit sanctioning. These include biweekly meetings with the labor office in which workers must demonstrate evidence of job search activities, accepting and fulfilling all requirement designated in a personal responsibility contract, and taking any and all actions deemed necessary for employment by a caseworker.

To summarize, the employment policy reforms in both countries placed additional responsibilities on the unemployed. However, these responsibilities are much more extensive in the UK than Denmark. The employment responsibilities placed on governments changed as well, with both countries offering positive activation programs to those that cannot find work on their own. However, access to these policies is stricter in the UK and Denmark is much more willing to use policies that place workers on a direct path to employment. Just under 5% of the Danish labor force participated in positive activation programs in 2006, which is considerably higher than 0.3% in the UK (OECD 2008*b*). Consequently, reforms in the UK resulted in a much larger shift in employment responsibility away from the state and onto individual workers.

In explaining these differing shifts in employment responsibility, there is evidence to suggest that reforms in these two countries were shaped by both the influence of a divided labor movement and threat of electoral punishment by high risk workers. Despite Denmark's long history of extensive active labor market policies, the government could just as well have designed their reforms in a manner similar to that of Germany

and shifted employment responsibility to a much greater extent. One could even argue that more drastic reforms should have been more likely given Denmark's high level of unemployment. Yet the government chose to shift responsibility to a much lesser extent than the UK, whose unemployment problem was less severe. While the government could have enacted more drastic reforms, it knew that much of the public was favorable to the large role that the government played in ensuring employment for all workers (Torfing 1999). Additionally, workers were very well organized through labor unions, representing a stronger electoral threat to the government, and high risk workers in particular were well represented. Indeed, during the reform process, the low-skill union SID voiced a number of concerns, demonstrating that Danish unions are divided along lines detailed in this dissertation and that high risk union labor was involved in the reform process (Kvist, Pedersen & Köhler 2008).

Likewise, the UK could have also taken a potentially very different reform path. Given that the reforms had begun under the Conservative Party, New Labour could have easily reaped the employment benefits of the status quo policies and pinned the increased individual responsibilities on the previous government, or even repealed the new policies. Yet, they chose to further shift employment responsibility by increasing negative activation policies with the goal boosting employment to even higher levels. One explanation for this decision is that it involved minimal political risk due to the low levels of unionization amongst the high risk workers that the policies affected most. Moreover, the policy efforts of trade unions were and continue to be focused on minimum wage legislation, leaving few resources to be dedicated to employment policies (UU082 2008, UU081 2008). As this project is extended, a deeper examination of the role of trade unions and high risk labor in the policy process in Denmark and the UK will allow for a more complete understanding of responsibility shifting reforms.

Rethinking Work and Welfare

This dissertation has raised a number of new questions regarding the nature of social welfare and the various elements of reforms that determine how governments protect and assist the unemployed. In conclusion, I now draw attention to three areas that I believe merit further study. First, the primary goal of this dissertation has been to explain the transformation of employment policies in post-industrial economies. Structural change in the the welfare state is not a new topic and many scholars have examined how responsibility for insuring against risks has shifted increasingly toward individuals when considering both health and pension policies. Yet, few existing studies have examined how these changes have developed in labor markets, nor have they explained why various governments have taken such disparate paths in the reform of labor market policies. Employment is not only at the heart of the welfare state, but it is at the very core of modern society. If welfare state scholars strive to fully understand the relationship between work and the state, then much further study is needed to uncover the various mechanisms through which governments protect workers from risks, as well as how the interaction of risk, employment, and the welfare state is developing over time.

Second, trade unions have a well-documented history of playing a role in welfare state development. In the golden age of welfare state development, social partners in many countries agreed to compromises in which wage moderation was exchanged for more extensive social policies. There is little evidence of such compromises over the last two decades, however, and power resource theories have come to play a minimal role in recent studies of the welfare state. Even in Denmark, a country that over a century-long relationship between trade unions and the welfare state, the social partners were largely excluded from employment policy reforms. Nevertheless, as this dissertation has pointed out, there is considerable evidence that unions are

still very influential in social policy reforms as a collection of *individuals*, rather than institutions. The relative power of divisions within these workers could shape a number of other social policy outcomes, as well as have consequences for other political outcomes such as wage policies and elections.

Finally, while the focus of this dissertation has been on explaining shifts in employment responsibility, the political consequences of such policy reforms present a number of new questions in political science that must be addressed. The Germany chapter already demonstrated that voters are indeed willing to punish incumbent governments for reforms that increase the responsibility of individuals in the employment process. Yet, there is still much to understand regarding which policies are least desirable to workers and how strong the response to reforms could be. Are workers just as likely to punish governments for increasing job search demands as they are for imposing new benefit sanctions? Will workers respond more strongly to increases in benefit conditionality or reductions in unemployment insurance benefits? In short, many questions remain unanswered regarding the specific elements of reforms that are more or less likely to invoke a punishing response from workers. Answering these questions could have a substantial impact on the future development of employment policies and the strategies governments pursue in alleviating unemployment.

