



# Strong Governments, Precarious Workers: Labour Market Policy-Making in the Era of Liberalisation

Philip Rathgeb

Thesis submitted for assessment with a view to  
obtaining the degree of Doctor of Political and Social Sciences  
of the European University Institute

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European University Institute  
**Department of Political and Social Sciences**

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## **Abstract**

Outsiders are perhaps the clearest losers of the neoliberal era. They are either unemployed or have atypical jobs, thereby often lacking adequate coverage in such fundamental areas as wage bargaining, job security, and welfare benefits. The growing number of outsiders in advanced capitalist political economies is associated with several trends that are adverse in their implications for democracy and society: declining voter turnout and political resignation, diverging life chances and growing poverty as well as poor health, and even an increased relative risk of suicide. The willingness of a state to protect workers from the risks of being unemployed or atypically employed is thus of great political and social significance.

Why, then, did some European welfare states protect outsiders better than others, given the common constraints of the neoliberal era? My PhD thesis examines this question through a comparative investigation of labour market policy change in Austria, Denmark, and Sweden over the past three decades, complemented with shadow case studies of Italy and Spain. A historical reconstruction of reform trajectories in similar small states with different distributive outcomes allows us to test the explanatory power of different theoretical approaches. Building on primary and secondary sources as well as evidence from 46 interviews with policy-making elites, this thesis follows a qualitative methodological approach that combines co-variation analysis, causal process tracing and counterfactual arguments.

Challenging conventional theories, the thesis finds that the enhanced protection of outsiders rests on the interaction between inclusive trade unions and politically weak governments. High levels of inclusiveness continue to provide trade unions with an acute interest in the protection of outsiders. But governments of all partisan colours prioritised fiscal consolidation over the social protection of outsiders in the neoliberal era. When they had a united majority of seats in parliament, they were therefore strong enough to pursue a unilateral reform strategy that excludes unions to the detriment of outsiders. When they were weakened by intra-coalitional divides or a hung parliament, on the other hand, they negotiated political deals with trade unions to mobilise an extra-parliamentary channel of consensus mobilisation. This kind of weakness was instrumental in forcing governments to compensate outsiders for economic uncertainty. The core argument of this thesis can therefore be summarised as follows: the weaker the government, the stronger the capacity of inclusive trade unions to enhance the protection of outsiders through an extension of job security regulations, unemployment benefit entitlements, and active labour market policy spending. This finding calls into question the electoral responsiveness of national governments – and thus political parties – to the social needs of an increasingly numerous group of precarious workers.

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*“Unemployment is an integral part of the normal capitalist system.”*

Michal Kalecki (1971): Selected Essays on the Dynamics of the Capitalist Economy,  
1933-1970.

*“Down the slippery slope, sunk without trace, utterly destroyed. Order and cleanliness, gone;  
work, material security, gone; making progress and hope, gone. Poverty is not just misery,  
poverty is an offence, poverty is a stain, poverty is suspect.”*

Hans Fallada (1932 [2016]): Little Man, What Now? [Kleiner Mann, was nun?].



## **I. The Protection of Outsiders in the Era of Liberalisation**

## Introduction

Outsiders are perhaps the clearest losers of the neoliberal era. They are either unemployed or have atypical jobs, thereby often lacking adequate coverage in such fundamental areas as wage bargaining, job security, and welfare benefits.<sup>1</sup> The growing number of outsiders in advanced capitalist political economies is associated with several trends that are adverse in their implications for democracy and society: declining voter turnout and political resignation (Schäfer 2013), diverging life chances and growing poverty (Tomlinson/Walker 2012) as well as poor health, and even an increased relative risk of suicide (Nordt et al. 2015). The willingness of a state to protect workers from the risks of being unemployed or atypically employed is thus of great political and social significance.

The emergence of outsiders as a particular form of economic inequality can be traced to the retreat of the state from its political commitment to ensure full employment in response to the capital accumulation crisis of the late 1970s (Harvey 2010, Streeck 2011). Faced with rising unemployment rates, during the 1980s, the welfare states of Western Europe expanded exit routes out of the labour market such as early retirement schemes and incapacity benefits, especially for people who found themselves excluded from the rapidly growing service sector due to low or obsolete skills, chronic health problems, and weak labour demand (Ebbinghaus 2006). In this context, labour supply management by means of pre-retirement options took the place of Keynesian aggregate demand management.

With the tightening constraints of fiscal austerity, however, European welfare states of the 1990s no longer had the public resources available to ease the situation of mass unemployment through ‘labour shedding’ strategies. As a result, the main option left to adjust national models of capitalism in the interest of employment performance was *liberalisation*; including the differentiation of wage levels, the deregulation of employment contracts, as well as cuts in social security. One way of conceptualising this transformation in welfare statehood is the notion of ‘activation’, whereby the provision of social security for the unemployed has become conditional on active job-search, the willingness to take up any job deemed ‘suitable’, or participation in training (Clasen/Clegg 2006, 2011; Bonoli 2010). Given the return of precarious employment and welfare standards, the active re-configuration of labour market institutions to social needs of outsiders has become crucial to the social cohesion and political legitimacy of European welfare states.

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<sup>1</sup> Due to its prominence in the literature, I will stick to the term ‘outsiders’ for workers who are either unemployed or atypically employed in what follows (Rueda 2006, 387).



Despite the common reform trajectory described above, political actors could still shape the employment and welfare standards of outsiders in different ways. That is to say, even though the neoliberal transformation of global capitalism pointed to a general expansion of market mechanisms and economic inequality over time (Streeck 2009, Baccaro/Howell 2011), the political practise of liberalisation at the national level has resulted in divergent distributive outcomes for outsiders (Emmenegger et al. 2012, Thelen 2014). Therefore, it can be reasonably argued that the common liberalisation of Keynesian post-war capitalism did not rule out variation in the reform trajectories of national welfare states, nor did it imply convergence in the redistributive capacities of European public policy regimes.

One example of this lack of convergence can be seen in the case of Austria, which deviated from the Continental European adjustment path of “pronounced dualisation” between workers with stable employment (‘insiders’) versus unemployed and atypically-employed workers (‘outsiders’) (Obinger et al. 2012). In fact, the Austrian policy output ran directly counter to the reinforcement of status divisions in such diverse areas as job security arrangements, social insurance coverage, and active labour market policy spending (ibid.). Outsider-oriented patterns of liberalisation appear puzzling in a Conservative prototype with a segmented and male-dominated institutional legacy. Existing theory would expect otherwise. Interestingly, by contrast, the reform trajectory in the Social <Democratic prototype of Sweden differed profoundly from that of Austria: Sweden substantially curtailed both the coverage and generosity of benefit entitlements, while deregulating the job security of temporary workers at the same time (Davidsson 2011). As I will show, labour market policy has therefore become more dualistic in Sweden than in Austria. By contrast, Denmark attracted widespread attention for undermining social divides with a policy combination of inclusive social security, human capital formation, and flexible job security arrangements. During the 2000s, however, the security-related components of this much-heralded ‘Flexicurity model’ came under strain, while legislative interventions additionally curtailed the long-term power base of the union movement.

Despite the many similarities between their political economies – small size, trade openness, corporatist legacy, relative macroeconomic success, recent periods of centre-right coalitions, and mature welfare states – the reform trajectories of Austria, Denmark, and Sweden not only differed markedly but also evolved in very counterintuitive directions. Conventional theories of partisanship (Rueda 2007, Huo 2009, Häusermann 2010) and producer group coalitions (Palier/Thelen 2010, Martin/Swank 2012, Thelen 2014) generally suggest continued regime variation between Social Democratic-Nordic and Conservative-Continental welfare

states in the distributive outcomes of economic adjustment. These two dominant lines of research in comparative political economy, however, do not hold with respect to the puzzling policy outputs observed in three small states of Western Europe. Austria and Sweden, for example, crossed levels of outsider protection in opposite directions, while the recent Danish reform trajectory underlying the erosion of Flexicurity has also been less ‘solidaristic’ relative to the Austrian case.

### **Research question and argument in brief**

The brief presentation of three nationally distinct political responses to the distributional tensions of the neoliberal era poses a general question of interest to academia and society alike: *Why do some European welfare states protect outsiders better than others?* My dissertation examines this broad question through a comparative investigation of reform trajectories in the area of labour market policy. The rationale for this choice is that labour market policy represents a crucial public policy area that may mitigate, reproduce, or reinforce the socially corrosive effects of capital liberalisation on the weakest segments of society (Emmenegger et al. 2012).

This is evident for two reasons. First, as Rueda notes, labour market policy is the most redistributive area of modern welfare states as a result of the fact that it targets the unemployed in particular – that is, the core of outsiders (Rueda 2015, 297; see also Korpi/Palme 2003). Clearly, it thus represents the main buffer between the effect of unemployment on economic poverty, political alienation, and social marginalisation. The OECD, for example, highlights that the provision of unemployment support plays a major role in limiting growing levels of market-income inequality, albeit to a declining extent in the past two decades (OECD 2011; 31, 38). In a similar vein, a number of studies find that active labour market policy is the most pertinent tool for combatting poverty among the low skilled (Auer et al. 2008, Konle-Seidl 2008, Eichhorst/Konle-Seidl 2008, Rovny 2014). Second, labour market policy impinges on and interacts with the institutional landscape of collective bargaining and minimum wages (Nickell/Layard 1999, Eichhorst/Marx 2012). Cuts in unemployment benefits, for example, usually form part of a larger political strategy to create low-paid jobs by reducing the reservation wage, thus paving the way for the growth of in-work poverty. Taken together, labour market policy is an essential area to study the classic political problem of how to reconcile the distributional tension between economic competitiveness and social stability that emerges from capitalist market expansion in national sovereign democratic states (Polanyi 1944 [1957], Streeck 2009).

The dependent variable includes employment protection legislation (EPL), unemployment insurance (UI), and active labour market policy (ALMP). The main reason for investigating change in all three dimensions is that they closely interact with each other in shaping the material situation and employment prospects of outsiders (Eichhorst/Konle-Seidl 2006). UI and ALMP are distributive policy areas in that they provide income support and re-integration programmes for the unemployed. Conventional welfare state research examines these two policy dimensions to find out how policy-makers react to the emergence of post-industrial labour markets (Clasen/Clegg 2011). Yet, as Crouch/Keune (2012) rightly point out, welfare states not only react to changing risk patterns emanating from post-industrial work and family patterns, but also co-shape them by regulating the ‘hiring and firing’ conditions for different employment contracts. Employment protection legislation may also exist as a functional equivalent to unemployment benefits in the provision of economic security (Locke/Thelen 1995, Bonoli 2003). For example, the maintenance of strict employment protection for regular workers in combination with residual unemployment support reflects the core institutional setting of dualisation between insiders and outsiders in the Mediterranean and Continental political economies (Palier 2006). The direction of institutional change in the three areas described above has thus a profound impact on the distributive character of economic liberalisation in a given capitalist regime (OECD 2008, 2011, 2015; Thelen 2014).

To explain why political actors in some European welfare regimes protect outsiders better than others, I compare the reform trajectories of Austria, Denmark, and Sweden through a three-pronged methodology of systematic process analysis that combines co-variation design, causal process tracing and counterfactual analysis. The reason for concentrating on these three countries in particular is that they represent similar corporatist legacies of economic governance and three different reform trajectories. Following a most-similar systems design, the three cases are thus picked from among the small states of Western Europe that are particularly challenged by the vagaries of global capitalism and have small populations with tightly knit policy-making elites (Katzenstein 1985).

Challenging conventional explanations, I argue that the variation observed between Austria, Denmark, and Sweden does not result from differences in partisanship or producer group coalitions, but from differences in the power-distributional interaction between trade unions and governments. High levels of inclusiveness continue to provide trade unions with an acute interest in the protection of outsiders. But the causal significance of union preferences declined in the course of the past three decades, as the domestic balance of class power shifted from labour to capital across all advanced capitalist political economies of the Western world.

Increasing flexibility demands for capital accumulation on the one hand, and decreasing public resources available for risk protection on the other, gradually constrained the policy-making autonomy of national governments. They have therefore faced a structural incentive to prioritise the policy preferences of employers over the social protection of outsiders. When they had a united majority of seats in parliament, they were therefore strong enough to pursue a unilateral reform strategy that excludes unions to the detriment of outsiders. When they were weakened by (i) intra-coalitional divides or (ii) a hung parliament, on the other hand, they negotiated political deals with trade unions to mobilise an extra-parliamentary channel of consensus mobilisation. This kind of weakness was instrumental in forcing governments to compensate outsiders for economic uncertainty.

The core argument of this thesis can therefore be summarised as follows: the weaker the government, the stronger the capacity of inclusive trade unions to enhance the protection of outsiders through an extension of job security regulations, unemployment benefit entitlements, and active labour market policy spending. My claim draws on findings from the literature on social pacts, arguing that the reliance of governments on labour-inclusive policy concertation is often a political choice of weak governments to mobilise an extra-parliamentary channel of consensus mobilisation (Baccaro/Lim 2007, Baccaro/Simoni 2008, Afonso 2013). However, my argument deviates from these theories insofar as it attempts to explain the substantial content of institutional change, and not the process of negotiated reform *per se*.

### **Defining varieties of liberalisation and outsider protection**

Liberalisation refers to the expansion of market mechanisms in the allocation of material resources and life chances as the political response to the crisis of post-war democratic capitalism (Streeck 2009, Harvey 2010). Faced with rising inflation in the late 1970s, Anglo-American governments put an end to the Keynesian class compromise and initiated the evolutionary stages of capital liberalisation (Hacker/Pierson 2010). The neoliberal era took off with the rise of monetarism (late 1970s), followed by a gradual departure from the commitment of the state to provide full employment (1980s), and continued with fiscal consolidation in tandem with the deregulation of capital markets (1990s) (Streeck 2011). National trajectories of liberalisation had in common a conversion of the function of labour market institutions from market-constraining social rights towards market-conforming economic competitiveness (Baccaro/Howell 2011). Central to this process was the removal of legally binding constraints on employers' strategies of capital accumulation. In terms of concrete institutional changes, this political practice implied a (partial) deregulation of restrictions in statutory employment

protection and the re-commodification of labour through activation strategies targeted at people out of work.

The socially corrosive effects of liberalisation have become most visible in the growing emergence of workers in precarious employment and welfare standards – that is, the so-called ‘outsiders’. Following Rueda’s definition (2006, 387), the term outsiders refers to workers that “are either unemployed or hold jobs that are characterised by low levels of protection and employment rights, lower salaries, and precarious levels of benefits and social security regulations”. The literature on ‘new social risks’ pointed to the social groups that face the highest probability of being outsiders on post-industrial labour markets: first, *low-skilled* workers in both the manufacturing and service sectors are exposed to greater (long-term) unemployment risks and flexibility demands; second, *female* workers, largely irrespective of skill levels, are often pushed into atypical employment contracts with reduced working hours to reconcile work and family life; finally, *young* workers face difficulties in entering the primary labour market due to weak labour demand and the deregulation of fixed-term employment (Taylor-Gooby 2004, Bonoli 2007, Häusermann/Schwander 2015).

Liberalisation, however, took divergent forms and distributive outcomes in different national contexts due to the mediating impact of the interplay between historically evolved institutions and domestic politics. Kathleen Thelen famously animates this empirical identification of different regimes of social solidarity, arguing that the common trend of liberalisation did not rule out institutional variation in the redistributive capacities of national public policy regimes (Thelen 2014). All the same, her understanding of social solidarity is markedly different from traditional notions of de-commodification or social citizenship, and this perhaps best explains why she observes pronounced cross-country variation. Drawing on a vast body of welfare state scholarship, Thelen claims that the institutional heritage of the industrial post-war era ceased to produce ‘solidaristic’ effects in a *post*-industrial environment. In this perspective, ongoing high levels of social solidarity require an institutional re-configuration of European welfare states towards more emphasis on market-conforming human capital formation and universal minimum benefit entitlements. This argument relates to the perceived mismatch between post-industrial labour market change and industrial welfare arrangements that can be said to have caused a declining scope in and generosity of risk protection (Hacker 2004). The erosion of manufacturing employment implied greater demands for wage differentiation and (re-)training, given the lower productivity growth potential and higher qualification requirements of the service sector. At the same time, the erosion of the male breadwinner model and demographic ageing called for state support in care services,

while the concomitant rise of atypical employment contracts reinforced problems of in-work poverty and insufficient benefit entitlements.

In terms of empirical outcomes, Thelen finds three different varieties of liberalisation in the areas of industrial relations, vocational training and labour market policy. From a distributive point of view, her typology resonates in characterising Esping-Andersen's three worlds of welfare capitalism: social solidarity in Scandinavia, status protection for a (shrinking) manufacturing sector in Continental Europe, and deregulation across-the-board in Anglo-American countries. Table 1.1 summarises her typology with a focus on my dependent variable: labour market policy.

Table 1.1: Varieties of liberalisation in labour market policy.

	<b>Embedded Flexibilisation</b>	<b>Dualisation</b>	<b>Deregulation</b>
Country examples	Scandinavian CMEs (Denmark)	Continental CMEs (Germany)	LMEs (USA)
Employment protection	Low for all	High for insiders, low for outsiders	Low for all
Generosity of unemployment protection	Generous and homogenous	Earning-related	Residual and homogenous
Inclusiveness of unemployment protection	High	Medium	Low
Spending on active labour market policy	High	Medium	Low

Notes: This typology draws on Thelen (2012, 2014).

First, liberalisation through embedded flexibilisation describes a combination of policy choices that may be subsumed under the (admittedly vague) concept of 'Flexicurity' (Clasen/Viebrock 2009, Burroni/Keune 2011). Referring to the case of Denmark, it combines inclusive social security and re-integration programmes ('security') with liberal job security arrangements ('flexibility'). In this strategy of supply-side solidarity, risk collectivisation rests on welfare state support to enable outsiders finding poverty-free jobs and receiving security in the event of joblessness (Baccaro/Locke 1998). Second, liberalisation through dualisation describes increased differentiation between insiders and outsiders in the three dimensions of the

dependent variable. Referring to the case of Germany, the maintenance of job and social security for insiders goes hand-in-hand with institutional deregulation for outsiders. Finally, liberalisation through deregulation describes the full dismantling of job security and welfare arrangements, while providing no compensation for outsiders through an expansion of active labour market policies. Referring to the case of USA, it implies an individualisation of risks at the expense of labour as a whole.

Following Thelen's definition of 'embedded flexibilisation', I conceptualise an expansion in the protection of outsiders as a set of institutional changes consisting of three elements: (1) the extension of benefit entitlements to workers with employment contracts who previously lacked coverage, (2) the expansion of spending on active labour market policy and (3) the homogenisation of statutory employment protection between regulations for permanent and temporary workers. Conceived in this way, 'embedded flexibilisation' enhances the social security of outsiders in the event of unemployment, while smoothening the chance of re-employment into the primary labour market and impeding the growth of precarious employment contracts at the fringes of the labour market.

### **Conventional explanations**

Why should national models of capitalism diverge in their scope of risk protection, despite powerful structural pressures for cross-national convergence? International competition, European integration, de-industrialisation, demographic ageing, 'financialisation' and declining growth of the real economy, *inter alia*, pose undeniable constraints on the domestic capacity of national sovereign democratic states to reconcile the distributional tension between social solidarity and capital accumulation (Garrett 1995, Rhodes 1996, Kaufmann 1997, Pierson 1998, Scharpf 2000, Alber 2002, Stockhammer 2004). Simplifying somewhat, the principal empirical studies of comparative political economy offer two different theoretical approaches to the question of cross-national variation in risk protection, which can be summarised under the rubric of (1) producer group theory versus (2) partisanship theory.

The first theoretical approach – producer group theory – highlights the role of employers and unions in shaping interest group coalitions to achieve their preferred policy output. Leaving aside important details for the moment, the primary focus of this research agenda is to explain how different strategies of interest group action emerge in the face of a given set of domestic institutions and power relationships. Recent contributions have placed strong emphasis on the inclusiveness of producer groups as the dominant cause of variation in the protection of outsiders (Martin/Thelen 2007, Martin/Swank 2012, Thelen 2014), whereas

contemporary classics were more attuned to differences in class power (Korpi 1978, Esping-Andersen 1985).

The second theoretical explanation – partisanship theory – emphasises the vote-seeking action of political parties. Putting voters and elections front and centre, this research agenda looks at how parties respond to electoral demands against the backdrop of fiscal constraints and institutional legacies. Central to electoral theory is the assumption that differences in the electoral alliance behind party coalitions reflect the dominant cause of variation in the protection of outsiders (Rueda 2007, Huo 2009, Häusermann 2010, Beramendi et al. 2015). In sum, conventional theories look at either interest groups or political parties. Neither approach, however, allows for an interaction between these two types of agencies. I will now review these conventional explanations to show, first, that my empirical puzzle empirically contradicts the theoretically derived predictions of conventional explanations and, second, delineate my alternative argument from these two lines of research.

### *Producer Group Theory*

The classic interpretation among producer group theory is that redistributive state action hinges on labour's power resources; that is, the relative strength of the alliance between Social Democratic parties and union movements (Korpi 1978, 1983). According to this power resource approach, differences in labour power explain variation in welfare state size. A central assumption is that industrial welfare states are not only a product of working class mobilisation, but, once in place, also turn into a power resource *per se*, because social security arrangements have a de-commodifying impact on labour (Esping-Andersen 1985, 1990). It follows that the power resource approach assigns employers the role of profit-seeking antagonists against the welfare state, given the strict relationship between labour power and politically achieved social rights (Korpi 2006; see also Streeck 1997).

The general claim that employers are hostile to welfare states evoked a revisionist counter-attack in the institutionalist study of national capitalisms. At its most basic, the literature along the lines of the varieties of capitalism framework (VoC) linked institutional variation to differences in national production strategies of firms, and not to the historically specific strength of labour *vis-à-vis* capital (Hall/Soskice 2001). Accordingly, centralised business associations help recalibrate domestic welfare arrangements with a view to fostering skill development and competitive advantages, thereby creating opportunities for states to draw on cross-class cooperation and pursue social investment policies (Swenson 2002, Mares 2003). All-encompassing neo-corporatist policy-forums – composed of centralised peak level



associations and the state – are thus posited to be the necessary condition for protecting the most vulnerable social segments of society (Martin/Swank 2012, Martin/Thelen 2007).

Yet, the firm-centred argument of the VoC framework does not hold with respect to the forceful demands of employers’ associations for market-clearing adjustment strategies in the neoliberal era in general (Hassel 2009) and the forceful escape of Swedish employers from corporatist bargaining arrangements in particular (Lindvall/Sebring 2005). If anything, in fact, a growing amount of contemporary literature powerfully contests the central role assigned to organised employers by VoC approaches, arguing that business consented to welfare state expansion only in the face of political constraints in order to pre-empt further market correction (Hacker/Pierson 2002, Korpi 2006, Baccaro/Howell 2011, Paster 2012, Emmenegger 2014).

Unlike the revisionist literature, Thelen (2012, 2014) claims that the protection of outsiders – or “embedded flexibilisation” as she termed it – rests on the capacity of unions to incorporate the growing number of service-sector workers into their traditionally manufacturing-dominated membership base. Here, encompassing unions are seen as the only type of organisation that can mobilise social support for redistributive state action on behalf of outsiders and new social risk groups. By contrast, shrinking trade unions in economies with large industrial outputs in countries such as France and Germany prioritise the interests of manufacturing core workers (Palier/Thelen 2010). Accordingly, the second necessary condition of “embedded flexibilisation” is the capacity of the state to coerce peak level associations into an agreement when tripartite negotiations appear deadlocked or employers are simply unwilling to participate in corporatist bargaining. This variable of state capacity resonates with the “shadow of hierarchy” argument, providing governments with legislative and executive tools of economic governance (Scharpf 1997).

Central to Kathleen Thelen’s coalitional theory is the claim that the inclusiveness of national peak level associations is the key factor in explaining institutional variation: the more encompassing, the more egalitarian the policy output. While the presence of centralised business associations remains important in her account, Thelen places stronger emphasis on high levels of labour organisation than revisionist contributions inspired by the VoC framework. Therefore, accordingly, we should expect more ‘solidaristic’ reform trajectories in Scandinavia than in Austria. Yet, this is not the case: today, outsider protection through labour market policy change is stronger in Austria than in Sweden, while Denmark has started to move from egalitarian levels into a (modest) dualist direction in the past decade.

Thelen’s work was pioneering in highlighting the relationship between the distributive outcomes of liberalisation and the mobilisation of producer group coalitions. Her approach

appears persuasive in explaining continued regime variation in wage inequality, given the relative membership strength of Scandinavian peak level associations *vis-à-vis* their Continental European counterparts. Yet, my empirical focus is on public policy, and not industrial relations. Thus, the membership strength emphasised by Thelen (2014) or the administrative power position derived from the *Ghent* system highlighted by Clegg (2012) does not necessarily translate into strong union influence on the design of public policy changes. Union-based explanations ignore the fundamental fact that governments may turn against negotiated reform to exclude organised labour from the policy-making process, irrespective of membership strength and corporatist legacies. Scholarship on social pacts and corporatism demonstrates that ideological and programmatic unity facilitate the capacity of majority governments to impose unilateral reform ambitions on organised labour (Baccaro/Simoni 2008, Afonso 2013). The omitted factor in producer group theory is thus the political choice of whether to share policy-making authority with organised labour. This is a serious shortcoming for a theory of institutional change, because it assumes away the possibility of a strong government with an autonomous reform agenda.

The general claim emerging from my emphasis on unilateral government action is that change in labour market policies does not necessarily originate in industrial relations. Producer group approaches argue that the political roots of institutional dualisms are to be found in the shrinking coverage of collective bargaining (Palier/Thelen 2010). The logic behind this argument stems from the notion of “institutional complementarities” (Hall/Soskice 2001), whereby the gradual erosion of industrial relations systems unravels the economic viability of labour market and welfare policy arrangements. In essence, this mechanism attributes dualistic labour market and welfare reforms to functional pressures generated by industrial relations, leaving no room for government agency. For sure, these policy domains are tightly interrelated in the functioning of economic models, but the mechanism underlying dualisation may also work precisely the other way around. That is to say, unilateral government action may set in motion dualistic tendencies in state policy without any preceding impetus from industrial relations. The Swedish case is illustrative in this regard. Thanks to encompassing unionisation and collective bargaining coverage, Thelen herself finds that Sweden displayed the second lowest percentage of employees in low-wage work in 2010 (Thelen 2014, 130). Yet, the picture looks very different in the area of labour market policy: dualistic job security arrangements go hand in hand with sharply declining unemployment insurance coverage and spending on active labour market policy. Related to this policy output, Sweden experienced the fastest growing relative poverty rate in the OECD, slipping from the most poverty-free country in 1995 to 14th

place behind Germany and Ireland in 2010 (OECD 2013). In a similar vein, the Danish centre-right government (2001-2011) passed various institutional reforms that threatened the viability of encompassing unionisation, which might well impact on collective bargaining coverage in the future (Ibsen et al. 2013). Theories of producer group action fail to capture these trends. I will now turn to previous research of electoral theory to detail existing explanations based on the policy-making action of political parties.

### *Partisanship theory*

Contemporary partisanship theory scholarship highlights the impact of socio-structural change on the interaction patterns between parties and voters (Oesch 2006, Kriesi et al. 2008, Häusermann 2010, Beramendi et al. 2015). De-industrialisation, immigration, demographic ageing and rising female labour market participation reshaped the traditional class- and family-basis, on which parties had competed for votes in the post-war era. This new post-industrial context drove a wedge between the policy preferences of low-skilled and low-educated constituencies, on the one hand, and the highly educated “sociocultural professionals” mostly employed by the public sector, on the other. While the former classic working class prefers income transfers and high job security to cope with current social needs, the latter prefers social investment policies that have favourable long-term effects on their capacity to reconcile work-family life and lifelong learning. Part of the explanation for growing intra-labour divides comes from the emergence of conflicts over post-material values and immigration (Kriesi et al. 2008). In political-economic terms, the explanation comes from the heterogeneity of post-industrial risk profiles, which assumes divergent policy demands from different labour constituencies (Rueda 2007). In this perspective, the protection of outsiders hinges on the capacity of parties to forge an electoral alliance between the traditional working class and socio-cultural professionals (Beramendi et al. 2015, 29 f.).

The recognition of intra-labour divides in the electoral arena is indeed an essential contribution to the study of electoral politics and economic adjustment. Yet, among partisan theorists there is disagreement over the effects of labour heterogeneity on the policy-making action of parties, especially those with a social-democratic character. This disagreement plays out between the *labour dualism theory* of David Rueda (2007) and the *classic partisanship theory* reinvigorated by Jonas Pontusson (2011). Rueda’s powerful contention is that Social-democratic parties have strong incentives to prioritise the interests of insiders over outsiders. He argues that, faced with fiscal constraints, social democracy lost the capacity to pursue maximalist solutions on behalf of insiders *and* outsiders, thereby facing a new electoral trade-

off. Ponutsson (2011), however, points to evidence showing that (Nordic) political economies with strong Social-democratic parties remain more inclusive and egalitarian than (Continental European) countries with strong Christian-democratic parties. More fundamentally, Schwander (2012) questions the very potential for a full politicisation of the insider-outsider divide. Accordingly, the heterogeneity of workers in class, age, gender, and skills impacts on welfare state preferences, thereby pointing to other cleavages than employment risk.

This contested debate about the role of social democracy appears indicative of a general trend towards declining left-right divisions with respect to outsider protection. In the most extensive volume on dualisation to the present day, the authors conclude that “the chapters in this book do not report strong differences between left- and right-wing governments with regard to dualization” (Emmenegger et al. 2012, 311). The protection of outsiders – in terms of job security, unemployment benefits, and training opportunities – would in theory be an essential vote-seeking device that reflects the egalitarian preference structure of the Nordic electorate (Larsen 2008, Svallfors 2011). Universalist welfare state legacies, low tax burdens for business, and broad public sector employment traditionally appealed to labour as a whole, holding together an encompassing pro-welfare coalition between ‘old’ and ‘new’ electoral constituencies (Beramendi et al. 2015, 30). Hence, an electoral logic of labour market reform should translate into strong incentives for Nordic governments of all partisan complexions to combat growing insider-outsider divides. However, the Danish and Swedish centre-right coalitions managed to de-universalise unemployment protection and cut active labour market policy spending (Goul Andersen 2012a), while their Austrian sister parties homogenised job security arrangements and expanded training. Austrian grand coalitions improved the social protection of outsiders, while the opposite is the case for Swedish Social Democratic single-party minority governments (Obinger et al. 2012). It seems that the partisanship narrative about the left-right cleavage is too simplistic to capture these developments.

An obvious problem with theories of vote-seeking agency is that they tend to ignore the role of organised labour (for a notable exception, see Rueda 2008). Labour-inclusive negotiations over the design and implementation of institutional changes condition the strategic calculations of partisan reform ambitions and provide trade unions with access to public policy-making. Trade unions have important stakes in this policy domain, because labour market reforms interact with and impinge on the institutional landscape of collective bargaining and effective labour power. By contrast, electoral mobilisation on grounds of unemployment support has traditionally been constrained by low political solidarity for the unemployed (Alber 1982). As Pierson (1994, 103) argues, voters pay less attention to labour market policy than to

social security for pensioners and the sick or disabled, thereby underscoring the explanatory significance of associational power resources. Therefore, the historical context of declining union strength does *not* naturally “give more prominence to electoral partisan competition” (Beramendi et al. 2015, 26), given the high importance trade unions assign to this policy area. The neo-corporatist literature points to the diverse mechanisms through which governments continue to fall back on negotiated reform in the neoliberal era (Visser/Hemerijck 1998, Ebbinghaus/Hassel 2000, Culpepper 2002, Traxler 2010, Afonso 2013).

Second, the partisanship literature conflates trade unions with insiders that resist any attempt to enhance the material situation of outsiders in order to defend their own status quo (Rueda 2007, Häusermann 2010). This claim is somewhat ironic, given that trade unions remain the central countervailing forces against austerity policy and economic inequality in domestic politics. A number of studies show that high levels of labour organisation and unity create an acute interest in the representation of outsiders (Becher/Pontusson 2011, Thelen 2014, Gordon 2015), which can be underpinned by institutional incentives attached to the administrative setup of the unemployment protection system (Clegg 2012). An inclusive representational outlook, however, is not necessarily confined to strong unions with encompassing membership bases. Naczyk/Seeleib-Kaiser (2015), for example, demonstrate how pre-institutional settings led labour movements in such diverse cases as Belgium, Britain, France, and Germany to push for an extension in the coverage of supplementary pension schemes to less privileged segments of labour. Moreover, as Vlandas/Benassi (2016) points out, the ideological working-class orientation of unions in the Mediterranean countries may trump an insider-oriented, occupational egoism in the preference-formation process. This claim resonates with findings from the union revitalisation literature, which documents that weaker unions opened up their bargaining and recruiting strategies to the non-unionised margins of the workforce (Baccaro et al. 2003, Heery/Adler 2004, Jódar et al. 2011).

That shrinking trade unions *did* accept policy deals to the detriment of outsiders often reveals their long-term power considerations in the face of capital liberalisation, and certainly not their first-best policy preference (Emmenegger 2014). Previous studies showed that even the rapidly declining union movement of Austria was the most forceful advocate of outsider efforts in labour and employment law (Tálos 1999, Obinger et al. 2012). Unions in the Nordic countries have traditionally been the central actors with stakes of an organisational (*Ghent* system) and representational (encompassing membership) nature on behalf of the weakest segments of the labour market. If anything, in fact, universal access to benefits and training

had been the core demands of union confederations in Denmark and Sweden long before the idea of 'Flexicurity' had gained prominence in scholarly debates and policy circles.

The capacity of organised labour, however, to assert favourable concessions for outsiders rests on the political choice of parties to share policy-making authority; that is, the calculus of governments to ensure their electoral fortunes by means of political exchange and labour acquiescence (Baccaro/Lim 2007, Baccaro/Simoni 2008, Afonso 2013). Even if permanent austerity and market globalisation constrain partisan differences, governments may still opt for different actor configurations at the bargaining table: they can work with unions or pursue reforms unilaterally. This political choice has important implications for the power relationships at the bargaining table. Union exclusion eases the adoption of welfare cuts and employment deregulations that stimulate an internal devaluation of the economy, while union inclusion requires lengthy and costly political exchanges between the state, capital, and labour. Conventional approaches focussing on either partisanship or producer group coalitions miss this power-distributional interaction between political parties and organised labour.

### **The Argument: Unions and Governments in the Era of Liberalisation**

Partisanship and producer group approaches share two features. First, both argue that the viability of social solidarity rests on encompassing pro-welfare coalitions. The causal mechanism behind these claims is that only a united intra-labour coalition has the capacity to push for inclusive policy choices that satisfy divergent social demands. Partisan scholars such as Beramendi et al. (2015) highlight the partisan task of reconciling the policy demands of divided electoral constituencies, while producer group scholars like Thelen (2014) emphasise the unionist task of incorporating service-sector workers into the traditionally manufacturing-dominated union movement. Although one of these theories looks at parties, and the other one at unions, they have in common the same underlying logic. Second, they focus on *either* parties *or* unions to understand the national dynamics of change in OECD capitalism. Both lines of research have been very instructive insofar, as their arguments have helped us to understand the electoral calculations of political parties and material interests of trade unions in the politics of economic adjustment. Neither approach, however, allows for the interaction between parties and unions (Hall 1997). This is somewhat surprising, given that the number and character of actors involved in the reform process has important effects on the type of power relations underlying the final policy output. Negotiated reform with unions imposes constraints on the initial reform ambitions of governments, while a unilateral reform strategy extends the partisan room for manoeuvre.

Challenging conventional explanations, I argue that the variation observed between Austria, Denmark, and Sweden does not result from differences in partisanship or producer group coalitions, but from differences in the *power-distributional interaction* between governing parties and unions. In the Keynesian post-war era, governments in all three countries routinely involved organised labour to cope with the vulnerability of small nation states in the international capitalist economy (Katzenstein 1985). During the era of liberalisation, however, the distribution of policy-making influence between governing parties and unions evolved in very different directions. Austrian governments, largely irrespective of partisanship, continued to work with unions through the process of policy concertation, thereby securing organised labour the opportunity to demand important concessions on behalf of the whole workforce, and not just insiders. The prevalence of intra-coalitional disagreements in the area of labour market policy was a strong incentive for Austrian governments to delegate policy-making authority to organised interests, thereby compensating for their own ideological disunity and facilitating their problem-solving capacity. After turbulent years of party system change, Danish centre-right governments returned to consensual modes of adjustment with organised labour, enabling unions to demand strong state support for training in exchange for welfare-to-work activation. The pattern of union involvement in Denmark, however, turned out to be more fragile than in Austria, paving the way for unilateral welfare cuts at the cost of encompassing social security (Jørgensen/Schulze 2011). By contrast, bloc-oriented party competition and the demise of corporatism put Swedish unions in an unfavourable position (Anthonsen et al. 2011). Union influence on public policy came to depend on Social Democratic government partisanship, although party-union ties came under strain and the centre-right bloc gained strength and unity over time. While the policy *preferences* of Austrian, Danish, and Swedish unions were very similar, their political *capacity* to influence the reform process differed markedly.

My theoretical framework attempts to account for this variation in the capacity of organised labour to protect outsiders. I argue that the capacity of unions to achieve concessions for outsiders is conditional on the interaction with a politically *weak* government. Weakness, in this context, refers to a low level of autonomous reform capacity, making governments unable to formulate and pass a unilateral reform strategy that excludes unions. As I will show, weakness often results from intra-coalitional divisions between ideologically-divided governing parties or a lack of parliamentary support behind minority governments. Trade unions are influential under these conditions, because their support provides weak governments with an extra-parliamentary channel of consensus mobilisation. This creates powerful incentives for governments to delegate policy-making authority to trilateral negotiations

between the state, capital, and labour. Unions can credibly demand substantial concessions from a weak government, because their assent to new policies can make the difference between a reform's success or failure.

The presence of a weak government became necessary for union influence because unions themselves lost the structural power to impose tight constraints on the unilateral reform ambitions of partisan actors. Overall, unions lost members, unity, and thus electoral significance, while the global turn to monetarism and fiscal austerity under the conditions of exogenous competitive pressures disciplined their bargaining power *vis-à-vis* governments and business. We therefore expect the preferred policy output of parties to prevail under the conditions of a strong government, because a united majority allows them to pursue their preferred policy output against weakened unions. In the neoliberal era, where parties of all complexions face a structural incentive to reduce the reservation wage and increase labour market flexibility, the policy output of strong governments precludes concessions to unions to the detriment of outsiders.

The argument I present below in more detail draws on a variety of earlier contributions, especially the power resource approach of Walter Korpi (1978, 1983) and Gøsta Esping-Andersen (1985) as well as the more recent liberalisation theory advanced by Wolfgang Streeck (2009). It builds on the assumption that differences in the balance of class power are central to the causal dynamics of national liberalisation paths. But it also deviates from the focus of the power resource approach on Social Democratic partisanship by highlighting instead the role of organised labour in periods of capitalist development. Neoliberal economic ideas, fiscal austerity, globalised market competition, and changes in the electorate, among others, cut across the left-right divide in important ways (Blyth 2001, Rueda 2007, Mair 2013). By contrast, inclusive and centralised union confederations continue to mobilise political support for outsiders, because their organisations incorporate workers that are hit hardest by inequality in labour markets and welfare (Thelen 2014, Gordon 2015).

Yet, the preferences of unions are not causally omnipotent, given their loss of structural power *vis-à-vis* capital in the neoliberal era. My argument therefore emphasises the political opportunities unions face when governments are weak. Under conditions of weakness, governments are more responsive to the demands of unions, because they need support from extra-parliamentary actors in the pursuit of consensus mobilisation. This claim about weak governments draws on the social-pact literature and extends to governments of the partisan right as well as the left (Baccaro/Lim 2007, Baccaro/Simoni 2008, Afonso 2013).



The presentation of my argument proceeds as follows. First, I will consider how the gradual stages of liberalisation impacted on the governing capacities of political parties. An appreciation of this shift is necessary to understand why governments had a structural incentive to prioritise the preference of employers in pursuing dualistic policy choices to the detriment of outsiders. Second, I will shift the analysis to the role of organised labour and explain why inclusive union movements resist partisan attempts aimed at increased inequality through a dualisation in employment and welfare standards. Finally, after having outlined the contrasting preferences between governments and unions, I will present the opportunities unions face to influence the distributive outcomes of national paths of liberalisation when governments are weak.

### *Why governments followed the preference of capital for dualisation*

Governments operating in capitalist democracies have to reconcile the distributive tension between capital accumulation and social stability (Polanyi 1944 [1957]). But in the neoliberal era they found themselves increasingly unable to perform this task. Increasing flexibility demands for capital accumulation on the one hand, and decreasing public resources available for risk protection on the other, gradually constrained the policy-making autonomy of national governments (Streeck/Mertens 2011). They have therefore faced a *structural trade-off*: the market-conforming adjustment of labour market policy has come to a growing extent at the cost of market-constraining social protection. This is because wage differentiation and labour market flexibility are the two remaining policy instruments available to national governments under the conditions of fiscal austerity, central bank independence, and exogenous competitive pressures. Dualisation, in other words, has become the main option left for national governments to stimulate job creation as well as fiscal consolidation at the same time.

The policy outcome of dualisation is in the interest of employers, because it increases their discretion in setting the terms and conditions of employment at the fringes of the labour market. Structural constraints on the governing capacities of political parties have therefore reinforced the shift in the balance of power from labour to capital. When national governments lack the regulatory influence and public resources necessary to sustain social solidarity, they have a structural incentive to rely on markets in the allocation of life chances and material resources (Streeck 2009, Baccaro/Howell 2011). Evelyne Huber and John D. Stephens advance a similar explanation for their major finding of the “reduction and then the disappearance of partisan effects on welfare state efforts [...], as all parties and governments have been operating under severe constraints” (Huber/Stephens 2001, 321). In what follows, I will provide a

structural explanation for the question of why national governments of different partisan complexions had an incentive to converge towards a strategy of dualisation in the area of labour market policy.

To understand the declined governing capacities of parties in managing the social outcomes of capitalist market expansion, it is necessary to recognise the gradual stages of liberalisation in the advanced capitalist political economies of the Western world; that is, the shift of macro-economic policy priorities away from full employment towards price stability (late 1970s), increased unemployment in the context of market globalisation (1980s), the fiscal consolidation of the post-war welfare state in tandem with the deregulation of finance markets (1990s and 2000s), and politics of austerity in response to the Great Recession (Streeck 2011). The process of liberalisation started off with the collapse of the Keynesian public-policy regime in response to the two oil price shocks of the 1970s. The main problem posed by the economic turmoil of the time was that flexible monetary policy adjustment in combination with full employment policies no longer seemed capable of controlling inflation. The Keynesian class compromise therefore began to be seen as the cause of the capital accumulation crisis rather than as its solution. This rethinking ultimately led the American Federal Reserve Bank under Paul Volcker to switch to a restrictive monetary policy in an attempt to put the wage demands of unions under severe pressure and thereby undermine inflationary wage-price spirals, retrospectively called the “Volcker shock”. National governments in Western Europe were quick to follow the American lead in sharply raising interest rates and containing government spending.

The global shift to *monetarist macro-economic management* called into question the functional effectiveness of Keynesian policy instruments for national governments. This had two profound consequences for the political assertiveness of national unions vis-à-vis governments and capital. On the one hand, it implied that unions had to discipline their wage demands in order to avoid increasing unemployment. As monetary policy was used to combat inflation, it could no longer serve the unions in stabilising the employment performance. On the other hand, the shift to a restrictive monetary policy undermined the incentive for governments to trade wage restraint for policy concessions to unions (Scharpf 1987). However, this capacity to hold back wage demands in the interest of inflation control was the main asset that unions with an encompassing, centralised, and hierarchical structure could lay before governments to promote their inclusion in the policy-making process (Lehmbruch/Schmitter 1982). A non-accommodating monetary policy thus called into question the viability of the corporatist ‘political exchange’ between governments and unions (Goldthorpe 1984), because

governments were no longer reliant on the capacity (and willingness) of unions to internalise wage restraint for successful economic performance.

In addition, nationally anchored unions and governments were confronted with the accelerated expansion of market relations beyond national frontiers, also known as *globalisation* (Garrett 1995). As employers became less dependent on their home countries for the pursuit of profits, they could threaten unions and governments alike to exit the domestic arena by shifting production sites to more favourable political jurisdictions with lower tax obligations and non-wage labour costs (Rhodes 1996, Scharpf 2000). This shift in the balance of class power brought about by globalisation was reinforced with a massive increase in the supply of low-paid workers in the global South that came to compete with high-paid workers of the global North in the manufacturing sector (Milenovic 2016). Market globalisation was thus inextricably linked to the subsequent de-industrialisation of Europe, because it allowed for cheaper production opportunities outside European borders. In other words, increased capital mobility and foreign direct investment (FDI) under the conditions of freer trade pushed national economies into a situation of strong international competitiveness pressures. Capital could therefore threaten to punish unions and governments by refraining from domestic investment and thereby causing growing unemployment. The credibility of this threat was buttressed by a concerted “counter-offensive” on the part of employers’ associations and their affiliated think-tanks to advance neoliberal economic ideas and reverse the tide of squeezed profits against ever more demanding union movements (Pontusson 1992, Glyn 2006).