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Appendix A

ADDITIONAL MATERIAL FOR CHAPTER 2

Proofs

Begin with the following value function:

$$V = u[\alpha \cdot w\frac{1-t}{1+t} + (1-\alpha) \cdot P]$$

Using the budget constraint, t can be substituted out of the value function:

$$\frac{t \cdot w}{1+t} = A$$

$$w\frac{1-t}{1+t} = w - 2A$$

The value function can then be rewritten as:

$$V = u[\alpha \cdot (w - 2A - P) + P]$$

Assuming a well-behaved utility function in which $u' > 0$ and $u'' < 0$, and recalling that $\alpha = \gamma + (1-\gamma)(\phi + (1-\phi)A)$, we can maximize utility and solve for the optimal tax contribution:

$$\frac{\partial V}{\partial A} = u'[\alpha \cdot (w - 2A - P) + P] \cdot \left(\frac{\partial \alpha}{\partial A}(w - 2A - P) + \alpha(-2) \right)$$

By setting $\frac{\partial V}{\partial R} = 0$ and substituting for α, the optimal contribution can be derived:

$$A^* = \frac{w - P}{4} - \frac{\gamma}{2(1-\gamma)(1-\phi)} - \frac{\phi}{2(1-\phi)}$$

To avoid a corner solution, it assumed that $A^* > 0$ or:

$$w > P + \frac{2\gamma}{(1-\gamma)(1-\phi)} + \frac{2\phi}{(1-\phi)}$$

Result 1:

Assuming perfect job security and reemployability are not attainable:

$$\frac{\partial A^*}{\partial \gamma} = -\frac{1}{2(1-\gamma)^2(1-\phi)} < 0$$

$$\frac{\partial A^*}{\partial \phi} = -\frac{1}{2(1-\gamma)(1-\phi)^2} < 0$$

Result 2:

$$\frac{\partial^2 A^*}{\partial \gamma \partial \phi} = \frac{\partial^2 A^*}{\partial \phi \partial \gamma} = -\frac{1}{2(1-\gamma)^2(1-\phi)^2} < 0$$

Variables

Dependent Variable

Employment Responsibility: Individual preferences for the level of responsibility governments should take on in the employment process is measured on an 11 point scale. The question reads as follows: "Tell me on a score of 0-10 how much responsibility you think governments should have to ensure a job for everyone who wants one." The variable ranges from 0, which means it "should not be governments responsibility at all", to 10, which means it "should be entirely governments responsibility."

Independent Variables

Job Security: Job security is measured by asking respondents to rate the truthfulness of the statement "My job is secure" on a four point scale ranging from "Not at all true" to "Very true."

Reemployability: Reemployability is measured by asking respondents to answer the question "How difficult or easy would it be for you to get a similar or better job with another employer if you wanted to?" using an eleven point scale ranging from "Extremely difficult" to "Extremely easy."

Employment Expectations: This measure is created by first standardizing both *Job Security* and *Reemployability* to range between 0 and 1. These new measures are then combined using the mathematical definition of employment expectations provided in equation 2.8, creating a new variable that also ranges between 0 and 1.

Skill Specificity: Skill specificity is created by replicating the measurement procedure of Iversen and Soskice (2001) in deriving "s1". This variable leverages the ISCO-88 hierarchical occupational classification system, combined with data on the distribution of workers across occupational groups, to create a measure that is approximately defined by the proportion of all occupations which an occupational group contains relative to the proportion of the workforce that is in that occupational group. This measure of specificity is collected for each of 27 distinct occupational groups and then standardized by the occupational group's skill level. Details for replicating the procedure can be found at: http://www.people.fas.harvard.edu/ iversen/SkillSpecificity.htm.

Skill Level: Skill level is a four category variable defined by the ILO and each worker's level of skills is assigned based on her occupation. Using ISCO-88 1-digit occupation codes, all workers fall into one of nine categories. Occupations coded as 1 or 2 are have a skill level of 4, those coded as 3 have a skill level of 3, those coded as between 4 and 7 have a skill level of 2, and those coded as 8 or 9 have a skill level of 1.

Service Sector: Each worker can be classified as working in a specific sector of the economy using 2-digit NACE industry classifications. Industries with codes greater

than or equal to 50 are defined as belonging to the service sector (1), while those less than 50 are defined and manufacturing and agriculture (0).

Expectations Index: This variable is defined using both *Skill Level* and *Service Sector*. The variable has eight categories, ranging from 1 to 8. The values increase with skill level and the values are higher for service workers within each skill level. Manufacturing workers with a skill level of 1 are given the lowest value in the index (1), while service workers with a skill level of 4 are given the highest value (8).

High Expectations: This dichotomous variable is defined using both *Skill Level* and *Service Sector*. Workers with high employment expectations (1) are defined as those with a skill level of 4, regardless of sector, and those in the service sector with skill levels of 3. Workers with low employment expectations (0) are defined as those with a skill level of 1 or 2, regardless of sector, and those outside of the service sector with skill levels of 3.