While globalisation empowered capital *vis-à-vis* labour and governments, the emerging *fiscal crisis* of the post-war welfare state challenged the governing capacity of political parties to respond to new social demands for risk protection (Pierson 1998, Bonoli 2007). ‘Permanent fiscal austerity’ therefore reinforced the political assertiveness of employers in their demands for cuts in the reservation wage as a way of boosting economic competitiveness. The ensuing fiscal consolidation agenda of the 1990s was underpinned by the enforcement of the ‘Maastricht convergence criteria’ and the subsequent Stability Pact, which required governments to rein in public spending and inflation (Scharpf 2002). In the absence of strong economic growth and Keynesian aggregate demand management, national governments therefore had to impose social spending cuts on organised labour to consolidate the public budget without lifting taxes on business to prevent capital flight. Declining productivity growth due to de-industrialisation as well as demographic ageing aggravated the problem of reducing public debt, so that a strategy of ‘labour shedding’ or ‘public deficit spending’ was no longer an option (Ebbingshaus 2006). To reconcile the popular demands from voters and unions with

the structural demands of capital accumulation, governments liberalised their finance markets instead. As Crouch (2009) argues, this liberalisation was used to stimulate access to cheap credits when governments could no longer embed market relations with public spending, thereby essentially ‘privatising’ Keynesian deficit spending. The socialisation of bad loans in response to the collapse of the American financial system reinforced the problem of fiscal austerity, because it led to suspicions about the sustainability of record high public debt levels. Global financial investors and institutions therefore required sovereign nation states to consolidate public finances in exchange for access to sound money (Streeck 2013)

Moreover, the shift to de-industrialisation, growing white-collar and female employment as well as ethnic heterogeneity, in tandem with an increasingly individualist lifestyle led to a *heterogenisation of the working class* (Oesch 2006). Even though a number of unions remained externally encompassing (Denmark and Sweden) and internally centralised (Austria), these social changes nevertheless weakened the mobilising capacity of organised labour. To be sure, governments continued to pursue negotiated reforms with organised interests, since unions possessed an institutionalised veto-position on social security boards while partisan actors pursued a political cover for unpopular spending cuts, especially in the area of pension policy (Pierson 1996). But the strength of unions to achieve substantial concessions in return for their consent to controversial policy packages was undeniably in decline, when labour became more fragmented in terms of skills, earnings, and ideological orientation. The impact of capital liberalisation on domestic power relationships was thus complemented by a fragmentation and decline of the unionised workforce. However, while the shift in the balance of class power from labour to capital was a common trend in the Western world, its effect on union preferences was not equally pronounced or influential across different national models of capitalism. What we have yet to discuss are therefore the conditions under which unions retain the strategic capacity to incorporate outsiders into their representational outlook and resist structural pressures for dualisation. In the next section of this chapter, I will elaborate on this question.

#### *Why inclusive union movements resist dualisation*

A core finding in the dualisation literature is the recognition that encompassing and centralised unions are better able to mobilise political support for outsiders than small and decentralised unions (Palier/Thelen, 2010, Thelen 2014, Gordon 2015). First, encompassing unions organise a higher share of outsiders, thereby incorporating their demands into the interest formation process. Second, centralised unions prevent the formation of particularistic policy priorities,

because the confederal elite incorporates the policy demands from union affiliates that are exposed to the growth of outsiders. In other words, centralised unions give voice to the sectors that are hit hardest by atypical employment and unemployment. Moreover, administrative roles in the provision of unemployment insurance give unions strategic stakes in the protection of the unemployed (Clegg 2012). Drawing on Gordon (2015), my three cases form part of the five most inclusive unions in the OECD (see Table 1.2). His index of inclusive unionism comprises measures of average union density rates, centralisation rates, and involvement in unemployment benefit administration for the period from 1985 to 2005.

Table 1.2: Index of the five most inclusive unions in the OECD, 1985-2005.

Country	Average union density	Average union centralization	Involvement in UB administration	Inclusive unionism
Sweden	80.8	55.3	100.0	78.7
Denmark	75.2	45.6	100.0	73.6
Finland	75.2	39.1	100.0	71.4
Belgium	53.0	48.5	100.0	67.2
Austria	41.7	85.9	50.0	59.2

Source: Gordon (2015, 91).

We should expect the relatively high levels of inclusiveness in labour movements in Austria, Denmark, and Sweden to produce a vested interest in the protection of outsiders. Danish and Swedish unions display the highest density rates, while Austrian unions boast the highest levels of concentration and centralisation in the OECD. High union density rates in Denmark and Sweden are in large part a product of unions' responsibility over the administration of voluntary and state-regulated unemployment insurance; that is, the so-called *Ghent* system (Rothstein 1992). The cost-benefit attractiveness of joining unemployment insurance traditionally acts as a recruitment device for trade unions in the *Ghent* countries of Denmark, Sweden, Finland, and Belgium (see Clasen/Viebrock 2008 on this mechanism in detail). By contrast, Austrian unions cannot rely on a "Ghent effect", given that membership in unemployment insurance is mandatory and the social partners in the corporatist institutional setting share responsibility for its administration. The Austrian labour movement has experienced a significant membership loss over time, with unionisation declining from almost 68 percent in 1960 to a mere 28 percent in the early 2010s. Yet, unlike the *Ghent* countries, the Austrian union confederation (*Österreichischer Gewerkschaftsbund*, ÖGB) can draw on its unquestioned leadership and political mandate on behalf of its union affiliates, providing levels of concentration and centralisation that are unmatched from an international comparative perspective (Traxler/Pernicka 2007).

Recent contributions find two alternative mechanisms underlying the political support of unions for outsiders. First, as Vlandas (2013) finds, French unions pushed for regulation of temporary work contracts to undermine the ‘replaceability’ of permanent workers. He attributes this political choice to the presence of general skills, low wage coordination, and similar educational attainments, which all together increased the competition posed by temporary workers *vis-à-vis* permanent workers. This claim, as he himself points out, does not hold in cases with a more specific skill set and high levels of wage coordination. Second, as Benassi/Vlandas (2016) argue, a strong ideological working-class orientation broadened the representational outlook of unions in Southern Europe towards temporary agency and marginal worker groups. But such an argument can also not be behind the choices of unions in the corporatist economies of North-Western Europe, because their post-war identity evolved on the basis of class cooperation and state involvement, not class conflict. Still, these findings are in line with my claim that unions are not necessarily dualising forces in the era of liberalisation, as suggested by Rueda (2007) and Häusermann (2010).

The formation of inclusive union *preferences*, however, is not sufficient for the successful protection of outsiders, because the gradual decline in union *power* has weakened the assertiveness of labour in the policy-making process. My argument is that the decline in union power enhances the relevance of national governments in conditioning the level of union influence on policy outputs. They can still grant concessions to unions, but a unilateral reform strategy that excludes unions has become less risky for successful re-election and economic performance than in the Keynesian post-war era. Yet, despite a decline in union power, governments are not always the driver behind the reform process. They are often unable to shape public-policy outputs, when they are internally divided or lack a parliamentary majority. In this situation, governments face powerful incentives to share policy-making authority with unions, because they are too weak to formulate and pass a common reform agenda independent from an extra-parliamentary channel of consensus mobilisation. The presence of a weak government is therefore the main condition under which unions can gain influence despite a decline in power resources.

#### *Government strength and union influence*

Faced with a strong government in office, unions are likely to lose influence on the reform process to the detriment of outsiders. The defining political feature of a strong government is a high level of ideological cohesiveness. It is therefore not reliant on the support of others to formulate a political response to economic challenges. A majority of seats is the second

necessary property of a strong government, because it allows the government to pass its preferred policy outputs in the parliament.

Despite this, weak governments are unlikely to pursue a dualistic reform agenda when they face an outsider-inclusive union. Weakness, in this context, refers to a low autonomous reform capacity, whereby governments depend on the support of others. So how do governments become weak? Two of the most common causes are intra-coalitional divisions or a minority of seats in the parliament. Either condition can make governments unable to pursue a unilateral reform strategy and end up in a reform deadlock. First, governments have no capacity to legislate reforms unilaterally when they are unable to find an intra-coalitional compromise. This lack of cohesive policy preferences translates into an inability to *formulate* institutional changes. As Hamann/Kelly (2007) and Afonso (2013) observe, coalition partners typically delegate contested issues to trilateral policy forums in order to pre-empt open conflicts. Handled this way, governments shift public attention away from internal divisions and use the problem-solving capacity of a depoliticised and extra-parliamentary channel of consensus mobilisation (see also Knotz/Lindvall 2015). Second, minority governments have no capacity to legislate reforms unilaterally when they are unable to find a majority in parliament. This lack of support from opposition parties implies an inability to *pass* institutional changes in parliament and enshrine them in law. In response, as Baccaro/Lim (2007) find in such diverse cases as Ireland, Italy, and South Korea, minority governments extend their power base by falling back on tripartite concertation (Baccaro/Lim 2007, Baccaro/Simoni 2008). In sum, we would expect the presence of either of these two weaknesses to present a powerful incentive for a labour-inclusive reform strategy, which creates the opportunity for unions to extract concessions for outsiders.

## **Case Selection**

To explain why some countries protect outsiders better than others, this thesis compares the reform trajectories of Austria, Denmark, and Sweden in the era of liberalisation (late 1970s – 2015). The rationale for comparing these three countries in particular is that they represent cases that are similar in important theoretical respects but differ on the empirical outcome of interest. Following a most-similar systems design, the principal objective behind this strategy is to evaluate my argument for divergent reform trajectories while controlling for alternative explanations at the same time. The three cases I have selected are similar in three conditions that are proposed to cause outsider-oriented policy choices: small size and corporatist legacies

(Martin/Swank 2012), inclusive union movements (Thelen 2014), and Social-democratic parties (Rueda 2007 vs. Pontusson 2011).

First, the three cases represent *small states* of Western Europe that are characterised by economic openness, relatively simple political-institutional environments, and corporatist legacies. In his seminal study, Katzenstein (1985) shows how the common perception of economic and political vulnerability in small West European states translated into an ideology of social partnership that paved the way for tripartite power sharing. Small size allowed for the cooperation between centralised elite networks that could coordinate policy adjustments more flexibly than larger states with complex and pluralist intermediation patterns. Yet, among the small states of Western Europe, the distributive outcome of democratic corporatism varied markedly. In consequence, Katzenstein distinguishes between “liberal” and “social” types of corporatism. Austria, Denmark, and Sweden shared the core trait of social corporatism in that they had strong union movements. Unlike Austria and Denmark, however, Sweden represented a mixed type due to the combination between a strong union movement (social) and a strong business association (liberal) at the same time. However, as of the 1990s, the three cases diverged in their patterns of interest mediation, moving Sweden and, to a lesser extent, Denmark to a pluralist direction while Austria revived the corporatist decision-making patterns of the Keynesian post-war era (Öberg et al. 2011, Afonso 2013). To take these different pathways into account, we should speak of common corporatist legacies, and not static structures. Notwithstanding, it is clear that small size and the presence of centralised peak level associations reflect methodologically important similarities, since these two factors are often portrayed as important conditions for the improved protection of outsiders (Martin/Swank 2012, Wilensky 2012). That is to say, the variation in reform trajectories that we observe in the three cases must be attributed to other factors than country size or corporatist legacies.

Second, and related to the first point, all three countries have *inclusive union movements* from an international comparative perspective. As we saw above, this inclusiveness has different sources: Austria has the highest level of union centralisation, while Denmark and Sweden have the highest levels of union density in the OECD. Union centralisation enhances bargaining power, reduces coordination costs, and gives greater voice to the less organised union affiliates, thereby boosting the strategic capacity of union confederations to support outsider policies. Union density, on the other hand, provides for financial, political, and organisational means to further labour’s interests. Despite their undeniable retreat in the past decades, the three union movements thus remain relatively inclusive from an international comparative perspective. This is another important methodological similarity, given that



Thelen (2014) points to the necessity of encompassing unionisation for the protection of outsiders. If anything, in fact, the higher levels of inclusiveness would suggest a more “solidaristic” direction of reform in Sweden relative to the case of Austria. From this theoretical perspective, therefore, it would be impossible to attribute cross-national variation between the three cases to differences in the level of unionisation.

Third, all three cases share an electorally strong and organisationally united political left in the form of *Social Democratic parties*. In Austria, the alliance between the Catholic Church and liberal elites during the historical struggles for nation-building (against Protestant Prussia and affiliated Hapsburg peoples) pre-empted the possibility of a split between different factions of the working-class movement (Lipset/Rokkan 1990, 132; Bartolini 2000, 552). By contrast, the structural origin of working-class unity in Denmark and Sweden lay largely in Protestant state religiosity and cultural homogeneity (Castles 1978). As Bartolini (2000, 304-305) shows for the period between 1918 and 1985, the three cases represented the most organised and electorally successful socialist parties in Western Europe. Partisan state penetration, tight linkages to centralised union confederations, and the historical absence of intra-labour divides were the common core factors underlying this exceptional strength. Unsurprisingly, the Social Democratic parties of Austria, Denmark, and Sweden played an influential role in the neoliberal era as well. Between 1970 and 2015, the Austrian SPÖ (*Sozialdemokratische Partei Österreichs*) and the Swedish SAP (*Sveriges socialdemokratiska arbetareparti*) led the government for 39 and 28 years, respectively. The Danish Social Democrats (*Socialdemokraterne*) were less successful in terms of government participation (Esping-Andersen 1985), even though they provided the Prime Minister for 22 years during the same period. Leaving aside important differences for the moment, the relative strength and unity of centre-left parties forms another similarity that adds to the puzzle of divergent reform trajectories in Austria, Denmark, and Sweden. While the causal predictions derived from Social Democratic partisanship remain contested (Rueda 2007 vs. Pontusson 2011), it seems fair to say that additional factors need to be taken into account to resolve this puzzle of cross-national variation.

In sum, the labour market reform trajectories of Austria, Denmark, and Sweden evolved in markedly different directions, although all three cases are similar in important theoretical respects: small size and corporatist legacies, relatively strong union movements, and Social Democratic parties. Against the backdrop of these similarities, the outcome of interest would have been *possible* in all three countries (Mahoney/Goertz 2004). Yet, only Austria expanded the protection of outsiders, whereas Sweden and, more recently, Denmark

did the opposite. This variation is definitely counter-intuitive within contemporary political economy and welfare state research. Conventional producer group and partisan explanations generally suggest continued regime variation between the Social Democratic-Nordic regime (DK, SWE) versus the Conservative-Continental regime (AT).

## Methodology

The methodology for this thesis follows from my research question: faced with the common constraints of liberalisation, why do some European welfare states change their labour market institutions in more “solidaristic” ways than others do? The variation between three small states provides a most-similar system design to account for this question in a rigorous way. Conventional explanations highlight the causal significance of producer group coalitions (Martin/Swank 2012, Thelen 2014) or partisan actions (Rueda 2007, Beramendi et al. 2015) as the ultimate causes of institutional variation over time and space. Instead, I argue that this variation reflects differences in the power-distributional interaction between governments and trade unions. In other words, the weaker the autonomous reform capacity of governments, the stronger the political capacity of trade unions to protect outsiders.

So what sorts of research strategy and empirical data do we need to assess the theoretical adequacy of my argument and alternative explanations? The methodological approach used here is primarily one of qualitative case study research over time and space. The motivation behind this research strategy is to capture the political processes underlying the *causal mechanism* that leads to the outcome of interest, and not *timeless regularities* between different conditions. Or, more precisely, in Hall’s terms, causal arguments “not only identify a few variables thought to have an especially important impact on the outcome but also outline the processes whereby those variables that are thought to secure such an impact” (Hall 2006, 27). The central point raised here is that correlation is different from causation insofar as the latter provides us insights into the temporal sequence that links important events (or the absence of them) and actor calculations to the outcome of interest.

Drawing on recent innovations in the methodology literature (see George/Bennett 2004, Hall 2006, Blatter/Haverland 2012), this study relies on a three-pronged approach that combines *co-variation analysis* (between-case analysis), *causal process tracing* (within-case analysis) and *counterfactual reasoning* (between-case and within-case analysis). First, co-variation analysis evaluates whether variation in a set of explanatory variables leads to different outcomes in the dependent variable. Akin to quantitative approaches, the co-variation design rests on between-case variation over space. The most-similar systems design enables me to

control for a number of explanatory factors to strengthen the validity of the co-variation between the proposed explanatory factor and the dependent variable. That is to say, co-variation between the explanatory factor and the dependent variable tends to support the hypothesis, while the absence of co-variation weakens it.

Static comparisons between individual cases, however, lack information on the dynamic political processes leading to variation in the dependent variable. Therefore, I use causal process tracing to identify the temporal causal chain underlying nationally distinct reform trajectories. The causal process-tracing design thus rests on within-case variation over time. Process tracing is different from co-variation designs or statistical analyses, since “it focuses on sequential processes within a particular historical case, not on correlations of data across cases” (George/Bennett 2005, 13). This highlights the importance of time in the selection of my qualitative methodology. The analysis of the interplay between the different explanatory factors documents the temporal unfolding of the concrete causal mechanism that led to the outcome of interest. Following Hall (2003), however, the process tracing design may not only be used to *generate* new theory but also to *test* the theoretical adequacy of existing explanations. Within-case analysis allows for a comparison of the causal predictions derived from my theoretical framework and conventional explanations with the empirical evidence at hand to evaluate the explanatory merits of different theories. Handled this way, the researcher uses all the information available to assess the success of different theories in explaining variation in the dependent variable (see also “congruence design” in Blatter/Haverland 2012).

Finally, counterfactual reasoning attempts to back up the causal inference drawn from between-case and within-case research. In counterfactual analysis, the objective is to lend additional plausibility to the causal significance of an argument by making an explicit statement about what would have happened to the dependent variable Y if the factor X had not been present. For example, my claim is that Austrian unions had the political capacity to protect outsiders because intra-coalitional divisions made governments unable to pursue a unilateral reform strategy that excludes them. So what would have happened *without* the presence of weak governments? The 2003 pension reform provides a sound factual scenario in which the government was *not* weak; that is, it could draw on an autonomous reform capacity generated by intra-coalitional cohesiveness. The 2003 pension reform thus reflects a useful and instructive piece of evidence on which I can build a counterfactual claim from a different point in time. To back up my claim, then, we need to find evidence showing that under the conditions of a strong government the policy output that emerges caters not to outsiders.

The sources used here to assess the theoretical adequacy of different theories consist of primary and secondary sources as well as semi-structured interviews with policy-making elites (party spokespeople, interest group representatives, bureaucrats and academic country experts). Primary sources mainly concern official policy documents, press releases and parliamentary debates. In the Austrian case, the publication record of Emmerich Tálos (Kittel/Tálos 2001; Obinger/Tálos 2006; Rossmann/Tálos 1992, Tálos 1998, 1999, 2008a, 2008b) is perhaps the most important secondary source from which I glean information about the peculiarities of Austrian social partnership and welfare-state development. In the Danish case, the public policy analyses of Jørgen Goul Andersen (Goul, Andersen/Pedersen 2007, Goul Andersen 2003, 2011a, 2011b, 2011c, 2012) are instructive secondary sources about Danish labour market reform trajectories. In the Swedish case, the work of Johannes Lindvall (Anthonsen/Lindvall 2009; Lindvall/Rothstein 2006; Lindvall/Sebring 2005; Lindvall 2004, 2010) provides extensive information about the decline of corporatism and welfare universalism in Swedish labour market policy.

Primary and secondary sources, however, often give no information about the underlying types of strategic calculations and political trade-offs leading to the final policy output. To supplement the empirical tests of my power-distributional framework and conventional theories, I draw on interview data on the preferences, motivations, and actions of different actors involved in the policy-making process. Therefore, I conducted 21 interviews in December 2013 and August 2014 in Copenhagen, 15 interviews in December 2014 and spring 2015 (various months) in Vienna and nine interviews in May and September 2015 in Stockholm (one interview via Skype). For each key event in the causal chain I gathered interview evidence from at least one representative of the strongest governing party, the national peak-level employers' association, the national peak union confederation, and the Ministry of Labour Market Affairs. The spokespeople of the respective actors were contacted for an interview once I had sufficient information documenting that they were directly involved in the reform process. Most of my interviewees were therefore spokespeople for labour market and social policy. When the responses of different actors were consistent with each other as well as with primary and secondary sources, I ceased to collect additional interview evidence.

My interview questions attempted to grasp the policy-making influence of different actors and the extent to which the final policy output corresponded to the initial policy demands of these actors. For instance, I asked party representatives and bureaucrats about the calculations behind the inclusion (or exclusion) of organised labour in the reform process. Moreover, I asked party and interest-group representatives about the initial policy preferences

prior to the reform negotiations and the strategic preferences developed in the face of political constraints; that is, second-best choices pursued in the reform negotiations. Importantly, I adapted my questionnaire to the period in which my interviewees were official representatives of the organisation of interest. Following this strategy, I attempted to enhance the reliability of the interview evidence for the historical reconstruction of the reform trajectories. I recorded almost all interviews and evaluated them through reports immediately written down afterwards. On average, the interviews lasted between 45 minutes and one hour.

The usage of interview evidence required a careful interpretive consideration of various empirical sources, given that political actors may tend to give stylised justifications of their action. Therefore, the quotes used from my interviews are the result of extensive triangulation with written documents and other interviews. I used direct interview quotes when they seemed to illustrate the core mechanism at work. I sent all direct quotes to the interviewees for approval in order to check the accuracy of their statements and rule out any misunderstanding. A few quotes had to be modified slightly, but none of these changes altered the meaning of the statements substantially. The list of interviewees can be found in the Appendix. All interview quotations are recorded on tape and can be requested from the author directly. Moreover, I sought advice from experts of the countries I studied to avoid any misunderstanding and draw on existing findings (Emmerich Tálos for Austria, Jørgen Goul Andersen and Henning Jørgensen for Denmark, Johannes Lindvall and Johan Bo Davidsson for Sweden).

## **II. Labour market policy in Austria, Denmark, and Sweden**

## Introduction

This chapter presents the puzzle of cross-national variation by describing the development of labour market policies in Austria, Denmark, and Sweden. By doing so, the chapter is concerned with the *distributional profile* of different reform trajectories. That is, it analyses not only institutional change in terms of replacement rates and spending patterns as such, but also the extent to which labour market policies cover and protect the growing share of atypical and unemployed workers: the “outsiders” (Emmenegger et al. 2012). The chapter thus follows my research interest in the identification of the domestic capacity of European welfare regimes to shape and respond to inequalities in labour markets and welfare.

I attempt to demonstrate, first, that the labour market policy output made the level of dualism between (protected) insiders and (unprotected) outsiders higher in Sweden than in Austria. In other words, Austria extended state support for outsiders, while Sweden restricted it to insiders and, to some extent, dismantled social security for the whole workforce. Second, it contests the common assessment that Denmark represents a stable model of egalitarian capitalism. Instead, it shows that the universal cohesiveness of Danish “Flexicurity” came under strain during the 2000s, while Austria continued to improve the social situation of outsiders in the same period.

My dependent variable – labour market policy – may be disaggregated into three distinct policy areas: (i) employment protection; (ii) unemployment protection, and; (iii) Active labour market policy (ALMP). Employment protection legislation distinguishes between job security arrangements for permanent contracts on the one hand, and fixed-term contracts on the other. The design of employment protection rests on the distribution of job security between these two kinds of contracts. The maintenance of strict dismissal protection clauses for permanent contracts in combination with the deregulation of temporary contracts impedes the integration of people with discontinuous employment biographies into the primary labour market and the labour market prospects of the unemployed. By contrast, a homogenous distribution of employment protection facilitates the transition into permanent contracts for outsiders. Unemployment protection and ALMP deal with the social protection and labour market re-integration of the unemployed. The common trend from de-commodification towards the “activation” of the unemployed made these two policy areas strongly interlinked. Activation refers to the tightened connection of benefit payments with obligations to actively demonstrate job-search activities and attend re-integration measures such as subsidised employment, training or job-search activities (Clasen/Clegg 2006, Bonoli 2010). For analytical

reasons, the present chapter separates these two areas from each other to identify the distinct reform trajectories of cash benefits and re-integration measures.

From a welfare point of view, unemployment protection is concerned with the degree of coverage, the duration of benefit receipt, and the level of replacement rates for people out of work. Coverage means the proportion of the workforce that is insured or entitled to income protection against the risk of unemployment. The degree of coverage depends on the specific qualifying conditions associated with social insurance and assistance programmes, typically including the requirement of having been in employment for a certain amount of months/years. In addition, the maximum duration of benefit receipt conditions the inclusiveness of the benefit system by setting time limits on the availability of cash benefits. Finally, the replacement rate defines the proportion of the previous wage paid out by the state in the event of unemployment.

ALMP aims to combat structural unemployment by improving the match between the supply of and demand for labour. It thus forms a supply-side-oriented instrument for nation states to adjust their labour markets in the interest of employment growth. An important distinction in discussions of ALMP is between “demanding” versus “enabling” labour market programmes (see e.g. Barbier 2005, Dingeldey 2007, Eichhorst/Konle-Seidl 2008). Demanding ALMP refers to the pressure exerted by legal regulations to actively seek employment and accept jobs deemed suitable. It typically involves the usage of sanctions and a tightened definition of jobs the unemployed must be prepared to accept. Enabling ALMP targets the employability of job seekers by tackling the perceived lack of skills and service provision needed to facilitate the transition into employment. It typically involves the provision of training and education, but also counselling or mobility grants. Both types of interventions, demanding and enabling labour market programmes, largely target outsiders who find themselves excluded from the labour market due to low skills, chronic health problems, or weak labour demand (Rueda 2007). Existing evaluations suggest that the expansion of training is a central outsider-oriented policy device through which ALMP may contribute to the social inclusion and labour market re-integration of the most disadvantaged and low-skilled groups of labour (Konle-Seidl 2008, 80; Eichhorst/Konle-Seidl 2008, 23 f.). It is important to note that job seekers are confronted with both demanding and enabling measures at the same time (Bonoli 2010).

### **Employment Protection Legislation**

To illustrate changes in job security regulations, I rely on data from the employment protection legislation dataset (EPL) provided by the OECD. The dataset includes two versions on the



strictness of employment protection against individual dismissals, which differ according to: (i) the time span they cover and; (ii) the number of data items they incorporate. The first version available (“Version 1”) covers the period from 1985 onwards and does not incorporate all the data items covered by the second version. By contrast, the second version (“Version 3”) covers the period from 2008 onwards and incorporates additional indicators on job security arrangements provided by collective agreements and case. Version 3 reflects the updated database that led to a significant revision of Version 1. Therefore, I use Version 1 only for the time span not covered by Version 3.

This section, first, compares the strictness of job security regulations for permanent and fixed-term contracts in the year 1985 by using indicators of Version 1. Second, I then look at data from Version 3 for the latest year available (2013) to compare the status quo with the legal regulations found in 1985. The rationale behind this research strategy is to capture institutional change over time and the updated dataset at the same time. Handled this way, we get an indication of the *direction* of the reform trajectory and identify the *level* of dualism in job security regulations between permanent contracts and fixed-term contracts.

Figure 1.1 provides data of the OECD index on the strictness of employment protection for permanent and temporary employment in Austria, Denmark, and Sweden in 1985. It shows that Austria had a dualistic distribution of job security that disadvantaged workers on fixed-term contracts. Protections for temporary workers were much more liberal than for permanent workers. In contrast, Denmark and Sweden did not allow for the easy ‘hiring’ and ‘firing’ of fixed-term contracts. Moreover, Denmark and Sweden had much stronger protections for temporary workers than for permanent workers. Sweden in particular put strong legal constraints on fixed-term contracts and thus facilitated the employment of permanent workers. Austrian dualism was thus very different from the kind of dualism observed in the cases of Denmark and Sweden. Austrian job security arrangements promoted the emergence of temporary forms of employment, while Denmark and Sweden clearly did not.

The global turn to monetarism and de-industrialization massively changed the environment in which post-war job security arrangements had been put in place and put political actors under growing pressure to adopt a supply-side policy logic of job creation. An important option left for nation states to adjust (post-industrial) labour markets to the gradual transformation of global capitalism was the liberalisation of employment protection (Regini 2000, Scharpf 2002). Yet, the scope and direction of liberalisation diverged in this policy area, and the cases of Austria, Denmark, and Sweden reveal this potential of cross-national variation very well.

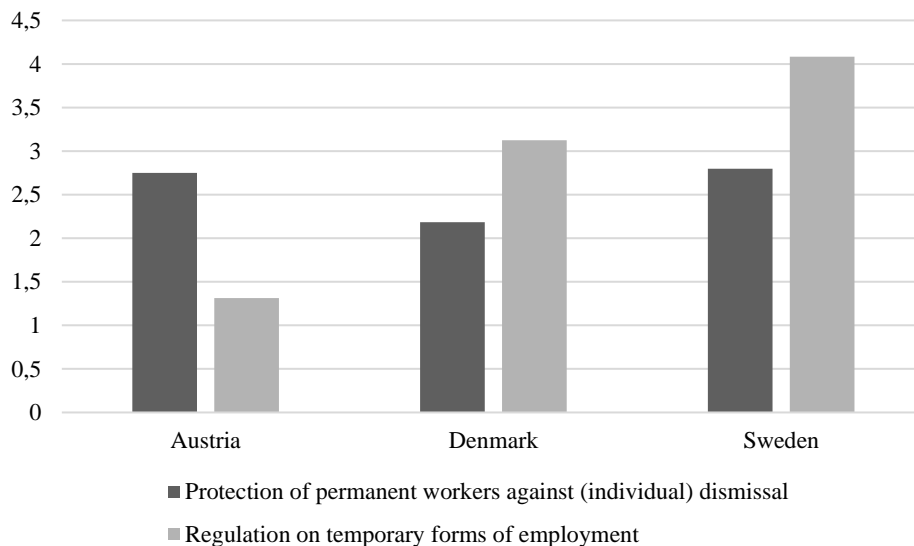


Figure 1: Employment protection legislation for permanent and temporary forms of employment in 1985.  
Source: OECD stats, EPL database (Version 1).

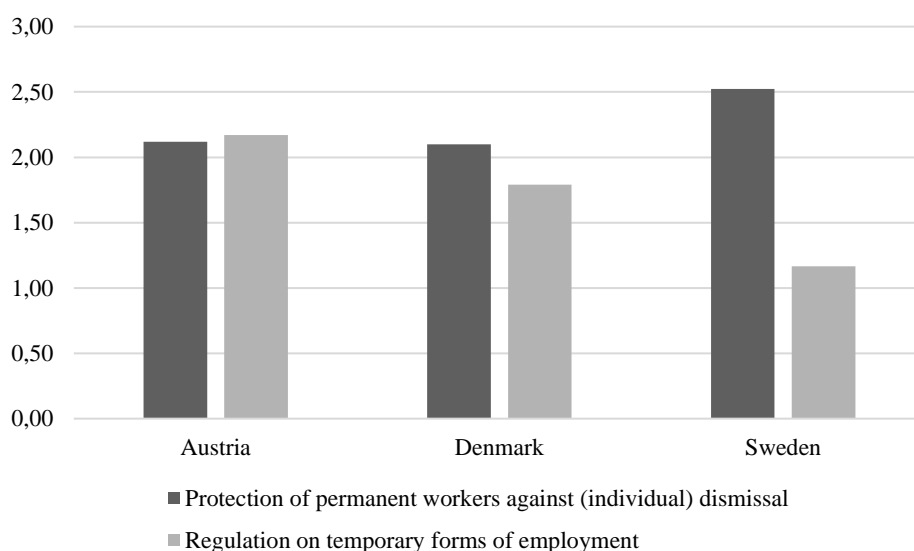


Figure 1.2: Employment protection legislation for permanent and temporary forms of employment in 2013.  
Source: OECD stats, EPL database (Version 3).

Figure 1.2 provides data of the OECD index on the strictness of employment protection in 2013. It shows that the distribution of job security between permanent and temporary contracts changed in very different directions. Austria and Denmark largely homogenised employment protections. Austria relaxed restrictions on permanent contracts and tightened regulations on temporary contracts, while Denmark deregulated temporary contracts. In fact, Austria today protects temporary forms of employment better than permanent ones, while the opposite is the case in Denmark. The dualism in Sweden strongly deviates from the other two cases. Sweden deregulated temporary contracts and maintained strict dismissal clauses for permanent ones

(“last-in, first-out” principle). In sum, Sweden strongly reinforced inequality in job security through dualisation, while Austria did the complete opposite. As Eichhorst/Marx (2012) show, this homogenous distribution of job security facilitates the upward mobility of outsiders on the Austrian labour market. Accordingly, the use of temporary contracts in Austria remained limited in size and has not translated into rising levels of youth unemployment, involuntary fixed-term or part-time contracts.<sup>2</sup> By contrast, Sweden experienced steep increases in youth unemployment (22.3 percent in 2013) and involuntary part-time employment (23.4 percent in 2013), while insiders continue to enjoy high wages and strong employment protection at the same time (Lindvall 2010, Davidsson 2011).

### **Unemployment insurance**

This section examines the development of the: (i) inclusiveness, and; (ii) generosity of unemployment insurance systems of Austria, Denmark, and Sweden. The reason for analysing these two dimensions in particular is that they determine the degree of insider-outsider divides in welfare; inclusive and redistributive benefit schemes protect outsiders better than segmented and exclusive alternatives. First, the *inclusiveness* of unemployment insurance refers to specific qualifying conditions associated with social insurance and assistance programmes, typically including the requirement of having been in employment for a certain amount of months/years. In addition, the maximum duration of benefit receipt influences the inclusiveness of the benefit system by setting time limits on the availability of cash benefits. Second, the *generosity* of unemployment insurance refers to the income replacing level of unemployment benefits (“replacement rates”). To examine the redistributive degree of the generosity dimension, I will first present the development of replacement rates for medium-income earners over time and then for different earnings levels for the latest date available.

The three cases feature two different types of unemployment insurance: the Conservative and contribution-financed type of Austria versus the Social Democratic and voluntary/state-subsidised type of Denmark and Sweden (Esping-Andersen 1990). The Austrian case represents a typical Conservative-Continental model insofar as the benefit generosity and the maximum duration of receipts are tied to the individual’s contribution record. It traditionally reproduced inequalities in the labour market within the welfare system by linking the individual employment biography to the level of benefit entitlements. By

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<sup>2</sup> In comparison to Belgium, Germany, France, and the Netherlands, Austria displayed the lowest shares of involuntary fixed-term contracts in total fixed-term employment (12.4 percent) and involuntary part-time contracts in total part-time employment (11.2 percent) (Eichhorst/Marx 2012).

contrast, Denmark and Sweden have voluntary and state-subsidised unemployment insurance, which enables the trade unions to administer the conditions for benefit payments (the so-called *Ghent* system). Generous benefit levels, especially for low-wage earners, and low direct membership fees traditionally enhanced the cost-benefit attractiveness to join unemployment insurance for workers and trade unions alike (see Rothstein 1992, Scruggs 2002, Clasen/Viebrock 2008). The egalitarian quality of the *Ghent* system rested on inclusive access to unemployment benefits and redistributive benefit entitlements, largely irrespective of an individual's employment record and the length of unemployment tenure.

#### *Inclusiveness of unemployment insurance*

My empirical analysis of the inclusiveness of unemployment insurance systems presents, first, comparative information on the qualifying conditions, the maximum duration of benefit receipt, and the re-qualification period. Second, it then reviews coverage and recipient rates to measure inclusiveness in terms of social outcome, and not policy output. Coverage rates describe the proportion of the whole workforce that is insured with unemployment benefits in the event of unemployment. Recipient rates describe the share of all unemployed that receives unemployment benefits. High coverage and recipient rates indicate a high level of inclusiveness and vice versa. These data sources thus reveal the actual effectiveness of unemployment insurance systems in providing inclusive access to welfare (see also Scruggs 2007). Instead, purely institutional analyses of eligibility conditions would fail to capture changes in outcome that result from changes in the economic context (Hacker 2004, Streeck/Thelen 2005).

Table 2.1 describes the different benefit tiers and eligibility conditions for benefit receipt. The first important difference between the three unemployment insurance systems lies in the number of benefit tiers. While Denmark has a single-tier system for all benefit claimants, Austria and Sweden have two tiers: unemployment insurance (UI), on the one hand, and unemployment assistance (UA), on the other. In Austria and Sweden, UA provides access to benefit payments for the unemployed who fail to qualify for UI benefits. In Austria, those unemployed who have exhausted the maximum benefit duration of UI have access to UA for an unlimited period. Means testing in this second tier of unemployment insurance derives from the condition that the unemployed, whose married partners receive a certain wage level, are not eligible for unemployment assistance. The generosity of the Austrian UA is only slightly less generous than is the case for UI (95-92 percent of the previous UI benefit level). Unlike social assistance, both UI and UA are financed by mandatory contributions from employees and employers on a parity basis. In Sweden, those unemployed who are not members of an

unemployment benefit fund may have access to UA under the condition that they have been in employment for at least 6 months within a 1-year reference period. The benefit level of the Swedish UA is equivalent to a basic flat rate.

Another crucial difference lies in the type of qualifying conditions. In Austria, access to unemployment benefits rests on the employment condition, which requires benefit claimants to have been in employment for at least 52 weeks within a 2-year reference period. This employment condition has remained unchanged over the last three decades. By contrast, in Denmark and Sweden, access rests on employment *and* membership conditions. Both countries require membership in one of the unemployment benefit funds for at least one year.

Table 2.1: Unemployment insurance systems compared: benefit tiers, qualifying conditions, maximum benefit duration, and re-qualification period in Austria, Denmark, and Sweden in 2013.

	Austria	Denmark	Sweden
Benefit tiers	Unemployment insurance Unemployment assistance (follow-up insurance benefit)	Unemployment insurance	Unemployment insurance Unemployment assistance (flat-rate basic allowance)
Qualifying conditions (i)	Employment condition: 52 weeks within 2 years.	Employment condition: 52 weeks within 3 years. Membership condition: 1 year.	Employment condition: 6 months within 1 year Membership condition: 1 year
Maximum benefit duration (ii)	Unemployment insurance: from min. 4 months to max. 2 years (dependent on age and contribution record) Unemployment assistance: unlimited	Unemployment insurance: 2 years	Unemployment insurance: 300 days Unemployment assistance: 300 days
Re-qualification period	28 weeks	52 weeks	No separate re-qualification period

*Notes:* (i) For Austria: 26 weeks within 1 year for young unemployed in Austria; for Sweden: 80 hours/month for at least 6 months within 1 year or 480 hours during six consecutive months and at least 50 hours/month. (ii) For Sweden: 450 days for unemployed with children under 18.

In Austria, the maximum benefit duration rests on age and employment record, but participation in training measures automatically extends the length of benefit receipt. During

the last three decades, the only restrictive change with respect to inclusiveness was the extension of the re-qualification period from 20 to 28 weeks. Still, access via re-qualification is more inclusive in Austria than in Denmark and Sweden. In Denmark, the centre-left government (1994-2001) gradually reduced the benefit duration from eight and a half years to four years, on the one hand, and doubled the employment condition from 26 weeks to 52 weeks, on the other. In 2010, the centre-right government (2001-2011) with support of the Danish People's Party halved the benefit duration from four to two years and doubled the re-qualification period from 26 to 52 weeks. Unlike in Austria and Sweden, the Danish system does not allow for an extension of the maximum duration of benefit receipt via participation in training measures. In Sweden, the centre-left government (1994-2006) extended the qualification period to six months and abandoned the possibility of re-qualification through training. In 2006, the Swedish centre-right coalition (2006-2014) additionally removed access to benefit receipt via education or periods of study. At the same time, the reform reduced the benefit duration to 300 days, while a so-called "job and development guarantee" may extend the duration for another 300 days at the lower level of UA.

Unlike the mandatory system of Austria, membership data reflect the degree of coverage in the *Ghent* systems. Table 2.2 shows the proportion of the labour force covered by an unemployment benefit fund in Denmark and Sweden. It shows that membership rates significantly declined in both countries, while the relative drop was stronger in Sweden than in Denmark. Danish benefit funds registered a gradual and slow membership loss from almost 80 percent in 1995 to 71.5 percent in 2012. Instead, Swedish benefit funds experienced a sudden and dramatic drop within a few years, resulting in a decline from 84.4 percent in 2005 to 71 percent in 2009. Today, around seven in ten employees are members of an unemployment benefit fund in Denmark and Sweden.

Table 2.2: Membership of unemployment benefit funds (as a percentage of the labour force), selected years.

	1995	2001	2005	2009	2010	2011	2012
Denmark	79.6	76.7	74.8	70.2	71.5	71.1	71.5
Sweden	87.0	85.0	84.4	71.0	70.6	70.3	70.4

Source: Due et al. (2012, 4) for Denmark; Comparative Welfare Entitlements Dataset of Scruggs et al. (2014) and Kjellberg (2014, 57f.) for Sweden.

*What explains the declining coverage of the Ghent systems?* What is sure is that the 2006 reform by the Swedish centre-right government drastically reduced the cost-benefit attractiveness of the *Ghent* system. Most notably, it differentiated the level of membership fees

along sector-specific unemployment risks, thereby dramatically shifting total funding of benefit payments away from public taxation. The share of general outlays covered by membership fees increased from 9.4 percent in 2004 to a whole 46 percent in 2007 (Clasen/Viebrock 2008, 444 f.). As a result, membership dropped from 83 percent to 72 percent in 2007 (Kjellberg 2014). Unlike in Sweden, an important part of the explanation for declining coverage in Denmark seems to be the remarkably favourable labour market development there between the mid-1990s and 2008. As Lind argues (2009), there is a negative relationship between the unemployment rate and the membership rate of *Ghent* systems, albeit with some time lag. Accordingly, the gradual decline of Danish unemployment rates to levels below 4 percent “had a clear impact” (ibid. 515) on the coverage ratio, because a growing share of employees trusted in the viability of employment security during good economic times (see also Goul Andersen 2011a, 193). From 2000 to 2008, the unemployment benefit funds lost 120,000 members; that is, 6 percent of the whole membership. Yet, the fact that membership rates did not increase in response to the onset of the Great Recession suggests a lasting membership loss, irrespective of the level of unemployment rates (Due et al. 2012).

The membership condition, however, is not the only Achilles heel of the *Ghent* systems. Instead, restrictions in the employment condition also curtailed the inclusiveness of unemployment protection, contributing to growing shares of unemployed that fail to meet the requirements for benefit receipt (see Klos 2014 for Denmark, and IAF 2009 for Sweden). Table 2.3 shows the proportion of unemployed receiving unemployment benefits from 2008 to 2013 (“recipient rates”). It shows that recipient rates are substantially higher in Austria than in Denmark and Sweden. The main reason why unemployment insurance in Austria provides income support to a higher ratio of unemployed lies in the relatively open access to UA. On average, 38 percent of the unemployed received UA benefits from 2008 to 2013. Without UA, the mean recipient rate would decline to 51 percent. In addition, Austrian governments extended the coverage of benefit eligibility to some atypical forms of employment (Obinger et al. 2012). By contrast, recipient rates of Denmark reflect by no means the commonly assumed universal quality of the so-called “Flexicurity” model. On average, more than one third of the registered unemployed received no income support from unemployment insurance during the Great Recession. Moreover, a study showed that the 2010 reform, which took effect as of January 2013, in combination with rising unemployment excluded 33,900 unemployed from unemployment benefit receipt (Klos 2014). Shorter benefit duration and more demanding re-qualification criteria on the one hand, and declining membership rates of the voluntary benefit

funds on the other, amount to a significant de-universalisation of Danish unemployment protection (see also Goul Andersen 2012a).

Table 2.3: Recipient rates in Austria, Denmark, and Sweden, 2008-2013.

	2008	2009	2010	2011	2012	2013
Austria	90	91	91	90	91	91
Denmark	54	64	59	56	60	57
Sweden	57	54	52	43	41	44

*Notes:* Share of all unemployed receiving unemployment benefits, including unemployment assistance (UA) for the cases of Austria and Sweden.

*Source:* AMS (*Arbeitsmarktservice*) for Austria, own calculation; Statistics Denmark (AUL 01 dataset) for Denmark; *Arbetsmarknadsrapporten* (2014, 20) for Sweden.

Sweden stands out in unequal access to unemployment benefits. Drawing on a study of the umbrella organisation of Swedish unemployment benefit funds, the share of unemployed without social rights to benefit receipt increased from 30 percent in 2005 to almost 50 percent in 2008 (IAF 2009). In particular, younger adults and immigrants lost access to benefit entitlements in this period (Sjöberg 2011, 217f.). In 2013, only 44 percent of the unemployed received benefit payments from unemployment insurance. According to IAF (2009), high unemployment rates among groups with weak labour market attachment and restrictive changes in eligibility conditions may explain this development. First, a growing share of the unemployed who had exhausted their entitlements were transferred to ALMP programmes, which pay out benefits from a different public authority (*Försäkring-skassan*). Second, the proportion of new entrants with low attachment to the labour market increased over time (e.g. young people and immigrants). Third, tightened work conditions and the abolition of the possibility to qualify for benefits via tertiary education or periods of study reinforced the exclusion of young unemployed people from benefit receipt.

In sum, from an outcome perspective, the analysis illustrates that the inclusiveness of unemployment insurance is higher in Austria than in the *Ghent* countries. Declining membership rates and tightened restrictions in eligibility conditions contributed to the shrinking effectiveness of voluntary unemployment insurance in providing encompassing access to social security. In Austria, by contrast, the mandatory character of social insurance, (virtually) no decisions with respect to the eligibility conditions, and the inclusion of atypical forms of employment (e.g. quasi-freelancers) contributed to relatively high levels of inclusiveness. Somewhat surprisingly, Swedish UA could not absorb declining membership rates in the voluntary benefit funds. Arguably, the strong dualisation in job security



arrangements had a detrimental impact on the inclusiveness of unemployment insurance, allowing for the rise of temporary contracts with weak attachments to the primary labour market.

### *Generosity of unemployment insurance*

My empirical analysis of the generosity of unemployment benefits relies on the development of net replacement rates over the period from 1971 to 2009. The dataset used here represents an updated, extended, and modified version of Lyle Scruggs' Welfare Entitlements Dataset (Van Vliet/Caminada 2012). It separates replacement rates of the "average production worker" into two different family types: single people and one-earner couples with two children. My comparison below reflects the mean ratio of these two family types.

Figure 1.3 shows that the gradually declining generosity of the *Ghent* systems led to a downward convergence between the three countries towards an average net replacement rate of around 60 percent. Average replacement rates in *Austria* remained almost unchanged across time, albeit starting at a substantially lower level than in Denmark and Sweden. Slight cutbacks led to a reduction of the net replacement rate from 57.9 percent to 55 percent for single people, whereas dependants continue to receive relatively high family surcharges on top of the basic replacement rate (Lindvall 2010, 161).

Since the early 1980s, average replacement rates in *Denmark* have continuously decreased, although the formal benefit level remains at 90 percent. A temporary benefit freeze for three years, during which the inflation rate rose to almost 10 percent annually, implied a de-facto cutback, whereas the subsequent indexation mechanism did not link the benefit ceiling to the development of average wage increases at the full level (Green-Pedersen et al. 2012, 135). In 2012, the Social Democratic-led government reduced the generosity of the indexation mechanism in order to finance tax cuts for people in employment, thereby reinforcing the trend of declining average net replacement rates in the future (Goul Andersen 2012b). Unlike in Denmark, average replacement rates in *Sweden* remained relatively constant until the early 1990s. In response to the economic crisis, however, Swedish governments of all partisan complexions agreed to decouple the benefit ceiling from average wage increases. In addition, the centre-right coalition unilaterally cut the maximum replacement rate from 90 percent to 80 percent in 1993. In 2001/02, the Social Democrats interrupted this trend of falling average net replacement rates by twice raising the benefit ceiling. Yet, these single interventions did not reverse the overall trend towards declining benefit generosity, given the abolition of annual benefit indexation. In 2006, the centre-right government accelerated this development by

lowering the benefit ceiling and introducing regressive replacement rates: 80 percent during the first 100 days, 70 percent for the following 200 days and then 65 percent from the previous income after 300 days of joblessness.

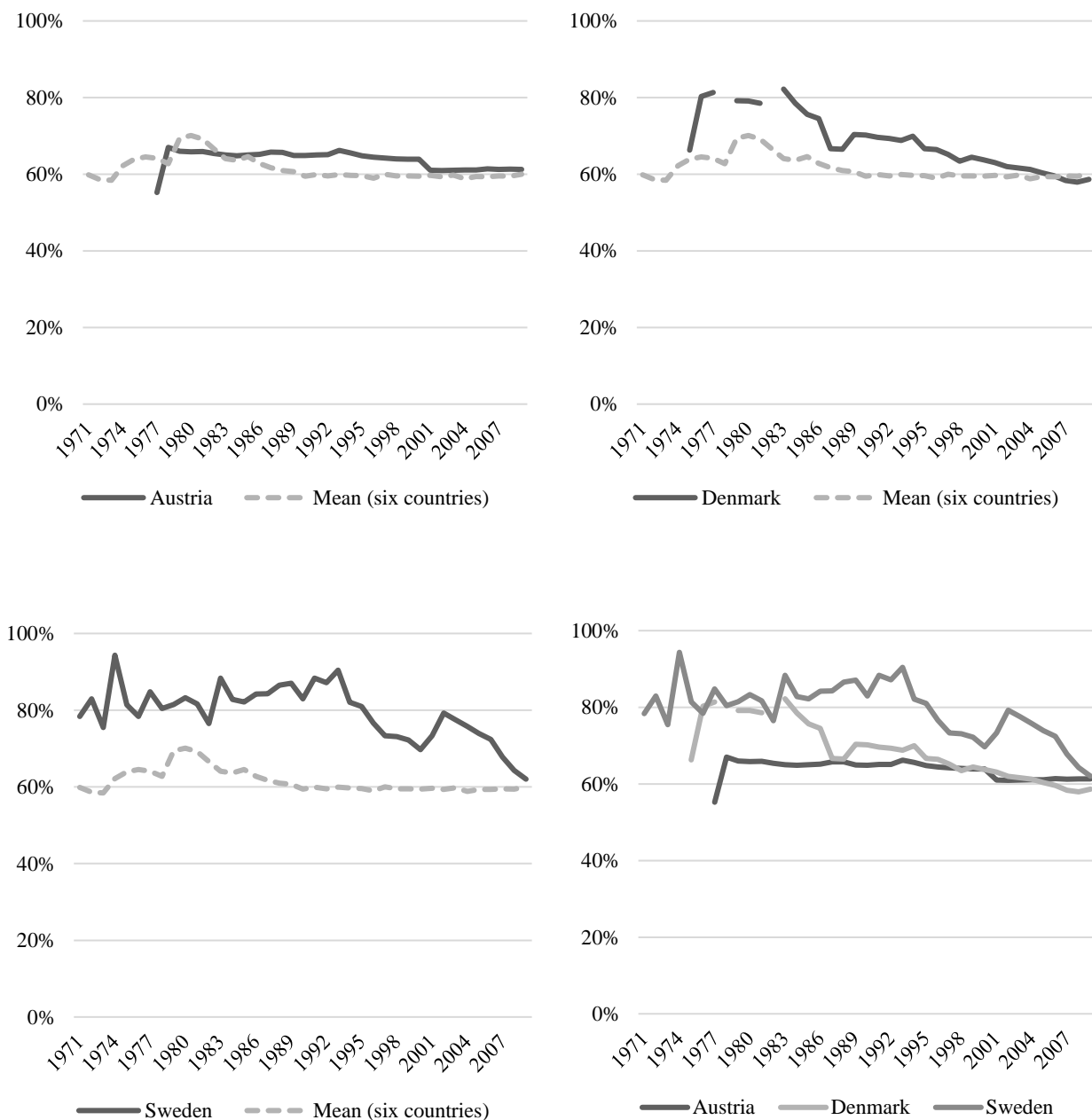


Figure 1.3: Net replacement rates for an average production worker in Austria, Denmark, and Sweden, 1971-2009. *Notes:* The dotted line represents the mean replacement rate of six mature West European welfare states that were selected on the basis of Esping-Andersen's welfare regime typology: Ireland and the UK (Liberal/Anglo-Saxon regime), France and Germany (Conservative/Continental regime), Norway (Social Democratic/Nordic regime) and the Netherlands (mixed Conservative-Nordic regime). Data do not include the years from 1971 to 1976 for Austria and the years of 1978 and 1982 for Denmark. *Source:* Unemployment replacement rates dataset (Van Vliet/Caminada 2012).

Austrian governments thus largely maintained the generosity of benefit levels, while the income replacing character of the *Ghent* systems declined over time, leading to a gradual process of convergence between the two types of unemployment insurance. The fact that average net replacement rates converged towards the Austrian level, however, does not tell us anything about the redistributive profile of the benefit system. The OECD “benefits and wages database” gives us insight into this question by providing data of net replacement rates for low-income, mid-income and high-income earners. It deviates from Van Vliet/Caminada (2012) in three important ways (see Table 2.4). First, it calculates the level of replacement rates on the basis of the “average worker wage”, and not the “average production worker”, thereby including occupations within the service sector. Second, it shows the mean ratio of six family types, rather than just two. Third, it shows data from 2012, and not only up to 2009.

Table 2.4: Net replacement rates by earnings levels (67 percent, 100 percent and 150 percent of average wage) and median of six family types in 2012 (latest data available).

	67 percent of AW	100 percent of AW	150 percent of AW
Austria	70.0	67.3	55.6
Denmark	88.3	66.5	52.0
Sweden	72.3	54.8	43.8
EU median	74.3	66.8	54.7

Source: OECD benefits and wages database, author’s calculation.

Table 2.4 confirms the earnings-related character of the Austrian system, albeit providing slightly higher benefit levels for unemployed workers with previously low-income earnings. Denmark, by contrast, stands out as the most redistributive system with net replacement rates of 88 percent for low-income earners. However, it also shows that mid-income groups in Austria and Denmark receive similarly high net replacement rates in the event of unemployment. Interestingly, the Swedish system is significantly less generous in the OECD dataset than in Van Vliet/Caminada (2012). This divergence appears related to differences in the calculation method and the delayed effects of the 2006 reform. The Swedish system is the least generous one in the sample while providing only slightly higher replacement rates for low-income groups than the Austrian system.

### Active labour market policy (ALMP)

Figure 1.4 uses data from the OECD social expenditure database to show the development of public spending on ALMP as a percentage of GDP over the period from 1985 to 2012. It divides these spending data by the level of harmonised unemployment rates to control for the economic context of ALMP in a given country. *Austria* started with a relatively low level of ALMP spending compared to *Denmark* and *Sweden*. In the late 1990s, spending rates increased but remained at a modest level until the mid-2000s, while starting to rise again thereafter. In response to the Great Recession in 2009, the grand coalition increased the budget of ALMP by 44 percent (€400 million) (Atzmüller/Krenn/Papouschek 2012, 27f). In 2010 and 2011, Austria recorded the third and, respectively, fourth highest ALMP expenditure rates in proportion to the unemployment rate in the OECD (BMASK 2012, 2013). In sum, Austrian governments have steadily expanded ALMP, currently reaching a relatively high level of spending from an international comparative perspective.

Starting with a medium level of spending, *Denmark* expanded ALMP spending to unprecedented high levels during the 1990s, clearly outperforming the rest of the OECD. The subsequent centre-right government (2001-2011) gradually reduced spending and tightened the work-first approach of activation demands (Jørgensen 2009). Declining spending went hand in hand with the full transfer of the administrative responsibility over ALMP from corporatist bodies to the municipalities, thereby breaking the institutional capacity of Danish unions to influence the regional design and local implementation of labour market programmes. Although high levels of spending persisted from a comparative between-case perspective, the within-case direction reveals a decline in spending during the 2000s.

By contrast, figures from *Sweden* reveal that the importance of ALMP has declined considerably throughout the last two decades. Remarkably high levels of ALMP spending dramatically decreased in the wake of the economic crisis of the early 1990s. After a three-year period of increased spending (1996-99), Social Democratic and Conservative-led governments cut expenditures again. As a result, by the late 2000s this Social Democratic prototype and ALMP pioneer country spent less on this policy area than Austria. Taken together, the comparative pattern of change in ALMP resonates with what we observed in the areas of employment and unemployment protection. Austria smoothed insider-outsider divides by expanding active state support for the unemployed, while Sweden did the complete opposite. Denmark outperforms Austria and Sweden, but there are signs of erosion through union exclusion and declining spending during the 2000s.

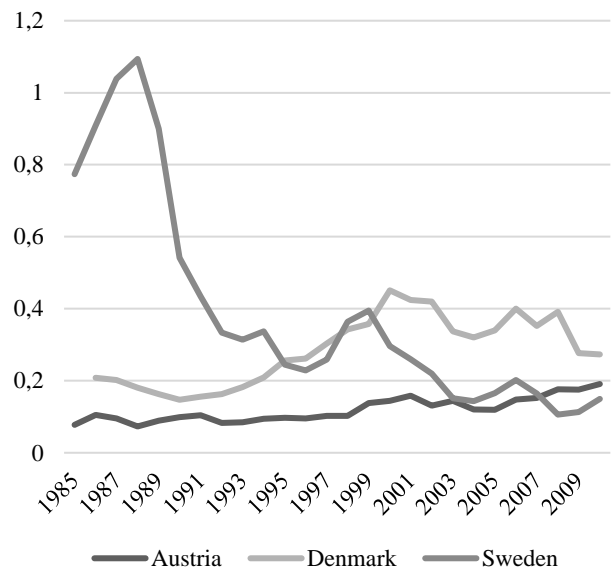
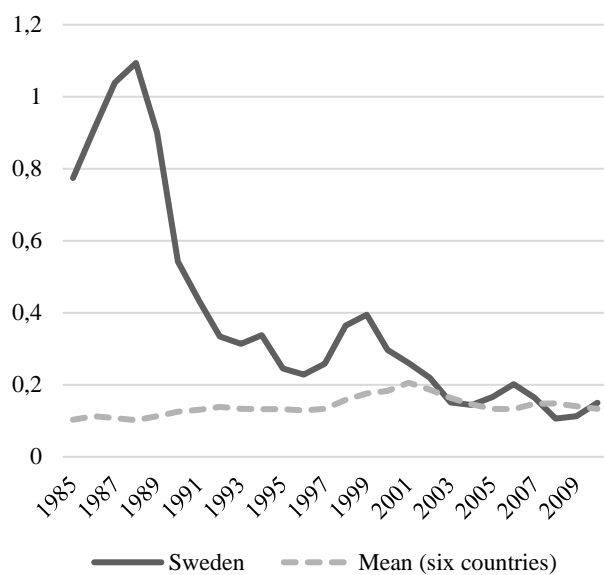
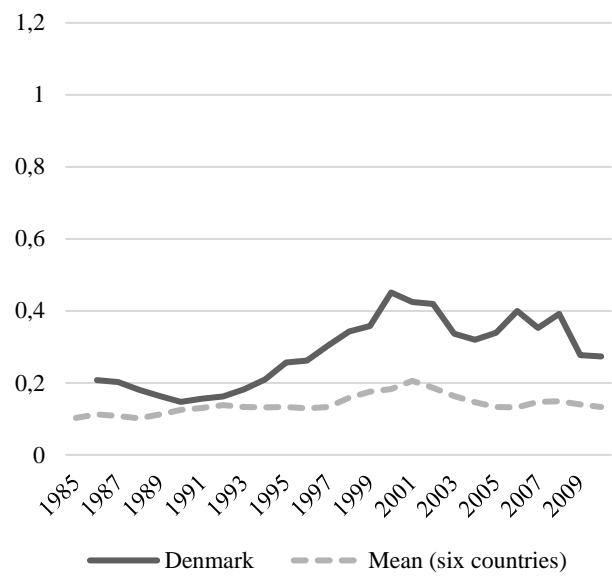
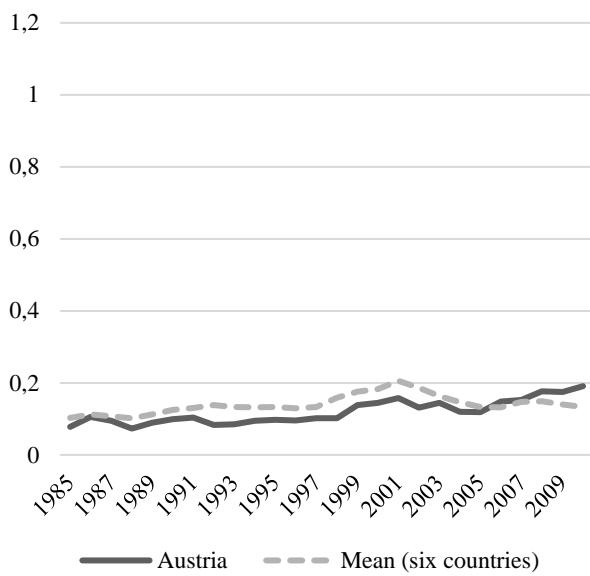


Figure 1.4: Spending on ALMP as a percentage of GDP and divided by the unemployment rate in Austria, Denmark, and Sweden, 1985-2010.

*Notes:* The dotted line represents the mean ALMP spending rates of six mature West European welfare states that were selected on the basis of Esping-Andersen's welfare regime typology: Ireland and the UK (Liberal/Anglo-Saxon regime), France and Germany (Conservative/Continental regime), Norway (Social Democratic/Nordic regime) and the Netherlands (mixed Conservative-Nordic regime).

Source: OECD Social Expenditure Database.

### Summary: Varieties of liberalisation in labour market policy

Political actors in all three small states liberalised their institutions of labour market policy by advancing market mechanisms according to a supply-side logic of economic adjustment. In this process, governments departed from their commitment to full employment and expanded the discretion of employers instead. Two central changes reveal this paradigm shift in labour market policy. First, the removal of legal restrictions in statutory employment protection promoted the volatility of national labour markets, thereby increasing the flexibility of ‘hiring’ and ‘firing’ procedures and decreasing the job security of employees at the same time. A process of so-called activation, the second element of liberalisation in labour market policy, implied cutbacks in the level and duration of unemployment benefits on the one hand, and mandatory participation in active labour market programmes on the other. Taken together, the institutions of labour market policy changed their *function* from market-constraining social entitlements towards market-conforming economic competitiveness (Streeck 2009, Baccaro/Howell 2011).

The common trend of liberalisation, however, did not rule out cross-national variation in the distributive profile of reform trajectories, nor did it imply convergence in the governance of labour market policy over time and space. Instead, the comparative review of institutional change in the three small states points to nationally distinct varieties of liberalisation that markedly diverged in their impact on inequality in labour markets and welfare (Thelen 2012, 2014). Table 2.5 summarises the reform trajectories of the empirical cases.

Table 2.5: Summary of labour market policy change in Austria, Denmark, and Sweden.

		Austria	Denmark	Sweden
Employment protection (level of strictness)	Permanent contracts	↓	-	-
	Temporary contracts	↑	↓	↓
Unemployment Protection	Inclusion	↑	↓	↓
	Redistribution	-	-	↓
Active labour market policy (spending rates)		↑	↑	↓

Notes: (↑) = expansion; (-) = no significant change; (↓) = contraction.

*Austria* homogenised job security regulations of permanent and temporary contracts, while additionally including some atypical employment contracts into the social insurance system. Although the generosity of benefit levels did not decrease significantly, earnings-related social insurance continues to reproduce status-oriented divisions within the labour market in the welfare system. Finally, expanded spending on ALMP provided an increase in state support for the unemployed. Compared to Sweden, Austria: (i) has an equal job security framework; (ii) grants income support to a substantially higher share of unemployed, and; (iii) spends more public resources on ALMP. The outsider-oriented character of the Austrian variety of liberalisation is thus undeniable, but in essence this process of adjustment remains rooted in the institutional framework of the Continental-Conservative welfare regime. This institutional legacy in tandem with the turn to tightened activation demands translates into low benefit levels, allowing for low-paid and precarious employment segments (Atzmüller/Krenn/Papouschek 2012).

*Denmark* also homogenised statutory employment protection, but unlike Austria, by deregulating dismissal clauses for temporary contracts. Easy ‘hiring’ and ‘firing’ for permanent contracts and redistributive unemployment protection are part of the Danish welfare state legacy, and are thus far from new. By contrast, the expansion of ALMP spending was a novel response to the economic crisis of the early 1990s and completed the ‘golden triangle’ of Flexicurity. Largely unnoticed by conventional wisdom, however, the Social Democratic components of encompassing social security and ALMP have come under strain in the last two decades. Declining inclusiveness reflects growing inequality in welfare, while the erosion of benefit generosity for mid-income earners might undermine the political support coalition behind the *Ghent* system in the future. In addition, the centre-right government converted the training-based character of Danish activation policies into a work-first regime by placing more emphasis on work incentives than on education (Jørgensen 2009). The case of Denmark still appears egalitarian from a comparative between-case perspective, but a diachronic within-case perspective reveals an eroding institutional capacity to narrow insider-outsider divides.

*Sweden* dualised statutory employment protection by deregulating the strictness of regulations on temporary forms of employment, while maintaining strong dismissal clauses for permanent contracts. In the area of unemployment insurance, the 2006 reform strongly shifted the funding of benefit payments from general taxes to insured wage earners, leading to rapidly falling membership and recipient rates. Therefore, low-income earners with high unemployment often lack legally binding social rights. By contrast, high-income earners tend to top up their unemployment insurance by joining private providers, because their statutory

benefit levels became too low. In 2012, 35 percent of the workforce paid additional membership fees to their benefit funds to gain private top ups in the event of unemployment (Rasmussen 2014). Therefore, Sweden underwent an encompassing privatisation of risk through the rise of (union-administered) private insurance providers and the declining coverage of the *Ghent* system. Another development that contributed to rising inequality was the dramatic decline of ALMP spending, albeit starting from a very high level. As a result, a growing share of wage earners lacks significant employment protection, access to unemployment insurance, as well as training in the event of unemployment. Taken together, it seems fair to say that Swedish labour market policy no longer represents a case of Social Democratic universalism, moving towards a liberal welfare regime type with dualised job security regulations.



### **III. Relying on the Weak: Austrian Unions and Smoothed Dualisation**

## Introduction

Austria is well-known for its conservative and male-oriented welfare state legacy. Declining coverage rates to the detriment of outsiders would be the most likely distributive outcome produced by this Conservative-Continental regime prototype in a post-industrial context. Perhaps unsurprisingly, contemporary debates indeed view the Austrian political economy against the backdrop of a German-like dualisation that shifted the burden of economic adjustment to workers of the service sector (Palier/Thelen 2010, Thelen 2014). Yet, the reality of the Austrian liberalisation path was quite distinct from that of Germany. Despite similar historical, cultural and institutional legacies (Katzenstein 1976), Austrian political actors did not emulate the German adjustment path of *pronounced* dualisation like other cases among the Conservative-Continental welfare regime type. Instead, the liberalisation of Austrian capitalism entailed elements that ran directly counter to the reinforcement of institutional status divides.

The findings I present below follow the empirical assessment developed by Obinger et al. (2012) that Austria may be considered a case of *smoothed* dualisation. In the area of labour market policy, this claim refers to a set of institutional changes that (i) homogenised the employment protection system, (ii) extended the coverage of the social insurance and (iii) expanded active labour market policy (ALMP) spending; that is, policies enhancing the protection of outsiders. Existing comparative studies lend additional credibility to the claim that the Austrian reform trajectory has been more ‘solidaristic’ relative to similar Conservative-Continental welfare states such as Belgium, Germany, France, and the Netherlands (Eichhorst/Marx 2012). Even though the Austrian politics of labour market adjustment have been by no means free of the broad neoliberal trend towards the re-commodification of labour (Atzmüller et al. 2012, Fink/Krenn 2014), the reform of labour market policy has been used to cushion the socially corrosive effects of capital liberalisation on the weakest labour market segments.

A relatively limited share of temporary and involuntary part-time contracts on the one hand, and an expanded coverage of the social insurance on the other, perhaps best illustrate the distributive outcome of ‘smoothed dualisation’ within the historically-evolved institutional constraints of a Conservative-Continental welfare regime (Bock-Schappelwein/Mühlberger 2008, Eichhorst/Marx 2012, Fervers/Schwander 2015). This chapter is an inquiry into the reasons why Austrian political actors enhanced the social protection of outsiders despite tightened fiscal constraints and neoliberal assaults from the political right.

*So how, then, can we explain the policy outcome of smoothed dualisation in a prototypical Bismarckian regime?* One potential explanation may link this distributive outcome to relatively favourable labour market performance with low unemployment rates. The successful macroeconomic adjustment of corporatist small states such as Austria might well have prevented the pattern of pronounced dualisation finds in Germany and France (Obinger et al. 2012, 185). This functionalist claim, however, conflates socioeconomic *outcome* with policy *output*. Low unemployment rates do not necessarily induce political actors to legislate ‘solidaristic’ policy changes nor do they rule out across-the-board deregulation. If anything, in fact, the gradual growth of public debt to more than 80 percent/GDP could have induced governments to legitimise increased status divides as a matter of ‘economic responsibility’. Instead, however, the crisis response to the Great Recession did not entail any significant retrenchment of benefit entitlements like in other countries, but rather an expansion of training-based ALMP and short-time work arrangements.

A partisanship explanation highlights the dominant role of the Social Democratic Party (SPÖ) in Austrian politics (Huo 2009, Häusermann 2010, Pontusson 2011). Between 1970 and 2000, the SPÖ has remained the largest party and thereby provided the Chancellor of the federal government. The subsequent centre-right coalition between the Conservative/Christian Democratic People’s Party (ÖVP) and the populist right-wing Freedom Party (FPÖ) interrupted this dominance for six years. As of 2006, the SPÖ has once again taken office by leading a grand coalition with the ÖVP. While the party’s emphasis on “social fairness” (Kalina 2007) in response to the controversial policy performance of the previous centre-right coalition was important for attempts to expand the coverage of welfare arrangements (Obinger 2009), a straightforward argument on partisan differences appears unconvincing for at least two reasons. First, the policy demands of the SPÖ are inextricably linked to the priorities of its powerful trade union wing, and not vote-seeking calculations *per se*. In that sense, a view that puts elections front and centre misses the essence of Austrian politics, which rests on strong personal and institutional linkages between the SPÖ and organised labour on the one hand, and the ÖVP and organised business on the other (Tálos 2008a). Second, it would be difficult to contend that the party leaders of the SPÖ remained markedly more egalitarian-minded than their counterparts in Social Democratic welfare states such as Denmark and Sweden. It is clear that the party leadership gradually developed market-conforming problem definitions in response to the challenges posed by the neoliberal era (Müller 1988, 322 f.; Tálos/Wörister 1998, 283; Seeleib-Kaiser et al. 2008, 103-121).

A producer group approach attributes the enhanced protection of outsiders to the influential role of macro-corporatist institutions involving national peak level associations and the state (Martin/Thelen 2007, Martin/Swank 2012, Thelen 2014). The resilience of national tripartite policy-forums may help safeguard the interests of working people through negotiated reform between employers, unions, and the state. In this ‘varieties of capitalism’ perspective (Hall/Soskice 2001), centralised and encompassing peak level associations mediate the policy preferences of business, thereby enabling governments to draw on cross-class cooperation and pursue social investment policies. Yet, the producer group claim is not consistent with the fact that the Austrian employers’ association, the Economic Chamber (WKÖ), continuously demanded welfare cuts for the unemployed and blocked any attempt to establish minimum benefit entitlements. Even more importantly, the producer group argument ignores the fundamental fact that union involvement in public policy is not an institutionalised constant in corporatist economies. Instead, union involvement rests on the *political* choice of governments to share policy-making authority with organised interests. Confronted with shrinking unions, governments may well refrain from labour acquiescence to pursue its preferred policy output.

I contend that neither the favourable labour market performance, nor the influence of the SPÖ or neo-corporatist institutions explain the Austrian adjustment path of smoothed dualisation. Rather, I argue that the crucial reason why Austria deviated from the ‘Bismarckian’ mainstream was the persistent reliance of governments on trade union support in designing, implementing, and legitimising reforms of the labour market and welfare state. Perhaps unsurprisingly, Austrian governments at various points actively sought to overcome the veto-power of the ÖGB in the interest of unilateral fiscal consolidation (Tálos/Kittel 2001, Obinger/Tálos 2006). However, they lacked the autonomous reform capacity necessary to reject a process of negotiated adjustment that would include unions. This *weakness* of Austrian governments, I claim, was necessary for the ongoing influence of the ÖGB on the policy-making process, which caused precisely the ‘solidaristic’ elements that define the reform trajectory of smoothed dualisation. Interestingly, therefore, declining union power did not cause a simultaneous decline in union influence on the policy-making process.

As we saw above, the dominant government constellation in the neoliberal era has been that of a grand coalition between two ideologically divided and similarly strong parties. Faced with severe economic challenges, their reform capacity was constrained by intra-coalitional divisions, which gave them strong incentives to delegate policy-making authority to a labour-inclusive ‘social partnership’ (*Sozialpartnerschaft*). The ‘solidaristic’ elements of smoothed dualisation have therefore not been a product of partisan reform ambitions. It instead resulted

from trilateral negotiations between unions, employers, and the state. Elections play little role when governments are notoriously divided and can draw on close ties to well-established social partners. We would expect this negotiated reform process to open up opportunities for organised labour to extract concessions from the state. Of course, the character of and trade-offs involved in that political exchange changed over time, but the involvement of unions remained indispensable in this process.

In contrast to employers, unions had a strong stake in the protection of outsiders. The growth of temporary ‘atypical’ workers exercised pressure on the prevailing labour and social security regulations of their core membership, thereby threatening the bargaining power of unions *vis-à-vis* employers. This pressure was hardest felt by workers in the service sector. In a labour movement where decisions are made by the confederal elite, precisely the demands of the service sector gain stronger attention than in decentralised labour movements where the interests of the manufacturing unions often prevail (Thelen 2014). With a high level of labour unity, union leaders in Austria could use their policy-making influence to enhance the social protection of outsiders, and not only a shrinking and ageing core of insiders.

That the influence of organised labour was not endemic to institutional and cultural legacies of Austrian post-war corporatism was powerfully demonstrated by the formation of a strong government in the 2000s. Drawing on a high level of ideological cohesiveness, the ÖVP-FPÖ coalition was indeed able to impose its policy preference on unions in a range of issues, especially old-age pensions (Obinger/Tálos 2006). In the area of labour market policy, however, the ÖVP-FPÖ coalition failed to pursue its programme against organised labour. Confronted with internal turmoil, the FPÖ blocked the ÖVP in its attempt to reinforce status divides in unemployment insurance. Intra-coalitional divisions were therefore necessary for the absence of unilateral reform processes that would have excluded the one single actor that incorporated the interests of outsiders in its political priorities: the unions.

My argument proceeds as follows. First, I briefly describe the policy output of smoothed dualisation in the area of labour market policy. Second, I show how labour unity gave Austrian unions the strategic capacity to push for outsider-inclusive policy choices, which could materialise in the policy-making process due to the presence of weak governments. Third, I demonstrate my argument through process-tracing and evidence from 16 semi-structured interviews with policy-making elites. In the conclusion, I discuss the main findings of this case study against the backdrop of the general argument of the thesis.

### Smoothed dualisation in a Bismarckian welfare state

Austria has certainly liberalised its labour market policy, but it has done so in a way that was attentive to the post-industrial demands of unemployed and temporary workers. In other words, the dominant turn to the re-commodification of labour was complemented by changes that facilitated transitions to permanent contracts and extended benefit entitlements to workers on the margins of the workforce. In that sense, my definition of smoothed dualisation refers to supply-side solidarity in an age of capital liberalisation (Baccaro/Locke 1998). Table 3.1 briefly reviews this labour market policy output on the basis of data from Chapter II.

Table 3.1: Overview of smoothed dualisation in Austrian labour market policy

<b>Government and period</b>	<b>Policy change</b>	<b>Employment Protection</b> (strictness of employment protection for regular and temporary contracts; OECD stats.)	<b>Unemployment Protection</b> (net replacement rate for average production worker and two family types)	<b>Spending on Active Labour Market Policy</b> (as a percentage of GDP per unemployed)
Grand coalition (1987-99)	Smoothed dualisation	- Regular contracts: 2.75 - Temporary contracts: 1.31	- NRR: from 66 to 64 percent - Tightened availability requirements - Extended social insurance coverage	- Spending: from 0.10 to 0.14
Centre-right (2000-2006)	Smoothed dualisation	- Regular contracts: from 2.75 to 2.12 - Temporary contracts: from 1.31. to 2.15	- NRR: from 64 to 61 percent - Re-qualification period: from 20 to 28 weeks - Tightened availability requirements and ‘wage protection’	- Spending: from 0.14 to 0.13
Grand coalition (2006 -?)	Smoothed dualisation	- Regular contracts: no change - Temporary contracts: no change	- NRR: from 61 to 60 percent (2009) - Tightened availability requirements - Extended social insurance coverage	- Spending: from 0.13 to 0.19

Source: see Chapter II.

First, the dualistic job security framework was transformed by universalising entitlement conditions for severance pay entitlements (*Abfertigung neu*). Protections for temporary workers are even slightly greater than for permanent workers, according to OECD statistics. As Eichhorst/Marx (2012, 84-89) observe, this universalisation impeded the growth of temporary employment contracts and pre-empted rising levels of involuntary fixed-term or part-time contracts. Their study finds that Austria displayed the lowest shares of involuntary fixed-term contracts in total fixed-term employment (12.4 percent) and involuntary part-time contracts in total part-time employment (11.2 percent) in comparison to Belgium, Germany, France, and the Netherlands in 2008 (*ibid.*). Time series data on temporary employment may shed some additional light on the distributive outcome of smoothed dualisation. Figure 2.1 illustrates the levels of temporary employment in Austria relative to Denmark, Sweden, and the average of the EU-21 from 1997 to 2014.<sup>3</sup>

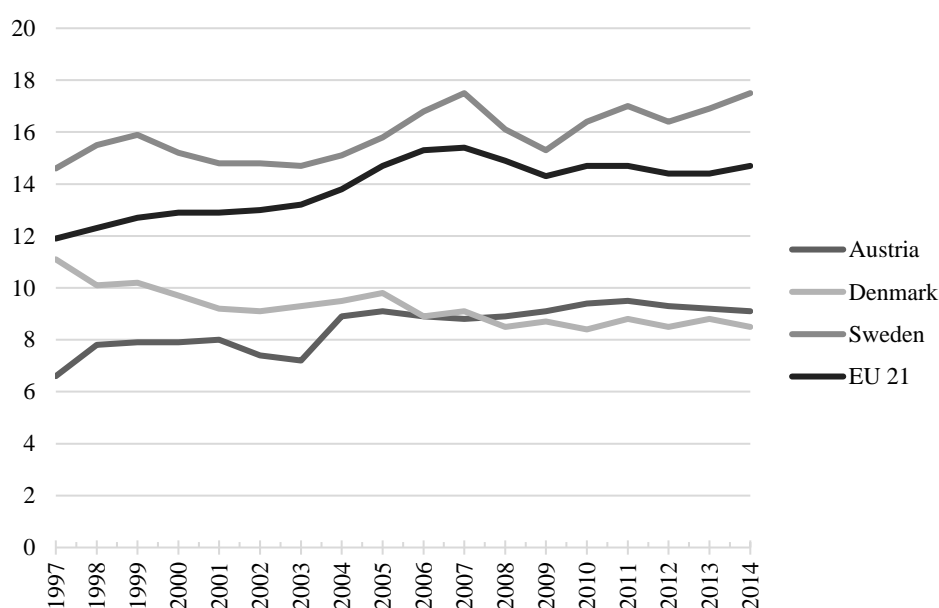


Figure 2.1: Incidence of temporary employment in percentage of total workforce in Austria, Denmark, Sweden, and EU-27, 1997 – 2014.  
Source: OECD stats.

It shows the contrast in the levels of temporary employment between Austria and Denmark, on the one hand, and Sweden, on the other. The incidence of temporary employment remained below 10 percent in the former two countries, whereas it increased to 18 percent in Sweden, thereby significantly exceeding the average of the EU-21 countries. Moreover, involuntary

<sup>3</sup> I restricted the time period of Figure 2.1 to the year of 1997, because the OECD does not provide data on temporary employment from before this date for Austria and Sweden.

part-time employment increased much more in Sweden than in Austria, Denmark, and the EU-average; around 33 percent of total part-time employment was involuntary over the whole 2000s, according to OECD stats. In Austria, by contrast, this figure remained at around 10 percent, compared with 16 percent in Denmark and 28 percent in the EU-average in 2014.

Second, the generosity of unemployment insurance declined from 66 percent in 1987 to 60 percent in 2009. Modest cutbacks led to a reduction in the net replacement rate for single people to 55 percent, but those unemployed with dependants receive relatively high family surcharges on top of the basic replacement rate (Lindvall 2010, 161). The Bismarckian welfare state architecture of the Austrian social insurance system disadvantages part-time, temporary, and low-paid employees by reproducing labour market inequalities in the social security system (Esping-Andersen 1990). Access conditions, benefit levels, and maximum durations are tied to the earnings-related contribution record corresponding to the individual employment biography. In addition, the gradual tightening of availability and job-search requirements as well as the growing use of sanctions reinforced the risk of in-work poverty for people on the margins of the workforce (Atzmüller 2009, Fink/Krenn 2014). Access to the form of slightly less generous unemployment assistance (*Notstandshilfe*) for those unemployed who no longer qualify for unemployment benefits remained relatively open (see Chapter II).<sup>4</sup>

At the same time, benefit entitlements were extended to temporary agency workers, quasi-freelancers and, on a voluntary opt-in basis, to the ‘new’ self-employed. As a consequence, most ‘atypical’ employees either gained social insurance coverage or a voluntary opt-in choice in the past two decades (Obinger et al. 2012). Notably, despite gradual improvements some divisions between ‘regular’ and ‘atypical’ employment contracts remain with respect to the scope of employment rights (ibid.). Table 3.2 reviews the share and social protection of atypical employment contracts in 2011.<sup>5</sup> It describes, first, that the predominant form of atypical employment refers to female part-time work, which amounted to a whole 44 percent among total female dependent employment in 2011. This high figure reveals the conservative male-breadwinner legacy of the Austrian welfare state and family relations alike.

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<sup>4</sup> Means testing in this second tier of the unemployment protection system derives from the condition that the unemployed, whose partners receive a certain wage level, are not eligible for unemployment assistance. The benefit level of unemployment assistance is slightly less generous than the first-tier unemployment insurance (92-95 percent of previous benefit level).

<sup>5</sup> For a description of the types of ‘atypical’ employment contracts, see Bock-Schappelwein/Mühlberger (2008).



Table 3.2: Share and social protection of atypical employment contracts in 2011.

Type of contract	Share in total employment	Share of women in total female employment	Pensions (1 <sup>st</sup> pillar)	Pensions (2 <sup>nd</sup> pillar)	Unemployment
Part-time	20.9 percent	44.0 percent	X	X	X
Marginal	9.0 percent	12.3 percent	Opt-in	X	None
Freelancer	0.6 percent	0.7 percent	X	X	X
Temporary agency work	2.3 percent	1.7 percent	X	X	X
New self-employed	0.56 percent (a)	0.6 percent (a)	Y	Y	Opt-in

Notes: X = mandatory insurance; Y = mandatory insurance if income exceeds wage level of marginal employment; (a) share of new self-employed from year of 2008.

Source: Bock-Schappelwein (2008), Obinger et al. (2012), BMASK (2010, 2014).

Second, Table 3.2 shows that marginal employment amounts to 9 percent of total employment. Unlike part-time work, marginally employed refers to workers who are not allowed to exceed a certain income level (€415.72 in 2016), are not covered by unemployment insurance and may opt into pension insurance on a voluntary basis. This segment perhaps reflects the clearest instance of ‘outsiderness’ with respect to wage levels, labour rights, and social insurance coverage in the Austrian welfare state. However, as Riesenfelder et al. (2011) finds, the share of involuntary marginal employment amounted to a mere 14 percent in 2010. Accordingly, 44 percent of the marginally employed had an additional income through a standard contract (19 percent), pension benefits (16 percent), unemployment benefits (9 percent), whereas 31 percent of total marginal employment was undertaken by high-school or university students.

Finally, Table 3.2 shows that the shares of the three remaining atypical employment contracts in total employment – quasi-freelancers, temporary agency work, and ‘new’ self-employed – are relatively limited. Unlike part-time and marginal employment, the prevalence of these three contract types declined over time, especially quasi-freelancing and new self-employment. This decline might well be related to rising labour costs resulting from extended benefit entitlements, alongside the detrimental impact of the Great Recession on the demand for temporary agency work.

Another reform that extended social security arrangements was the replacement of the territorially-fragmented social assistance scheme with the so-called ‘needs-oriented minimum income scheme’ (*Bedarfsorientierte Mindestsicherung*, BMS). Although benefit levels remain means-tested, the new scheme entails expansive elements of basic security for the most disadvantaged groups in society (Tálos 2008b). The main political intention behind the legislation of the BMS was to homogenise the fragmented social assistance at a higher benefit level for some regions and ease access conditions for various groups such as lone parents. Moreover, the new scheme granted equal access to re-integration measures for minimum income recipients in public employment services. Recent evaluations, however, suggest that its implementation at the regional level has as yet failed to deliver the promised improvements for benefit claimants (ÖKSA 2012, *Der Standard* 02.01.2015). The introduction of a collectively negotiated minimum wage at the level of gross €1,000 for full-time employees (about €820 net, 14 times a year) accompanied the reform of social assistance in 2008. The almost universal coverage of collective bargaining ensured an encompassing right to the minimum wage.

Finally, spending levels on ALMP increased from 0.10 to 0.19 percent/GDP per unemployed in the same period. As a result, in 2010 and 2011, Austria achieved the third and fourth highest ALMP expenditure rates, respectively, in proportion to the unemployment rate and GDP in the OECD (BMAASK 2012, 2013). The strong focus on training in Austrian ALMP plays an important role in the adult education of low-skilled segments of the labour market (Hofer et al. 2014, 11).

Table 3.1 shows that both grand coalitions *and* the centre-right coalition promoted the reform trajectory along the lines of smoothed dualisation. The former expanded the coverage of social security and ALMP spending, whereas the latter homogenised the job security framework. It must be highlighted, however, that the absence of radical changes is not a result of a partisan convergence between the political left and right. On the contrary, the government programmes of the centre-right coalition between the ÖVP and FPÖ *did* include significant welfare cutbacks to reduce reservation wages and boost the growth of a low-wage sector. Yet, in the area of labour market policy, the government in large part failed to pursue this agenda, since the final policy output did not reveal radical changes relative to the previous grand coalition. The next section analyses why organised labour remained sufficiently influential to block neoliberal assaults and extract concessions on behalf of ‘outsiders’.

## Union Preferences and Government Strength in Austria

In this section, I will present my argument about the interaction between outsider-inclusive union preferences and government weakness in detail. First, this section describes how labour unity through horizontal concentration and vertical centralisation creates an interest in support of the enhanced protection of outsiders. Drawing on density data, it also shows a dramatic decline in union power, which limits the political capacity of the ÖGB to assert itself *vis-à-vis* governments and employers. The fact that declining union power did *not* correlate with declining labour-inclusiveness in the policy-making process points to the role of governments in maintaining labour-inclusive reform strategies. Therefore, it then discusses the underlying weakness of Austrian governments that ruled out a unilateral reform strategy that excludes unions; namely, the inability of ideologically divided and similarly strong coalition partners to formulate a cohesive policy agenda independent from the mitigating influence of a labour-inclusive ‘social partnership’ (*Sozialpartnerschaft*).

### *Why Austrian unions represent the interests of outsiders*

The Austrian labour movement rests on a nationally distinct cooperation between two different interest organisations: the Chamber of Labour (BAK) on the one hand, and the Austrian trade union confederation (ÖGB) on the other. The BAK represents the whole workforce due to mandatory membership in corporatist parity bodies such as the social insurance and the public employment service. By contrast, the ÖGB relies on voluntary membership and possesses the legal monopoly to conclude collective agreements, but unites with the BAK in advancing the interests of labour within corporatist parity bodies. That one and the same person often holds leadership positions in both interest organisations underlines the popular perception of a united ‘labour block’ in Austrian politics. In fact, however, there is a clear division of responsibilities in the political process: the ÖGB determines the political priorities on behalf of labour, whereas the BAK delivers the political expertise to achieve these priorities in the industrial and political arena (Traxler/Pernicka 2007, 223). Or, in the terms of the Austrian labour historian Fritz Klenner (1967, 211), the BAK emerged as a subsidiary public-law body in support of the union movement (*Hilfsorgan*), which in addition monitored the implementation of politically-achieved and legally-binding regulations *vis-à-vis* the state and capital (*Kontrollorgan*). In response to growing public criticism about mandatory membership, however, the BAK developed a more autonomous profile during the 1990s, by advancing individually tailored legal services to employees in a range of different issues at the local level (Karlhofer 2006, 471-472).

The preference for an enhanced protection of ‘outsiders’ has been supported by the ÖGB’s perhaps unrivalled extent of labour unity derived from *horizontal concentration* and *vertical centralisation*. In fact, Austrian unionism has traditionally been the most concentrated and centralised in the OECD (Traxler 1998, Traxler/Pernicka 2007, Gordon 2015). Horizontal concentration refers to the associational monopoly of the ÖGB in covering all unions, which by definition implies a *de facto* monopoly in representing all workers in the industrial and political arena. Vertical centralisation refers to the strong authority of the confederal level in the interest aggregation process within the labour movement. In fact, sector unions are not even independent affiliates, but rather subdivisions under the umbrella of the ÖGB, since they possess no legal personality. Therefore, the ÖGB exercises full control over individual unions’ finances and staff. Vertical centralisation broadens the representational scope of the interest aggregation process, because the confederal level incorporates the voice of the less organised service sectors, thereby empowering them *vis-à-vis* their more organised counterparts in the manufacturing sector (Gordon 2015, 90-91; see also Thelen 2014). The capacity to shift interest concentration to the highest level sets the ÖGB apart from the classical sectoral model of German unionism. While also displaying a unitary structure, the German union confederation (DGB) lacks the institutionalised hierarchies to overcome cross-sectoral divides in public policy-making (Heinisch 2000, 76). Unlike the ÖGB, therefore, the weak authority of the DGB underpins an unequal distribution of power between different sector unions, which favours a sectoral union framework and co-determination at the plant level.

Labour unity was a clear political post-war choice that arose from historical lessons, whose impact on the ideological outlook of future union generations cannot be overstated. First, the post-war elites of the union movement came to the conclusion that their fragmentation into rivalling factions undermined their mobilising capacity to resist the Austro-fascist regime in 1933/34, which then paved the way for the *Anschluss* with Nazi Germany in 1938 (Traxler/Pernicka 2007, 207). In hindsight, this experience led to the conviction that a united organisation would be imperative to the future viability of the labour movement and democratic stability alike. To achieve labour unity within a single confederation, the ÖGB internalised all different camps into political factions, which are linked to the parties in parliament (ibid.). The faction of the SPÖ is the strongest among all member unions, except for the union of public service employees, which is dominated by the ÖVP. Another important historical lesson for Austrian union leaders was that the country’s vulnerability to fascism during the inter-war period was inextricably linked to mass unemployment. In consequence, labour unity was considered necessary by union leaders to generate the strategic capacity for the conclusion of

‘responsible’ wage agreements in the interest of full employment and economic growth (Klenner 1967; 178, 200; Katzenstein 1985). With their persecution during Austro-fascism (1934-38) and National Socialism (1938-1945), the post-war occupation thus marked the turning point from an ideological outlook of class struggle towards class cooperation (Traxler 1998, 272). This commitment was supported by the subsequent integration of the ÖGB into the nation-wide economic management of the state, which provided the confederal union level with the associational responsibility and political legitimacy to speak for the entire labour force collectively.

Its representational monopoly and centralised authority across diverse sectors and political factions rules out the externalisation of adjustment costs and thus steers the ÖGB to assume an inclusive representational outlook. The hegemonic position of the ÖGB not only made organised labour a ‘responsible’ interlocutor for capital and the state, but also undermined the formation of particularistic public-policy goals driven by powerful sector unions. It thus allowed for an encompassing representational focus when employers discovered the usage of ‘atypical’ employment contracts as a way of boosting flexibility and cost competitiveness. These contracts allow employers to save non-wage labour costs and circumvent legal restrictions enjoyed by workers in ‘regular’ contracts. Therefore, they create pressure on unions’ bargaining power as well as the wage levels and working conditions of the firms’ core workforce. In particular, the unitary and cross-sectoral white-collar union (GPA-djp) is exposed to (female) part-time employment, ‘freelance’ contracts, and new self-employment (Pernicka 2007). By contrast, unions in the manufacturing sector are mainly confronted with temporary agency work as a deviation from the standard employment relationship (ibid.). A series of mergers since the 1990s made a growing share of member unions affected by the usage of atypical employment contracts. The number of member unions gradually declined from 16 in 1978 to 7 in 2009. Notably, the powerful blue-collar union of Metal, Mining, and Energy merged with the union of Textiles in 2000, the union of Agriculture and Food in 2006 and the union of Chemistry in 2008 to form the *Produktionsgewerkschaft* (PRO-GE). As a result, even the traditionally male-dominated industrial union came to include sectors with female part-time workers, albeit to a very limited extent relative to the service sector.