Insider Status: Respondents are defined as insiders if they work 30 hours per week or more and are not employed under a temporary contract.

Outsider Status: Respondents are defined as outsiders if they are unemployed, in paid employment but work less than 30 hours per week, or are employed under a temporary contract.

Upscale Status: Respondents are defined as upscale if they are self-employed or hold a managerial occupation, which is defined by an ISCO-88 1-digit code of 1 or 2.

Part-Time Worker: Respondents are defined as part-time workers if they work less than 30 hours per week.

Unemployed Worker: Respondents are defined as unemployed if they identify themselves as "Unemployed and actively looking for a job" or "Unemployed, wanting a job but not actively looking for a job."

Self-Employed Worker: Respondents are defined as self-employed if they identify themselves as such.

Non-Worker: Respondents are defined as non-workers if they do not identify themselves as either in paid work or unemployed.

Education: Education is measured by asking respondents to answer the question "What is the highest level of education you have received?" The variable ranges from 0 ("Not completed primary education") to 6 ("Second stage of tertiary").

Income: Income is defined as total household post-tax income and is measured on an ordinal scale from 1 to 10.

Ideology: Ideology is measured by asking respondents to place themselves on a left-right political scale, ranging from 0 (left) to 10 (right).

Age: Age is measured directly as the age of the respondent.

Gender: Male respondents are coded as 0, female respondents are coded as 1.

Additional Information Regarding the Quantitative Analyses

Note 1: All analyses using data from the European Social Survey (ESS) include observations from the following countries: Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.
Note 2: In all analyses presented in this chapter, estimates were derived using OLS. Estimates of the determinants of preferences for redistribution were also modeled using ordered logit and ordered probit. The results of these analyses did not produce any findings that were substantively different from those presented in the chapter.

Table A.1: Summary Statistics

Variable	**Mean**	**Median**	**Std. Dev.**	**Min.**	**Max.**
Employment Responsibility	6.38	7	2.54	0	10
Job Security	2.90	3	1.00	0	4
Job Security (Estimated)	2.81	2.82	0.20	2.23	3.43
Reemployability	4.58	5	2.76	0	10
Reemployability (Estimated)	4.53	4.51	0.43	2.38	5.34
Expectations Index	4.63	4	2.22	1	8
High Expectations	0.37	0	0.48	0	1
Skill Specificity	0.43	0.31	0.43	0.05	3.32
Skill Specificity (Absolute)	0.98	0.93	0.85	0.10	6.64
Insider	0.35	0	0.48	0	1
Outsider	0.17	0	0.38	0	1
Upscale	0.20	0	0.40	0	1
Income	5.74	6	2.75	1	10
Ideology	5.01	5	2.06	0	10
Age	48.27	47	18.55	15	123
Gender	1.53	2	0.50	1	2
Unemployed Worker	0.05	0	0.22	0	1
Self-Employed Worker	0.09	0	0.28	0	1
Part-Time Worker	0.14	0	0.35	0	1
Non-Worker	0.40	0	0.49	0	1

Appendix B
ADDITIONAL MATERIAL FOR CHAPTER 3

Union Membership and Voter Turnout

One of the primary claims of this chapter is that unionized workers should have a greater influence over policy outcomes because they pose a greater electoral threat to incumbent governments. In particular, they pose a greater electoral threat because they are more likely than non-unionized workers to participate in elections. Table B.1 tests the relationship between union membership and voter turnout using survey data from 13 European countries.[1] The dependent variable is derive from a question asking respondents whether they participated in the previous national election.

Most relevant of the results is the coefficient on union membership, which is both positive and statistically significant. Thus, this analysis supports the claim that unionized workers are indeed more likely to vote than their non-unionized counterparts. Regarding other statistically significant labor force variables, unemployed workers are less likely to vote, while part-time workers are more likely. Several other variables also have positive coefficients and achieve statistical significance, including skill level, education, income and age.

[1] Countries included are Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

Table B.1: Determinants of Voter Turnout

Union Membership	0.2084***
	(0.0415)
Skill Level	0.0751***
	(0.0182)
Education	0.1167***
	(0.0188)
Income	0.0438***
	(0.0063)
Ideology	0.0072
	(0.0091)
Age	0.0204***
	(0.0020)
Gender	0.0195
	(0.0221)
Unemployed Worker	-0.1961**
	(0.0968)
Self-Employed Worker	-0.0167
	(0.0424)
Part-Time Worker	0.0843***
	(0.0290)
Non-Worker	-0.0407
	(0.0484)
Politically Informed	0.0868***
	(0.0218)
Constant	-0.8013***
	(0.1288)
No. of Cases	17166
$PseudoR^2$	0.12

* p<0.10, ** p<0.05, *** p<0.01

Note: Survey data from ESS (2008). Estimates are derived using probit estimation with country fixed effects. Standard errors are clustered by country.