The ÖGB pursued a policy of undermining intra-labour competition between ‘regular’ and ‘atypical’ workers by demanding an extension of prevailing labour protections and social security arrangements to those workers who lack coverage in these respects. For example, the inclusion of atypical contracts into social insurance imposes the payment of mandatory benefit

contributions on the employer, thereby reducing the cost attractiveness of nonstandard employment relationships as well as expanding the financing base of the welfare state at the same time. In a Conservative welfare regime, the enhanced social protection of outsiders helps union confederations to re-gain bargaining power *vis-à-vis* employers, protect their core members from low-wage competition, and reach out to workers at the margins of the labour force. Contrary to Rueda (2007), therefore, the mobilisation of political support for ‘outsiders’ can be perfectly compatible with the interest representation of ‘insiders’. That said, the earnings-related nature of benefit entitlements sets institutional constraints on attempts to improve the social security of outsiders.

It is clear that high levels of labour unity not only support a policy *preference* for outsider-inclusive policy choices, but also the *power* to achieve these preferences in the political process. Yet, the incredible decline of the density of the workforce that is unionised poses perhaps the greatest threat to the political influence of the ÖGB. Figure 2.2 compares this decline from 63 percent in 1970 to around 25 percent in the early 2010s with the robust levels of unionisation found in the *Ghent* countries of Denmark and Sweden.

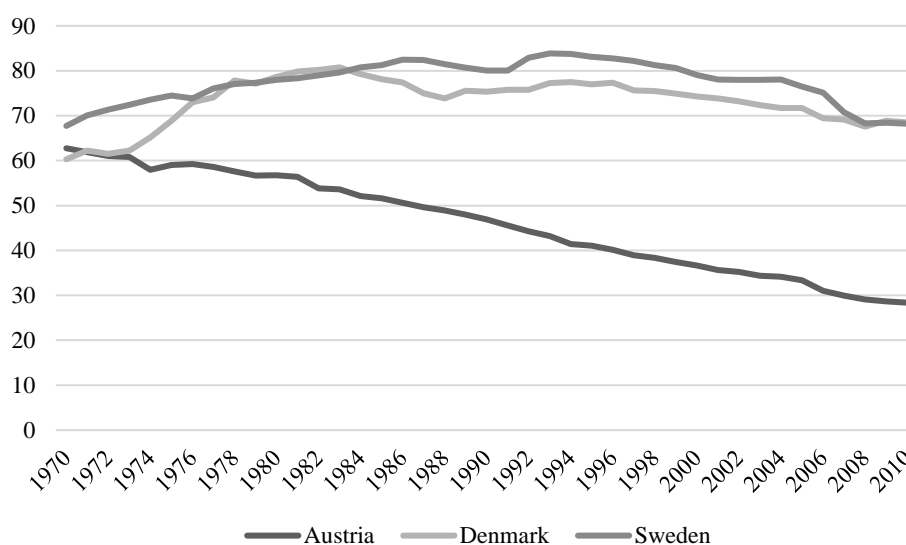


Figure 2.2: Union density rates in Austria, Denmark, and Sweden, 1970-2010.  
Source: OECD stats.

There are a number of different reasons for this decline, but the most obvious one appears to be the lack of selective incentives for membership (Traxler/Pernicka 2007). As described above, mandatory membership in the BAK gives non-unionised workers access to individually-tailored legal services, whereas collective agreements cover the entire sector irrespective of union membership. As a result of declining density rates, female and service sector workers

have become significantly underrepresented in union membership relative to male and manufacturing workers (ibid.). At the macro public-policy level, the organisational structure geared towards labour unity helps counteract the pressure for selective interest representation on behalf of a shrinking and ageing core membership.

The decline in union density undeniably weakens the mobilising capacity of unions to put constraints on unilateral reform ambitions of governing parties. With the decline in organisational power, the political influence of the ÖGB relies to a growing extent on its institutionalised power position derived from participation in corporatist state bodies. The essential question is then to what extent governments exploit declining union strength as a political opportunity to swing the balance of political influence away from labour. Faced with the demands of liberalisation and austerity, governments would have a *structural* incentive to pursue a unilateral approach to economic adjustment problems against the veto of organised labour. But my theory predicts that intra-coalitional divides would create a *political* disincentive for the leaders of governing parties to pursue a unilateral policy agenda, because they feel unable to legislate a reform agenda without union involvement. I will now explain why Austria was a case of weak governments in the era of liberalisation.

#### *The weakness of Austrian governments: intra-coalition divides*

A core feature of the Austrian political system is the close institutional and personal linkage between the two historical major parties and the social partner camps. Vertical coordination in public policy usually takes place between the SPÖ and BAK-ÖGB on the one hand, and the ÖVP and WKÖ-IV on the other. The Austrian Economic Chamber (WKÖ) is the counterpart to the Austrian Chamber of Labour (BAK) in representing every employer due to mandatory membership in collective bargaining and corporatist state bodies. Unlike the WKÖ, the Austrian Federation of Industries (IV) represents large industrial companies, but does not form an official part of the Austrian social partnership in corporatist state bodies. Institutional ties between the SPÖ and ÖGB derive from the fact that the strongest trade union faction within the ÖGB, the FSG (*Fraktion Sozialdemokratischer Gewerkschafter*), has the right of personal representation in federal party committees and conferences. Election results in the democratic boards of the BAK and WKÖ reveal the party-political orientation of the Chambers. The SPÖ represents the strongest faction in the BAK, while the ÖVP's faction ranks first in the WKÖ. Personal linkages are visible in the phenomenon of multiple mandates (*Ämterkumulierung*): one person may perform the functions of high-ranked politicians and interest group

representatives in one of the two camps at the same time. For example, the SPÖ traditionally appoints prominent union leaders as Minister of Social Affairs.

In this highly integrated and corporatist ‘small state’ environment (Katzenstein 1984), the SPÖ has not only established close personal and institutional ties to the ÖGB, which are important for union leaders to influence the legislature. The SPÖ has also been willing to grant significant agenda-setting capacity to Social Democratic union elites, because the latter can draw on the micro-level information of constitutionally entrenched works councils and the macro-level expertise of the resourceful BAK. Information and expertise are thus important tools deployed by the ÖGB to influence the policy-making action of the SPÖ. Taken together, the ÖGB not only reflects an informal veto-player against unilateral reform initiatives of SPÖ-led governments, but also serves the role of a think-tank for the party leadership.

In addition to party-union ties, the reliance of the grand coalitions on trade union support was stabilised by intra-coalitional divisions that weakened their reform capacity during the 1990s. To assess the reform capacity of governments in Austria, we can rely on a description of the partisan composition and vote shares of coalition governments as a proxy measure. Table 3.3 shows that Austria has mostly been governed by a grand coalition between two ideologically divided and similarly strong parties, except for a six-year period of a centre-right coalition between the ÖVP and FPÖ. Three features are important in this context. First, the challenges posed by the neoliberal era reinforced open distributive conflicts and put an end to the positive-sum game of the booming ‘golden age’ post-war economy (Hemerijck et al. 2000, Tálos/Kittel 2001). Naturally enough, negotiations around sharing the costs of fiscal consolidation between two historically divided camps hardened the political fronts. Second, the relatively balanced distribution of parliamentary seats implied that both parties have been powerful enough to block each other, even though the SPÖ has always been somewhat stronger than the ÖVP in the period of investigation (Obinger 2002). Third, Table 3.3 also indicates that both parties came under growing pressure from the rise of the Green Party and the FPÖ, since the grand coalition partners have almost continuously lost vote shares for the past three decades (Pelinka 2005). We would expect all these factors to challenge the ability of a grand coalition to achieve a political consensus around controversial issues.



Table 3.3: Elections and governments in Austria, 1983 – 2016.

Coalition	Period	Governing Parties	Votes (1st party)	Votes (2nd party)
Centre-left	1983 – 1987	SPÖ – FPÖ	47.65 percent	4.98 percent
Grand Coalition	1987 – 1990	SPÖ – ÖVP	43.11 percent	41.29 percent
	1990 – 1994	SPÖ – ÖVP	42.78 percent	32.06 percent
	1994 – 1995	SPÖ – ÖVP	34.92 percent	27.67 percent
	1995 – 1999	SPÖ – ÖVP	38.06 percent	28.29 percent
Centre-right	2000 – 2002	ÖVP – FPÖ	26.91 percent	26.91 percent
	2002 – 2006	ÖVP – FPÖ	42.30 percent	10.01 percent
Grand coalition	2006 – 2008	SPÖ – ÖVP	35.34 percent	34.33 percent
	2008 – 2013	SPÖ – ÖVP	29.26 percent	25.98 percent
	2013 – ?	SPÖ – ÖVP	26.82 percent	23.99 percent

*Notes:* SPÖ = Social Democratic Party; ÖVP = Conservative/Christian Democratic People's Party; FPÖ = Freedom Party (right-wing populist since Jörg Haider's takeover in 1986).

What added to the conflictual relationship between the grand coalition partners was that the ÖVP became increasingly dissatisfied with its role as the 'junior partner' of an SPÖ-led grand coalition. Partly in response to anti-corporatist sentiments among the middle class (Heinisch 2001, 36-37), the ÖVP's subsequent shift in orientation away from Austria's pronounced consensus culture and towards neoliberal ideas stimulated political conflicts with the SPÖ in an age of economic turmoil (Fallend 2006, 13-14). Moreover, the rise of the FPÖ buttressed the political credibility of the ÖVP's agenda, because the electoral strength of the former opened up an opportunity for the latter to exit from the 'eternal' grand coalition in favour of a more cohesive centre-right coalition (Müller/Fallend 2004).

This presence of 'weak governments' enabled the ÖGB to remain influential through cooperation with the WKÖ. It maintained the leverage of social partner negotiations because reformers of the grand coalition parties faced difficulties in formulating, implementing, and legitimising unilateral policies. The advantage of delegating policy-making authority away from the grand coalition lies in the low public salience and problem-solving capacity of social partner negotiations. First, unlike the grand coalition partners, the peak level associations have the organisational capacity to shift conflictual issues to informal and non-transparent elite negotiations that are largely insulated from particularistic member interests and popular electoral demands (Karlhofer 2006, 473-474). Mandatory membership in the Chambers rules out losses of membership, whereas centralisation and concentration allows the ÖGB to rein in

centrifugal tendencies within the labour movement. Their organisational power gives both sides of the class divide a high level of autonomy *vis-à-vis* pressure from below, which allows for mutual high-trust relations and ‘gentlemen’s agreements’ between union and employer leaders (Heinisch 2000). Following Schmitter/Streeck (1999), the reform capacity of social partnership thus rests very much on an emphasis on the ‘logic of influence’ over a ‘logic of membership’.

Second, the social partners not only help design and implement difficult economic reforms for weak governments, but also broaden the political support base for the legitimisation of politically difficult policies. Union consent to controversial austerity packages can be desperately needed by governments under pressure from growing electoral volatility (Hamann/Kelly 2007). Taken together, during the 1990s, the social partners could turn into “modernisation brokers” (Heinisch 1999) by mitigating the lack of cohesiveness between the grand coalition partners. That is to say, the low autonomous reform capacity of the grand coalition was the political background against which the transition from demand-side to supply-side corporatism could take place in Austria (Traxler 1998).

The subsequent formation of a centre-right ‘bloc’ from 2000 to 2006 suggests a higher intra-coalitional cohesiveness relative to previous grand coalitions (Müller/Fallend 2004). Indeed, the ÖVP-FPÖ coalition was united in conservative attitudes on issues such as childcare and immigration. But the neoliberal agenda driven by the ÖVP came under strain from prolonged internal turmoil in the FPÖ. The overwhelming problem for the FPÖ as a governing party was how to reconcile the ideological tension between two opposing wings: the market-liberal government team, on the one hand, and the populist grassroots movement, on the other (Luther 2003). While sharing the ÖVP’s anti-union stance, the electoral success of the populist grassroots movement around Jörg Haider rested on its appeal to the social demands of the ‘little man on the street’. Faced with this intra-partisan tension, the centre-right coalition had to fall back on the social partners to achieve a durable political consensus at some points in time (Afonso 2013). With the onset of the Great Recession and the return of another grand coalition, the stage was finally set for a veritable revival of Austrian social partnership (Tálos 2008a). The next section will show that the Austrian liberalisation path of smoothed dualisation was not simply a reflection of Social Democratic government partisanship or corporatist institutions. It will show that the prevalence of weak governments created the necessary opportunity for unions to extract concessions on behalf of outsiders.

### **Balanced power relationships at the turn to liberalisation**

The core economic problem facing successive Austrian governments during the 1980s was reducing public debt. Fiscal consolidation slowly gained priority in the political goal statements, as the gradual increase of public debt from 20.4 percent in 1970 to almost 50 percent in the early 1980s documented the price of maintaining (almost) full employment during the global turn to monetarism (Obinger et al. 2010, 35-37). Another instance of the gradual erosion of *Austro-Keynesianism* came in 1986, when the collapse of state-run industries revealed the unsustainability of the growing subsidisation of public employment in the manufacturing sector. Labour shedding through the opening of early retirement arrangements in response to unemployment aggravated the fiscal problem of the federal state. Alongside structural fiscal pressure, the WKÖ repeatedly called into question the deservingness of unemployed welfare recipients, thereby demanding tightened obligations and benefit cuts for people out of work (Tálos/Wörister 1998, 268-270). In line with the WKÖ, prominent party members of the FPÖ and ÖVP initiated various parliamentary debates, in which they alleged welfare recipients to abuse the social security system by refraining to take up paid jobs (ibid.).

Despite the fiscal problem pressure and populist assaults from the political right, the SPÖ-ÖVP government abstained from unidirectional benefit cutbacks. Instead, the expansion of benefits even outweighed retrenchment in labour market policy until 1993 (Obinger et al. 2010, 44-45). The most significant reason why balanced reforms prevailed in this period was that power sharing between the ideologically divided major parties paved the way for tripartite political exchanges (cf. Tálos/Roßmann 1992, 51-52; Tálos/Kittel 2001, 124). Close ties between the SPÖ and the BAK-ÖGB made sure that the interest organisations of labour could play an integral role in the policy-making process. For example, the *amendment of unemployment insurance law of 1989* included the upward homogenisation of net replacement rates to the benefit of low-wage earners and eased access conditions to unemployment benefits for young people under the age of 25 by cutting the qualifying period from 52 to 20 weeks. The extension of the benefit duration for people with long contribution records benefitted insiders with continuous employment relationships, while the integration of foreigners into the unemployment assistance scheme was the product of a Constitutional Court ruling. The amendment also entitled women dependent on full-time employed partners to have access to the unemployment assistance. In return, the interest organisations of labour accepted the demands of the ÖVP and the WKÖ for a reduced contribution rate and the tightened use of sanctions.

Policy demands by the SPÖ and the BAK-ÖGB in the subsequent amendment of 1990 show their encompassing representational interests on behalf of the whole workforce, and not only insiders. Both the party and the interest organisations of labour demanded the introduction of statutory minimum benefit standards (Tálos/Roßmann 1992, 52; 58-59). Elements of minimum income protection in unemployment insurance would have helped diminish the risk of insufficient welfare entitlements for low-paid workers. The ÖVP and the employers rejected this proposal and instead conceded the introduction of a uniform net replacement rate of 57.9 percent. The corresponding abolition of wage scales improved the social protection of low-wage earners but the successful attempt of the ÖVP and the WKÖ to block redistributive changes ensured that the principle of earnings-related benefits remained dominant. The amendment also included the retention of the assessment base for males aged 50+ and females 45+ to respond to the growing risk of unemployment among elderly employees (Obinger et al. 2012, 181). On the other hand, the ÖVP and WKÖ again managed to obtain measures increasing the pressure on the long-term unemployed to accept jobs and a modest cutback in the level of the unemployment assistance. The subsequent reform of 1993 (*Beschäftigungssicherungsgesetz*) again tightened sanctions and availability requirements on the one hand, and cut the unemployment benefit level from 57.9 percent to 57 percent on the other.

### **EU accession and fiscal austerity**

The two major parties and the social partners shared the position that becoming part of the EU was necessary to improve the productive capacity of Austria. On the part of organised labour, the rationale was that small and open European economies have to compete along EU guidelines of the single market anyway. EU membership would thus enable Austria to co-design the guidelines, instead of merely following them (Unger 2003, 102f.). The social partners thus joined the government in the mobilisation of public support in the public referendum of June 1994; 66 percent voted in favour of EU membership.

EU accession came into force on January 1995 and directly led to the preparation of fiscal adjustment strategies to meet the legal requirements for joining the European Economic and Monetary Union (EMU). The Treaty of Maastricht (1993) ruled out currency devaluations and deficit spending – two options all political actors officially rejected anyway. Austria had traditionally been a coordinated hard-currency regime pegged to the Deutschmark. The political challenge posed by the EMU membership application was the negotiation over the design of fiscal consolidation to combat public debt. Declining economic growth and

increasing unemployment rates translated into rising annual public deficits (5.8 percent in 1995), while the debt ratio surpassed the Maastricht threshold of 60 percent in 1993. The following quote from the government programme of 1994 is worth reproducing to illustrate the principal aim of the SPÖ and ÖVP to pursue an expenditure-based approach to the consolidation of the federal budget:

*“To ensure the attractiveness and stability of the Austrian business location and safeguard our employment policy and high social standards, it is of utmost importance to prioritise the consolidation of the federal budget in the upcoming legislative period. [...] To guarantee the financing of welfare benefits, measures will be taken in particular with regard to the family compensation fund, unemployment insurance, the statutory pension insurance, and the conditions for elderly care benefits”* (author’s translation, Government programme 1994, 22-23)

EU accession changed the domestic distribution of power when the party leaders of the ideologically divided major parties converged around a strategy of welfare retrenchment to meet the Maastricht convergence criteria. Central to this convergence was the conviction of the former bank manager and Social Democratic chancellor, Franz Vranitzky (1987-1997), that cost reductions were necessary to ensure the financial viability of the welfare state (Vranitzky 2004, 273). The structural impetus of rising public debt during the politics of EMU adjustment constrained the policy choices of organised labour and provided the WKÖ with an opportunity to demand a political shift to orthodox fiscal adjustment. The politics of EMU adjustment culminated in the adoption of two austerity packages in 1995 and 1996 (*Strukturanpassungsgesetze I & II*), which reduced the annual public deficit from 5.7 percent of GDP in 1995 to 1.8 percent in 1997.

Proof of the governmental preference for an expenditure-based approach to fiscal consolidation came immediately after the elections of 1994, when the Social Democratic Finance Minister, Ferdinand Lacina, and the Conservative State Secretary for Finance, Johannes Ditz, presented a comprehensive package of spending cuts: the ‘52 points programme’. For the first time in Austrian post-war history, the social partners were *not* involved in the preparation of an economic policy package. In response, the ÖGB announced ‘fierce resistance’ against the unilateral policy-making style of the government, opposing the distributional profile they considered socially unbalanced at the expense of labour (Sebald 1998, 59). The interest organisations of labour instead demanded the abolition of tax loopholes

and the introduction of solidarity surcharges for high-income groups to restore sound public finances, while employers criticised only few aspects but welcomed the overall direction of the consolidation path (Tálos/Kittel 2001; 85, 127).

The attempt of the government to break with the traditional policy-making logic of pursuing tripartite consent failed when the Social Democratic party leadership had to re-negotiate the austerity package with its affiliated parliamentary trade union fraction to ensure an encompassing support base (Unger 2001, 58f.; Sebald 1998, 60). Fierce tensions between the party leadership and the ÖGB led the powerful trade union wing, the FSG, to adopt a veto position against the austerity package in the parliamentary group of the SPÖ. In response, Franz Vranitzky invited the ÖGB to subsequent bargaining rounds to obtain consent for the adoption of spending cuts. Various political concessions eventually generated an intra-partisan consensus by smoothing the initially rigorous savings package. The final austerity package (*Strukturanpassungsgesetz I*) was based on a mixture of political exchanges that amounted to a total savings volume of 15 to 17 billion Austrian Schilling (ATS), whereas the 52-points-programme had proposed fiscal cuts in the amount of 100 billion ATS (Wagschal/Wenzelburger 2008, 102).<sup>6</sup>

The demonstration of veto power by the ÖGB against welfare cuts was a clear signal to the government's agenda of fiscal consolidation. A unilateral approach would not facilitate the legislative process unless the government could bet on the support of organised labour. To achieve this support, the two major parties had to fall back on corporatist concertation. As a result, the government attempted to find a tripartite solution to the fiscal adjustment problem of the federal state. The subsequent reform proposal of the social partners, however, was based on flawed calculations from the Ministry of Finance about the extent to which the budget had to be consolidated. Meanwhile, rising tensions between the coalition partners led the new party chair of the ÖVP, Wolfgang Schüssel, to demand a return to the expenditure-based consolidation path along the lines of the government programme of 1994. Eventually, this commitment led Schüssel to break off the budget negotiations of 1995 with no result and call for new elections. In fact, Schüssel's strategy was formed with an eye to the opinion polls, which were forecasting an election victory of the ÖVP.<sup>7</sup> The subsequent election campaign took place against the backdrop of two diverging approaches to the problem of reducing public

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<sup>6</sup> The package included the reduction of the net replacement rate for the unemployed from 57.9 percent to 56 percent, an increased re-qualification period from 20 to 26 weeks, and the abolition of the family surcharge for partners of unemployed people (Tálos/Wörister 1998, 272).

<sup>7</sup> Interview with Andreas Khol, Party Whip of the ÖVP (1994-1999, 2000-2002), 9th December 2014.

debt: a fifty-fifty ratio of revenue increases and spending cuts (SPÖ) versus spending cuts only (ÖVP). Judging from the election outcome, the approach of the SPÖ proved more popular than the fiscal retrenchment campaign of the ÖVP (Wagschal/Wenzelburger 2008, 104). The 1995 elections extended the share of the SPÖ to 38 percent (+3 percent), while the ÖVP remained the second strongest party 28.3 percent (+0.6 percent).

The coalition negotiations between the two major parties reflected the power-conscious party leadership of Schüssel: the ÖVP could either form a coalition with the FPÖ or go into opposition, while the only option left for the SPÖ to remain in office was the formation of another grand coalition.<sup>8</sup> Reflecting their bargaining position, the ÖVP made government participation conditional on the adoption of a savings volume of 100 billion ATS for the next two years – with success. The subsequent formation of another grand coalition in 1995 paved the way for the proposal of a second austerity package (*Strukturanpassungsgesetz II*) to meet the Maastricht convergence criteria.

Well aware of the electoral dangers of reform deadlocks, the government delegated negotiations about the design of the second austerity package to the social partners. The subsequent compromise between them played an important role in mitigating political conflicts between the grand coalition partners: “With the savings package the social partners proved that they were able to perform their function of ‘easing the burden of the state’ in a very thorough way” (Unger 2003, 107). Drawing on survey data and press coverage, Reinhard Heinisch notes that the Austrian populace came to trust the reform capacity of the social partners more than that of the grand coalition partners: “The social partnership was seen as delivering an important public good by ensuring overall stability and by diluting painful economic medicine as much as possible – at a time when the government appeared increasingly less effective” (Heinisch 2001, 40).

It is clear that the overall design of the second austerity package in the context of EMU adjustment was more beneficial to capital than to labour. But the labour-inclusive reform strategy of the government created opportunities for the ÖGB to successfully enforce its demand for an extension of the social insurance coverage (Tálos 1999, 274f.). The second austerity package, for example, therefore included the quasi-freelancers and the dependent self-employed into statutory pension, health, and accident insurance. This extension raised additional contribution payments to the financing of the welfare state and smoothed unequal

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<sup>8</sup> According to his memoirs, Wolfgang Schüssel ruled out the formation of a coalition with the FPÖ at that time, but he openly announced this option as part of his calculations to exert pressure on the SPÖ during the election campaign (Schüssel 2009, 22-25). It took him another four years to break with the grand coalition.

benefit entitlements across different types of employment contracts. The head of the ÖGB's labour market and education division, whom I interviewed in March 2015, summarised the view of the ÖGB toward the social protection of atypical employment contracts in the following terms: "Atypical employment contracts became an essential question for us, when we recognised that their rapid growth poses a massive threat to regular employment contracts."<sup>9</sup> This view was supported by another high-ranked official in various union posts, who later became the SPÖ's Minister of Labour Market, Health Care, and Social Affairs: "We simply recognised that there were ever more of these 'atypical' contracts. Then we realised we can't simply prohibit them. But what we could do was to set framework conditions [*Rahmenbedingungen*] for the usage of those contracts."<sup>10</sup>

Like in previous decades, the SPÖ came to support the demands of organised labour, which sought to stop the rise of unprotected contracts that enable employers to escape from the constraints of labour and employment law. Contrary to the theoretical expectations of partisanship theorists, this support was not based on electoral vote-seeking calculations of party leaders. Instead, the SPÖ delegated its programmatic agenda to the unions, which have a more informed view of the labour market than the party leaders. Eleonora Hostasch, Minister of Labour Market, Health Care and Social Affairs from 1997 to 2000, summarised the SPÖ's motivations behind the adoption of the ÖGB's policy demands in the following terms:

*"My impression was that the area of social policy has been left to the unions. I cannot remember that the SPÖ has ever advanced its social policy programme autonomously. [...] The Chamber of Labour plays a decisive role in this process, because it furnishes the unions' input from the works councils with intellectual and academic resources. This turns their demands into a solid programme, which can sometimes be adopted by the party without any modifications. To solve policy problems in cooperation with unions and employers is for the grand coalition a promising strategy, because the parties as well as the parliament do not have the same level of resources as the Chambers have. In that sense, the SPÖ often uses the interest organisations of labour [ÖGB & BAK] as a think tank."*<sup>11</sup>

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<sup>9</sup> Interview with Alexander Prischl, ÖGB, Head of Labour Market and Education Division 5th March 2015.

<sup>10</sup> Interview with Eleonora Hostasch, Minister of Labour Market, Health Care, and Social Affairs of the SPÖ, 27th January 2015.

<sup>11</sup> Interview with Eleonora Hostasch, Minister of Labour Market, Health Care, and Social Affairs of the SPÖ, 27th January 2015.



Comparing the politics of fiscal consolidation of nine countries in the late 1990s, Wagschal/Wenzelburger (2008) come to the conclusion that the reduction of public deficits through the second austerity package was based on ‘a little bit of savings everywhere’. This assessment resonates in characterising the Austrian corporatist politics of small steps in hard times. Rather than seeking transformative change, the cooperation between the social partners reflects a consensual policy-making logic of incremental change. Following this pattern of adjustment, the interest organisations of labour remained sufficiently influential to prevent any large-scale retrenchment initiatives. The final settlement contained in the second austerity package reflected a compromise between the balanced approach of the SPÖ and the cutback agenda of the ÖVP.<sup>12</sup> A subsequent political exchange paved the way for labour’s demand for an expansion of training in return for improved social protection of employers in 1998 (Tálos/Kittel 2001, 129).

In the years to come, union strength faced mounting pressure from political forces rather than economic adjustment constraints. From the perspective of prominent representatives of the ÖVP, the power resources of organised labour blocked competitiveness-enhancing policy innovation. In particular, the veto power of the ÖGB under SPÖ-led grand coalitions led to the strategic understanding of Wolfgang Schüssel and his chief ideologue, Andreas Khol, that the disempowerment of organised labour had become imperative for the accomplishment of an economic paradigm change (Khol 2001, 209-210; Schüssel 2009, 53-54). At the same time, the rise of the FPÖ under its charismatic leader, Jörg Haider, opened up a potential coalition partner that shared the critical stance of the ÖVP against union influence on public policy. Eventually, the FPÖ became the second strongest party in the 1999 elections (26.9 percent; +5 percent) at the expense of the ÖVP (26.9 percent; -1.4 percent), while the SPÖ took the largest vote share in spite of losses (33.2 percent; -4.9 percent). Once again, the strongest party, the SPÖ, invited the ÖVP to form a grand coalition. Unlike in 1995, the failed coalition negotiations between the SPÖ and ÖVP paved the way for the formation of a centre-right coalition that aimed at the break with the consensus-oriented past of Austrian social partnership.

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<sup>12</sup> Consisting of a ratio of one third of revenue increases and two thirds of expenditure cuts, the final bill affected all social groups in bearing the costs of fiscal adjustment. In the words of Helmut Kramer, Head of the Austrian Institute of Economic Research (WIFO), on the design of the second austerity package: “This time it is noticeable, that this package – I am almost inclined to say primarily – makes the higher earners foot the bill” (*Wirtschaftswoche* 08.02.1996).

### **Almost, but not quite – the breaking of union influence**

The ‘black-blue’ coalition between the ÖVP and FPÖ started out as an ideologically cohesive and united front that pushed through a remarkable series of reforms from the beginning of 2000. Cost containment and deregulation were the prime cornerstones of the government’s economic agenda. In the area of labour market policy, the WKÖ and the centre-right coalition under the Conservative Chancellor, Wolfgang Schüssel, advocated the combat of fraud and misuse of unemployment benefit receipt (Afonso 2013, 161). To implement this agenda, the ÖVP-FPÖ government had to rely on its parliamentary majority and suspend the corporatist logic of union involvement in public policy (Obinger/Tálos 2006). The re-definition of labour market policy as a matter of economic competitiveness and efficiency became visible in the organisational transfer of the labour market domain from the Ministry of Social Affairs, which had traditionally been led by Social Democratic trade unionists, to the Ministry of Economic Affairs. At the same time, the government enacted organisational reforms at the level of policy implementation in an attempt to weaken the influence of SPÖ-affiliated officials and trade union members (Obinger/Tálos 2006, 81-84). In late 2000, the government unilaterally legislated the following labour market policy changes: a reduction in the family surcharge and in federal contributions to labour market policy; a reduction of the basic replacement rate from 57 percent to 55 percent; an extension of the qualifying period from 26 to 28 weeks, and; the freezing of benefit indexation as well as tightened sanctions (Fink 2006, 181).

However, the government’s reform zeal came under strain from intra-coalitional tensions in 2001. Election losses at the regional level in tandem with the ÖVP’s neoliberal agenda prompted growing opposition from the populist workers’ wing of the FPÖ against welfare state retrenchment (Müller/Fallend 2004, 825). Their fear was that another series of ÖVP-led neoliberal reform initiatives would cause further disaffection among blue-collar workers, a group that had turned into an electoral stronghold of the FPÖ during the 1990s (Luther 2003).<sup>13</sup> Andreas Khol, whom I interviewed in December 2014, highlighted the veto of Herbert Haupt, the FPÖ’s Minister of Social Affairs, as a source of reform deadlocks:

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<sup>13</sup> Drawing on interview evidence from Tobias Hinterseer (2014, 127-128), representatives of the FPÖ even contacted experts from the Chamber of Labour to get a more informed view of upcoming reform projects.

*“The reform capacity of the ÖVP-FPÖ government was very high in the beginning. It went really well. Every week, another big reform. And we could work through everything we had prepared in the past. However, the main leftist, who prevented a lot of policies, was Herbert Haupt. He was Minister of Social Affairs and Vice Chancellor later on. He always represented the part of the FPÖ that claimed to be the advocate of the ‘little man’.”*<sup>14</sup>

The politics behind the homogenisation of the severance pay scheme, the *Abfertigung neu*, reveal a great deal about the intra-coalitional tensions that ruled out a unilateral reform strategy to the detriment of union influence. By mid-2001, the ÖVP-FPÖ government announced it would transform the severance pay scheme into an occupational pension pillar alongside the statutory public pension insurance – a hot-button issue for organised labour. The old severance pay scheme was the subject of broad criticism for its supposed detrimental impact on labour market mobility and the requirement that the employee be formally dismissed by the employer (EIRO 2001). As eligibility for severance pay required employees to work for three years for one employer and refrain from a notice of employment resignation, the old scheme provided very generous payments for the insiders of the private sector with continuous employment biographies (see Table 3.4).<sup>15</sup> In fact, only 15 percent of annual contract dissolutions led to severance pay entitlements (Obinger/Tálos 2006, 91).

Yet, internal disputes over the minimum duration of employment for entitlement to the accumulation of severance pay marred the autonomous reform capacity of the ÖVP-FPÖ government (EIRO 2002a). The ÖVP under Schüssel demanded strict adherence to the government programme, according to which entitlement to severance pay should require one year of employment (*Wiener Zeitung*, 23.5.2001). In contrast, the FPÖ contended for entitlement to severance pay from the first day of employment onwards (*Der Standard*, 25.6.2001). The centre-left opposition and the ÖGB shared the position of the FPÖ. In addition, the ÖVP and WKÖ vigorously opposed the FPÖ’s demand for an entitlement for cases of contract dissolutions by employees (*ibid.*).

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<sup>14</sup> Interview with Andreas Khol, Party Whip of the ÖVP (1994-1999, 2000-2002), 9th December 2014.

<sup>15</sup> The level of severance pay amounted to two months of the gross wage after three years of service; three months of the gross wage after five years of service; four months after 10 years; six months after 15 years; 9 months after 20 years; and 12 months after 25 years. The severance pay was subject to a flat-rate income tax of 6 percent.

When the controversial negotiations between the coalition partners appeared to become deadlocked, the ÖVP-FPÖ government delegated the issue to the social partners (Pernicka 2003). In the words of Walter Neubauer, a senior official in the Ministry of Labour Market and Social Affairs, who was involved in the reform process: “The ÖVP and FPÖ did not manage to find an agreement on the basis of the government programme. In response, both parties agreed to delegate the *Abfertigung neu* to the social partners, who developed the so-called 14 cornerstones of the subsequent reform.”<sup>16</sup>

Table 3.4: Old severance pay and new severance pay since 2001/02.

	Old severance pay ( <i>Abfertigung alt</i> )	New severance pay ( <i>Abfertigung neu</i> )
Conditions of entitlement	<ul style="list-style-type: none"> <li>• Dismissal by employer</li> <li>• 3-year employment relationship for one employer</li> </ul>	<ul style="list-style-type: none"> <li>• Dissolution of employment contract (by employer <i>or</i> employee)</li> <li>• No minimum duration of employment</li> </ul>
Options of entitlement	Severance payment	<ul style="list-style-type: none"> <li>• Severance payment (after 3 years of employment)</li> <li>• Accumulation of occupational pension over different contracts</li> </ul>
Levels of entitlement	Dependent on gross wage level and length of service	Dependent on gross wage level and capital market developments
Financing	Individual accrual of entitlement by employer	1.53 percent of gross monthly wage
Coverage (in percent of workforce)	15 percent	100 percent

This party-political reform deadlock forms one necessary condition for the subsequent policy solution. Another part of the explanation comes from encompassing representational union interests. Since the late 1990s, the BAK and ÖGB demanded an extension of the coverage of the insider-oriented severance pay scheme to the whole workforce (EIRO 2001). After long-standing negotiations, the social partners jointly proposed a new scheme, which entitled all private sector employees to accumulate individual savings from the first day of employment onwards and across different employment relationships over time. In return, the WKÖ could reduce non-wage labour costs for severance pay provisions through the stipulation of an employers’ contribution rate of 1.53 percent of the gross monthly wage. During the final tripartite negotiations, the ÖGB managed to enforce the employees’ right to choose between

<sup>16</sup> Interview with Walter Neubauer, senior official in the Ministry of Labour Market and Social Affairs, 29th May 2015.

(i) the direct receipt of severance pay after the termination of a three-year employment relationship or (ii) the immediate transfer of the savings in central pension and severance pay funds to accumulate occupational pension entitlements (EIRO 2002a). To set incentives for employees to accumulate pension savings, the ÖVP-FPÖ government imposed a tax rate of 6 percent on the direct payment of severance pay after the termination of a contract. The reform entitles every Austrian employee (including apprentices and marginally employed) to accumulate individual savings – irrespective of the reason for the contract dissolution – but the level of entitlements depends on the fluctuations of capital markets and individual wage levels. Unlike the Continental European and Swedish trend of growing dualisation, Austria homogenised the conditions of employment protection in favour of discontinuous employment biographies.

In a similar vein, the FPÖ blocked the ÖVP in the area of eligibility conditions for the long-term unemployed. Similar to the German *Hartz IV*-legislation, the Austrian centre-right government announced in their 2000 and 2003 government programmes to introduce an obligation to work in return for continued benefit receipt and state-financed pay top-ups. In the end, the FPÖ, however, rejected this proposal reminiscent of the German ‘1-Euro jobs’ for the long-term unemployed. Asked about why the government did not implement its government programme in this aspect, Andreas Khol responded,

*"Because in the end the FPÖ always acted populist and petit bourgeois. So, just as with the ambulance fees, also in the case of the obligation to work in municipal community services for the long-term unemployed – as it is of common practise in Germany with the ‘1-Euro jobs’ of the Hartz IV legislation – the FPÖ came to block us. This was not possible then, as the FPÖ proved too weak to get this passed."*<sup>17</sup>

This description about the veto of the FPÖ was confirmed by the Head of Department for Labour Market Policy in the Ministry of Social Affairs.<sup>18</sup> Instead of pursuing a unilateral approach, the government invited the social partners to develop changes for the regulation of the unemployment benefit entitlement (Afonso 2013, 163f.). The ÖVP and the WKÖ had a common agenda in that they demanded (i) a broadened definition of the kind of jobs that are deemed suitable (*Zumutbarkeitsbestimmungen*) and (ii) the removal of ‘occupational

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<sup>17</sup> Interview with Andreas Khol, Party Whip of the ÖVP (1994-1999, 2000-2002), 9th December 2014.

<sup>18</sup> Interview with Stefan Potmesil, Head of Labour Market Department in the Ministry of Social Affairs (2000-2010), 27th August 2015.

protection' for job seekers with specific occupational skills (*Berufsschutz*). According to this agenda, the Public Employment Service would have been able to require the unemployed to take up more types of jobs over longer travel distances. To achieve support for this approach, organised labour received two important concessions (*ibid.*). First, the occupational protection remained in place for a shortened duration of 100 days. Second, the package included the introduction of a 'wage guarantee'; that is, a guarantee that the wage level of a proposed job corresponds at least to a certain percentage of the previous job. As a result, a job may be deemed suitable if its related wage amounted to not less than 80 percent of the previous job during the first 120 days of unemployment or 75 percent during the end of the benefit entitlement period. Instead, part-time workers received a wage guarantee of 100 percent for every proposed job placement. In 2005, the government responded to rising unemployment and mounting criticism from the opposition and organised labour with the expansion of ALMP (Afonso 2013, 167).

The 'black-blue' era ended with the 2006 elections. Somewhat surprisingly, the SPÖ won the elections with slight losses (-1.2 percent) despite the collapse of an ÖGB-led 'red' bank (BAWAG) in the wake of failed speculative transactions. On the other hand, the ÖVP lost a whole 8 percent, whereas the new party of Jörg Haider, the BZÖ, managed to gain entry into parliament (4.1 percent). Eventually, it took the SPÖ more than four months to reach a coalition agreement with the ÖVP in order to form another grand coalition.

### **Excursus – the politics of government strength in the 2003 pension reform**

Throughout this chapter, I argued that the inability of Austrian governments to formulate a common agenda made them fall back on trade union support in the policy-making process. This inability created the necessary opportunity for union leaders to extract concessions from the state by cooperating with organised business in the 'social partnership'. Unions therefore remained influential because Austria is a case of *weak governments*.

So what happens when Austrian governments become strong? In such a situation, my argument would suppose that they turn their back on unions. Alternatively, one could instead argue that a lack of coalitional cohesiveness does *not* matter for the level of union influence. The relative resilience of labour-inclusive reform processes might well be merely endemic to the incorporation of union elites into a cartelised political establishment of party patronage (Treib 2012). In this perspective, the nationally distinct 'small state' environment and institutionalised power position of the social partners would reproduce labour-inclusive elite networks that incorporate the policy demands of unions. This interpretation, however, is wrong (Obinger/Tálos 2006).

The 2003 pension reform provides an illustrative factual scenario showing that under the conditions of a strong government the policy that emerges does not include unions in the reform process – even in *the* “country of corporatism” (Traxler 1998). The strength of the government in the area of pensions rested on two factors. First, the 2002 re-elections led to an unprecedented victory of the ÖVP (+15.4 percent) and defeat of the FPÖ (-16.9 percent). Wolfgang Schüssel called for new elections in response to the strong opposition of the FPÖ’s populist grassroots camp against the neoliberal agenda of the ‘black-blue’ coalition. The intra-partisan turmoil within the FPÖ was thus the main cause of this disastrous re-election outcome (Luther 2003). This election victory shifted the balance of power to the ÖVP and made Schüssel more determined than ever to pursue his unilateral reform ambitions against organised labour. Second, and unlike the area of labour market policy, the 2003 pension reform was central to the government’s priority to consolidate both the federal budget and the public pension system. Cost reductions were therefore an indispensable part of the government’s claim to put an end to the ‘debt policy’ of the grand coalition and reach a sustainable fiscal situation (Müller/Fallend 2004, 815).

What was remarkable about the 2003 pension reform was that it came into effect not only despite union protests, but also against the opposition of employers and influential figures within the governing parties. The opposition of the WKÖ can be explained by the reform’s detrimental impact on the social protection of small firm owners, which remain their main constituency due to mandatory membership (Paster 2013). The Governor of Carinthia, Jörg Haider, who transformed the FPÖ into a populist right-wing party prior to the formation of the ÖVP-FPÖ coalition, also openly attacked his own government team for supporting this draft bill. In a similar vein, the ÖVP’s Governors of Lower Austria and Upper Austria, Erwin Pröll and Josef Pühringer respectively, demanded a return to trilateral negotiations with employers and unions. Meanwhile, the presentation of the draft bill induced the ÖGB to organise mass demonstrations and industrial actions – a very unusual phenomenon in the consensual culture of Austrian post-war politics (Horaczek 2007). Notwithstanding, the government emphatically rejected a joint request by the social partners to present an alternative proposal.

The ÖVP-FPÖ government presented the draft bill in March 2003, which was legitimised with the objective to ensure the financial viability of the public pension system and the federal budget alike. Its most drastic part was perhaps the gradual extension of the reference period for benefit calculation from the highest paid 15 years to 40 years. This part reinforced the earnings-related character of the public pension system to the detriment of outsiders. In addition, the draft bill phased out the access to early retirement options, increased deductions

for early retirement from 3 to 4.2 percent and decreased the pension credits earned for each year of employment from 2 to 1.78 percent. In June 2003, the ÖVP-FPÖ government finally passed the bill with a single modification: it capped the amount of pension losses resulting from the extended calculation period to a maximum of 10 percent during the transition period until the late 2020s.

The distributive outcome of the unilaterally legislated 2003 pension reform substantially differed from the labour-inclusive reforms in the area of labour market policy. The former significantly reinforced institutionalised status divisions by extending the calculation period without lifting minimum benefit entitlements for outsiders. The latter, by contrast, lacked any notable departure from the incrementalism of the previous grand coalition and granted concessions to the ÖGB instead. The variation in the reliance of the ÖVP-FPÖ coalition on trade union support best explains the divergent distributive outcome observed between the 2003 pension reform and labour market policy change.

### **The rebirth of union influence under the grand coalition**

The policy performance of the grand coalition since 2007 powerfully demonstrates that union influence increases under favourable political conditions. Announcing to (re-)involve the peak level associations in virtually all areas of economic and social policy, the government programme of 2007 mentions “the social partners” no less than 21 times (Tálos 2008a). The revival of negotiated and labour-inclusive reform reflected a political response to the controversial unilateral reform ambitions of the ‘black-blue’ agenda.<sup>19</sup> Unlike the politics of EMU adjustment during the 1990s, the grand coalition did not set strict policy guidelines along which the social partners helped formulate reforms to consolidate the federal budget. On the contrary, economic growth rates at the level of 3.5 percent/GDP (2006/07) facilitated the maintenance of sound public finances until the onset of the Great Recession.

The return of the SPÖ to office under Alfred Gusenbauer was one obvious reason for increasing union influence. In fact, however, the grand coalition as a whole benefited from corporatist concertation through the problem-solving capacity of the social partners. During the period of uncertainty that followed the 2006 elections, the interest organisations of labour successfully attempted to find agreement with the WKÖ on a number of policy areas to pre-empt the emergence of unilateral reform proposals (Afonso 2013, 171f.). One central lesson of

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<sup>19</sup> Interview with Erwin Buchinger, Minister of Labour Market, Social Affairs, and Consumer Protection of the SPÖ (2007-2008), 18th December 2015.



the previous ÖVP-FPÖ government was that the viability of union influence might require the occupation of policy issues in uncertain times. In addition to the proactive strategy of the social partners, the subsequent grand coalition faced difficulties in finding policy compromises. Mutual reform blockages and open confrontations between the coalition partners created tensions that culminated in the call for fresh elections after only one and a half years in office. The interest organisations of labour, however, had an interest in maintaining the grand coalition to maintain their influence through the SPÖ's participation in the ruling coalition. High reform activity in spite of intra-coalitional divisions suggests the social partners' stabilising effect on the reform capacity of the government. Indeed, as the evidence shows, national peak level associations somewhat offset the government's difficulties in carving out policies by assuming a leading role in the formulation of reforms (cf. Der Standard 2008, 2009; Tálos 2008a; Afonso 2013). A senior official of the BAK's Labour Market Policy Division, whom I interviewed in December 2014, described the role of the social partners between 2006 and 2008 in the following terms:

*"We wanted to make the government appear capable of acting in public policy by allowing them to have a blueprint for reforms they can carry through in the parliament and sell to the public."*<sup>20</sup>

An expert of the Union of Production (*PRO-GE*) in social policy and labour law affairs, René Schindler, expanded on this assertion of the unions' influence on the SPÖ's policy-making action:

*"The Ministry of Social Affairs, perhaps also the [ÖVP-led] Ministry of Economic Affairs, has hardly any agenda in social policy. The SPÖ simply relies on the trade unions according to the following logic: They will tell us anyway what needs to be done. And if they don't take the initiative by themselves, there is almost nothing we have to do."*<sup>21</sup>

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<sup>20</sup> Interview with senior official of Labour Market Policy Division of the BAK, 11th December 2014.

<sup>21</sup> Interview with René Schindler, Confederal Secretary of PRO-GE (Trade union for production workers), 17th December 2014.

The result of this power-distributional configuration – union influence due to a ‘weak’ SPÖ-led grand coalition – was a series of political exchanges that expanded the protection of outsiders in return for tightened activation demands. Table 3.5 provides an overview of changes that improved income minimum standards for the weakest segments of the Austrian labour market.

Proof of the interest group support in the policy formulation of the grand coalition came in October 2007, when the social partners handed over a ready-made joint proposal to the Ministry of Economy and Labour Affairs designed to tackle the rising demand for skilled labour and state support for youth employment. It included the expansion of state-funded apprenticeships and investment into skill enhancement in ALMP on behalf of organised labour on the one hand, and the partial opening of the labour market for workers from the new European member states and a new flexible system of financial subsidies for vocational training for organised business on the other (EIRO 2007). Notably, the agreement paved the way for the implementation of the ‘education guarantee’, that is, an entitlement for every young job seeker who does not find an apprenticeship position to attend state-funded training opportunities. At the same time, the WKÖ enforced the employer’s right to fire apprentices. By January 2008, the government unanimously adopted the package that provided an important basis of legitimation after one year in office (Tálos 2008a, 119).

Table 3.5: Expansion of social minimum standards – Instruments and measures (2007-2008).

Instruments	Measures
Unemployment insurance (UI)	<ul style="list-style-type: none"> <li>• Inclusion of quasi-freelancers into UI</li> <li>• Opt-in possibility for self-employed into UI (since 2009)</li> <li>• Expansion of educational leave (<i>Bildungskarenz</i>)</li> </ul>
Minimum welfare standards	<ul style="list-style-type: none"> <li>• Replacement of territorially fragmented social assistance with ‘needs-oriented minimum income’ (3<sup>rd</sup> tier unemployment protection scheme)</li> <li>• Modest expansion of unemployment assistance (2<sup>nd</sup> tier unemployment protection scheme)</li> </ul>
Income support for low-wage earners	<ul style="list-style-type: none"> <li>• Introduction of collectively negotiated minimum wage (gross €1,000, 14 times a year)</li> <li>• Full exemption of low-wage earners up to €1,100 from contribution payments to UI</li> <li>• Lowering of contribution payments to UI for low-wage earners between €1,100 and €1,350</li> </ul>

The amendment of the unemployment insurance law in 2007 revealed once again the strategic capacity of the national peak level associations to find a compromise around conflictual issues. After long-standing disputes, the agreement followed “a classic social partner deal”<sup>22</sup>: an extended coverage of unemployment insurance and educational leave (BAK-ÖGB) in return for tightened eligibility conditions and availability requirements (WKÖ). The final reform included the quasi-freelancers into unemployment insurance and entitled the self-employed to opt into unemployment insurance on a voluntary basis. At the same time, the reform entitled quasi-freelancers and the dependent ‘new’ self-employed to occupational pensions, compensation in case of bankruptcy, maternity cash benefits, and sick pay. On the other hand, the interest organisations of labour accepted the demand of the employers to loosen the definition of jobs deemed suitable. Moreover, the WKÖ blocked further steps towards the homogenisation of statutory employment rights by labour law for atypical employees (Obinger/Starke/Kaasch 2012, 184). Asked about why the ÖGB prioritised the expansion of social rights for quasi-freelancers and the dependent ‘new’ self-employed, the Head of the ÖGB’s labour market and education division responded,

*“Some employers say: ‘You can either work for me as a freelancer or as a new self-employed. Full stop.’ What should I do in case I am unemployed? Then I will prefer an offer like this over having nothing. And once I am employed under these conditions, it’s hard to re-gain a regular contract. This is a development we had discovered and we wanted to address. Not because we are the mere representatives of the new self-employed, but rather because we see that these types of contracts lead to a general decline of regular jobs in regular work sectors.”*<sup>23</sup>

Another political exchange took place against the backdrop of the long-standing demand of the employers for more flexibility in the area of working time. The amendment extended the possibility to find agreements at the shop floor and liberalised working time regulations for negotiations at the sector level. In return, the ÖGB won tightened sanctions for employers who breach the working time law and a new 25 percent penalty rate for part-time employees working overtime (Tálos 2008a, 116). The ÖVP-Minister of Economic and Labour Market Affairs, Martin Bartenstein, concluded that this package “would not have been possible without

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<sup>22</sup> Interview with René Schindler, Confederal Secretary of PRO-GE (Trade union for production workers), 17th December 2014.

<sup>23</sup> Interview with Alexander Prischl, Head of Labour Market and Education Division of the ÖGB, 5th March 2016.

the social partners” (*Stenographisches Protokoll* 4.7.2007, 116). The introduction of the ‘needs-oriented minimum income scheme’ (BMS) was based on an initiative of the SPÖ and gave rise to an agreement between the social partners to implement a minimum wage of gross €1,000 (14 times a year). In addition, the government stipulated an exemption from contribution payments to unemployment insurance to the benefit of low-wage earners (see Table 3.5).

The election of 2008, which occurred in the wake of internal conflicts, led to the formation of another grand coalition. Immediately after taking office, the SPÖ-ÖVP government under Werner Faymann invited the social partners to design a tripartite policy response to the onset of the Great Recession. Faced with a severe GDP contraction of almost 4 percent in 2009, the three actors were quick to find a consensus around a series of policy changes aimed at: (i) the stabilisation of employment and (ii) re-integration of people out of work. Perhaps the most prominent change was the extension of short-time work, first to 18 and then 24 months. This was tailored to similar measures in Germany, given Austria’s strong trade relationship with its larger neighbouring country, especially in automobile production. Overall, the short-time work strategy was considered effective in retaining qualified staff, thereby mitigating the corrosive effects of the Great Recession on employment levels.

In addition to the short-time work extension, the policy response to the Great Recession included an expansion of training arrangements such as labour foundations in tandem with eased access to partial retirement. To finance these changes, the grand coalition increased ALMP spending by €400 million (44 percent) in 2009 (Atzmüller/Krenn/Papouschek 2012, 27f). According to the Ministry of Labour, Social Affairs, and Consumer Protection, this investment saved or created 97,000 jobs in the same year (*ibid.*, 28). Moreover, with a significant loosening of eligibility criteria in 2008, the recipient rate of the educational leave scheme (*Bildungskarenz*) more than tripled from 2,621 to more than 9,000 employees in 2013. Further upskilling investments came into force in 2013: the qualified employees’ grant (*Fachkräftestipendium*) and educational part-time work (*Bildungsteilzeit*) (EIRO 2013). The former eases access conditions on re-training for low-skilled employed and unemployed workers. The latter addresses employed workers who pursue a reduction in working time to attend training activities by offering a monetary compensation for wage losses. Overall, the crisis response thus simultaneously involved both instruments to keep existing jobs (e.g. short-time work) and combat unemployment (e.g. training).

### Claim and counterfactual

Why did Austrian labour market policy homogenise employment protection, extend the coverage of unemployment protection, and expand training-based ALMP – i.e. policies that enhanced the social protection of outsiders? My argument is (i) that the path of pronounced dualisation *could* have been taken in Austria and (ii) that the absence of such a reform path may be attributed to the integral role played by organised labour. The first assertion seems uncontroversial for two reasons. First, Sweden as well as similar cases of the Conservative-Continental welfare regime type *did* adopt far-reaching labour market policy changes that reinforced insider-outsider divides in employment and welfare standards. Second, policy proposals for similar reforms were on the table in Austria, given that the government programme of the ÖVP-FPÖ coalition was very much in line with the German *Agenda 2010* of Gerhard Schröder's 'red-green' government. Strong pressure to reduce public debt and low *de facto* institutional barriers to reform would have been conducive to political attempts shifting the costs of adjustment on to the least well-off (Obinger 2002).

*Why, then, did the policy proposals of pronounced dualisation not materialise into institutional changes?* I argued that organised labour remained influential enough to block far-reaching cutbacks and to receive political concessions on behalf of outsiders instead. Counterfactual reasoning lends additional credibility to my claim. *If* the ÖGB had not demanded concessions for the enhanced protection of atypical employment contracts, there would have been no interest representation of outsiders. On the part of the employers, the WKÖ advocated exemptions from contribution payments and wage subsidies, not extended benefit entitlements or state-support for training like the unions (Tálos 1999). The SPÖ under Franz Vranitzky (1987-1997) and Viktor Klima (1997-2000) prioritised fiscal consolidation in the first place, while in large part relying on the unions in the area of labour market policy. By contrast, the ÖVP was the main force pursuing a strategy of pronounced dualisation. The FPÖ was somewhat inconsistent and changed positions over time, but came to block the ÖVP's reform strategy in response to mounting criticism from within.

Another condition was the reliance of Austrian governments on union support in the policy-making process. *If* governments had been powerful enough to formulate an autonomous reform strategy, there would have been a lack of incentives to opt for costly and lengthy labour-inclusive negotiation patterns. Let us recall that the grand coalition of the 1990s started out with a common agenda to reduce public debt in accordance with the Maastricht convergence criteria. In theory, a unilateral reform strategy would have facilitated the legislation of fiscal cutbacks to consolidate the federal budget. But, in reality, in 1995 the ÖVP called for early

elections in response to a persistent reform deadlock around the negotiation of austerity packages. This was a point in time where social partner negotiations played an essential role in brokering intense political conflicts between the grand coalition partners who came under growing pressure from the rise of the FPÖ. Union involvement was thus a way of overcoming intra-coalitional divides and broadening the political support base around controversial retrenchment policies.

Notably, my argument about weak governments extends to the grand coalition as well as to the centre-right coalition from 2000 to 2006. In spite of its anti-union platform, the ÖVP-FPÖ government also delegated reforms of the labour market to a labour-inclusive social partnership. Again, this was a political choice resulting from intra-coalitional divisions. *If* the ÖVP had been supported by the FPÖ in the implementation of the 2000 and 2003 government programmes, there would have been a clear parliamentary majority for changes along the lines of the German *Hartz-IV* reform (e.g. introduction of ‘1-Euro jobs’) on the one hand, and the exclusion of temporary workers from job security regulations (*Abfertigung neu*) on the other. Unlike in the area of labour market policy, the FPÖ was instead willing to support the ÖVP in imposing a unilateral pension reform on organised labour in 2003, because costs savings in the public pension system formed an important part of its claim to put an end to the accumulation of public debt (*Schuldenpolitik*) (Müller/Fallend 2004, 815). This explains why the ÖVP-FPÖ coalition was much more attuned to labour-inclusive negotiations in labour market policy than in pension policy. A counterfactual case can also be made with respect to the subsequent grand coalition. *If* the SPÖ and ÖVP had not suffered from growing political conflicts, they would not have benefitted from the reform capacity of trilateral negotiations. Tellingly, the grand coalition produced a remarkable number of reforms despite open political conflicts, which culminated in the call for fresh elections in 2008 after less than one and a half years in office. If anything, in fact, a unilateral reform strategy in response to the Great Recession was not even considered.

## Conclusion

The case of Austria illuminates two points about the politics of labour market policy in the era of liberalisation. First, where unions are united, they are able to support the social demands of outsiders. The virtue of labour unity is that it gives voice to member unions, which are hit hardest by the competition from atypical employment contracts. This institutionalised hierarchy of the ÖGB sets Austrian unionism apart from the classical sectoral model of German unionism (Heinisch 2000). Second, however, the causal significance of union preferences is

not determinative. On the contrary, a decline of the workforce that is unionised might well legitimise a unilateral reform strategy that excludes the preferences of unions from the policy-making process. But this exclusion would require the capacity of governing parties to find a durable consensus independent from trade union support. When governments lack this cohesiveness in the policy formulation process, they resort to extra-parliamentary channels of consensus mobilisation. This weakness best explains why Austrian governments granted concessions to organised labour despite fiscal constraints (1990s), neoliberal policy platforms (2000-2006), and the onset of the Great Recession (post-2008 years).

Another factor that deserves attention is the role the WKÖ played in maintaining cooperative relations with the ÖGB. The principle of mandatory membership was undeniably central to its commitment to the ‘social partnership’. This institutional compulsion on employers implied that small firm owners could not defect from corporatist arrangements in favour of a market-clearing adjustment strategy at the firm level. It therefore ruled out the full neoliberal reorientation characteristic of business associations in countries with similar corporatist legacies (Paster 2013). Contrary to VoC-inspired cross-class approaches (Martin/Thelen 2007, Martin/Swank 2012), however, the WKÖ’s support for the Austrian social partnership did *not* imply a policy preference for a ‘solidaristic’ response to the challenges posed by the neoliberal era. If anything, in fact, the first-order priority of the WKÖ was reducing labour costs and reservation wages.

My findings are consistent with a core claim of the social pact literature; namely, that weak governments have a powerful incentive to pursue a labour-inclusive reform strategy (Baccaro/Lim 2007, Baccaro/Simoni 2008, Hamann/Kelly 2007). But the kind of weakness characteristic of Austrian governments was not one of electoral instability and hung parliaments, as in most cases within the social pact literature. The defining feature of weakness was a reliance on well-established social partners in the policy-making process. This mutual reliance historically evolved through close ties between the grand coalition and the social partners, but it was stabilised by mounting intra-coalitional divisions during the era of liberalisation. Contrary to partisanship approaches (Rueda 2007, Huo 2009, Häusermann 2010), elections and vote-seeking calculations play little role when governments share policy-making authority with organised interests to improve their reform capacity. This political choice of weak governments provides trade unions with the opportunity to resist increased inequality. When that political choice shifts to a unilateral reform strategy, the result excludes that opportunity to the detriment of outsiders.

#### **IV. Strengthened Governments and the Myth of Danish Flexicurity**



## Introduction

The 2000s was the decade during which academic and policy-making circles discovered the ‘egalitarian’ distributive outcomes produced by Danish labour market reforms of the 1990s. Welfare state and political economy researchers attributed this outcome more specifically to the maintenance of Social democratic-like unemployment protection and Anglo-liberal ‘hiring and firing’ arrangements in tandem with a strong expansion of human capital formation through ALMPs (e.g. Bredgaard 2013, Martin/Thelen 2007; Martin/Swank, 2012, Palier/Häusermann, 2008, Thelen 2014). This triangular policy formula came to be known as the Danish ‘Flexicurity’ model, which served as an important role model for European progressive reformers of the 2000s (Clasen/Viebrock 2009). Scholars who observed the dynamic political processes underlying Danish capitalism have, in this perspective, attributed its policy output to sustained macro-corporatist coordination between encompassing peak-level associations and the state (Martin and Thelen, 2007; Martin and Swank, 2012; Thelen, 2014).

This chapter raises doubts about the viability of the Danish Flexicurity model by highlighting the gradual changes that led to an erosion of its security-related components during the 2000s. In that sense, my claim is that academic scholarship came to recognise the ‘egalitarian’ institutions of the Danish Flexicurity model at a time when they had already started to erode. Three inter-related patterns of erosion can be identified. First, restricted access to training, tightened benefit obligations, and the institutional disempowerment of the trade unions in the implementation of ALMP accelerated the re-commodification of labour. Second, retrenched benefit entitlements in tandem with the onset of the Great Recession excluded a significant number of unemployed workers from benefit receipt. Third, and even more importantly, legislative interventions curtailed the long-term power basis of organised labour by reducing workers’ institutional incentives to become a union member. The breaking of the *de facto* union monopoly in the administration of voluntary unemployment insurance (*Ghent* system) gave rise to expanded membership of ‘alternative unions’ that do not take part in collective bargaining and reject industrial action. Rapidly falling membership rates among the traditional ‘red’ unions caused damage to the viability of the tripartite concertation on which policy intervention in the Danish Flexicurity model was built. Conceding that the Danish Flexicurity model may well reflect the egalitarian variety of liberalisation from an international comparative perspective (Thelen 2014), I argue that the literature so far failed to recognise its significant erosion in the 2000s. This chapter explores the reasons behind this temporal variation in the social protection of outsiders in Denmark.

*So how can we explain the rise and erosion of the Danish Flexicurity model?* The most common-sense explanation would be linked to partisanship. Between 2001 and 2011, the political right managed to gain a clear and united parliamentary majority for the first time since 1929, as the right-wing populist Danish People's Party supported the Liberal-Conservative minority government for ten years. This parliamentary majority enabled the Liberal Party (*Venstre*), the dominant party in government, to attack the institutional position of union power in order to liberate its voters from the social democratic-friendly union movement in favour of alternative unions. Yet, my diachronic research design allows me to cast doubt on a hypothesis derived from differences in partisanship (Klitgaard/Nørgaard 2013). If anything, in fact, the centre-left coalition under the auspices of the Social Democrats (2011-2015) went *further* than the political right by legislating modest welfare cuts for benefit recipients to co-finance tax cuts for people in employment (Goul Andersen 2012b). What is puzzling is that welfare cutbacks for the unemployed took place under centre-right *and* centre-left governments despite egalitarian welfare attitudes among the electorate (Larsen 2008, Larsen/Goul Andersen, 2009). According to nation-wide representative surveys conducted in the years 2000 and 2008, three quarters of the respondents in both surveys stated that access to unemployment benefits should be a universal social right (Goul Andersen 2011b, 16). Moreover, post-electoral survey data from 2011 show that 71 and 79 percent of the electorate rejected welfare and tax cuts, respectively (Stubager et al. 2013, 37-39). That partisan reformers obviously did not respond to the demands of the overwhelming electoral majority is not consistent with the partisanship thesis (Huo 2009, Häusermann 2010). Moreover, contrary to Rueda's theoretical exposition (2007), the 'insiders' appeared to have been supportive of 'outsider-oriented' protections.

While partisan differences lost causal significance over time, the reform trajectory of Danish 'Flexicurity' may also not be attributed to political deals between unions and employers in macro-corporatist institutions, as suggested by producer group approaches (Martin/Thelen 2007, Martin/Swank 2012, Thelen 2014). On the contrary, the Scandinavian literature identified a decline in corporatist policy integration in favour of a more pluralised pattern of interest articulation and policy deliberation (Christiansen/Rommetvedt 1999, Blom-Hansen 2001, Klitgaard/Nørgaard 2010, Öberg et al. 2011, Jørgensen/Schulze 2011, Klitgaard/Nørgaard 2013, Rommetvedt et al. 2013). As Rommetvedt et al. (2013) argue, political lobbying supplemented, and to some extent substituted for, the representation of organised interests in corporatist policy-making, because political decisions have been increasingly prepared by the government of the day without any formal tripartite deliberation. This finding is consistent with Jørgensen/Schulze (2011), who observe a gradual exclusion of

the unions from the labour market policy-making process in the past two decades. More specifically, Table 4.1 reviews the declining importance of corporatist committees with union involvement in the preparation of labour market policy-making across the past five decades.

Table 4.1: Inclusion of trade unions in preparation committees in labour market policy-making.

	1960s & 70s	1980s	1990s	2000s
Number of corporatist committees with union involvement	53	17	20	18

Source: Klitgaard/Nørgaard (2010, 23).

While the unions were not formally involved in any of the major labour market policy reforms of the 2000s, they also lacked a strong influence over the regular reform commissions. While in the 1960s/1970s, the unions participated in 53 labour market commissions, in the 2000s, they were present in only 18. It follows that the inclusion of organised interests, not least unions, has become a politically contingent choice of governments, and not an institutional constant by virtue of corporatist legacies.

Thus, I contend that the erosion of the Danish Flexicurity model did not result from partisanship or producer group coalitions, but the political capacity of strong governments to exclude organised labour from the policy-making process. During the late 1980s, an exhausted centre-right minority coalition between four different parties under Poul Schlüter (1982-1993) shifted to a labour-inclusive reform strategy in the area of labour market policy. Unable to receive a parliamentary majority for its preferred policy output, the Schlüter cabinet delegated the negotiation over a turn to ‘welfare-to-work activation’ to a commission dominated by unions and employers. The appointment of this commission created opportunities for unions to extract concessions from the state, because the government was reliant on an extra-parliamentary channel of consensus mobilisation. Union influence was instrumental in forcing the Schlüter cabinet to drop its preference for benefit cutbacks and connect the activation of the unemployed to an expansion in training. This political exchange led to the *Labour Market Reform I* in 1993, which triggered the rise of the Danish ‘Flexicurity’ model during the 1990s. It is clear why the LO (*Landsorganisationen i Danmark*), the peak union confederation, used this opportunity to mobilise political support for outsiders. Thanks to the unions’ administrative

responsibility over the *Ghent* system, the LO integrated the margins of the workforce into its membership base (Rothstein 1992). With the decentralisation of collective bargaining, the LO thus found in the social protection of outsiders its new *raison d'être* to reach out to union members with high unemployment risks (Ibsen 2013, Thelen 2014).

Despite this position, as of the late-1990s, Danish governments have gradually turned their back on the trade unions and have, instead, appointed experts and civil servants to formulate labour market policy changes (Christiansen/Klitgaard 2010, Klitgaard/Nørgaard 2010, Jørgensen/Schulze 2011). This political choice, I argue, can be attributed to the growing independence of governments from trade union support in the policy-making process. First, the centre-left minority government of the 1990s successfully enhanced its autonomous reform capacity through flexible majority-building processes in the parliamentary arena, which are difficult for unions to influence (Blom-Hansen 2001). Second, the subsequent formation of a Liberal-Conservative minority government was supported by the right-wing populist Danish People's Party (DPP). Unlike in the 1980s, the political right therefore had a united parliamentary majority from 2001 to 2011, which allowed it to liberalise and retrench the *Ghent* system against the opposition of organised labour. That the erosion of Danish Flexicurity cannot be attributed to partisan left-right differences was powerfully demonstrated by the subsequent centre-left minority government under Helle Thorning-Schmidt (2011-2015). Neoliberal problem definitions induced her cabinet to prioritise sound public finances with support of the non-socialist opposition, and not the social protection of outsiders.

The temporal variation we can observe between the rise and erosion of Danish Flexicurity supports my claim that union influence rests on the presence of weak governments. When the parliamentary arena allows minority governments to find majorities for its preferred policy output, it is not organised interests who dominate the policy-making process. It is instead the key leaders of political parties that negotiate over the content of legislation. In a historically distinct context where political parties converge towards neoliberal positions and trade unions lose the power to resist their reform ambitions, the policy output of unilateral government action produces increased inequality in employment and welfare standards.

My argument proceeds as follows. First, I give a descriptive overview of labour market policy changes, showing that the Danish Flexicurity model has eroded during the 2000s. Second, I present my argument explaining this erosion, grounded on the power-distributional interaction between governments and organised labour. Third, I show through process tracing that governments shared policy-making authority with the unions in the late 1980s and early 1990s, but not during the 2000s, and how this temporal variation led to the rise and erosion of

Danish Flexicurity. Methodologically, the empirical section draws on data from official documents and secondary literature as well as from 21 semi-structured interviews with policy-making elites carried out by the author in Copenhagen in December 2013 and August 2014. In the conclusion, I discuss the further implications of this case study.

### **Still ‘egalitarian’? Unionisation and state support for outsiders**

The specific features of the Danish labour market are the result of an evolutionary historical process that has only recently been identified as a distinctive institutional set reconciling flexibility and security in post-industrial capitalism (Emmenegger 2010). As of the early 2000s, the inter-relationships between the different institutional arenas of the Danish labour market have been seen as constituting a “golden triangle” of employment-promoting flexibility, universal/generous unemployment protection and training-based ALMP (Madsen 1999). The Anglo-American component of liberal ‘hiring and firing’ arrangements as well as the Scandinavian component of universal/generous unemployment protection are part of the Danish welfare state legacy and are thus far from new. By contrast, the expansion of ALMP with a strong emphasis on training was the novel response to the economic crisis of the early 1990s and completed the “golden triangle” (Torfing 1999). Thelen (2012, 147) therefore comes to the conclusion that Danish Flexicurity reflects the egalitarian variety of liberalisation through the combination of market-promoting re-commodification with strong social protection and re-integration programmes in order to ease the adaptation of employees’ social circumstances and skill levels to changing market demands.

Following Thelen (2012), I regard universal/generous unemployment protection and training-based ALMP as the constitutive pillars of Danish welfare-to-work activation and define Flexicurity through the lens of the “golden triangle” (Madsen 1999) to operationalise its development. Based on this definition, I argue that the retrenchment of unemployment benefits and restricted access to training-based ALMP have led to an erosion of the security-related components of the Danish Flexicurity model. Table 4.2 summarizes this erosion in detail. First, it shows that the strictness of employment protection for regular workers somewhat increased from 2.13 to 2.20 (due to a collective agreement in 2010), whereas it remained stable at 1.79 for temporary workers, according to the revised OECD database. Therefore, the differentiation between permanent and temporary workers somewhat widened, albeit remaining relatively small. Second, as of the early 1980s, the benefit generosity of unemployment insurance has continuously declined over time, although the formal benefit level remains at 90 percent. Net

replacement rates for average production workers declined from 82 percent in 1983 to 60 percent in 2009 (Van Vliet/Caminada 2012).

Table 4.2: Overview of rise and erosion of Danish ‘Flexicurity’ model

<b>Government and period</b>	<b>Policy change</b>	<b>Employment Protection</b> (strictness of employment protection for regular and temporary contracts)	<b>Unemployment Protection</b> (net replacement rate for average production worker and qualification criteria)	<b>Spending on Active Labour Market Policy</b> (in percent of GDP per unemployed)
Centre-right (1982-1993)		- Regular contracts: 2.18 - Temporary contracts: 1.38	- NRR: from 82 to 69 percent	- Spending: from 0.21 (1986) to 0.18
Centre-left (1993-2001)		- Regular contracts: from 2.18 to 2.13 - Temporary contracts: no change	- NRR: from 69 to 63 percent - Qualification period: from 26 to 52 weeks - Benefit duration: from 8 to 4 years - No re-qualification or extended receipt via ALMPs possible	- Spending: from 0.18 to 0.42
Centre-right (2001-2011)		- Regular contracts: no change - Temporary contracts: no change	- NRR: from 63 to 60 percent (2009) - Benefit duration: from 4 to 2 years - Re-qualification period: from 26 to 52 weeks - Tightened activation demands	- Spending: from 0.42 to 0.27 (2010)
Centre-left (2011-2015)		- Regular contracts: from 2.13 to 2.20 - Temporary contracts: 1.79 (OECD data revision)	- Modest benefit cut through reduced indexation mechanism	- Spending: no significant change

Source: see Chapter II.

Moreover, the Social Democratic-led government (1993-2001) halved the benefit duration from eight to four years in three steps and doubled the contribution record necessary to be entitled for benefit receipt from 26 to 52 weeks (Goul Andersen/Pedersen 2007). The subsequent Liberal-Conservative government with support of the Danish People's Party further halved the benefit duration from four to two years and doubled the re-qualification period from 26 to 52 weeks in 2010. This cutback retrenched the most generous aspect of the system, given that net replacement rates for average and high-income groups have gradually declined over time (Goul Andersen, 2011a). Unlike in Austria and Sweden, benefit eligibility may not be extended via participation in ALMP programmes. Another Achilles' heel for the inclusiveness of the Danish Ghent system is declining membership of voluntary unemployment benefit funds: statistical evaluations registered a gradual loss from almost 80 percent in 1995 to 71.5 percent in 2012 (Due et al. 2012, 4). As a consequence, almost one third of the workforce was not entitled to income replacement in the event of unemployment in 2012. A further change that was brought in by the Liberal-Conservative government was the *de facto* abolition of the early retirement scheme (*efterløn*), legislated in May 2011. As Goul Andersen (2012) argues, this cutback constituted another instance of de-universalisation at the expense of older workers because Danish senior workers do not enjoy seniority dismissal protection clauses and social inequality in health and life expectancy is increasing.<sup>24</sup>

Third, it is well-known that Denmark expanded ALMP spending to very high levels during the 1990s. The subsequent Liberal-Conservative government (2001-2011) gradually reduced spending on training and tightened the work-first approach of activation demands (Jørgensen, 2009; Goul Andersen, 2011a). Declining spending went hand in hand with the full transfer of the administrative responsibility over ALMP from corporatist bodies to the municipalities, thereby breaking the institutional capacity of Danish unions to influence the regional design and local implementation of labour market programmes. Although high levels of spending persisted from a comparative between-case perspective (Bonoli 2010), the within-case direction reveals a significant decline in spending during the 2000s.

Table 4.2 also shows that both centre-right *and* centre-left governments retrenched the generosity and inclusiveness of unemployment insurance during the past three decades. In the area of ALMP, the rise of spending during the 1990s was not a product of centre-left

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<sup>24</sup> The savings package in the pension system reduced the benefit duration of the early retirement scheme from five to three years, increased the minimum age for the entitlement to early retirement to 64 years, and increased the retirement age from 65 to 67 years. In a similar vein, spending cuts in the employment subsidy scheme for people with disabilities (*Flexjob*) and restricted access to disability pensions for people below the age of 40 point in the direction of less inclusive social security.

partisanship, but rather a political compromise worked out by the previous centre-right coalition with the unions. It is also clear that the centre-left Thorning-Schmidt cabinet (2011-2015) did not reverse the spending cuts that had been made by the previous centre-right government. Regardless of partisanship, I claim that declining union influence undermined the power-distributional coalition on which ‘solidaristic’ policy intervention rested. The next section analyses the causes of this gradual shift to a unilateral reform strategy that excluded unions.

### **Union Preferences and Government Strength in Denmark**

In this section, I will sketch out my argument about the interaction between organised labour and governments in Denmark. First, I describe why Danish unions had the strategic capacity to incorporate the policy demands of outsiders into their policy priorities. I then discuss the increased reform capacity of minority governments that allowed them to design and implements reforms independent from union support.

#### *Danish union preferences and the Ghent system*

The strategic capacity of the Danish labour movement to advocate outsider-oriented policy demands results from the institutional function of the *Ghent* system for membership recruitment on the one hand, and the encompassing representational focus emerging from high density rates on the other. Both factors of interest formation are closely intertwined, as the *Ghent* system *per se* facilitated the direct incorporation of outsiders into the membership base of Danish unions (Rothstein 1992). The same institutional connection can be found in the case of Sweden (see Chapter V).

To begin with, the *Ghent* system refers to a voluntary and state-regulated system of unemployment insurance, but it is the trade unions that administer it by paying out the cash benefits.<sup>25</sup> In the Keynesian post-war era, growing state subsidisation of unemployment benefits implied increased potential benefits and decreased concentrated membership costs, thereby enlarging unionisation and unemployment insurance coverage alike (Goul Andersen 2012a, 172). Unlike in other countries, the rise of mass unemployment did not result in declining density rates, because the union-run administration of voluntary benefit funds integrated unemployed workers into the labour movement. Therefore, the *Ghent* system

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<sup>25</sup> Belgium, Denmark, Finland and Sweden are the four countries with *Ghent* systems, which in large part explains their high levels of union organisation. Unlike the Nordic countries, however, Belgian unemployment insurance is not voluntary, as membership contributions are mandatory for every wage earner (Clegg 2012).



appealed to the margins of the workforce in particular, since it established a clear link between trade unions and unemployed workers. It is well known in the scholarly literature that the cost-benefit attractiveness to join union-run unemployment benefit funds strongly contributed to high levels of union membership in countries with a *Ghent* system (Rothstein 1992, Western 1997, Scruggs 2002, Ebbinghaus et al. 2011, Gordon 2014).

It might appear somewhat puzzling that in practice almost all workers in *Ghent* countries choose the more expensive option of dual membership in unemployment insurance and trade unions, although both institutions are formally separated from each other. However, as Clasen/Viebrock (2008) point out, there are both informal traditions and selective benefits that incentivise this choice. First, the strong identification with the trade unions turns dual membership into a question of collective loyalty. Second, the post-tax financial costs of dual membership are still relatively low, even in Sweden where the centre-right government differentiated and increased the fees of unemployment insurance in 2006 (see Chapter V). Third, the public perception of a dual package gained by joining a trade union somewhat undermines the awareness of a formal institutional separation between trade unions and unemployment insurance. Finally, in the case of Denmark, unemployed union members receive potentially more effective job-search support from their corresponding union-run benefit fund. In sum, the political mobilisation of support for universal and generous labour market protections served as an incentive for workers to become members of a union.

#### *Danish union power and the liberalisation of the Ghent system*

Partisan reformers of the political right were well aware of the institutional connection between high union density rates and the *Ghent* system. To weaken the veto-power of social democratic-friendly ‘red’ unions, the political right had to find a way to undermine their *de facto* monopoly in the administration of unemployment insurance without stimulating a forceful counter-mobilisation. This context called for a strategy of “layering” (Streeck/Thelen 2005, 22-24), whereby the agents of change leave an established institution formally untouched while actually exposing it to competition from newly created alternative institutions. This line of action pre-empts a counter-mobilisation of vested interests attached to the established institution at the same time as crowding out its coverage through measures that foster the growth of alternative institutions.

Immediately after taking office in 2001, the Liberal-Conservative government pursued precisely this strategy of ‘layering’ with support of the Danish People’s Party. It liberalised the union monopoly over the administration of unemployment insurance by enabling private and

cross-occupational benefit funds to compete for members with the LO-affiliated benefit funds. This institutional reform gave rise to growth in the membership of the alternative unions to the detriment of the recognised union movement. Unlike the traditional ‘red’ unions, the alternative ‘yellow’ unions do not take part in collective agreements with employers’ associations and reject industrial action, which enables them to provide a cheap dual membership package including unemployment insurance and individual services across all sectors and occupations (Ibsen et al., 2013). Hence, they provide an ideological alternative to the traditional unions that is also less expensive, while their members still benefit from the collective bargaining system, as sector agreements cover all employees irrespective of union membership (ibid.).

Figure 3.1 traces the changing membership structure of Danish unions from 1985 to 2012. It shows that the total number of members in alternative unions tripled, although the number of unorganised employees grew by 28 percent between 1995 and 2011 (ibid.). In the same period, LO-affiliated unions lost almost every fourth member and covered only one-third of all Danish employees, even though the total number of all employees and unemployed has grown by 108,000 (ibid.).

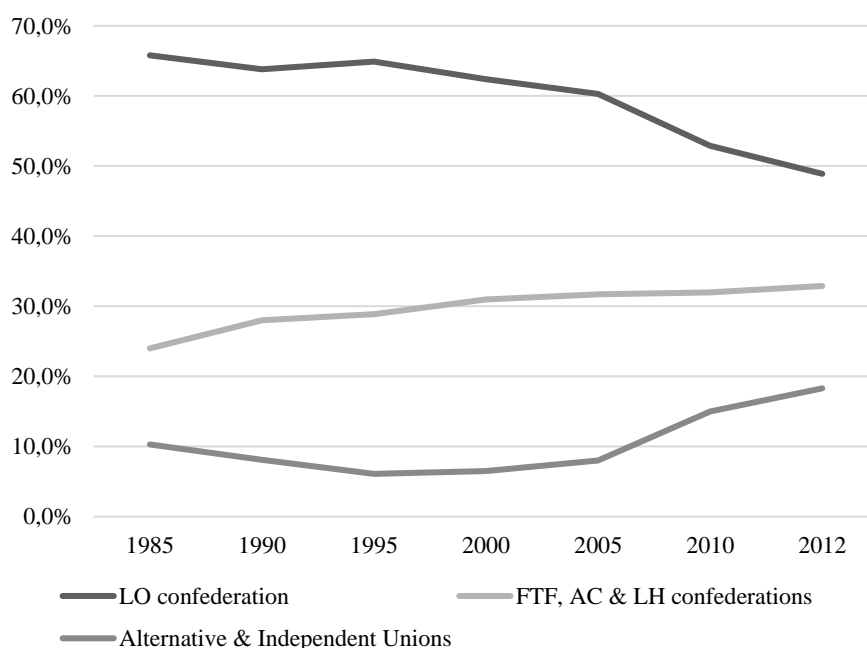


Figure 3.1: Trade union membership structure: membership share of LO (Confederation of trade unions); FTF (Confederation of salaried employees), AC (Confederation of professional associations) & LH (Association of managers and executives); alternative and independent unions, 1985 – 2012.  
Source: Due/Madsen/Ibsen (2012), Ibsen (2012), Ibsen/Høgedahl/Scheuer (2013).

This transfer away from the LO has partly to do with occupational changes but the competitive pressure from the alternative unions reinforced declining membership numbers, since this development was closely connected to declining membership in the LO's union-run benefit funds (EIRO, 2010). According to the most recent evaluation, between 2000 and 2014 the overall level of unionisation among the traditional unions dropped from almost 69 percent to 60 percent, while the alternative unions registered a steady membership increase from 2.5 percent to 9 percent of the workforce over the same period (Ibsen et al., 2014).

Despite a decline in density rates and labour unity, Danish unions continued to be strong from an international comparative perspective during the era of liberalisation. The above illustration cannot be causally sufficient to explain a decline of union involvement in the policy-making process, because a number of much weaker unions in non-corporatist economies gained formal policy influence through the conclusion of tripartite social pacts in the 1990s and 2000s (e.g. Baccaro/Lim 2007, Baccaro/Simoni 2008, Avdagic 2010). The rise of alternative unions to the detriment of the LO must therefore be placed in the context of the significant shrinking of union confederations elsewhere (Ebbinghaus et al. 2011). Instead, a decline in union power merely points to an increased relevance of governing parties in maintaining cooperative relations with organised labour. Even though union exclusion became less risky for successful re-election over time, European governments continued to pursue deals with unions when it corresponded to their interest in enhancing their reform capacity. I will now explain why governments in Denmark gradually lost this interest as of the mid-1990s.

#### *The rise of autonomous reform capacity in Denmark*

Weak governments are more likely than strong governments to pursue a labour-inclusive reform strategy, because they lack the capacity to formulate and pass a common reform agenda independent of union support. As we saw in the case of Austria, this capacity can be constrained by intra-coalitional divisions between ideologically-divided and equally strong governing parties, because they are often not able to achieve a consensus inside the government. When the governing parties inside a coalition achieve no consensus, they have powerful incentives to delegate policy-making authority to unions and employers under the supervision of the state.

But what happens when governments are united, but lack the majority to pass their preferred policy output in the parliament? The case of Denmark gives us insight into this question. Since the early 1970s, the country has always been governed by a minority coalition, except for a single one and half year period. We would expect the autonomous reform capacity of minority governments to depend on the number of parliamentary seats required and the

number of opposition parties available to receive a majority. Labour-inclusive reform negotiations are unnecessary when minority governments are strong enough to ‘choose’ support from one party among a number of different opposition parties. Under this condition, the minority government can pursue an agreement with the party that is closest to its ideal policy preference. By contrast, when minority governments depend on support from a number of different parties at the same time, it is more likely to face difficulties in finding a majority for its preferred policy output. This difficulty creates a powerful incentive to mobilise an extra-parliamentary channel of consensus mobilisation that includes unions. To assess the autonomous reform capacity of Danish minority governments, we look at their partisan composition and vote share in the era of liberalisation in Table 4.3.

Table 4.3: Elections and governments in Denmark, 1981 – 2015.

Coalition	Period	Governing parties	Type	Vote Share
Centre-left	1981 – 1982	SD	Minority	32.9 percent
Centre-right	1982 – 1984	K, V, CD & KrF	Minority	36.4 percent
	1984 – 1987	K, V, CD & KrF	Minority	42.8 percent
	1987 – 1988	K, V, CD & KrF	Minority	38.5 percent
	1988 – 1990	K, V & RV	Minority	37.1 percent
	1990 – 1993	KV & V	Minority	31.8 percent
Centre-left	1993 – 1994	SD, RV, CD, KrF	Majority	48.3 percent
	1994 – 1996	SD, RV & CD	Minority	42.0 percent
	1996 – 1998	SD, RV	Minority	39.2 percent
	1998 – 2001	SD, RV	Minority	39.8 percent
Centre-right	2001 – 2005	V, K (& DF)	Minority	40.6 percent
	2005 – 2007	V, K (& DF)	Minority	39.3 percent
	2007 – 2011	V, K (& DF)	Minority	36.6 percent
Centre-left	2011 – 2014	SD, SF, RV	Minority	43.5 percent
Centre-left	2014 – 2015	SD, RV	Minority	34.3 percent

Notes: SD = Social Democrats; K = Conservative Party; V = Liberal Party; SF = Socialist People’s Party; RV = Social Liberals; KrF = Christian Democrats; CD = Centre Democrats; DF = right-wing populist Danish People’s Party.

In 1982, the so-called “four-leaf clover” centre-right minority government under Poul Schlüter took office without winning any election outcome, because the previous Social Democratic single-party minority government collapsed due to a lack of support. The centre-right minority government significantly enhanced its vote share two and a half years later in 1984, increasing its support from 36.4 percent to 42.8 percent. Therefore, it was no longer reliant on support from the populist and anti-tax Progress Party, which was considered a non-responsible actor at that time. It could instead build a majority by reaching out to one of two different parties: the Social Liberals from the non-socialist bloc or the Social Democrats from the socialist bloc. The 1987 election, however, was a serious defeat for the government, thereby creating a hung parliament between two opposing blocs. As a consequence, the non-socialist bloc’s thin majority relied on the support from the Progress Party. Somewhat surprisingly, the centre-right government stayed in office, even though this instable majority situation was aggravated by the 1990 election outcome, where a two-party coalition between the Conservatives and the Liberals reached only 31.8 percent of the vote. We would expect the presence of this weak government to create opportunities for unions to influence the policy output, because the 1987 elections impeded the formation of reliable majorities in the parliamentary arena. Labour-inclusive negotiations would mobilise an extra-parliamentary channel for consensus mobilisation to the benefit of a government haunted by instable majorities.

The subsequent centre-left minority government was in a somewhat stronger position than the previous centre-right minority government, because it was led by the Social Democrats – the strongest party with a vote share of around 35 percent. We would expect the policy output to correspond in important respects with the party’s first-best preference, because it could seek a parliamentary majority either with support from the left-wing opposition parties (Socialist People’s Party & Red-Green Alliance) or with one of the two strongest parties of the non-socialist bloc (Liberals or Conservatives). In addition, between 1996 and 2001, the Social Democrats had only one coalition partner, the Social Liberals, because the Centre Party left the government to go into opposition. In sum, the centre-left minority government was stronger than its predecessor from the non-socialist bloc, but it still lacked a united parliamentary majority.

Unlike the 1980s, the political right managed to gain a clear and united parliamentary majority for the first time since 1929, as the right-wing populist Danish People’s Party supported the Liberal-Conservative minority government for ten years. This implied a significant strengthening of the centre-right government relative to the instable majorities of the late 1980s and early 1990s. Similar to the Austrian Freedom Party, however, the Danish

People's Party was attached to the blue-collar working class and thus not in support of radical neoliberal changes. The centre-left government that took over from 2011 to 2015 could either build a majority with the left-wing Red-Green Alliance or the support from one of the two dominant centre-right parties, the Liberals or the Conservatives.

The description above implies that the reform capacity of minority governments independent from union support gradually increased. Yet, another crucial source of this increased autonomous reform capacity was a decline in the polarisation between the two opposing blocs. First, as Green-Pedersen (2001a, 63) points out, minority governments as of the 1990s not only connected a growing set of policy changes to the negotiation of annual budget laws, but also built majorities with different combinations of parties for different elements of the budget law. These negotiations were thus used as a forum to pass a growing set of different legislative changes in connection with the budget, retrospectively called 'patchwork agreements'. Handled this way, the minority government could pursue flexible and pragmatic cross-bloc agreements, which are hard to influence for organised interests (Blom-Hansen 2001).

Second, the decline in the polarisation between the socialist and the non-socialist bloc was underpinned by a mutual convergence between the two strongest parties of the centre on welfare state issues. On the one hand, the Social Democrats of Denmark were a forerunner party of the 'Third Way' by endorsing market-conforming positions and thereby opening up to the Liberals in the parliamentary majority-building process (Green-Pedersen et al. 2001, Larsen/Goul Andersen 2009). On the other hand, the Liberals replaced former open calls for the direct dismantling of universal welfare with the proclamation of tax freezes to adjust their electoral platform to egalitarian welfare attitudes (Klitgaard/Elmelund-Præstekær 2013, Arndt 2014). This ideological convergence facilitated the majority-building process across formally divided electoral blocs.

We should expect unions to lose influence in a party system where the flexibility of the majority-building process increases and ideological divisions between parties of the centre-left and centre-right decrease. Both factors further enhance the capacity of minority governments to build a majority with parties that are closest to their first-best policy preference. This contrasts with the case of Austria, where governments are notoriously divided between two historically evolved camps. In that sense, the growing flexibility of the parliamentary majority-building process in Denmark acts as a functional equivalent to the ongoing reliance of (grand coalition) governments in Austria on the problem-solving capacity of the social partners. The next section illustrates my claim that governments in Denmark dismissed the unions from the

policy-making process, once they were no longer reliant on the mobilisation of an extra-parliamentary channel of consensus mobilisation.

### **Liberalisation “on the brink of the abyss”**

Denmark was hit hard by the second oil price shock in the late 1970s. The Social Democratic Minister of Finance, Knud Heinesen, had signalled the public crisis awareness in the face of inflation and unemployment levels at the levels of 10 percent, his view being that the country was standing “on the brink of the abyss” (Obinger et al. 2010, 95). Yet, the Social Democratic single-party minority government of Anker Jørgensen failed to find a majority in parliament for the introduction of its economic policies that were designed in close cooperation with the trade unions. As a consequence, Jørgensen had to give way to a centre-right minority coalition that stayed in office for more than ten years under the conservative Poul Schlüter (1982-1993). The dissolution of a single-party minority government after one and a half years demonstrated the hardened political fronts between the two blocs. Unlike in Sweden, the Social Democratic Party of Denmark was simply not strong enough to impose its policy programme on the non-socialist bloc (Esping-Andersen 1985).

The subsequent centre-right government under Schlüter achieved the parliamentary majority necessary to introduce austerity measures in response to wage-inflation spirals by opening up towards the populist right-wing Progress Party – which had up to that point been discredited politically – and successfully exploiting the public’s perception of the crisis; both these factors enabled it to implement unpopular spending cuts. Schlüter’s government strategy undermined the influence of the unions in the policy-making processes to impose welfare cutbacks and state-led wage settlements on organised labour (Green-Pedersen 2001a, 59f., Scheuer 1992, 188). The centre-right coalition curtailed the number of policy preparation committees with corporatist interest group representation from 188 in 1980 to 117 in 1985, and to 59 in 1990 (Christiansen et al. 2010, 31).

The reform profile of the early 1980s initiated the transition to a monetarist hard-currency regime against the protests of the Social Democrats and the unions. After taking office in 1982, one of the first austerity measures was the retrenchment of welfare benefits (except for old-age pensions) by effectively freezing the benefit levels for three years and abolishing benefit indexation in relation to wage increases. Given the high inflation rate of around 10 percent at that time, the non-indexation led to a substantial decline in the benefit ceiling for the insured unemployed. The public crisis awareness of the early 1980s and the support of the Progress Party enabled the Schlüter government to refrain from corporatist power-sharing

without electoral punishment. With its 1984 election victory, the government could rely on parliamentary support from the Social Liberals (RV) to have a majority without having to please the Progress Party (Green-Pedersen 2001a, 59).

### **Labour inclusion and the rise of Flexicurity**

In the late 1980s, Denmark faced a resurgence of high unemployment (8-10 percent) and concerns about the “passive” nature of its labour market policy. The Danish Economic Council and the centre-right coalition under Prime Minister Schlüter criticised the permissive granting of welfare benefits. In the spring report of the Economic Council (1988) and the government’s “White Paper on the structural problems of the labour market” (1989), unemployment was presented as structural, caused by a lack of financial work incentives, a surplus of low-skilled labour, and high minimum wages (Larsen/Goul Andersen 2009).

Unlike the early 1980s, however, the Schlüter cabinet faced difficulties in reaching compromises in the formulation of structural reforms of the labour market and social security. The election loss of 1987 was inferred by the centre-right minority government as a sign that the support of both the Social Liberals and the Progress Party would be required to assemble a non-socialist majority for its economic policies. At the same time, the Social Democrats proved unwilling to compromise with the Conservative-led minority government on reforms that would restrict the rising costs of unemployment benefit receipt. In response, Schlüter appointed two commissions to propose institutional changes to the labour market. The Labour Market Commission (*Zeuthen Udvalg*) consisted of representatives from the employers' and union's associations, municipalities, ministries, and parties, while the Social Commission (*Sociale Udvalg*) included experts only. The national peak-level associations of the employers (DA) and unions (LO) formed a majority on the *Zeuthen* Commission.

The first significant reason why Poul Schlüter appointed the labour-inclusive *Zeuthen* Commission was the lack of parliamentary support for the adoption of structural reforms. Goul Andersen (2011b, 13) underscored the political stalemate of the late 1980s in the following terms: “There was an abundance of neoliberal ideas, but no political majority to carry them through.” Jørgen Rosted, who was state secretary in the *Zeuthen* commission, told me in an interview that a negotiated reform strategy with the LO was conceived as the most viable option to achieve a consensus with the Social Democrats.<sup>26</sup> Faced with a non-socialist coalition for almost a decade, the LO preferred negotiations with the bourgeois bloc over a potential reform

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<sup>26</sup> Interview with Jørgen Rosted, leader of the state secretariat of the *Zeuthen* Commission, 11th August 2014.



deadlock, while the Social Democrats could not refrain from supporting a proposal that received the consent from its allied union wing. Second, Schlüter sought labour acquiescence having concluded that the prospect of unilateral austerity policies with support from the non-socialist opposition would not generate sufficient electoral support. The central lesson of the 1987 election defeat was that the legislation of unpopular reforms on social security and the labour market without the consent of the Social Democrats and the unions was electorally dangerous (Green-Pedersen 2001a, 59). Party-political considerations in the face of insufficient parliamentary support proved to be more influential than the ideological first-best policy preferences of the minority government. Thus, the weakness of the centre-right coalition and the willingness of the LO to negotiate with the non-socialist coalition gave the unions the novel opportunity to gain policy-making influence under Poul Schlüter.<sup>27</sup>

Despite the recommendations made by the Economic Council and the Conservatives, the involvement of the unions at the bargaining table prevented any further cuts in unemployment benefit levels. After lengthy and controversial negotiations both between and within the labour market organisations, the political exchange inside the commission implied stricter eligibility criteria and the reduction of benefit duration to seven years in return for social investment for the (long-term) unemployed in the field of ALMP (Torfing 1999, Schulze 2011). As Jørgen Rosted recalls, the unions made their support for the welfare-to-work activation paradigm conditional on the state's credible commitment to expanding training-based ALMP spending.<sup>28</sup> This description is consistent with a number of existing studies that underline the unions' strong support for an enabling human-resources approach that would focus on individual training and choice rather than on sanctions and coercion only (e.g. Torfing 1999, Jørgensen 2009, Lindvall 2010).

The Schlüter coalition, however, had to resign in the wake of a scandal in the Ministry of Justice and thus could not legislate the tripartite compromise reached in the Labour Market Commission. Instead, the dissolution of the centre-right coalition led to the formation of a Social Democratic-led government under the leadership of Poul Nyrup Rasmussen. Once again, the change of government was not the result of an election but an exhausted minority government after many years of an unstable majority situation in the parliament. The new

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<sup>27</sup> As Anthonsen/Lindvall/Schmidt-Hansen (2010) argue, the resurgence of corporatism in wage bargaining (1987) and occupational pensions (early 1990s) may be attributed to the emerging willingness of the unions to cooperate with a centre-right coalition whose policies they had fiercely opposed for five years in a polarised political environment. This argument may account for the emergence of negotiated wage restraint in 1987 but misses the weakened parliamentary power base of the government in the policy-making processes (cf. Green-Pedersen 2001).

<sup>28</sup> Interview with Jørgen Rosted, leader of the state secretariat of the *Zeuthen* Commission, 11th August 2014.

centre-left majority government adopted the policy recommendations of the pre-legislative commissions through the legislation of the *Labour Market Reform I* in 1993/94. In the process of preparing the labour market reform, unions and employers not only played a pivotal role but were also supported in their institutional responsibilities through the establishing of 14 tripartite regional labour market boards to administer and design the regional activation of the unemployed (Etherington/Jones 2004, 29; Martin/Thelen 2007, 26f.). This institutionalised power in the implementation of ALMP secured labour acquiescence in the paradigm change towards activation, as it gave unions a strong foothold in the protection of the insured unemployed. The combination of retrenching benefit duration and tightening eligibility criteria while expanding social investment in the realm of activation policies on the one hand, and a classical Keynesian economic recovery plan including temporary leave options on the other, created a labour-inclusive consensus around issues that were initially very controversial. The overall generosity of the income-security system was left untouched, although benefit duration was cut to a still very generous period of seven years and participation in activation became mandatory. People on unemployment benefits had the right, but also the obligation, to take part in activation programmes after two years.

### **Losing ground: Unions in the reform process**

The Social Democratic-led minority government adhered to the previously-achieved consensus of the Labour Market Commission that activation strategies were needed to combat what was deemed ‘structural’ unemployment; that is, a mismatch between the supply of and demand for labour due to insufficient qualifications, work incentives, or employment matching procedures (Larsen/Goul Andersen 2009). Contrary to the unions, however, the government’s activation strategy came to consider cuts in the benefit duration a necessary instrument to increase the labour supply once unemployment began to decline (ibid., 249-251). As economic recovery proceeded rapidly, unemployment figures went down from almost 10 percent in 1993 to 6.7 percent in 1995 and then 4.9 percent two years later.

Well aware of the unions’ opposition to cuts in the benefit duration, the government delegated the preparation of policy changes to civil servants and policy experts without the formal participation of the unions (Goul Andersen/Pedersen 2007, 13). Perhaps unsurprisingly, the Liberals and Conservatives supported the idea of a reduced maximum duration of benefits, alongside tightened activation demands to reinforce work incentives. Unlike in the late 1980s, the government therefore did not need the consent of the unions to mobilise an extra-parliamentary channel of consensus for cuts in the benefit duration. It could instead pursue

cross-bloc agreements with the centre-right opposition over a negotiated reform strategy with unions. In addition to this partisan convergence, the government bundled subsequent labour market reforms into annual budget laws that were negotiated between a few party leaders and thus precluded open discussions in the parliament (Larsen/Goul Andersen 2009, 251-253).

The *Labour Market Reform II* (1995) was negotiated with the Conservatives as part of budget negotiations in 1995, and the unions were not even invited to take part in informal discussions (Larsen/Goul Andersen 2009, 248). The benefit duration was cut from seven to five years and the job-search requirements were tightened. In addition, the Conservatives “compelled” the Social Democrats to increase the length of the employment record necessary to be entitled to unemployment benefits from 26 to 52 weeks (Klitgaard/Nørgaard 2013, 10).

The *Labour Market Reform III* (1998) was also prepared by civil servants and experts, and legislated with support of the Conservatives and the Liberals through a compromise over the annual budget for 1999. Employers and the unions had a common interest in advancing their institutional authority in the regional labour market boards and, as a result, successfully persuaded the Social Democrats to strengthen their role on the labour market boards (Mailand 2006, 378f.; Klitgaard/Nørgaard 2013, 11). As Larsen/Goul Andersen (2009, 251) document, the unions had no realistic chance to gain a foothold in the formal preparation of the reform and faced wide criticism for not preventing the government from reducing the benefit duration once again. The LO had to accept the cutback in any case and successfully obtained expanded social investment for the unemployed in return. It must be stressed, however, that the cutback in the maximum duration of benefit receipt did not yet threaten any job-seeker from losing benefit entitlements, while the power position of the unions was strengthened due to the consolidated process of tripartite governance in regional labour market councils and consultative bodies.

The most controversial instance of union exclusion was the unilateral retrenchment of the early retirement scheme (*efterløn*) as part of the *Labour Market Reform III*. In the election campaign in the same year, the Social Democratic Prime Minister Poul Nyrup Rasmussen promised to leave the popular benefit scheme untouched, thereby securing his re-election. However, the Social Democrats aimed at increasing the labour supply in the face of expected labour shortages due to rapidly declining unemployment and the rising costs associated with increased numbers moving into the *efterløn* system. In contrast, because the unions administer the early retirement scheme as part of the union-run unemployment benefit funds, benefit eligibility for early retirement required membership in their benefit funds (Clasen/Viebrock 2008). Thus, the unions had a strong interest in defending the generosity of the benefit scheme.

In secret and closed negotiations between the Minister of Finance, Mogens Lykketoft, and the party leader of the Liberals, Anders Fogh Rasmussen, the centre-left coalition decided, with support of the Conservatives and the Liberals, to tighten the access criteria for the early retirement scheme directly after the election of 1998 (Larsen/Goul Andersen 2009, 255).<sup>29</sup>

The reform took the public by surprise and led to a halving of support for the Social Democrats in the opinion polls compared to the election result nine months later, while Poul Nyrup Rasmussen calculated that there would be enough time left to recover from public protest until the next election (Larsen/Goul Andersen 2009). This turned out to be a miscalculation. Disaffection about the government's welfare policy and the successful exploitation of the immigration issue by the Danish People's Party led to the landslide victory of the political right in 2001 (Arndt 2013; Goul Andersen 2003, 192; Larsen/Goul Andersen 2009, 242; Obinger et al. 2010, 103-104). In response, the LO distanced itself from its traditional parliamentary ally and eventually removed any reference to the Social Democratic Party in its constitution of 2002 after 130 years of unity (Allern et al. 2007, 614).

### **Union exclusion and the erosion of 'Flexicurity' (2001-2007)**

In contrast to the centre-right and centre-left governments of previous decades, the subsequent Liberal-Conservative minority government (2001-2011) under Anders Fogh Rasmussen was supported by the right-wing populist Danish People's Party and was thus able to legislate *de facto* independently of the opposition. As the Social Liberals, a party that would have come closest to the Liberals on economic issues, was committed to cooperate with the left bloc, the Liberals opted for an alliance with the Danish People's Party to gain a parliamentary majority (cf. Goul Andersen/Pedersen 2007, 15). The government thus pursued a shift to the centre on welfare state issues while implementing restrictive immigration policies to attract working-class voters and the support of the Danish People's Party (cf. Rydgren, 2004, 496-497; Goul Andersen 2011c, 29; Jupskås, 2015, 29-30). In response to the Liberal Party's electoral defeat in 1998, Anders Fogh Rasmussen additionally sought to avoid any explicit assault against the Danish welfare model that could have provoked unfavourable discussions about the distributive effects of welfare retrenchment (Klitgaard/Elmelund-Præstekær 2013).

Unlike the Austrian ÖVP-FPÖ government, the Danish political right was thus united enough to pursue a common labour market policy agenda independent from union support. Its

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<sup>29</sup> The reform extended the minimum contribution period in an unemployment benefit fund to 25 years, introduced a separate early retirement contribution and included reduced benefit levels for people retiring at the age of 60.

unilateral reform strategy was accomplished through the strategic appointment of independent expert committees without any representation of unions.<sup>30</sup> But its shift to the centre on welfare-state issues in tandem with a favourable economic development ruled out an open attack on universal social security arrangements. Given this vote-seeking strategy, the government refrained from implementing welfare cutbacks in unemployment insurance in the beginning of its tenure, but rather shifted the focus to less salient demands such as more competition (“free choice”) in the unemployment protection system and stronger work incentives for people on social assistance.

Immediately after taking office in 2001, the Minister of Employment and chief ideologue of the Liberals, Claus Hjort Frederiksen, proposed a state-run and politically neutral unemployment insurance system to run alongside and compete with the union-run *Ghent* system. The idea of breaking the union monopoly in its responsibility for the unemployment benefit funds had long been on the agenda of the Social Liberals and the Liberal Party. However, various “practical considerations”<sup>31</sup> advanced by civil servants in the Ministry of Employment about the bureaucratic and economic costs of a state-run unemployment insurance convinced the Liberal Party to abandon this ambition.

Instead, Claus Hjort Frederiksen came to an agreement with the Danish People’s Party, which enabled private and cross-occupational unemployment insurance funds to compete for members with the LO-affiliated benefit funds. The LO resorted to informal lobbying activities targeted at Claus Hjort Frederiksen to prevent any legislation in this direction,<sup>32</sup> while the employers didn’t take any part in that discussion.<sup>33</sup> This institutional liberalisation undermined the “Ghent effect” for the recognised union movement, as the alternative benefit funds broke the monopoly of the LO-affiliated unions in the provision of voluntary unemployment insurance. This reduction of incentives became evident in the effect of rapidly falling membership rates, which were closely connected to declining membership in the union-run unemployment benefit funds (EIRO 2010).

The subsequent reform, entitled “More People to Work” (*Flere i arbejde*), in 2002 allowed private providers to offer activation programmes that used cost containment as a preferred strategy due to their profit-orientation; this outsourcing strategy tended, however, to downgrade the qualitative aspects of the re-integration measures used in the “activation

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<sup>30</sup> E.g. Commission of Administrative Structures (2002-2004), Welfare Commission (2004-2007), Labour Market Commission (2007-2009), and Tax Commission (2007-2009).

<sup>31</sup> Interview Consultant of LO, 13th December 2013. Former consultant in the Ministry of Employment.

<sup>32</sup> Interview with Jan Kaeraa Rasmussen, Chief Economist of LO, 12th December 2013.

<sup>33</sup> Interview with Thomas Qvortrup Christensen, Senior Advisor of Danish Industries (DI), 9th December 2013.

industry” (Jørgensen/Schulze 2011, 212). In addition, the reform tightened activation demands for the unemployed and social assistance recipients alike. Notably, it also introduced benefit cuts for different family types on social assistance that were followed by a series of further restrictions in the social assistance scheme at later stages.<sup>34</sup> Following demands from the Danish People’s Party, the retrenchment of the social assistance scheme was targeted at family types in which non-Danes constituted the majority of recipients to reduce the influx of immigrants and refugees.<sup>35</sup> On top of this, the government stipulated a new benefit scheme for immigrants from non-EU countries, who had not satisfied the criteria of legal residence in the country for a minimum of seven out of the last eight years. According to Anker et al. (2009, 13f.), this so-called “start assistance” scheme was 35 to 50 percent less generous than ordinary social assistance rates. The parliamentary socialist bloc and the unions protested against the introduction of the “start assistance” program, whereas employers supported the government. Overall, targeted cutbacks for social assistance recipients on the one hand, and the liberalisation of the *Ghent* system with stronger work-search requirements for the unemployed on the other, gained momentum in the first half of the 2000s (Goul Andersen/Pedersen 2007, 15-20).

*But how did the government manage to attack the unions and win the elections of 2005 at the same time?* The answer to this question begins with the fact that “free choice” in the unemployment protection system was simply not an issue of high salience among the public during this period of economic boom. In the words of Jan Birkemose, chief editor of the union-affiliated magazine *Ugebrevet A4*: “It wasn’t a big question. It wasn’t a question people on the streets would talk about.”<sup>36</sup> Second, in the election campaign of 2005, the Liberal Prime Minister Anders Fogh Rasmussen announced the establishment of an advisory multipartite board, which would formulate reforms in response to the challenges posed by globalisation: the so-called Globalisation Council. In this council, the government developed reform proposals together with the national peak-level associations, experts, and ministries on a broad range of issues. Some commentators interpreted this strategic manoeuvre by Anders Fogh

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<sup>34</sup> Three major cutbacks were imposed on people on social assistance under the Liberal-Conservative government during the 2000s. First, the so-called start-assistance – a reduced level of social assistance for immigrants who had been in Denmark for fewer than 7 of the last 8 years – was introduced in order to undermine the perceived danger of increasing welfare abuse. However, Danish citizens returning from abroad were also included under its umbrella. Second, after having tightened employment requirements for spouses on social assistance in 2004 and 2008, the Liberal-Conservative government introduced a work requirement of 225 hours a year for all married recipients in order to be eligible for social assistance in 2010. Third, a benefit ceiling was imposed on families with “extraordinary” expenses, i.e. the maximum level of social assistance benefits which uninsured unemployed people could receive.

<sup>35</sup> Interview with Karsten Lorentsen, Press Spokesman of the Danish People's Party, 11th December 2013.

<sup>36</sup> Interview with Jan Birkemose, chief editor of *Ugebrevet A4* (Magazine published by the LO between 2002 and 2013; since then published by the media company *Avisen.dk Aps*), 10th December 2013.

Rasmussen as part of his electoral calculus to co-opt the centre of the party system in the run-up to the elections of 2005.<sup>37</sup> Nevertheless, the council initiatives indeed materialised into concrete investments that were negotiated between the government and the peak-level associations on lifelong learning (2006) and public sector employees (2007), both of which can be viewed as positive outcomes for the unions. In line with his vote-seeking calculations, Anders Fogh Rasmussen did not take up the recommendation by an expert commission on welfare (*Velfærdskommission*) to reduce the duration of unemployment benefit to 2.5 years in order to avoid any electoral risks caused by the high salience of unemployment insurance in Danish politics. Thus, the government only followed the recommendations to legislate stricter activation demands, employment matching procedures, and sanction possibilities for the unemployed with the aim of speeding up job placement. In principle, however, the government was in favour of the recommendation to cut the benefit duration.<sup>38</sup> The employers and the unions could only comment on the expert proposals after the expert commission had finished its work. The subsequent successful election in 2007 ensured another period in office for the government.

### **The policy window of the Great Recession (2008-2011)**

The period between 2008 and 2011 marked the final break with the consensual tradition of Danish politics. The reliable support of the Danish People's Party continued to be a crucial factor providing the Liberal-Conservative government with the necessary strength to eschew labour acquiescence. Unlike the crisis-ridden late 1980s, the political right was thus not reliant on a labour-inclusive reform strategy at a time when the climate between the government and the trade unions deteriorated in the wake of the Liberals' turn towards a policy-oriented reform strategy. *But why, then, did the Liberal Party shift from a vote-maximisation strategy to a neoliberal policy path and thereby break with its "winning formula" of the elections of 2005 and 2007?* What is sure is that the onset of the Great Recession in autumn 2008 was perceived as a window of opportunity to legitimise cuts in unemployment protection as a matter of "economic responsibility". The gradual deepening of the financial crisis and media campaigns about the scope and depth of fiscal crises in Southern Europe and Ireland were conducive to the government's attempt to exploit public crisis consciousness in order to ease the

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<sup>37</sup> Interview with Kristian Madsen, journalist at *Politiken* (a Danish newspaper), former PR consultant (*Informationschef*) at the trade union 3F (2008-2010), and consultant at LO (2004-2008), 18th December 2013.

<sup>38</sup> Interview with Claus Hjort Frederiksen, Liberal Party (*Venstre*), Minister of Employment (2001-2009) and Minister of Finance (2009-2011), 10th December 2013.

legitimisation of an austerity package that shifted the costs of adjustment to the unemployed. The Liberals therefore turned the crisis from vice into virtue and realised their policy preferences through a unilateral reform strategy that excluded unions. By contrast, the Danish People's Party supported this unilateral reform strategy, partly in return for concessions in the areas of immigration, border controls and investments for the elderly.<sup>39</sup> In the words of Claus Hjort Frederiksen, Minister of Employment (2001-2009) and Minister of Finance (2009-2011) for the Liberals:

*“Politics has also something to do with the timing of your policies and at that time the economy was booming [2001-2007] and we had very big surpluses at the national budgets, we had enormous surpluses and at that moment it is very difficult to ask for savings because people would ask: ‘Why do we have to save here with all these surpluses?’ [...] But after 2008, the crisis changed the perception of people.”<sup>40</sup>*

Nation-wide representative survey data corroborate Claus Hjort Ferderiksen's description of a rising crisis awareness in the wake of the Great Recession (Figure 3.2). Between July 2009 and the general election in November 2011, the share of respondents stating that the Danish economy faces a “quite serious” crisis more than doubled from 29 percent to 60 percent, while 14 percent were of the opinion that the economy would be in a “very serious” crisis.

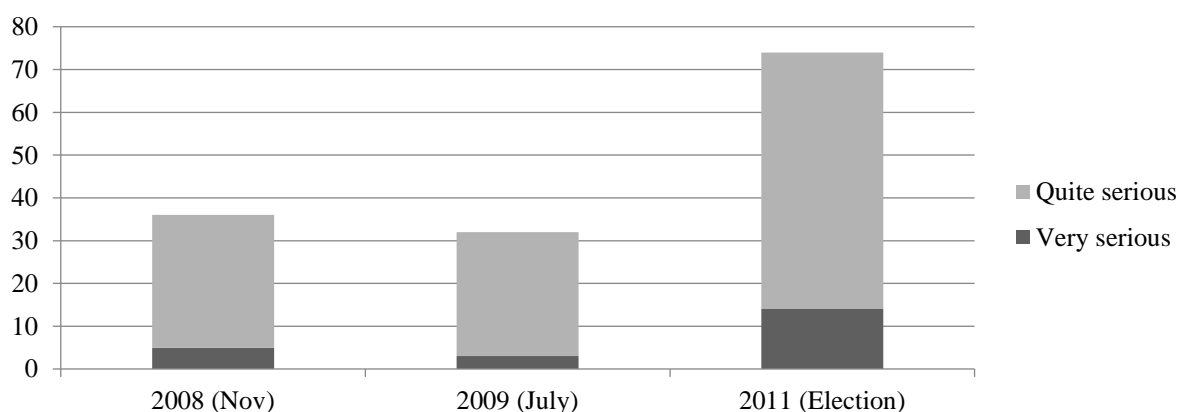


Figure 3.2: Voter's perception of the seriousness of the crisis (Nov. 2008 - Nov. 2011).  
Source: Goul Andersen/Møller Hansen (2013, 140-143)

<sup>39</sup> Interview with Karsten Lorentsen, Press Spokesman of Danish People's Party, 11th December 2013.

<sup>40</sup> Interview with Claus Hjort Frederiksen, Liberal Party (*Venstre*), Minister of Employment (2001-2009) and Minister of Finance (2009-2011), 10th December 2013.



Another situational factor was the inauguration of the new Prime Minister, Lars Løkke Rasmussen, in April 2009. After his third consecutive election victory in 2007, Anders Fogh Rasmussen decided to leave Danish politics and, thus, not to run in another election campaign. According to his close advisors, this decision might have changed his political calculations and led to a shift in emphasis to policy considerations over vote-seeking (Christensen 2013, 200).

It was at this point, then, that negotiated reform between the government and the LO ended. In the words of Jan Kaeraa Rasmussen, Chief Economist of the LO:

*“You could say the first six years or maybe even the first seven years, but let’s say the first six years of the centre-right government from 2001 to 2011, I would say we had a pretty terrible relationship with that government. [...] We didn’t think it was good but it could certainly have been worse, but what happened with that budget law made in 2008 for the year of 2009, there was no negotiations after that and the government just ran over the social partners, especially LO.”<sup>41</sup>*

In contrast to the LO, employers shared the assessment of the government that the economic crisis was a welcomed window of opportunity. According to Thomas Qvortrup Christensen, senior advisor to the Confederation of Danish Industries (DI), the Great Recession led the government to legislate every single labour market policy demand that was advocated by them throughout the 2000s: the reduction of marginal taxes on labour (2009), the reduction of benefit duration for the unemployed (2010), and the phasing-out of the early retirement scheme (2011).<sup>42</sup>

In the annual budget negotiations of 2008, the government broke its promise to wait for the end of an evaluation period testing the employment performance of 14 municipal pilot job-centres to decide about the future reform of the public employment system (PES). Instead, the government decided to transfer the full administrative responsibility of the PES from the labour market organisations to the municipalities without waiting for the final report on the performance indicators of the municipal job-centres. The idea of breaking union influence in its institutional responsibility over the implementation of activation programmes has long been on the agenda of the Liberal-Conservative government (Christiansen/Klitgaard 2010). Claus Hjort Frederiksen justified the “municipalisation” of the PES with the government’s aim to

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<sup>41</sup> Interview with Jan Kaeraa Rasmussen, Chief Economist of the LO, 12th December 2013.

<sup>42</sup> Interview with Thomas Qvortrup Christensen, senior advisor to the Confederation of Danish Industries (DI), 9th December 2013.

harmonise the employment service for the unionised insured and the non-unionised uninsured unemployed in the job-centres.<sup>43</sup> As a result, employers and unions were no longer policy-makers in the administration and implementation of regional Active Labour Market Policy. The financing of unemployment benefits was now dependent upon performance indicators that were aimed at steering the municipal administration towards rigorous activation and rapid job placement. If anything, this involved financial incentives for the municipalities to prioritise disciplinary work-first activation (Goul Andersen 2011a, 198). Thus, the insured unemployed lost the membership bonus they had previously had, as they are enrolled into the same municipal employment agencies like the non-insured social assistance claimants.

In June 2010, the government passed an austerity package that amounted to a spending cut of 24 billion Danish Kroner (€3.21 billion). The government justified the “recovery plan” with its aim of signalling economic stability and meeting the criteria of the European Growth and Stability Pact, as the projected budget deficit amounted to 5.4 percent/GDP in 2010 (European Commission 2010). In response, the LO organised a mass demonstration with an estimated 80,000 participants in front of the parliament against the government’s austerity package under the title of “No to the austerity package - yes to jobs and education”. The package included the following changes for the unemployed (Ibsen/Høgedahl/Scheuer 2013, 453): (i) the benefit duration was cut from four to two years and the period for calculating the benefit level was extended from 13 weeks to 12 months; (ii) the re-qualification period to obtain access to unemployment insurance was doubled to 52 weeks. The period of the so-called adult education support for unskilled or uneducated persons was halved from 80 to 40 weeks. The reform took effect as of January 2013 and excluded a significant number of the unemployed from benefit entitlements. A study of the umbrella organisation of unemployment benefit funds (*AK-Samvirke*) shows that 33,900 insured unemployed lost their benefit entitlement in 2013 (Klos 2014).

In addition, the austerity package entailed the virtual abolishment of tax deductions for trade union membership fees, to the detriment of the traditional “red” unions. The ceiling over the tax deduction for union fees was set precisely at the level of 3000 Danish Kroner so that the members of the cheaper “alternative unions” were not affected by the change. This meant that traditional union membership became more expensive compared to the alternative unions. Finally, in his New Year speech of 2011, Lars Løkke Rasmussen announced the phasing-out

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<sup>43</sup> Interview with Claus Hjort Frederiksen, Liberal Party (*Venstre*), Minister of Employment (2001-2009) and Minister of Finance (2009-2011), 10th December 2013.

of the early retirement scheme (*efterløn*) and a gradual increase of the statutory retirement age from 65 to 67 years.

In response to the cutback in unemployment insurance, the trade unions demanded stricter job-security regulations in the subsequent collective bargaining round of 2010. Although the attainment of a new severance pay scheme in the collective negotiations had only a modest impact on the overall strictness of employment protection, the demand for job security still pointed to a strategic departure from the Flexicurity formula that used to serve a common reference point for the national peak-level associations.<sup>44</sup> In the words of Anita Vium Jørgensen, Chief Economist of the LO-affiliated blue-collar workers' union 3F (*Fagligt Fælles Forbund*):

*“The demand for a severance pay scheme was a way to signal that if you actually deteriorate the Flexicurity model, we will have something instead, so it was directly connected to the savings on the unemployment benefits.”*<sup>45</sup>

In a polarised election campaign in November 2011, the Social Democrats and the Socialist People's Party united with the LO and promised to roll back the welfare cutbacks in their election programme entitled “Fair Solution” (*En Fair Løsning*). This plan involved a declaration to find a negotiated crisis response with unions and employers. Contrary to the employers, the unions supported the opposition parties in their proclamation to prevent people from losing benefits as unemployment had more than doubled from 3.5 percent in 2007 to 7.5 percent in 2011. The socialist bloc won the election with a narrow majority in October 2011.

### **The broken promise of union inclusion**

In the government programme, the centre-left minority government under the Social Democratic Prime Minister Helle Thorning-Schmidt stated that it would continue the economic reform policy of the previous Liberal-Conservative government.<sup>46</sup> Therefore, immediately after taking office, the Social Democrats and the Socialist People's Party broke their election

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<sup>44</sup> The new severance pay scheme entitles dismissed employees after three, six, or eight years' seniority in a firm to receive a lump sum that is calculated as the difference between the monthly unemployment benefit payment and the monthly wage deducted by 15 percent. Dependent on job tenure, the employer has to pay one, two, or three times the base-level severance pay. Therefore, this measure rewards "insiders" with continuous employment relationships more than people with temporary contracts.

<sup>45</sup> Interview with Anita Vium Jørgensen, Chief Economist of 3F (Danish workers' union), 16th December 2013.

<sup>46</sup> “The point of departure for the government is the economic policy of the VK-government in the widest sense, including the consolidation agreement and the pension reform of spring.” (Regeringen 2011, 9)

promises. *So what was the calculation behind this programmatic turnaround?* Social Democratic spokespeople pointed to the pivotal position of the market-liberal Social Liberals within the centre-left coalition, arguing that they made government participation conditional on this written declaration. Indeed, the Social Liberals had already pointed out that they were in favour of the cuts that had been made by the previous government in the election campaign, and they thereby outmanoeuvred the promises of the “Fair Solution” campaign already prior to Election Day. However, this argument about the influential role of the Social Liberals is unsatisfactory for the simple reason that the Social Democrats remained the key political operators of the government. If anything, in fact, the Ministry of Finance was under the Social Democratic leadership of Bjarne Corydon and carved out the entire economic reform policy in close cooperation with his civil servants.

Rather than reflecting a divided coalition, I claim that the Social Democrats and the Social Liberals started out with a common policy-agenda to continue the reform strategy of orthodox economic adjustment. The electoral calculus was to generate economic growth and subsequent votes through the adoption of neoliberal reforms. Asked about the calculations behind their neoliberal reform path, the campaign director in the elections of 2011 and political advisor of the Social Democratic Party, Jens Christiansen, responded as follows:

*“The strategic idea of Bjarne Corydon and Helle Thorning-Schmidt was to start off with unpopular reforms in order to get us out of the recession and then receive credit from the voters in the elections of 2015. That’s the calculation. [...] It’s a bad excuse to say they only do this due to the pressure from the Social Liberals. They do it because they think it is the right strategy. They think they will fix the country and then get the credit from the voters.”<sup>47</sup>*

Proof of their autonomous reform capacity came in June 2012, when Bjarne Corydon closed down tripartite negotiations with no result as the powerful metalworkers’ union (*Dansk Metal*) and other LO-affiliated unions opposed his proposal to eliminate two public holidays. The Social Democratic leadership demanded an increase in working time in order to finance future investments in education, job creation, and welfare. The unions, however, were only willing to agree to an increase of working days under the condition of rising labour demand, but not at a

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<sup>47</sup> Interview with Jens Christiansen, Managing Director of *Advice A/S*, Campaign Director for the Social Democratic Party (*Socialdemokraterne*) in the election of 2011, 12th August 2014.

point in time with an unemployment rate of more than 7 percent. In the words of Jan Kaeraa Rasmussen, Chief Economist of the LO:

*“Everybody knew, even the government knew and the employers knew that we just lost 200,000 jobs, so there wasn’t any need for a higher working time. And that’s why we didn’t have that on the table as an immediate part of the deal. You could say that there would be some agreement [...] that maybe after 2015, one could start on having a longer working time if unemployment had fallen drastically.”*<sup>48</sup>

In response, the Social Democrats attributed the failure of the talks to the high expectations of the trade unions to a new Social Democratic-led government. Arguably, falling membership rates and competition from alternative unions weakened the political assertiveness of the recognised union movement. In the words of a political consultant of the Social Democrats, who was involved in the tripartite deliberations:

*“The trade unions overestimated themselves, definitively. [...] And the picture they have of themselves is to some extent absurd sometimes; that they think this is 1950s where they can propose a general strike and paralyse the country or decide who is going to be Prime Minister. Those days are over; like it or not, it’s over. And their demands within the negotiations were too harsh.”*<sup>49</sup>

Instead of continuing any further negotiations with the unions, the centre-left government turned to the Liberals and Conservatives to introduce tax cuts for those in employment, partly financed through welfare cuts that were legislated through a reduced indexation mechanism of all cash transfers for the non-employed, except for pensioners. The official idea behind it was to increase labour supply by reducing taxes on labour income. On June 21, the tax reform was supported by the Liberals and the Conservatives, while the employers’ association welcomed the reform to the disappointment of the trade unions and the left-wing Red-Green Alliance.

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<sup>48</sup> Interview with Jan Kaeraa Rasmussen, Chief Economist of the LO, 12th December 2013.

<sup>49</sup> Interview with a political consultant, Social Democratic Party (*Socialdemokraterne*), 16th December 2013.

## Claim and Counterfactual

Why did Danish labour market policy of the 1990s expand ALMP spending while leaving the inclusiveness of unemployment insurance untouched – i.e. policies that enhanced the social protection of outsiders? And why did Danish labour market policy of the 2000s retrench ALMP spending as well as the inclusiveness of unemployment insurance – i.e. policies that deteriorated the social protection of outsiders? My claim is (i) that the erosion of the outsider-oriented security elements of Danish Flexicurity was not inevitable, and; (ii) that this erosion was caused by the strength of governments to pursue a unilateral reform strategy that excludes unions. The first assertion rests on the observation that Austria *did* enhance the protection of outsiders during the 2000s (Obinger et al. 2012), while the rise of Danish Flexicurity emerged at a time where fiscal constraints were more severe than during the Great Recession. Thanks to remarkable budget surpluses during the 2000s, the Danish welfare state appeared fiscally more sustainable than ever (Haffert/Mehrtens 2014). It would also be questionable to attribute the detrimental impact of the international Great Recession on the Danish economy to the presence of universal welfare arrangements. If anything, the economic downturn was stimulated by a burst of credit and housing bubbles, which caused a credit squeeze with falling investment and consumption rates (Goul Andersen 2012b). Therefore, the functionalist argument that the Great Recession as an exogenous shock inevitably prompted welfare cutbacks does not hold.

The second assertion rests on the observation that the unions were the one actor that supported universal labour market protection over the entire period. Employers advocated cuts in marginal taxes, unemployment benefits, and public pensions, while the Liberal-Conservative government used the crisis to legitimise their demands. The Danish People's Party, by contrast, successfully demanded social assistance cuts for immigrants in the first half of the 2000s, while prioritising restrictions in immigration and border controls over unemployment support during the Great Recession. Even though the Social Democratic Party officially supported the unions' demands in the election campaign of 2011, it emphatically rejected a reversal of the cuts that had been made by the previous government. Notably, a mere relaxation of the qualifying conditions for the insured unemployed was neither fiscally burdensome nor electorally unpopular. Recall on p. 92, I showed survey data documenting popular support for universal welfare for the unemployed. Moreover, voters reacted negatively against the 2012 tax reform that combined cuts in taxes and welfare, revealed by a decline of four percent, on average, in the first five opinion polls conducted after the presentation of the reform (Goul Andersen 2012b, 10). When the reform was legislated with support of the political right, the Social

Democratic-led government lost once again two percentage points at the polls (ibid.). It was thus a political choice by the Social Democratic party leadership, which was motivated by structural competitiveness pressures in conjunction with neoliberal economic ideas *against* popular demands from voters and unions. This finding is consistent with existing studies from scholars of Danish capitalism, which point to an ideational convergence between the parliamentary centre-left and the centre-right in welfare state issues (Larsen/Goul Andersen 2009, Goul Andersen 2012b, Arndt 2013).

Yet, the presence of neoliberal policy preferences was not causally sufficient, because the rise of Flexicurity took place *despite* the neoliberal reform agenda of the Schlüter cabinet. Let us recall that there was a centre-right minority government that tried to impose unilateral welfare cuts on outsiders, but it was vetoed in the parliament. The absence of a parliamentary majority ruled out the legislation of its policy preference. A view that puts ideas front and centre assumes away the temporal variation in the autonomous reform capacity of governments. My argument is that Danish governments of the right as well as the left converged towards a neoliberal reform strategy once they became powerful enough to refrain from union support in the policy-making process. Counterfactual analysis may lend additional credibility to my claim. *If* the centre-right government had not been supported by the Danish People's Party, there would have been no parliamentary majority for the liberalisation and retrenchment of the *Ghent* system on the one hand, and the 'municipalisation' and retrenchment of ALMP spending on the other. When in opposition, the left bloc, including the Social Democrats, did not support these changes. Similar to the Schlüter cabinet, the Liberal-Conservative minority government would have needed an extra-parliamentary channel of consensus mobilisation to find a majority for the legislation of its preferred policy output. If invited to tripartite deliberations, the LO would have had a powerful incentive to protect outsiders from welfare retrenchment, because it integrated them into its membership base. A counterfactual case can also be made with respect to the subsequent centre-left government. *If* the Socialist People's Party (for the first time in government) had been willing to veto the Social Democrats and Social Liberals, the government would not have been able to legislate the 2012 tax reform against the protests of the LO. In other words, my argument about the strength of governments to cause the exclusion of outsider-inclusive unions is therefore one that extends to the right as well as to the left. Regardless of partisanship, the difference in the strength of governments best explains why the LO was more successful to protect outsiders in the 1990s than in the 2000s.

## Conclusion

A weak government of the late 1980s was forced to exchange union support in return for ALMP spending and inclusive unemployment protection. The policy result of this exchange was the so-called Danish Flexicurity model. As of the late 1990s, however, governments of the right and the left were strong enough to pursue their preferred policy output by eschewing labour acquiescence. I argued that this temporal increase in the autonomous reform capacity of governments in Denmark caused the erosion of the security-related components from which precisely the weakest labour market segments benefitted so much.

One way of underscoring my claim is to point out the inconsistencies between conventional explanations and the evidence at hand. Against the producer group claim of Martin/Swank (2012) and Thelen (2014), this chapter showed that organised interests were not influential in the formal policy-making process. This finding contradicts the position of Cathie Jo Martin and Duane Swank about the myths of Danish Flexicurity that “even when right parties gained power in recent decades, the consensus orientation of coalition governments has limited the viability of neoliberal attacks on coordination” (Martin/Swank 2012, 171). As of the late 1990s, institutional changes were increasingly determined by informal negotiations between party leaders, and not tripartite deliberations in corporatist committees. It also showed that employers were not reliant on a corporatist channel of policy-making action, because the unilateral reform ambitions of partisan actors served them well. It was clear that the unions demonstrated against welfare cuts that had been demanded by the employers in the first place. Conventional producer group claims cannot explain why the policy-making process shifted away from the corporatist arena, because they fail to recognise the autonomous policy choices of strong governments in the neoliberal era.

In theory, the policy response of the political right to the Great Recession is consistent with the conventional partisanship claim. Yet, in reality, the role of electoral vote-seeking strategies, discussed by Huo (2009) and Häusermann (2010), is not borne out by the evidence, because governments of the right *and* left retrenched unemployment support *despite* the presence of egalitarian welfare attitudes. Against Rueda’s theory (2007), this chapter showed that Social Democrats and unions were not united allies in this process. Unlike the Social Democrats, the LO had clear stakes in the social protection of ‘outsiders’ due to the institutional incentives of the *Ghent* system. Consistent with Larsen and Goul Andersen (2011), my interview evidence suggests that the Social Democrats pursued unpopular policies because they considered them necessary for economic growth. This political choice was therefore not informed by electoral vote-seeking calculations.



The defining political feature of the rise and erosion of the Danish ‘Flexicurity’ model is not the action of cross-class coalitions or vote-seeking parties, but the growing independence of governments from union support in the policy-making process. In short, this is a story of minority governments that became stronger over time. The crucial weakness of the Schlüter cabinet in the late 1980s was not one of intra-coalitional conflicts, as in the case of Austrian governments. Instead, it was a lack of electoral support for a multiparty minority government, which was compounded by the polarisation between the left and right bloc of the party system. The problems faced by the Schlüter cabinet resonate in characterising the weakness of governments in Ireland, Italy, and South Korea at a similar point in time, which used the conclusion of labour-inclusive “social pacts” to mobilise a consensus around controversial issues (Baccaro/Lim 2007). Faced by the persistence of minority governments (since the “earthquake election” of 1973), however, party leaders changed the parliamentary norms in the reform process. The flexibility emerging from so-called “patchwork agreements” created leeway for elite negotiations between party leaders to the detriment of union influence. A united right-wing majority was then electorally powerful enough to refrain from political exchanges with the opposition or unions. The subsequent change in government did not change the direction of the policy output. To understand this temporal variation, we have to recognise the decline in partisan differences and the increase in the autonomous reform capacity of governments in Denmark. Only when governments were weak did they work with unions. When they were strong, they pursued their preferred policy output to the detriment of outsiders.

## **V. Goodbye to Swedish Social Democracy and Welfare Universalism**

## Introduction

Sweden is *the* least-likely case for a “Bismarckian” dualisation in important theoretical respects: the dominant position of the Social Democratic Party, the SAP (*Sveriges socialdemokratiska arbetareparti*), in tandem with the strongest union movement in the world appears crucial to the political interest representation of outsiders (Huo 2009, Pontusson 2011, Thelen 2014). In addition, universalist welfare state legacies, low tax burdens for business and broad public sector employment are conducive to egalitarian welfare attitudes by appealing to different electoral constituencies (Svallfors 2011, Bermandi et al. 2015). In theory, therefore, the nationally-distinct coalitional background underlying Swedish capitalism creates opportunities for the successful reconfiguration of institutional post-war arrangements to new social needs, while putting constraints on the reform ambitions of neoliberal policy entrepreneurs at the same time. Against this backdrop, international scholars continue to highlight the relative success of Sweden to reconcile successful economic performance with egalitarian distributive outcomes (Lindgren 2011; Steinmo 2010, 2013).

In the area of labour-market policy, however, this chapter demonstrates that Sweden no longer represents the paradigmatic case of universal solidarity. On the contrary, broad spending cutbacks and marketisation efforts in public security arrangements underpinned a significant risk shift from the public to the individual (Haffert/Mehrtens 2015, 140). Institutional dualisms are particularly acute relative to the cases of Austria and Denmark: permanent workers continue to enjoy relatively high levels of security, while fixed-term and unemployed workers faced the burden of labour market adjustment through cuts in benefit entitlements, job security, and training provision (Davidsson 2011, Emmenegger/Davidsson 2012, Lindvall/Rueda 2012). This labour-market policy output seems to be part of a larger systemic trend towards social segmentation (Mehrtens 2014), and the OECD (2011, 2013, 2015) has observed this change experienced by the weakest segments of Swedish society ever since. In the past two decades, Sweden displayed the fastest growing inequality and poverty rates in the OECD, as the share of people having less than half of the median income in 2010 (9 percent) was more than twice what it was in 1995 (4 percent) (OECD 2013, 5). As a result, Sweden slipped down from the most poverty-free country to the 14th place in terms of relative income poverty levels, ranking behind Germany and Ireland (*ibid.*). Unlike most countries, this steep increase appears to have been a product of inactivity and (long-term) unemployment, and not wage dispersion (OECD 2011, 150). Labour-market policy, therefore, seems to be the right avenue to study the sources of growing poverty in Swedish capitalism (Thelen 2014, 174-175).

The apparent contrast to smoothed dualisation in Austria and Flexicurity reforms in Denmark poses crucial insights into the conditions under which political actors reinforce inequality in labour markets and welfare. *So what explains the demise of Swedish universalism, given the resilience of encompassing unionisation and egalitarian welfare attitudes?* A functionalist explanation would be linked to the economic crisis of the early 1990s. Financial turmoil, currency speculation, and the deepest recession in Swedish post-war history led party and interest-group elites alike to agree on a path of orthodox economic adjustment. It is clear that the immediate adoption of spending cuts was an attempt to combat skyrocketing public debt levels, shifting resources away from public welfare and unemployment support (Lindvall 2004). Yet a functionalist claim about the impact of the economic crisis does not hold for the simple reason that Sweden produced continuous budget surpluses as of the late 1990s, turning into one of the most fiscally sustainable political economies in the OECD (Haffert/Mehrtens 2015). In contrast to Austria, the remarkable decline of gross public debt would have allowed increased spending on outsider protection *and* fiscal consolidation at the same time (Figure 4.1).

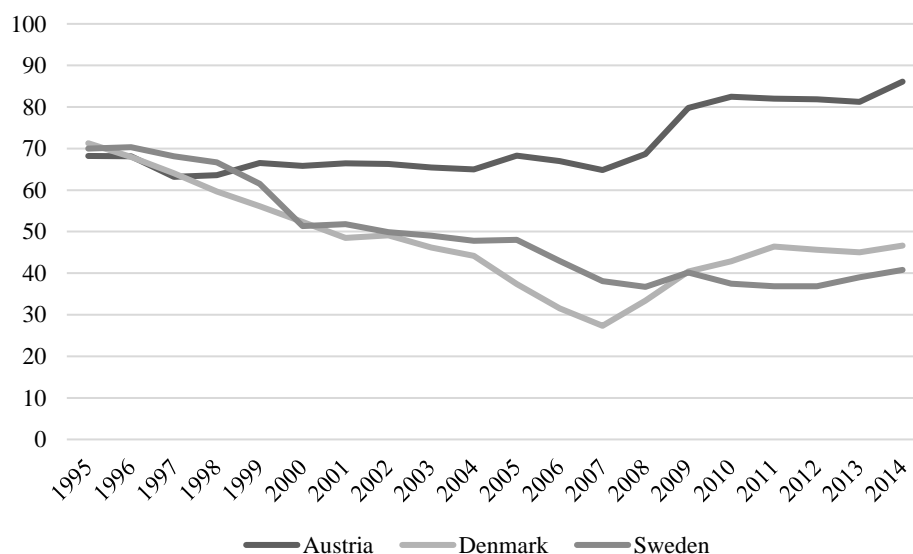


Figure 4.1: Gross public debt as a percentage of GDP in Austria, Denmark and Sweden, 1995-2014.  
Source: OECD stats.

The Swedish case, however, also puts conventional political explanations to the test. A classic partisanship explanation attributes Swedish dualisation to the erosion of Social Democratic hegemony and the corresponding formation of centre-right governments (Pontusson 2011). Yet, in reality, Social Democratic governments (1994-2006) did *not* counteract dualisms in the

first place (Bergmark/Palme 2003), while the proceeding centre-right coalition (2006-2014) simply reinforced an ongoing trend (Obinger et al. 2012). A correlation between Social Democratic governments and dualisation would be more in line with Rueda's labour dualism theory (2007) than classic partisanship notions. Accordingly, the rational vote-seeking strategy of Social Democrats targets insiders, and not outsiders. Yet, the claim of Rueda is unconvincing from a comparative optic, as Austrian Social Democratic-led grand coalitions and Danish centre-left governments *did* support outsider protection at various points in time. Even more importantly, a view that puts elections front and centre misses the essence of the Swedish decision-making model. Scholars of Swedish political economy highlighted the rationalistic and technocratic nature of institutional change, granting high levels of policy autonomy to administrative elites and policy experts (Bergh/Erlingsson 2008, Eichhorst/Wintermann 2005, Lindvall/Rothstein 2006, Steinmo 2013, Svallfors 2015). In the words of Sven Steinmo (2013), the political culture of Swedish governing should thus be conceived of as an "engineering problem", which tends to insulate policy-makers from the popular demands of the citizenry.

Another coalitional explanation would link Swedish dualisation to the demise of macro-corporatism (Martin/Thelen 2007, Martin/Swank 2012). At its most basic, the most obvious problem with this explanation is its benign view of employers. Accordingly, centralised and encompassing employers' associations develop an interest in maintaining cooperative relations with outsider-inclusive trade unions. In fact, however, Swedish employers forcefully withdrew from corporatist policy-forums in an attempt to undermine the privileged policy-making influence of the LO (Pontusson/Svensson 1997, Lindvall/Sebring 2005). Moreover, a coalitional explanation focussing on producer groups ignores the direct access the peak union confederation, the LO (*Landsorganisationen i Sverige*), used to have on the policy-making action of the SAP (Anthonsen/Lindvall 2011). Formal linkages remained strong, given that the LO provided the SAP with votes and money (Allern et al. 2007). High levels of class organisation and strong party-union ties *could* have provided trade unions with robust policy-making influence. However, the Social Democratic single-party minority governments gradually refrained from labour acquiescence, relying on the policy prescriptions of neoliberal economic ideas (Blyth 2001) and parliamentary support from among different opposition parties (Bale/Bergman 2006). The election victory of a united centre-right bloc reinforced unilateral reform patterns, further pushing the LO out of the reform process.

The variation in *government strength*, as I will show, is theoretically important: Austrian governments, even the neo-conservative "Black-Blue" coalition, lacked the autonomous reform capacity to impose unilateral labour-market reforms on organised labour.

During the late 1980s, Danish centre-right minority governments also desperately sought political exchanges with unions to mobilise extra-parliamentary support for controversial reforms. Confronted with a strong government, by contrast, the Swedish LO gradually lost the political capacity to protect a growing share of its membership base; that is, the outsiders. In sum, I contend that it is not the economic crisis, partisanship, or eroding macro-corporatism *per se* that explain outsider-oriented cutbacks. Instead, I argue that the strength of Swedish governments to formulate and pass labour-market policy change independent of union influence precluded outsider-oriented concessions to organised labour. Similar to the Austrian and Danish cases examined before, the Swedish union movement *would* have benefitted from the enhanced protection of outsiders. First, from a representational point of view, its encompassing membership scope incorporated the interests of outsiders into the union movement. Second, from an organisational point of view, its administrative monopoly over inclusive and generous unemployment insurance (*Ghent* system) acted as an institutional bulwark against losses of membership and influence in the neoliberal era (Clasen/Viebrock 2008). Therefore, the viability of union strength rested on the solid mobilisation of political support for “solidaristic” patterns of liberalisation. It comes as no surprise, then, that organised labour was the strongest supporter of the weakest segments of labour, especially the LO. Yet, the Swedish LO was much less successful than the Austrian *Österreichischer Gewerkschaftsbund* (ÖGB) and the Danish *Landsorganisationen i Danmark* (LO) in receiving concessions from different governments.

This chapter explores how Swedish governments managed to turn their back on the policy demands of organised labour. Faced by the collapse of the Swedish post-war model in the early 1990s, the SAP party elite lost faith in the policy-making authority of the LO. Instead, the Social Democrats became receptive to the recommendations advocated by neo-classical economists, declaring sound public finances as the ultimate precondition for economic growth and job creation (Blyth 2001). The chapter also demonstrates that Social Democratic single-party minority governments (1994-2006) were in a strong position to legislate this policy priority in parliament, because they could seek parliamentary support from among different opposition parties. This autonomous reform capacity of the SAP facilitated the relegation of the LO from pivotal agenda-setter to mere veto-player. While reducing public debt successfully, the SAP, however, faced problems in responding to the growing emergence of labour market exclusion, especially among immigrants, young people, and lone parents (Palme et al. 2009). In light of the decentralisation of collective bargaining, the most viable macroeconomic tool of boosting job creation would have been increased public spending

(Iversen 1998). Yet, to the great disappointment of the LO, the SAP placed more emphasis on fiscal discipline than on full employment (Lindvall 2004). Paradoxically, the novel formation of a united centre-right front advocated to target precisely this problem, which had been pointed out by the LO in the first place. Job creation, therefore, was the central policy issue on which the centre-right could mobilise electoral support for a union-hostile agenda along the mantra of “make work pay” (Rueda/Lindvall 2012).

This chapter proceeds as follows: The next section provides an overview of labour market policy change to describe the liberalisation path of dualisation in Sweden. In the subsequent theory section, I present my argument for dualisation in Sweden, grounded on the political capacity of governments to diminish the policy-making influence of organised labour. Then I empirically show through process-tracing and interview evidence from nine interviews with policy-making elites that an enhanced autonomous reform capacity made Swedish governments strong enough to eschew labour acquiescence, and how this precluded outsider-oriented concession to the LO. In the conclusion, I discuss the findings of my case study.

### **Dualisation in *the* Social Democratic welfare regime**

As Chapter II showed, institutional change in Swedish labour-market policy evolved across all three dimensions at the cost of outsider protection. First, job security remains strong for permanent workers, whereas governments of all partisan complexions gradually deregulated fixed-term contracts. Second, the generosity of public unemployment insurance substantially declined due to non-indexation and direct cutbacks, while tightened qualifying conditions restricted access to benefit entitlements. Third, active labour-market policy – a cornerstone of the traditional Rehn-Meidner model of the post-war era – became subject to gradual spending reductions and work-first strategies, shifting emphasis from upskilling training schemes towards fast job placement and subsidised employment. Table 5.1 summarizes the dualisation of Swedish labour market institutions in the past three decades.

Table 5.1: Overview of dualisation in Swedish labour-market policy.

<b>Government and period</b>	<b>Policy change</b>	<b>Employment Protection</b> (strictness of employment protection for regular and temporary contracts)	<b>Unemployment Protection</b> (net replacement rate for average production worker and qualification criteria)	<b>Spending on Active Labour-market policy</b> (in percent of GDP per unemployed)
Post-war era until 1991	Expansion	- Regular contracts: 2.80 - Temporary contracts: 4.08	- NRR: 88 percent - Qualification period: 4 months	- Spending: 0.43
Centre-right (1991-94)	Dualisation	- Regular contracts: no change - Temporary contracts: from 4.08 to 1.77	- NRR: from 88 to 82 percent - Qualification period: from 4 to 5 months	- Spending: from 0.43 to 0.34
Social Democrats (1994-2006)	Dualisation	- Regular contracts: from 2.80 to 2.61 - Temporary contracts: from 1.77 to 1.44	- NRR: from 84 to 72 percent - Qualification period: from 5 to 6 months - Tightened suitability criteria - Re-qualification through ALMPs no longer possible	- Spending: from 0.34 to 0.20
Centre-right (2006-2014)	Dualisation	- Regular contracts: no change - Temporary contracts: from 1.44 to 0.88	- NRR: from 72 to 62 percent (2009) - Tightened suitability criteria - Differentiated and increased fees	- Spending: from 0.20 to 0.13 (2010)

Source: see Chapter II.

From 1991 onwards, it shows a decline in the strictness of employment protection for temporary contracts from 4.08 to 0.88 (OECD stats.), a decline in net replacement rates for average production workers from 88 to 62 percent (Van Vliet/Caminada 2012), and a decline in spending on active labour-market policy from 0.43 to 0.13 percent (measured in percent of GDP and divided by harmonised unemployment rates). By contrast, the strictness of employment protection for permanent contracts remained quite robust, decreasing marginally from 2.80 to 2.61.



It could be argued that the decline in net replacement rates hit the whole workforce, and not only outsiders. Yet, this reading would ignore the emergence of new insider-outsider divides resulting from the rapid rise of private provision of unemployment protection. In response to declining benefit levels, the academics' union confederation, SACO, and the white-collar union confederation, TCO, started to introduce private security arrangements to provide their members with the possibility of qualifying for supplementary benefit payments in the event of unemployment (Rasmussen 2014, 48f.). Handled this way, union members can top up their unemployment benefits to levels above the state-regulated maximum ceiling through the private payment of additional contributions. To receive access to increased benefit levels, benefit claimants must be union members and eligible for public unemployment benefits. Between 2002 and 2012, the number of workers covered by supplementary unemployment protection increased from below 200,000 to more than 1.8 million (Rasmussen 2014, 51). In relative terms, more than one third of the Swedish workforce were members of private benefit schemes in 2012 (*ibid.*). By contrast, the share of unemployed workers receiving public unemployment benefits fell from 80 percent in the early 2000s to 43 percent in 2014 (LO Sweden 2015, 339). The onset of the Great Recession and the increased proportion of labour-market entrants with low attachment to the labour market (young unemployed, immigrants) in tandem with the 2006 reform of the centre-right government substantially curtailed the coverage of Swedish unemployment insurance (IAF 2009, Sjöberg 2011). Taken together, in the early 2010s, one third of the workforce was entitled to public *and* private provision of unemployment insurance, while more than one half of the actual unemployed were reliant on family members or means-tested social assistance.

Table 5.1 also shows that both centre-right *and* social-democratic governments promoted the dualisation of Swedish labour-market policy. Faced by the deep economic crisis of the early 1990s, the problem of reducing public debt became central to the political agenda of the SAP government (1994-2006). The immediate retrenchment of social-security benefits and active labour-market policy spending was thus motivated by the principal objective to rein in public spending and reduce large deficits. To tighten up the process of fiscal consolidation, the SAP subsequently stipulated a new budgetary process, including an annual expenditure ceiling, a structural surplus target, and a prohibition of municipal deficits (Haffert/Mehrtens 2015, 136). From a fiscal point of view, the SAP was indeed remarkably successful in reducing public debt, since Sweden produced continuous budget surpluses as of the late 1990s. Despite the onset of the financial crisis and the Great Recession, the gross public debt level remained at around 40 percent/GDP in 2014.

While the fiscal indicators for Sweden's adjustment path look quite impressive (robust budget surpluses and low public debt levels), behind these aggregate figures the labour market is perhaps more segmented than ever. Arguably, the liberalisation path of deregulating fixed-term contracts and retrenching unemployment support while broadening the definition of jobs deemed suitable contributed to rising levels of labour market segmentation (Thelen 2014, 173-175). Immigrants, young people, and lone parents are the core groups hit by growing inequality in employment and welfare standards (Palme et al. 2009, 48). Data on temporary employment and harmonised unemployment rates may shed some light on the social outcome of institutional dualisms described above. Figure 4.2 illustrates the levels of temporary employment in Sweden relative to the cases of Austria, Denmark, and the average of the EU-21 from the 1997 to 2014.<sup>50</sup>

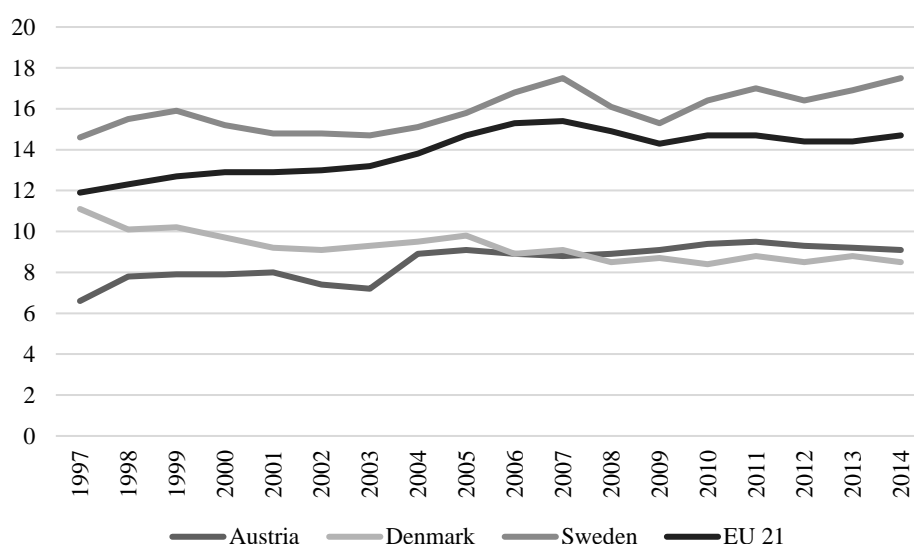


Figure 4.2: Incidence of temporary employment as a percentage of the total workforce in Austria, Denmark, Sweden, and EU-27, 1997 – 2014.  
Source: OECD stats.

It shows the contrast in the levels of temporary employment between Austria and Denmark on the one hand, and Sweden on the other. The incidence of temporary employment remained below 10 percent in the former two countries, whereas it increased to 18 percent in Sweden, thereby significantly exceeding the average of the EU-21 countries. Fixed-term contracts are particularly widespread among young people: 56 percent in 2011 (EMCC 2013). In a similar vein, involuntary part-time employment increased much more in Sweden than in Austria,

<sup>50</sup> I restricted the time period of Figure 4.3 to the year of 1997, because the OECD does not provide data on temporary employment from previous years for both Austria and Sweden.

Denmark, and the EU-average; around 33 percent of total part-time employment was involuntary over the whole 2000s (OECD stats.). In Austria, by contrast, this figure remained at around 10 percent, whereas in Denmark it was 16 percent and 28 percent in the EU-average in 2014. Even more importantly, Sweden displayed relatively high unemployment rates after the economic crisis of the early 1990s, both from a diachronic perspective and in comparison to Austria and Denmark (Thelen 2014, 174). Figure 4.3 illustrates the development of unemployment rates in Sweden from 1990 to 2014.

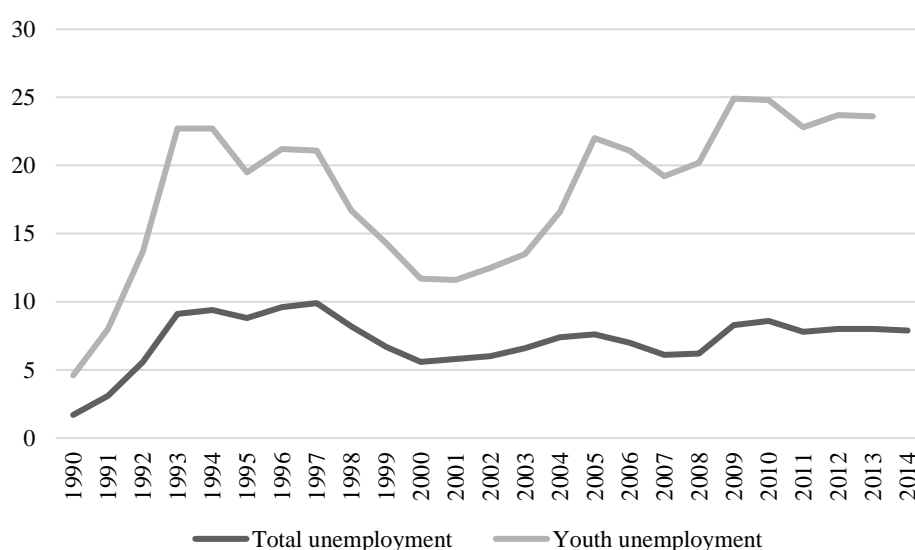


Figure 4.3: Harmonised unemployment rates in Sweden (in total and youth unemployment), 1990 – 2014.  
Source: OECD stats.

As a result of the economic crisis of the early 1990s, unemployment reached a peak of 10 percent in 1997, before declining to 5.6 percent in 2000. During the 2000s, however, unemployment remained relatively high, floating between 6 percent and 9 percent. Again, especially young people (aged between 15 to 25 years) are seriously affected by the demise of full employment – almost one in four were unemployed in the early 2010s. In fact, the rate of youth unemployment is only exceeded by those in the crisis-ridden countries of the Eurozone, whereas in both Austria and Denmark they sit at around 10-11 percent in (OECD stats.). A glance on unemployment rates, however, underestimates the problem of economic inactivity resulting from the number of sickness benefit recipients, which turned into an issue of “great concern” in the early 2000s (Lindvall 2010, 172). The increase in sickness absence until 2002 was in part related to the transfer of the long-term unemployed from unemployment benefit and social assistance programmes to the sickness insurance system (ibid.). In fact, since the early 1990s, it seems that unemployment rates decreased only when sickness absence rates

increased at the same time, and vice versa (Sjöberg 2011, 215-216). Moreover, the long-term increase in the number of people with reduced work incapacity (e.g. temporary disability benefit recipients) additionally contributed to high rates of economic inactivity (ibid., 215). Overall, it seems thus fair to say that the twin objectives of social cohesion and labour-market participation were much less successfully pursued than reducing public debt.

Conventional approaches, I claim, are inconsistent with the Swedish reform trajectory because they fail to recognise the *power-distributional interaction* between a weakened peak union confederation (LO) and a strengthened government. A decline in union power decreases the potential costs governments face from unilateral government action, whereas government strength provides parties with the capacity to formulate and pass institutional change independent of union support. While confirming the crucial relevance of organised labour for outsider protection, my argument places less emphasis than Thelen (2014) on the variable of state capacity along the logic of the “shadow of hierarchy”. According to Thelen, the constitutional tools to coerce unions and employers into an agreement lacking in the Swedish state undermined the political re-configuration of an outsider-inclusive producer-group coalition. By contrast, I will show that Swedish governments did in fact not even push for a labour-inclusive reform strategy. Instead, Swedish dualisation was primarily driven by governments that converged around a unilateral reform strategy of selective retrenchment, once they became strong enough to eschew labour acquiescence.

### **Union Preferences and Government Strength in Sweden**

The liberalisation path of pronounced dualisation in a Social Democratic welfare regime could be called a product of the strength of governments to undermine the policy-making influence of organised labour. This strength refers to a high level of autonomous reform capacity, which enables partisan actors to eschew the problem-solving support of trade unions in the politics of labour-market adjustment. If invited to political exchanges, I claim, organised labour *would* have extracted concessions on behalf of outsiders. In this section, I will sketch out my argument about the interaction between union preferences and government strength in detail. First, this section describes the organisational and representational calculations of Swedish unions behind support for improving the social protection of outsiders. Second, drawing on membership and industrial conflict data, it shows a decline in union power, which limits the political capacity of the LO to assert itself *vis-à-vis* governments and employers. Although this decline must be seen relative to remarkably high levels of union power in the Keynesian post-war era, it does point to the increased relevance of governments in maintaining cooperative relations with

organised labour. Third, it discusses the twin elements of Swedish government strength that were necessary for successful unilateral reform strategies; namely, the political capacity to (i) formulate cohesive policy preferences and (ii) get them passed in parliament independent of trade union support.

*Swedish union preferences: A voice for outsiders*

As in Denmark, the core institutional recruitment mechanism of unions in Sweden is the *Ghent* system. Low direct costs and relatively generous benefits for every member were its core features, which contributed to the member-based strength of Swedish unions and thus shaped their policy preference for universal benefit entitlements. In addition, union membership allows workers to top up their *public* unemployment benefit entitlements with *private* union-run group insurance schemes through the payment of additional contributions. This latter option gained relevance over time because the gradually declining generosity of public unemployment benefits induced union leaders to establish private benefit arrangements for their members (Rasmussen 2014). Obviously, this private element of unemployment protection added an incentive for union membership primarily among affluent workers, who can afford the costs of private welfare coverage. Given this powerful membership recruitment function of the *Ghent* system, it comes as no surprise that the unions had a vested interest in mobilising political support for universal labour market protections on the one hand, and active labour market policies on the other. As a consequence, the *Ghent* system was necessary for high density rates, which in turn broadened the representational focus of organised labour to workers at high risk of unemployment. Despite gradual membership losses, in fact, Sweden is still the most unionised country in the world. Naturally enough, the more encompassing unions become, the more they reach out to disadvantaged workers to recruit members (Becher/Pontusson 2011, Gordon 2015).

Within the union movement, the LO has the highest representational stakes in the protection of outsiders, because it primarily organises less privileged workers at high risk of unemployment (Svallfors 2015, 4). By contrast, the white-collar confederation, TCO, and especially the academics' confederation, SACO, are less concerned with questions of inequality, as their members have relatively stable jobs and high incomes on average. This applies to SACO in particular, which strictly adheres to political independence, whereas TCO traditionally supported the LO in shaping universalist wage earner coalitions.

### *Swedish union power: the eroding hegemony of the LO*

Swedish union power rested on a number of historically specific and nationally distinct characteristics; that is, high levels of membership, centralisation, concentration, and administrative involvement in public policy (the *Ghent* system). The historical absence of ethnic, religious, and regional cleavages on the one hand, and late but rapid industrialisation on the other, contributed to the exceptional strength of reformist unionism in Sweden (Korpi 1978, 74-75). Despite a general decline in union density from the peak level of 85 percent in the mid-1980s to 68 percent in 2013, the Swedish union movement continues to be remarkably strong from an international comparative perspective.

Yet, unlike in Austria and Denmark, the mobilisation of union support for the margins of the workforce came under strain with growing labour fragmentation between the three different union confederations (Thelen 2014, 185-186). In particular, the decline of the LO implies a decline in the power of the voice for workers hit hardest by dualism, which in turn loosens the structural constraints on neoliberal reform ambitions of partisan policy entrepreneurs. The traditionally hegemonic position of the confederal LO level came under pressure not only from significant decentralisation in collective bargaining (Iversen 1996), but also from gradual membership shifts to TCO and SACO (Kjellberg 2015). The growth of independent unions outside the three confederations pulled in the same direction. Membership away from the LO points not only to growing inter-union fragmentation, but also to a decline of the politically active wing of the union movement, which is grounded on a tradition of mobilising members for public campaigns and social democratic votes (Aylott 2007, see also Kjellberg 2015; Thörnqvist 2007, 327). With the LO losing members and power, therefore, the mobilising capacity to resist unilateral government action also declined. Figure 4.4 illustrates this development by tracking change in the membership shares of the three different confederations and independent unions (“Others”) between 1975 and 2013.

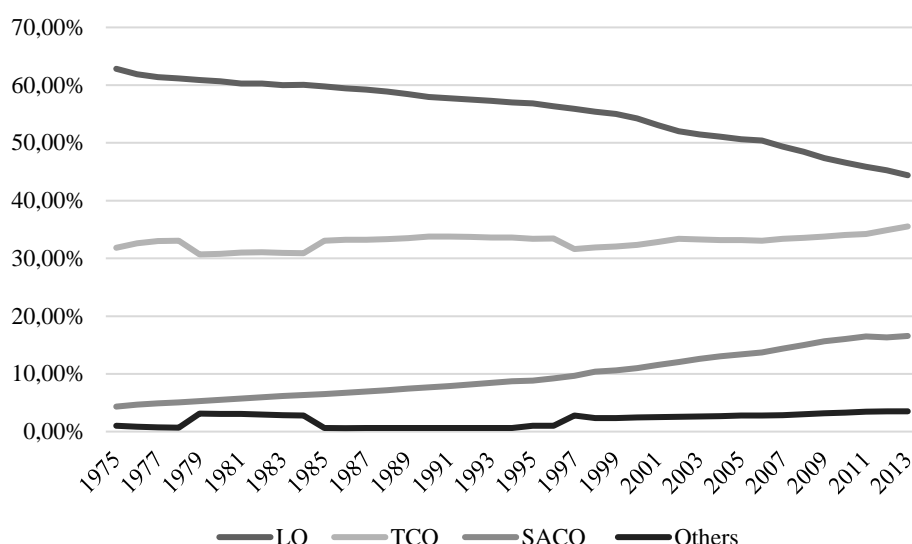


Figure 4.4: Membership share of union confederations in percentage of total union membership, 1975-2013.  
Source: Kjellberg (2015), own calculations.

It shows that the share of LO-members among the union movement declined from 63 percent in the mid-1970s to 44 percent in 2013. In the same period, the share of SACO and TCO increased from 4 percent to almost 17 percent and from 32 percent to almost 36 percent, respectively. As a result of de-industrialisation, transfers in membership from blue-collar to white-collar unions reflect primarily structural changes in the workforce. Notably, however, political intervention reinforced this development, as the centre-right government in 2006 differentiated and raised fees for unemployment insurance. This change in the funding mechanism made eligibility to unemployment benefits more expensive for workers in sectors with high unemployment risks. Given the close relationship between unionisation and membership of voluntary benefit funds, this institutional change accelerated membership losses of LO-affiliated unions in particular (Kjellberg 2011). As Table 5.2 shows, the membership loss of the LO was particularly acute over the past two decades, while SACO and independent unions continued to gain members.

Table 5.2: Membership numbers of Swedish union confederations, 1990-2013.

	1990	1995	2000	2005	2013	Change
LO	1.962.416	1.926.404	1.753.075	1.586.927	1.272.424	- 689.992
TCO	1.144.218	1.131.207	1.045.473	1.039.870	1.018.296	- 125.922
SACO	260.127	298.537	355.074	418.648	474.725	+ 214.598
Others	20.977	33.984	78.512	87.407	100.636	+ 79.659
Total	3.387.738	3.390.132	3.232.123	3.132.852	2.866.081	- 521.657

Source: Kjellberg (2015).

Between 1990 and 2013, the LO lost a whole 690,000 members, whereas SACO and, to a lesser extent, independent unions continuously grew in size. The TCO, on the other hand, remained relatively stable, albeit also losing members in that period. In sum, the conclusions we can draw from membership data are clear-cut: while the union movement as such declined, the LO in particular suffered from membership losses. Unlike membership data, industrial conflict data may shed some light on the development of union power at the workplace level (Baccaro/Howell 2011, Culpepper/Regan 2015). Figure 4.5 portrays the number of work stoppages in the period from 1975 and 2014.

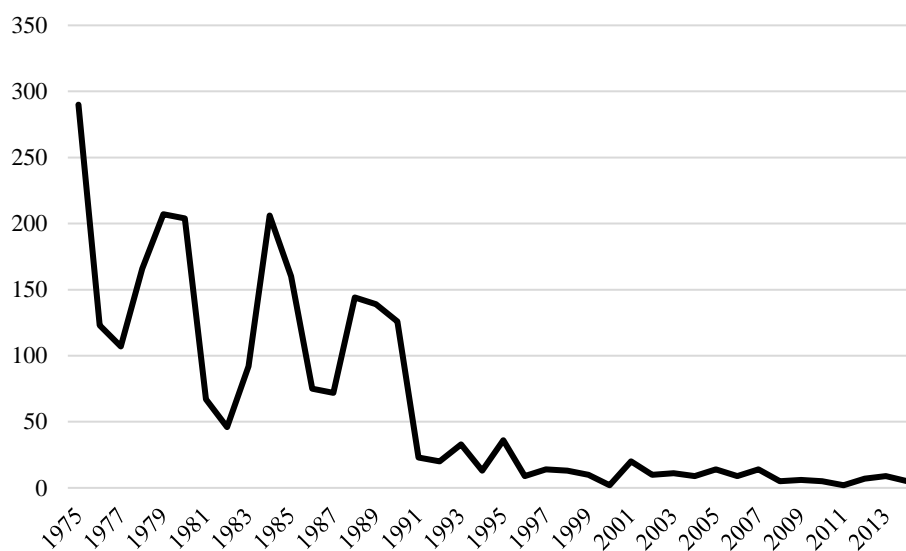


Figure 4.5: Annual number of work stoppages in Sweden, 1975-2014.  
Source: *Medlingsinstitutet* (Swedish National Mediation Office).

Despite some outliers, the overall direction demonstrates an incredible decline in work stoppages. In particular, the dramatic economic crisis of the early 1990s went hand in hand with a sudden drop in strike activities, especially among LO-affiliated unions (Thörnqvist 2007, 335). It would be difficult to contend that decreasing industrial conflict levels reveal union strength, and not weakness, in the sense that the mere threat of work stoppages would induce employers to give in. Against the general background of capital liberalisation (growing unemployment, decreasing wage growth relative to productivity, and growing economic inequality), the drop in industrial conflict rates should rather be interpreted as another indicator of declining union strength (Baccaro/Howell 2011, 9).

While a decline in labour unity and industrial conflict points to a general weakening of union power, perhaps the absent tradition of political strikes or mass demonstrations additionally impedes an activist approach against unilateral reform ambitions. In fact, political



strikes aiming to influence parliamentary decisions are strictly forbidden in the public sector (Thörnqvist 2007, 323). Despite the forceful withdrawal of employers from corporatist state agencies in the early 1990s, political processes remained consensus-oriented in style through a renewed reliance on the appointment of *ad hoc* government commissions (Bergh/Erlingsson 2009, Eichhorst/Wintermann 2005, Steinmo 2013). The privileged integration of experts helps generate legitimacy for government commissions, thereby making the preparation of policy changes open to new actors and ideas (Christiansen et al. 2010). Given this post-corporatist and rationalistic political culture, the LO faces difficulties in mobilising social support for a shift to conflictual patterns of interest intermediation. Seen in this way, the formal inclusion of the LO in the policy-making process has become a *politically contingent choice* of governments. The government can work with unions when it corresponds to their interest in mobilising extra-parliamentary consensus, but a unilateral approach appears much less risky for successful re-election and economic management than in the Keynesian past of Swedish corporatism. I will now turn to the properties of Swedish government strength that allowed for the exclusion of the LO from the policy-making process.

*Swedish government strength: dissolving party-union ties and centre-right unity*

My argument implies that the Swedish LO, the main union confederation, had the political *preference* to protect outsiders, but not the political *capacity* to assert itself. The question is, why? It is clear that the decline of the LO loosened the structural constraints on unilateral reform ambitions to the detriment of outsider representation. Yet, this shift in the balance of class power was not nationally unique at all. The decline of the Swedish LO must be placed in comparative context, particularly the striking shrinkage of peak union confederations elsewhere (Ebbinghaus et al. 2011). From a comparative optic, therefore, the empirical observation that the Swedish LO lost power is definitely not *sufficient* to explain the cross-national variation in union influence between Austria, Denmark, and Sweden. On the contrary, it could be argued that higher levels of class organisation should pose stronger incentives for labour-inclusive policy compromises in Denmark and Sweden than in Austria. In reality, however, the medium-sized (and rapidly declining) Austrian union movement was much more successful than its powerful Scandinavian counterparts in striking policy deals on behalf of outsiders. While also coming under intense pressure from the unilateral reform ambitions of the political right (Obinger/Tálos 2006), Austrian governments were simply too weak to eschew labour-inclusive concertation in labour-market policy (Afonso 2013).

My argument is that the active rejection of labour demands by national governments requires a high level of autonomous reform capacity. This brings me to the role of governments in the political economy of Swedish dualisation. While confirming the significant agency of Swedish employers in the transition to post-corporatism (Pontusson/Svensson 1997), I argue that a crucial factor of union exclusion was the strength of Swedish governments to formulate and pass labour-market policy changes independent of union support. According to my framework, strong governments: (i) have a cohesive policy agenda and (ii) can bet on multiple options of forming a majority in parliament to get their proposals passed. As in the previous chapters, we look at the partisan composition and vote share of governments in the period of dualisation to assess their reform capacity. Table 5.3 illustrates that Sweden was governed by a centre-right coalition from 1991 to 1994, a Social Democratic single-party minority government from 1994 to 2006 and a centre-right coalition from 2006 to 2014.

Table 5.3: Elections and governments in Sweden in the dualisation period, 1991 – 2014.

Coalition	Period	Governing Parties	Type	Vote share
Centre-right	1991 – 1994	M, CD, L, KD	Minority	46.6 percent
Centre-left	1994 – 1998	SAP	Minority	45.3 percent
	1998 – 2002	SAP	Minority	36.4 percent
	2002 – 2006	SAP	Minority	39.9 percent
Centre-right	2006 – 2010	M, L, CD, KD	Majority	48.3 percent
	2010 – 2014	M, L, CD, KD	Minority	49.3 percent
Centre-left	2014 – ?	SAP, MP	Minority	37.9 percent

Notes: SAP = Social Democratic Party; M = Conservative Party; L = Liberal Party; CD = Centre Party; KD = Christ Democrats; MP = Green Party.

Over this entire period, there was never a single ideologically-divided coalition government in office. To begin with, between 1991 and 1994, the four-party centre-right government was set to unite around spending cuts in response to the dramatic economic and fiscal crisis of the early 1990s. The subsequent Social Democratic single-party minority government was in a very strong position to find support for its preferred policies. With a vote share of 45.25 percent

from 1994 to 1998, the party was in a hegemonic position and it needed support from only one party among a diverse set of opposition parties. It is clear that the ideological distancing between the SAP and LO in the 1980s allowed the party leadership to formulate policy priorities independent of union support (Blyth 2001). A consequence of this electoral strength is that party leaders – even of Social Democratic parties – have expanded capacity to push back the influence of affiliated unions on policy output. We would therefore expect this four-year period to reveal the lowest level of union influence under the Social Democratic single-party minority governments from 1994 to 2006, because the party leadership had the capacity to formulate and pass its preference for neoliberal policies independent of the LO. Between 1998 and 2006, the SAP was in a less powerful position, albeit still dominating the legislative process.

The subsequent four-party centre-right government had a majority of seats from 2006 to 2010. Their capacity to formulate a common agenda came with the unification process of the four traditionally divided bourgeois parties into the so-called “Alliance for Sweden” (*Alliansen*) (Aylott/Bolin 2006). Notably, this government did not rely on support from a populist right-wing party that was attached to the blue-collar working class, as it was the case in Austria and Denmark. This absence of a right-wing populist party underpinned the neoliberal profile of the centre-right bloc. That a united centre-right majority may be strong enough to marginalise a relatively strong labour movement was powerfully demonstrated in the policy performance of the *Alliansen* during the late 2000s.

These two constellations – “neoliberalised” Social Democratic single-party minority government and a united centre-right majority government – were the driving forces underlying the political capacity of Swedish governments to eschew labour acquiescence. Both constellations were *not* present in Austria, but to a more recent and modest extent in Denmark. To be sure, during the 1990s, European Social Democratic parties across the continent moved to market-conforming positions along the lines of the “Third Way” in an attempt to adapt their welfare states to the demands of globalisation and deindustrialisation (Green-Pedersen et al. 2001). Yet, the renewal of the SAP was distinct in that it also retrenched precisely the “employment-friendly policies” (Huo et al. 2008) characteristic of the “Third Way”; that is, active labour-market policies and short-term unemployment benefit rates. While fiscal retrenchment was in large part a response to the public debt crisis of the early 1990s, the subsequent establishment of a strict fiscal-policy regime significantly constrained spending choices in the long run (Mehrtens 2014, Haffert/Mehrtens 2015). Of course, this is not to say that partisan differences disappeared completely. The novel formation of a united centre-right

front in 2006 was crucial to the reinforcement of institutional dualisms. But the overall reform trajectory of Swedish dualisation reveals partisan differences merely in degree, and not direction. My argument that union exclusion by strong governments paved the way for dualisation will be illustrated through process tracing in the next section.

### **Strong party-union ties: The Rehn-Meidner Model**

Named after the two main labour economists of the LO, the famous “Rehn-Meidner model” was the central reference point for the successful macroeconomic policy mix of consecutive SAP-led governments during the 1950s and 1960s (Meidner/Hedborg 1984). In short, the ambition of Gösta Rehn and Rudolf Meidner was to ensure high levels of social solidarity without undermining the productive capacity and monetary stability of Swedish capitalism. Its normative starting point was a “solidaristic wage policy” delivered by centralised and nationwide deals between the peak union confederation, the LO, and the peak employers’ association, the SAF. Centralised collective bargaining oriented wage increases around average productivity increases of the entire economy, thereby rewarding the cost competitiveness of high-productivity firms while imposing demands for restructuring on low-productivity firms. To curb wage pressure and inflation alike, the state had to eschew introducing expansive fiscal policies as a means to provide full employment. Instead, the compensation for the massive “productivity whip” of wage equalisation came from the expansion of active labour market policies; that is, measures to avoid structural unemployment by facilitating the adaptation and mobility of labour to competitive areas of the economy.

The successful elaboration of the Rehn-Meidner model demonstrated two important conditions underlying the egalitarian legacy of the Swedish post-war political economy. First, the “solidaristic” outlook of the LO in designing macroeconomic policy priorities revealed its encompassing representational focus on behalf of labour as a whole. Its centralised structure and mobilising strength were crucial to the strategic capacity of the LO to pursue an equalisation of primary incomes within the constraints of a capitalist economy. Second, the adoption of the Rehn-Meidner model in political practice showed the central role played by the LO in designing the policy agenda of the SAP. Holding office with more than 40 percent of the vote between 1936 to 1976, the SAP did not merely accept free collective bargaining between the two peak level associations, as in corporatist economies elsewhere. Rather, the Rehn-Meidner model also implied a shift in the policy-making authority over virtually all economic affairs from the SAP to the LO in the interest of viable wage solidarity (Scharpf 1987, 230; Pontusson 1992, 313). In other words, to ensure the functioning of the Rehn-Meidner model,

the LO had to take control of the state through close ties with the SAP (Korpi 1978, 1983; Esping-Andersen 1985).

Proof of the SAP's adherence to the demands of the LO came in the early 1970s, when the unions' rank and file pushed for the democratisation of working life in general and *more job security* in particular.<sup>51</sup> Even though the Swedish wildcat strike movement was not nationally unique in this period, the imperative of labour mobility in the Rehn-Meidner model generated distinctly strong demands for greater employment stability. Various societal changes – growing female employment, dual earner couples, homeownership, and falling wage differentials – undermined the willingness of workers to shift their job to successful high-productivity firms, which were predominantly located in the manufacturing sector of southern Sweden. While the willingness of workers to move to prospering firms decreased, the mobilising strength of the labour movement reached its historic peak. Faced by mounting pressure from below, the LO leadership had to realise that the SAF would block any serious attempt in collective bargaining to constrain the managerial prerogative of hiring and firing workers. Eventually, the opposition of the SAF induced the LO to break with the consensual tradition of Swedish corporatism by turning to the legislative arena instead. Central to the subsequent introduction of the Employment Protection Act of 1974 was the direct access of the LO to the policy-making action of the SAP: “Their political partner, the ruling Social Democratic Party, was willing and able to find a majority in favour of public regulation” (Emmenegger 2010, 283). Notably, even the Liberal People's Party supported the bill with a view to attract votes from the politically neutral TCO, which lined up with the LO in pushing for legislation in job security (*ibid.*).

The Employment Protection Act of 1974 (LAS) marked a “critical juncture” for both the policies and politics of Swedish labour-market reform. First, from a policy point of view, the LAS imposed a number of restrictions on the managerial prerogative to set the terms and conditions of employment (Gordon 2012, 235-236). It privileged *employment contracts of an unlimited period* by allowing fixed-term contracts only for trainees/substitutes or labour that required temporary employment for explicitly work-related reasons (e.g. seasonal work in agriculture or tourism) (EIRO 1997). Therefore, the unlimited contract became the legally binding “regular” type of employment, albeit with the provision that employers may deviate from these restrictions in collective negotiations with the trade unions. Moreover, the LAS stipulated a *seniority principle* for dismissals entitled “last-in, first-out”. As a consequence,

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<sup>51</sup> This paragraph is based on evidence from Emmenegger (2010).

employers were obliged to find alternative employment or privilege the re-employment of now-redundant senior workers, thereby prioritising functional over numerical flexibility at the workplace. In addition, the length of the notification period depends on work and age history, ranging from a minimum of one month to a maximum of six months. Notably, the LAS also required employers to *consult local union representatives* in order to receive consent for important changes in the company such as mergers or dismissals (Gordon 2012, 236). As a result, local unions representatives may demand concessions from the employer in exchange for deviations from the LAS framework, including expanded training provisions or redundancy payments, for example. It thus provided another incentive for union membership, since local union officials gain a say over the selection of redundancies within a given enterprise. Taken together, the LAS provided the unions with a strong organisational foothold at the workplace level.

Interestingly, the introduction of the LAS favoured the employment stability of older workers in particular (“last-in, first-out” principle). As Davidsson (2011, 134-135) pointed out, the reason for this significant age bias in the LAS framework lay in the perception of union leaders that conventional retraining instruments are not effective for the re-employment of older and handicapped job-seekers, as their ability to adapt to structural economic changes is generally limited. As a consequence, both the Danish and Swedish LO confederations called for tightened job-security regulations (Emmenegger 2010). Given higher levels of societal pressure and labour unity, the Swedish LO managed to put these demands in legislative action, whereas the Danish LO failed with similar attempts (ibid.). Ironically, it seems that the recognised limits of lifelong learning induced union leaders to reject the contemporary notion of “Flexicurity” before it had become popular in contemporary political discourse; that is, the idea to provide employment security through human capital formation on the terms of a highly volatile labour market (Streeck 2008, 12). After the Swedish LO had successfully mobilised political support for the LAS framework, Rudolf Meidner himself called for an expansion of state support for disadvantaged labour market groups in order to undermine a segmentation of the Swedish labour market (Meidner/Hedborg 1984, 102).

Second, from the point of view of politics, the LO showed that it is not dependent on the consent of the SAF to pursue its political ends. The state not only intervened into issues previously reserved for collective bargaining, but also in a way that decisively expanded union power at the workplace level. Party-union ties provided the LO with a direct channel of interest mediation without having to place any reliance on lengthy and costly bargaining procedures

with the employers. This move provoked resistance on the part of the SAF ever since. In the words of Patrik Karlsson, labour-market policy expert of Swedish business:

*“It is correct that this legislation [Employment Protection Act of 1974] has always been questioned by the employers since the beginning and the reason for this – and I think this is important to realise – is that since 1938 there was a treaty between the employers and the unions to keep legislation out and deal with rules and regulations via collective bargaining. But in the early 1970s, this was abandoned by the unions, as they asked for legislation.”<sup>52</sup>*

This power demonstration implied a substantial loss of trust by the SAF in the reliability of the LO within corporatist institutions. To the SAF, the LO-led political initiatives of the early 1970s towards economic and industrial democracy strongly violated the Swedish model of consensual exchange between the peak-level organisations of labour and capital. Perhaps the clearest expression of business resistance came with the organisation of unprecedented mass demonstrations in response to union demands for the introduction of “wage earner funds”, which were essentially planned “as a mechanism to socialize the economy and reverse the trend toward the concentration of economic power in private hands” (Steinmo 1988, 431). While successfully constraining the scope of collective profit-sharing with the 1983 reform (Pontusson 1993, 555), the SAF arrived at the conclusion that the LO-led push for legislative action would call for a conflict-oriented shift in the strategic outlook of interest mediation (Blyth 2001, 9-10). Rather than restricting its action repertoire to collective bargaining, the SAF initiated an impressive mobilisation of public campaigns to resist the hegemonic alliance of the SAP and LO (ibid.). Faced by the counter-offensive of the SAF, the political assertiveness of the LO became ever more tied to its cooperation with the SAP (Svensson/Öberg 2002, 311-312; Anthonsen/Lindvall 2011, 128-129).

To the great disappointment of the SAF, the formation of a series of bourgeois governments between 1976 and 1982 did not result in a neoliberal policy turnaround. Ideological divisions and a narrow parliamentary majority between three equally strong parties – the Centre Party, the Liberals and the Conservatives – undermined the capacity of the centre-right bloc to challenge the position of the LO (Scharpf 1987, 130; Mehrtens 2014, 97). Starting

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<sup>52</sup> Interview with Patrik Karlsson, Labour Market Policy Official at the peak employers’ association, Swedish Business (*Svenskt Näringsliv*; SAF until 2001), 29th September 2015.

with a majority of 11 seats, the coalition broke down after two years due to a disagreement over the issue of nuclear energy, leading to a single-party minority government of the Liberals. With the 1979 election, the three parties formed another coalition with a majority of only one seat, which once again fell apart after less than two years following the withdrawal of the Conservatives (*Moderaterna*). In addition to this coalitional instability, the popularity of the welfare state and the crucial role of the LO in moderating wage growth undermined the strategic capacity of the political right to deviate from Social Democratic strategies of economic adjustment (Mares 2006, 105). As of 1980, however, the centre-right coalition faced mounting budget deficits and the “aggressive neoliberal posture” of the SAF (Huber/Stephens 2001, 241). In response, the government passed a set of very small entitlement reductions for part-time pensioners and sick-pay recipients (*ibid.*). For our purposes, one change of interest was a modest amendment to the LAS in 1982, which allowed employers to offer fixed-term contracts “for six months over a period of two years, when necessitated by a temporary accumulation of work; and for a probationary period of six months” (EIRO 1997). Still, despite the emerging constraints of fiscal austerity, the absence of a strong centre-right bloc led to continued strong union influence, which in turn was crucial to the resilience of universal employment and welfare rights.

### **The “Neoliberalisation” of Social Democracy: Taking the “Third Way” (1980s)**

In office from 1982 until 1991, the SAP single-party minority governments also left the overall thrust of labour market and welfare regulation intact, while still following full-employment policies and expanding parental leave and public day-care provisions (Huber/Stephens 2001, 243). Therefore, the reform path of dualisation did not start off *directly* during the 1980s. But this period certainly paved the way for this outcome, as it marked the emergence of growing inter-union divides and the ideological emancipation of the SAP from the LO. Once the dramatic economic crisis of the early 1990s hit the Swedish economy, both factors eventually contributed to an unravelling of the LO’s hegemonic policy-making influence on which high levels of social solidarity rested.

During the 1980s, the LO came under pressure from both without and within. First, the SAF came to the conclusion that the LO failed to moderate wage demands, while industrial employers in particular demanded greater bargaining flexibility (Pontusson/Svensson 1996). As a consequence, as of 1983, the engineering employers (VF) successfully convinced the metal workers’ union (*Metall*) to defect from centralised wage bargaining and pursue autonomous sector-level agreements instead. This initiative of engineering employers reflected



their preference for stronger wage differentiation in response to the rise of post-Fordist production arrangements (ibid., 235-239), whereas *Metall* was in large part seduced to follow suit by sector-related concessions (Mares 2003, 113-114). Second, the intra-labour authority of the LO was challenged by the demand to link pay hikes to productivity increases by manufacturing unions on the one hand, and the growing membership strength of the white-collar confederation TCO and the academics' confederation SACO on the other. As indicated by the defection of *Metall*, the former became critical to the imperative of "wage solidarism", whereas the latter questioned the hegemonic inter-union position of the LO and successfully pursued various compensation clauses (Mehrtens 2014, 94, 110). As a result, a gradual decentralisation in collective bargaining took place, which impeded the capacity of the LO to moderate economy-wide wage growth.

In addition to growing labour fragmentation, the SAP developed a more autonomous policy outlook, which no longer adhered closely to the demands of the LO (Blyth 2001, Lavalley 2008). To be sure, the gradual emancipation of the SAP in the policy-making arena was in part a response to the political failure of the LO to mobilise sufficient support for the introduction of wage-earner funds, which were intended to resolve the internal contradictions of the Rehn-Meidner model (Pontusson 1992, 321). Moreover, the declining capacity of the LO to deliver sufficient wage restraint in exchange for favourable policy results pulled in the same direction (Mares 2006, 114). Yet, the weakening of the LO did not automatically give rise to a new and distinct policy approach. It took the agency of key players within the party and the advice of economists to push the SAP into a neoliberal direction (Blyth 2001). Notably, the Minister of Finance, Kjell Olof Feldt, was the central figure in this regard (Steinmo 2013, 92), designing a new policy mix entitled the "Third Way", that is, the combination of a Keynesian-like currency devaluation (as pursued by the Socialists in France) and monetarist fiscal austerity (as pursued by Thatcher in the UK).

Given the problem of growing public debt, the SAP refrained from another expansion of state spending and instead tailored its recovery strategy to the productivity demands of the manufacturing-dominated export sector. Accordingly, a devaluation of the Swedish Kronor by 16 percent in 1982 was expected to boost the cost competitiveness of exports, while it was envisaged that fiscal moderation and wage restraint would undermine the re-emergence of inflationary wage-price spirals. While leaving strong labour-market protections untouched, the reform path of cutting public spending, privatising state enterprises, introducing market mechanisms in public sector service provision, and intervening into a number of wage bargaining rounds implied an undeniable redistribution of income from labour to capital

(Huber/Stephens 2001, 242-243). Perhaps the clearest expression of this neoliberal turnaround came with the deregulation of financial markets, which was pursued more radically in scope and speed relative to that of other countries (Ryner 2004, 98-99; Schnyder 2012, 1132; Mehrtens 2014, 121-125). The distributive profile of the “Third Way” created tensions between the SAP and the LO, which came to be known as the “war of the roses”, fought out between the LO chairman, Stig Malm, and the Minister of Finance, Kjell-Olof Feldt. Unlike in the heyday of the Rehn-Meidner model, the “overall thrust of government policy after 1982 conformed closely to the prescriptions of Feldt and his advisors and thus must be considered a defeat for LO and its allies within the government” (Pontusson 1992, 314-15).

At first, the “Third Way” was relatively successful in generating economic growth and reducing public debt during the 1980s. Yet, the deregulation of credit markets without raising exchange controls and the stimulus from the “tax reform of the century” (1989-90) in tandem with real wage growth contributed to the bursting of an enormous inflationary bubble. By 1990, the SAP had to respond to the most dramatic economic crisis of the post-war era, where a steep increase in unemployment rates from two percent to 11 percent translated into a budget deficit of 12 percent in 1993. In response, the SAP followed the European mainstream by declaring the combat of inflation, and not full employment, as the ultimate goal of social democratic state policy (Lindvall 2004). Given the long-standing legacy of full employment and robust growth, this economic turmoil created a widespread crisis awareness among both the party system and the populace.

Consistent with its radical shift in ideological outlook, the SAF reacted strongly to the onset of the economic crisis by drawing the curtain on centralised bargaining with the LO (1990) and permanently withdrawing all of its representatives from corporatist state agencies (1991). The disruptive strategy of the SAF added a political crisis to the economic turmoil and shifted the full policy-making authority away from producer groups to the state. Aided by massive campaigning on the part of the SAF, the public perception came to attribute the recession to the economic policies of the government, which then led to an unprecedented election defeat of the SAP in 1991 (Huber/Stephens 1991, 243-244). As a consequence, from 1991 to 1994, the Conservatives (*Moderaterna*) under Carl Bildt formed a centre-right minority coalition with the Centre Party, the Liberals, and the Christian Democrats. The depth of the economic crisis helped to mobilise political support for two austerity packages in 1992, which included spending cuts in various social-security arrangements (sick pay, accident insurance, etc.). Notably, these two packages were supported by the SAP as part of a general transition to a hard currency regime and in response to skyrocketing public deficits.

Recognising the economic crisis as a “window of opportunity” for neoliberal reform ambitions, the Bildt cabinet pursued controversial reforms in the area of labour-market policy. The major point of discord was the idea of “nationalising” the *Ghent* system, that is, converting the union-run benefit funds into a state-administered benefit system. Faced by the fiscal overburden of unemployment insurance, the SAP was indeed willing to support the retrenchment efforts of the centre-right coalition to rein in the costs of the system (Anderson 2001, 1081). Yet, the proposal of the Bildt cabinet actively linked cost containment measures (reduction in the replacement rate from 90 to 80 percent, extended qualification period, increased membership fees) to the elimination of the *Ghent* system. In spite of protests from the SAP and the unions, the government achieved a majority for this package combining benefit cutbacks and the “nationalisation” of unemployment insurance. Most notably, the package also de-indexed benefit levels from inflation, thereby effectively cutting future entitlements by default. Yet, after the election of 1994, the new SAP government immediately reversed the “nationalisation” of unemployment insurance to the benefit of union membership recruitment.

In addition, drawing on recommendations from the “Lindbeck Commission”, the Bildt cabinet extended the maximum duration of fixed-term contracts and trial periods from six to 12 months, while also allowing employers to exempt two employees from the dismissal restrictions of the LAS as well as legalising temporary work agencies (Van Peijpe 1998, 68-69; Gordon 2012, 238). The most far-reaching recommendation of the “Lindbeck Commission” – the abolition of the “last-in, first-out” principle – was blocked by resistance from the Centre Party inside the coalition.<sup>53</sup> Judging from official announcements, the SAP supported the LO in opposing the flexibilisation of temporary contracts (ibid.). Yet, memoirs of the Minister of Finance Minister (1991-1994), Anne Wibble, indicated that her Social Democratic successor, Göran Persson (1994-1996), considered these changes “quite reasonable” in the first place (Wibble 1994, 64 cit. in Davidsson 2011, 141-142). Accordingly, the opposition of the LO led the SAP leadership to reject reductions of job security for temporary workers (ibid.).

Taken together, the SAP clearly protested against the “nationalisation” of the *Ghent* system to protect the organisational strength of the trade unions, but at the same time consented to cost-saving retrenchment efforts in a number of benefit schemes. Its position in the area of job security was less clear – official announcements and the memoirs of Anne Wibble contradicted each other. I will now turn to the period of the Social Democratic politics of

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<sup>53</sup> Interview with Mats Wadman, Senior Official at the Ministry of Employment (1988-2007), 2nd October 2015.

dualisation, which was grounded on the ideological distancing of the SAP from the policy preferences of the LO.

### **Dualisation: the dissolution of strong party-union ties (1994-2006)**

*“We didn’t manage to convince them [the SAP]. The leadership and the people working for them were overconfident that sound public finances are good for employment. Instead, we were saying that high employment is good for public finances.”*

Interview with Dan Andersson, Chief Economist of the LO (2000-2008), 5th May 2015.

*“We must remember that sound public finances are the most fundamental conditions for growth and development.”*

Pär Nuder, Chief of Staff to the Prime Minister (1997-2004) and Minister of Finance (2004-2006), at a party meeting of the SAP in 2004 (cit. in Laval 2008, 146).

The 1994 elections raised strong hopes of the LO. After a short bourgeois interlude, the return of the SAP brought the “political arm of the labour movement” back in power. Certainly, formal party-union ties remained relatively strong in Sweden, given that the SAP derived a considerable share of its votes and funding directly from the LO (Allern et al. 2007). The chairman of the LO was a member of the SAP’s executive committee, whereas connections between both organisations remained particularly close at the local membership level (Aylott 2003). At the same time, the SAP received a whole 45.25 percent of the vote, which allowed the formation of parliamentary majorities with the support from a single party among five alternative opposition parties. Therefore, partisanship theorists and trade union representatives alike would have expected labour-market policy to shift in the preferred direction of the LO; that is, towards the expanded protection of outsiders (Huo 2009, Pontusson 2011). Indeed, these expectations seemed to come true at the beginning of their tenure, since the SAP adhered to its election promises and reversed two pieces of legislation introduced by the previous centre-right government. First, the SAP single-party minority government repealed the “nationalisation” of the *Ghent* system by effectively reinstating the administrative monopoly of the unions over unemployment insurance. Second, it undid a large part of the previous job security reform by re-introducing restrictions on the usage of fixed-term contracts.

Despite these apparent concessions to the LO, the SAP undeniably turned into a party that was committed to the rapid achievement of “sound public finances” via moderate cuts for the weakest segments of the labour market. After having contributed to the outburst of a severe

economic crisis, the SAP sought to regain economic credibility by vigorously tackling the inflationary public debt crisis through a strategy of orthodox economic adjustment. In fact, thanks to rigorous crisis packages, the SAP turned a budget deficit of 12 percent in 1993 into an impressive surplus of 2.7 percent of GDP by 1997, according to OECD statistics. As roughly illustrated by the quotations above, the prioritisation of fiscal consolidation as an end in itself almost invariably relegated the influence of the LO's agenda of an "active working line"; that is, the combination of stringent work requirements with expanded spending on labour-market policy to stimulate employment growth and undermine social exclusion (Andersson 2005, 2008). Faced by the governing strength of the SAP in the historically distinct context of liberalisation, the LO had a much weaker grip on its political ally than in the past.

Proof of the capacity to eschew labour acquiescence came in 1995, when the SAP for the first time established cross-class cooperation with the bourgeois Centre Party to obtain support for unilateral reforms in the areas of: (i) job security and (ii) unemployment insurance. In both cases, the SAP moved in the preferred direction of the SAF, and not the LO. First, the SAP provided for more flexibility in the "hiring and firing" conditions of temporary workers. This legislation allowed employers to conclude fixed-term contracts for an increased period of 12 months (18 months for first-time hires) without requiring a particular reason. Notably, it allowed employers to deviate from restrictions of the LAS framework via agreements with union representatives at the workplace level, thereby abandoning the veto-power of the confederal level. Tellingly, this liberalisation was put into law precisely after the LO had openly rejected this proposal at its annual congress (Henkes 2006, 294). The concern of the LO was that the option to deviate from the LAS framework via collective negotiations would allow employers "to bully certain weaker local branches to adopt changes with the threat of lost jobs" (Gordon 2012, 239). According to OECD statistics, the strictness of employment protection for temporary workers thus decreased from 1.77 to 1.44.

Second, the SAP concluded an austerity package with the Centre Party, which included a moderate cut in the replacement rate of a number of welfare benefits (from 80 percent to 75 percent in unemployment benefits). This cutback must be placed in the context of the SAP's previous refusal to re-index the unemployment benefit ceiling to inflation, thereby effectively accepting the ongoing decline of benefit generosity. In addition, the law extended the time for which workers may lose access to unemployment benefits if they resigned from a job "without good cause" from 20 to 45 days (Gordon 2012, 257). This possibility to restrict access to unemployment benefits also applied to workers who refused various job offers in a row (*ibid.*).

In response to these changes, the LO mobilised for the first time in history a mass demonstration together with a social movement against the policy performance of the SAP (Davidsson 2011, 144) and openly sided with the Left Party in its opposition to the government (Henkes 2006, 293). Faced with pressure from the LO and its rank and file, the SAP leadership revoked its plan to restrict eligibility requirements, which initially included an increase in the qualification period to 9 months and a limitation of the maximum benefit duration to 600 days (EIRO 1997). The TCO and SACO particularly opposed tightened qualification criteria to keep the system open to university graduates, while the LO rejected the proposed fixed-time limit on benefit receipt (Gordon 2012, 257). The SAP then delegated this issue to a commission, which incorporated these union demands and thus paved the way for a compromise between the government and the unions in 1997. Aided by an economic recovery, the SAP consented to a return of the top replacement rate to 80 percent on the one hand, and an extension of the qualification period to 6 months on the other. However, the issue of a fixed time limit had to be dropped

By 1996/1997, the SAP had followed the recommendations of the “Lindbeck Commission” in pursuing a far-reaching structural reform of fiscal policy, which restricted the control over the budgetary planning process through expenditure ceilings and an annual surplus target of one percent/GDP (Mehrtens 2014, 175-179). Fuelled by long-standing academic deliberations and the crisis awareness of the early 1990s, the reform effectively insulated policy-makers from the popular demands of the electorate and organised labour by placing legally binding limits on future spending choices. By 2000, the government additionally imposed a *de facto* debt break on the municipalities, which implied a raise of the surplus target to two percent/GDP (ibid.). Naturally enough, the new fiscal policy framework ruled out any investment choices via discretionary deficit spending.

The stipulation of the fiscal policy framework went hand in hand with a gradual decline of spending on active labour-market policies (ALMP) (Figure 4.6). Notably, the spending reductions in ALMP observed after 1999 must be placed in the context of a simultaneous rise of fiscal surpluses (Calmfors 2012). As economists from the LO criticised (Andersson 2008), the share of participants in active labour-market programmes went down especially among the unemployed who were not members of a union-run benefit fund and thus display the “weakest position on the labour market”. While two thirds of this group attended labour market programmes in 1992, this figure fell to a mere one third in 2005.

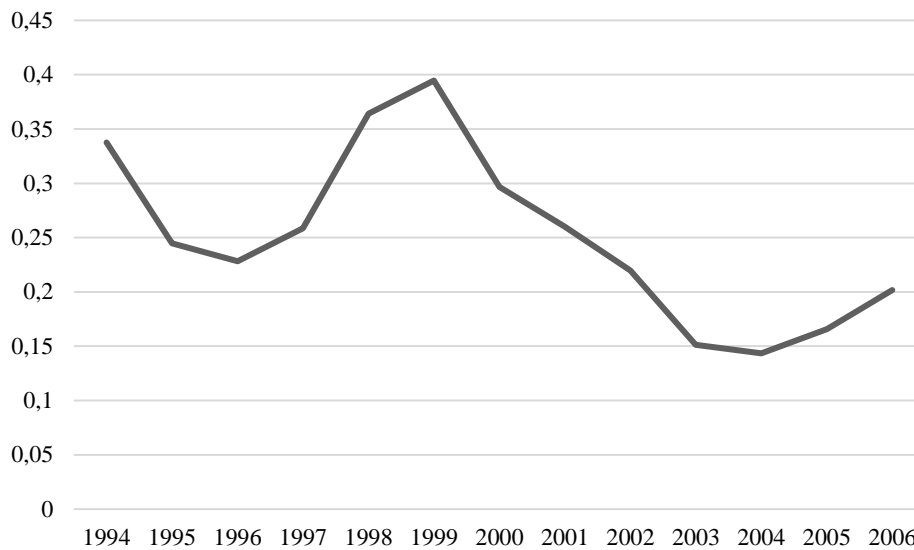


Figure 4.6: Spending on active labour-market policy (as a percentage of GDP per unemployed) under SAP single-party minority governments, 1994-2006.

Source: OECD stats.

Figure 4.6 shows that in the governing period of the SAP the spending level measured as a percentage of GDP per unemployed more than halved within five years, declining from almost 0.4 percent in 1999 to 0.14 percent in 2004. Despite a modest increase between 2004 and 2006, the spending pattern compared to the beginning of their tenure in 1994 was strongly contractive. A critic of this development was Dan Andersson, the former Chief Economist of the LO (2000-2006). In an interview with the author, he attributed this spending decline to the policy recommendations of liberal economists:

*“There was an enormous influence of new liberal economists, more than in other countries. They were saying that ALMP is a bad idea. Lars Calmfors and senior policy advisors of the University of Stockholm said that we should take down ALMP and now they continue to say that we need to make labour even more flexible.”<sup>54</sup>*

Sture Nordh, the former chairman of the TCO (1999-2008), shared this assessment, but also added that membership shifts within the labour movement reduced the electoral relevance of policy demands from the LO for the SAP during the leadership of Göran Persson (1996 – 2006):

<sup>54</sup> Interview with Dan Andersson, Chief Economist of the LO (2000-2008), 5th May 2015.

*“Being in an open economy, the government and especially the Prime Minister himself believed in the more liberal theories we have now, especially with your reference to Lars Calmfors and others. That is important. But you also have to see the structural change in the labour market. LO is not as big as it was. LO is not as strong an organising force as it was in the election campaigns. [...] To win elections, it is not enough to have support from the LO.”*<sup>55</sup>

By 2000/2001, the SAP had passed the most significant labour market reform of its tenure (Lindvall 2010, 168). The SAP’s autonomous reform capacity, however, was inhibited by a change in the parliamentary balance of power. Unlike in the period from 1995 to 1998, the electoral loss of the SAP in 1998 did not allow for the conclusion of another cooperation agreement with the bourgeois Centre Party. Therefore, the political priority remained the same – “sound public finances” – but the capacity to pass this preference in the legislative process was weakened by the SAP’s reliance on the support from the Left Party, which certainly would not have accepted another round of cuts (Aylott/Bolin 2006, 624).

The 2000/2001 reform raised the benefit ceiling twice and placed higher demands on the active job-search of unemployed workers, while abolishing the possibility to re-qualify for unemployment benefits through participation in active labour market programmes. Instead, the reform introduced an “activity guarantee” for the long-term unemployed, which was intended to strengthen work incentives and provide access to re-integration measures. Unlike in the previous reform, the SAP did not take up the issue of a fixed time limit. The rationale behind this reform was based on calculations from experts showing that tightened work obligations would allow for a cost-neutral raise in the benefit ceiling. At that time, Dan Andersson, who later became Chief Economist at the LO, had been State Secretary in the intra-departmental committee that prepared the reform in the Ministry of Industry, Employment, and Communications. When I asked him about the role of the 2002 elections in the choice to lift benefit levels, he responded as follows,

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<sup>55</sup> Interview with Sture Nordh, Chairman of TCO (1999-2011), 30th September 2015.



*“The raises of the benefit ceiling in 2001/2002 were not due to elections. In the Ministry of Employment, we were able to outmanoeuvre the Minister of Finance and the Prime Minister’s office, so it was an internal power struggle inside the government. It was as simple as that. We could show them with calculations that additional restrictions in the control of the unemployed will decrease costs. [...] Our argument was then that we can afford an increase of benefit levels by strengthening the control over the unemployed, so it wasn’t due to the election of 2002. It was the clever work of people inside the Ministry. It was a single one-time shot against the system! [...] The Prime Minister was very much against it, because he thought that if we raise the unemployment benefits, we will increase unemployment, which is a very crude way of thinking, but still conservative people think like that.”<sup>56</sup>*

This view was corroborated by Mats Wadman, a senior official at the Ministry of Employment from 1988 to 2007:

*“It resulted from work inside the Ministry. Dan Andersson was the main architect behind this.”<sup>57</sup>*

Judging from the interview evidence, the SAP leadership wanted to keep the reform cost-neutral in the first place. Technocratic arguments from the intra-departmental committee, and not popular demands from voters or trade unions, eventually convinced the SAP leadership that the tightened control of the unemployed would allow for a rise in unemployment benefits without reinforcing open unemployment (see also Lindvall 2010, 168).

Drawing on the dataset of Van Vliet/Caminada (2012), Figure 4.7 describes the development of net replacement rates for average production workers during the tenure of the SAP from 1994 to 2006. It shows that the 2000/2001 reform raised the net replacement rate for average production workers from 70 percent in 2000 to 79 percent in 2002, but the subsequent non-indexation of the benefit ceiling led to a gradual trend back to 72 percent at the end of the SAP’s tenure in 2006. To be sure, the redistributive design of the *Ghent* system maintained higher replacement rates for low-income earners. Yet, as described above, the erosion of the income-replacing generosity for mid-income earners induced SACO and TCO to provide

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<sup>56</sup> Interview with Dan Andersson, Chief Economist of the LO (2000-2008), 5th May 2015.

<sup>57</sup> Interview with Mats Wadman, Director at the Ministry of Employment (1988-2007), 2nd October 2015.

private supplementary benefits alongside the public insurance in the early 2000s (Gordon 2012, 259-260). Between 2002 and 2012, the number of workers covered by private unemployment protection increased from below 200,000 to more than 1.8 million (Rasmussen 2014, 51). In relative terms, more than one third of the Swedish workforce were thus members of private arrangements in 2012 (ibid.).

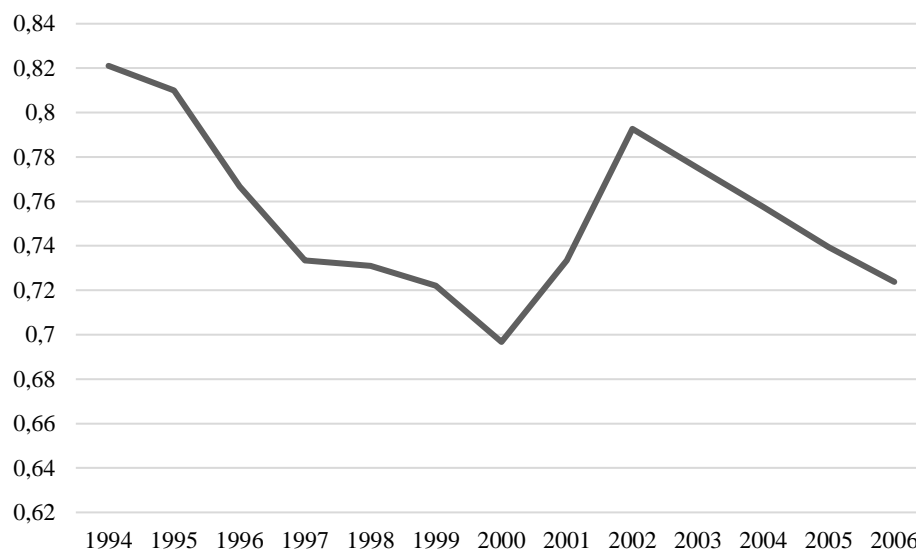


Figure 4.7: Unemployment net replacement rates for average production worker under SAP single-party minority governments, 1994-2006.

Source: Unemployment replacement rates dataset (Van Vliet/Caminada 2012).

It is clear that the emergence of *private* provision of unemployment protection was an indirect (and perhaps unintended) consequence of the political choice of the SAP to retrench the generosity of the *public* unemployment insurance for mid-income and high-income earners. This growing popularity of private income protection presented a structural potential to unravel the coalition of wage earners behind the universal legacy of Swedish unemployment protection, since the affluent groups covered by private arrangements might prefer tax cuts over public risk protection. Seen in this way, it comes as no surprise then that the centre-right's agenda of linking tax cuts with welfare cuts appealed to a large electoral segment (Rueda/Lindvall 2012). Proof of this electoral appeal came with the defeat of the SAP in the elections of 2006, which paved the way for a united parliamentary centre-right majority.

### **Dualisation: the formation of a united centre-right front**

*“We tried to discuss it. We didn’t even get debates that we had organised with some prominent members of parliament from the Nya Moderaterna [Conservative Party]. The person didn’t even show up! I was there, people were there listening, but he didn’t come. And later on he stated: “This is because you are just going to criticise us”.”*

Interview with Sture Nordh, Chairman of TCO (1999-2011), 30th September 2015.

*“The difference was that we had worked really hard on these reforms in advance. This is what people forget: everything was already calculated!”*

Interview with Eva Uddén Sonnegård, State Secretary of *Nya Moderaterna* at the Ministry of Employment (2006-2010), 2nd October 2015.

The 2006 elections reinforced the exclusion of organised labour from the policy-making process. It armed an unprecedented “Alliance for Sweden” (*Allians för Sverige*) between the conservative Moderate Party (26.2 percent), the Centre Party (7.9 percent), the Liberals (7.5 percent) and the Christian Democrats (6.6 percent) with a majority of seats for the first time since 1932. As indicated by the quotations illustrated above, the election victory of this alliance gave rise to a meticulously planned “make work pay” agenda, which almost invariably ruled out significant political exchanges with the trade union confederations. Drawing on a united majority, the Reinfeldt cabinet I (2006-2010) pursued a unilateral strategy for the introduction of a series of profound tax and labour market reforms, which exacerbated the segmentation of the Swedish labour market. Most notably, the successful legislation of this reform path took place *despite* the presence of egalitarian welfare attitudes (Svallfors 2011) and opposition from the strongest union organisation worldwide (Ebbinghaus et al. 2011). What adds to the puzzle is that the centre-right bloc’s agenda was *not* aided by any sort of economic crisis; on the contrary, the economy had grown in the second quarter of 2006 by a remarkable 5.1 percent, while public finances recorded an expected surplus of 3 percent that year (Aylott/Bolin 2006, 621).

So how did the Swedish *Alliansen* manage to pursue a powerful “make work pay” agenda, given the structural constraints of welfare state popularity and relative union strength? Existing partisanship or producer group explanations are of little explanatory service in this regard. A reference to centre-right partisanship fails to explain why the Austrian ÖVP-FPÖ or the Danish V-K governments were much less successful than their Swedish counterparts in cutting back outsider protection. Partisanship theorists such as Huo (2009) or Häusermann

(2010), therefore, miss the difference in government *strength* to overcome resistance from outsider-inclusive trade unions. Unlike the Austrian ÖVP-FPÖ government, the Swedish alliance displayed a remarkable level of internal cohesiveness to formulate a common labour-market policy agenda. Unlike the Danish V-K government, the Swedish alliance also had a majority of seats and was thus not reliant on exchanges with support parties from the opposition. Second, a reference to the erosion of Swedish macro-corporatism fails to explain why Swedish governments did not even pursue tripartite deals with the peak-level associations in the first place. Coalitional theorists such as Martin/Swank (2012) or Thelen (2014), therefore, ignore the autonomous reform capacity of strong governments. If anything, in fact, the central operator of the government – the Moderate Party – emphatically rejected significant influence from any other political actor in labour-market policy, whereas the employers simply pushed for more radical policy changes. In the words of Eva Uddén Sonnegård, who was State Secretary of the Moderate Party at the Ministry of Employment (2006-2010): “Everything that had to do with labour-market policy came from us, because we had worked so much on this issue already before the *Alliansen* was formed.”<sup>58</sup>

The autonomous reform capacity of the Reinfeldt cabinets essentially rested on two strategic properties: first, the unification process towards a common electoral platform allowed the government to *formulate* a cohesive policy agenda prior to the 2006 election, which reflected a clear transformation of the traditionally fragmented centre-right bloc. The formation of the *Alliansen* started out with an invitation of the Centre Party leader, Maud Olofsson, to the other three leaders of the centre-right parties to her home in 2004 (Aylott/Bolin 2007, 625). Crucial to the formation of the subsequent electoral platform was the initiative of the Moderate party leader, Fredrik Reinfeldt, to coordinate the different partisan platforms into a common programme targeted against Social Democratic hegemony (ibid.). In the words of Sven-Otto Littorin, Minister of Employment (2006-2010) in relation to the Moderate Party: “We did something very fortunate: And that was forming the “Alliance”, the four non-socialist parties into one group. We were lucky with that, because there were new leaders in the other three parties. There was a consensus that this has to be done. It was our only chance, we had to do it.”<sup>59</sup>

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<sup>58</sup> Interview with Eva Uddén Sonnegård, Conservative Party (*Nya Moderaterna*), State Secretary at the Ministry of Employment (2006-2010), 2nd October 2015.

<sup>59</sup> Interview with Sven-Otto Littorin, Conservative Party (*Nya Moderaterna*), Minister of Employment (2006-2010), 4th December 2015.

Second, the extraordinary success in the 2006 election provided the “Alliance” with an unprecedented majority of seats to *pass* their agenda in parliament – a classic “window of opportunity” in a Swedish context. This success may in large part be attributed to the Moderate’s shift to the centre ground on economic affairs in response to its massive defeat in the 2002 election. Following this centrist turn, the party successfully framed economic inactivity as a threat to the fiscal and moral sustainability of the Swedish welfare state. Unlike the neoliberal postures of the party’s past, the Moderates thus claimed to safeguard the “Swedish model” by creating jobs for all through a “make work pay” agenda (Agius 2007). Despite robust economic growth and fiscal surpluses, the previous social-democratic government indeed faced difficulties in responding to labour market exclusion: unemployment rates remained relatively high from a diachronic perspective, especially among immigrants and young people (see p. 11). In fact, the actual level of open unemployment became greatly contested, as a growing share of workers had become deemed “incapable to work” due to sickness or disability benefit receipt. Placing the labour market situation front and centre, the Moderates managed to strike at the very heart of the SAP’s core vocabulary of the “working line” and “full employment”. In fact, as Lindbom (2008) pointed out, the party had at the ready a new problem for the mobilisation of a traditionalist conservative reform programme. Therefore, the major strategic change took place with respect to the rhetoric of the party, but not its genuine policy preference. On top of this centrist recast, Reinfeldt renamed his party the “New Moderates” (*Nya Moderaterna*) and the “New Worker’s Party” (*Nya Arbetarpartiet*) to buttress the credibility of its agenda behind the classic SAP-like goal of full employment.

Thanks to a united parliamentary majority, the *Alliansen* could push through an impressive reform programme within two months after its election victory in October 2006 (Davidsson 2011, Sjöberg 2011, Gordon 2012). At its most basic, the “make work pay” agenda implied reductions in access and generosity of social benefits to finance income tax cuts for (low-income and mid-income) workers as well as payroll tax cuts for employers. Handled this way, the official idea was to boost work incentives for people out of work by increasing the gap between wage income and transfer income, while actually pitting the interests of workers with stable jobs (insiders) against those with high unemployment risks (outsiders). First, the government legislated substantial cuts in unemployment benefit generosity: the replacement rate was cut from 80 to 70 percent for 200 days of unemployment and to 65 percent for unemployed with children after 300 days; the maximum benefit ceiling was reduced from 730 to 680 SEK to the level of 2002; the reference period for the calculation of benefit levels was extended from six to 12 months.

Second, the government tightened eligibility criteria in various ways. Firstly, and most notably, the possibility to qualify for unemployment benefits through periods at university was abolished for students – i.e. 18 percent of the unemployed lost access to benefit receipt (Sjöberg 2011, 218). Additionally, the suitability criteria were substantially tightened by abolishing the right of unemployed workers to seek a job within their occupation and local residence within the first 100 days of joblessness. Furthermore, the benefit duration for part-time unemployed was reduced from 300 to 75 days, thereby hitting the social rights of women in particular. Finally, the waiting period was extended from 5 to 7 days; access to benefit for long-term unemployed (>300 days) were abolished unless they had children or participated in “job and development guarantee” which provided a replacement rate of 65 percent.

Third, and most controversially, the government increased and differentiated the level of fees for membership in the union-run and voluntary unemployment benefit funds (Clasen/Viebrock 2008, 444-445). This implied two changes in the funding mechanism. In the first place, the average monthly unemployment insurance contribution was raised more than threefold. Moreover, the level of contribution payments was differentiated according to the risk of unemployment, thereby making membership in the benefit funds less attractive for workers with high unemployment risks. In effect, the share of outlays covered by membership fees was raised from 9.5 percent in 2004 to 46 percent in 2007. As a result, the number of members covered by unemployment insurance fell from 3.8 million to 3.3 million, union density decreased from 75 percent to 68 percent, while the LO lost a whole 15 percent of its membership within one year after reform had taken effect (Kjellberg 2011). Taken together, while the SAP achieved spending cuts primarily at the expense of active labour-market policy and the benefit entitlements of mid-income and high-income workers, the 2006 reform of the centre-right hit the unemployment protection of outsiders and the viability of encompassing union membership (Gordon 2012, 262).

The legislation of a reform of this profound scope within a period of two months suggests that the *Alliansen* was not in any way bothered by the opposition of the union confederations. In fact, the Ministry of Employment had to push this change through parliament without accepting the incorporations of any union demands that would lead to a deviation from the initial proposal of the government. Mats Wadman, senior official at the Ministry of Employment from 1988 to 2007, described the formal hearing of union responses to the reform plans of the government in an interview with the author:

*“They just took the society into a hearing and listened to them. And then they just said: “Okay, we heard what you said, but we will do this anyway.” I have never seen the heads of the trade unions and others so angry, because it was a very strange meeting.”*<sup>60</sup>

Part of the explanation for this unilateral reform strategy comes from the central relevance of the 2006 reform to the overall “make work pay” agenda, which was the core of the government’s election campaign. Another part of the explanation comes from the government’s perception that the LO leadership would face difficulties in mobilising their membership against its reform plan. In an interview with the author, the Minister of Employment (2006-2010), Sven-Otto Littorin, named the LO as the most forceful union confederation in opposition to the successful legislation of the reform, but,

*“Even though the top of the LO would have liked to smash us, we felt we had a stronger support among the members than the leadership had because they had a long time trying to do something with the problems that we had seen before, but nothing happened. And that was what actually happened in the 2006 election: we got a much stronger support from the LO membership than never before I think.”*<sup>61</sup>

Perhaps unsurprisingly, all three union confederations heavily opposed this policy package. In the month before the unemployment insurance reform had taken effect, in December 2006, the LO organised a nationwide protest of 39,000 participants and mobilised a petition against the reform signed by 280,000 people.<sup>62</sup> Despite these protest activities, the speed of the government in legislating this reform inhibited the mobilising capacity of the LO. In the words of Thomas Carlén, labour-market policy expert at the LO:

*“I think they caught us off-guard and we started to protest quite late. We protested during the election in debates. We lost these debates, as you can see. And when the reform was decided in parliament, then we started to protest much more, but then it was too late, of course. So I think we woke up too late to realise that this is for real. Basically, we underestimated them.”*

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<sup>60</sup> Interview with Mats Wadman, Director at the Ministry of Employment (1988-2007), 2nd October 2015.

<sup>61</sup> Interview with Sven-Otto Littorin, *Nya Moderaterna*, Minister of Employment (2006-2010), 4th December 2015.

<sup>62</sup> Interview with Thomas Carlén, Labour Market Policy Expert of the LO, 1st October 2015.

The TCO also heavily opposed this reform in public debates, but did not dare to join the LO in mobilising petitions or mass demonstrations. In the words of Sture Nordh:

*“LO did some demonstrations here in Stockholm or other parts of the country. We were invited to join them but we said: No, thank you. That is due to the non-political status that we have. We have a trade union mission. We will criticise any government that does not do what we want, and we will try to influence any government. But we would not have the members to get out on the streets, because a lot of our members had voted for the Alliance. [...] It is also a risk for the union, given that we don't have the tradition of mobilising people on the streets. What, if we failed? Then we would lose the entire argument for the rest of the term as well.”*

At the same time, in 2006/07, the *Alliansen* deregulated fixed-term contracts by doubling the maximum duration of temporary contracts to 24 months and abolishing the obligation on the part of the employer to justify the usage of temporary work. To the great disappointment of the employers' association, the government, however, left the LAS framework for permanent workers untouched and kept the “last in, first out” principle. The Liberals and the Centre Party would have preferred a liberalisation of the LAS framework, but the *Nya Moderaterna* prevented any step in this direction. The official justification of this choice was that the LAS merely changes the composition, but not the level of unemployment.<sup>63</sup> Accordingly, the LAS would thus not contradict the government's ambition to achieve full employment. In response, the employers addressed the unions to find a new agreement – without success. The job security regulations for permanent workers remain strong, while the government expanded the subsidisation of low-wage work through the gradual introduction of a series of in-work tax credits (*Nystarjobben*) and obligations in return for benefit entitlements (Spohr 2012, 244-251).

Judging from public opinion data, approval ratings of the centre-right government's policies did not remain unaffected by the mobilisation of union protests. In 2008, the centre-left opposition was clearly in the lead in national representative surveys (The Local 2008). Yet, the subsequent decline of unemployment rates boosted the efforts of the government to legitimise their reform agenda. In the 2010 election, the “Alliance” lost its majority despite a modest increase in the vote, as the radical right-wing Sweden Democrats successfully entered parliament. The loss of a majority and the successful accomplishment of “make work pay”

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<sup>63</sup> Interview with Sven-Otto Littorin, Nya Moderaterna, Minister of Employment, 4th December 2015.



reforms in the first tenure of the centre-right government restrained the reform frenzy of tax and welfare cuts in the subsequent period. If anything, however, the strength of the Reinfeldt cabinet I was sufficient to cause the significant reinforcement of a dualistic reform path.

### **Claim and Counterfactual**

Why did the Swedish reform trajectory deregulate fixed-term contracts, curtail the coverage of unemployment protection and retrench spending on active labour-market policies – i.e. policies that reinforced inequality to the detriment of outsiders? My argument is that (i) an improved protection of outsiders could have taken place in Sweden and (ii) that the absence of such a reform path may be attributed to the strength of governments to exclude outsider-oriented unions. The first assertion rests on two observations. First, the similar case of Denmark did adopt reforms that improved the protection of outsiders during the 1990s, whereas the “Bismarckian” prototype of Austria (or the Netherlands) embarked on similar reforms during the 1990s and 2000s. Second, the Swedish LO had an organisational and representational interest in support of outsider protection, as the nationally distinct design of Swedish labour market protections provided strong sources for the recruitment and protection of their members.

*Why, then, did the demands of the Swedish LO not materialize in the policy output?* I argued that the LO was not influential enough to block unilateral government action or receive political concessions on behalf of outsiders. The strength of the SAP and *Alliansen* to formulate and pass policy change independent of union support put constraints on the capacity of organised labour to strike deals on behalf of outsiders. Counterfactual reasoning may lend additional credibility to my claim. *If* Swedish governments had not had a high level of autonomous reform capacity, there would have been clear incentives to pursue a labour-inclusive strategy. The active inclusion of trade unions in the deliberation of policy changes would have helped a *weak* minority coalition to establish a broad consensus around controversial issues. Labour-inclusive negotiations allow minority governments to draw on the political cover of union leaders in order to mobilise a parliamentary majority necessary for legislation. For example, *if* the Centre Party had not provided the SAP with a majority through a cooperation agreement from 1995 to 1998, the SAP would not have been able to pursue its dualistic labour-market policy changes. It is clear that the Left Party supported the LO in rejecting the ensuing cuts in benefit entitlements and job security for fixed-term contracts.

Perhaps the clearest demonstration of government strength came from the policy performance of the *Alliansen*. Equipped with a parliamentary majority, the centre-right coalition did not even consider the idea of pursuing labour-inclusive exchanges. *If* the Reinfeldt

government, however, had not had a united majority, it would have faced reform deadlocks similar to the previous centre-right government in office from 1976 to 1982. The Danish case may provide a factual scenario to buttress this counterfactual discussion. During the late 1980s, the Danish centre-right minority government opted for a labour-inclusive reform strategy when the opposition refrained from supporting its policy proposals (see Chapter III). As a consequence, the Danish Prime Minister, Poul Schlüter, considered a policy deal with the trade unions the most durable strategy to find parliamentary support for a structural reform of the labour market. The result of this labour-inclusive reform strategy was the expansion of active labour market policies, and not the government's initial plan of cutting benefit entitlements unilaterally.

Alternatively, the active inclusion of the trade unions would have helped an ideologically divided *weak* coalition to find an agreement. Governments can pre-empt an intra-coalitional reform deadlock by delegating contested issues to the peak-level associations of labour and business. Even though the SAF became hostile to negotiated reform with the LO, Swedish governments could still have sought the mobilisation of an extra-parliamentary consensus. For example, the Austrian grand coalition often simply relied on the policy prescriptions of their affiliated labour market organisation ("social partners"), because they either lacked a political consensus or informational expertise on the subject at hand. Unlike the case of Austria, however, Swedish governments came to view the unilateral legislation of dualistic reforms as necessary means to reduce public debt (SAP) and facilitate job creation (*Alliansen*).

## **Conclusion**

The pronounced dualisation path of Sweden cannot be understood without recognising the power-distributional interaction between a weakened peak-union confederation and a strengthened government. Membership losses and labour fragmentation definitely underpinned a decline in union strength during the neoliberal era. But this in itself did not rule out political exchanges with the LO. In fact, governments in non-corporatist economies sought labour-inclusive "social pacts" with weakened union confederations precisely in the 1990s, when the SAP set in motion a relegation of the LO's influence in the interest of "sound public finances" (Hamann/Kelly 2007). Faced by the economic crisis of the early 1990s, the SAP came to follow the policy recommendations of liberal economists, and not the LO. The novel cross-class collaboration with the Centre Party allowed the SAP to find the parliamentary majority necessary to eschew labour acquiescence. Ironically, the SAP's fiscal consolidation agenda

against the opposition of the LO paved the way for a seemingly social democratic-like agenda for full employment; one, however, that came from the political right, and not the left. The subsequent “make work pay” agenda reinforced an ongoing trend by pushing the union movement out of the reform process. Sven-Otto Littorin made no secret of the Conservatives’ unilateral reform strategy: “In the term I served, we were a majority government, so in that respect we felt fairly secure and confident in actually getting things through. And we were fairly confident that what we were doing was the right thing.”

The central driver of Swedish dualisation was not the vote-seeking action of governments, as suggested by partisanship theorists. A view that puts voters front and centre would have expected an outsider-oriented policy shift from the SAP to accommodate to the egalitarian preference structure of the Swedish electorate. At the same time, the political cause of Swedish dualisation was not the action of cross-class coalitions, as suggested by producer group theorists. A producer-group perspective would have assigned governments and employers an interest in maintaining cooperative relations with encompassing union movements. Both theoretical expectations are wrong, because they downplay the policy convergence of strong governments in the historically distinct context of liberalisation. Armed with an (i) autonomous ideological outlook and (ii) a united majority, Swedish governments were strong enough to pursue a unilateral reform strategy. These two assets of Swedish governments, therefore, best explain why the LO was surprisingly unsuccessful in protecting outsiders.

## **VI. Strong Governments and Precarious Workers in the Era of Liberalisation**

## **Governments and Unions in the Era of Liberalisation**

The defining political feature of the neoliberal era has been a decline in union strength and an increase in business power. This shift in the distribution of class power weakened the *structural* incentive for governments to provide organised labour with a material compensation for the liberalisation of labour market and welfare institutions. A unilateral reform strategy against the interests of unions has therefore become less risky for the electoral fortunes of national governments. But governments cannot impose any agreement on unions, when their autonomous reform capacity is constrained by intra-coalitional divisions or a hung parliament. Under these conditions of weakness, governments faced a *political* incentive to trade policy concessions for union support in the mobilisation of a durable consensus. This weakness was instrumental in forcing governments to negotiate different forms of compensation for liberalising reforms with unions. The core argument emerging from this thesis can therefore be summarised as follows: the weaker the government, the stronger the capacity of unions to protect workers from the economic uncertainty of labour market liberalisation.

This finding has significant implications for precisely those groups of workers who are most reliant on democratic state interventions in the operation of a capitalist economy: the ‘outsiders’. They face the costs of liberalisation in particular, as they are unemployed or have atypical jobs that lack security. It is an increasingly numerous group of low-skilled, female, and young workers that is strongly exposed to the risks of being attached to the labour market in precarious ways (Häusermann/Schwander 2015). In popular democratic theory, we would expect the responsiveness of political parties to increase with the growing number of outsiders in the electorate. In reality, however, governments in Austria, Denmark, and Sweden only responded to the social needs of outsiders when their own weakness forced them to pursue exchanges with organised labour. Ironically, therefore, the protection of the weakest labour market segments relies on the presence of weak governments, since they lack the capacity to shield their economies from popular demands of voters and unions.

My argument rests on an empirical-historical investigation of one policy area that is of profound relevance to the social protection of outsiders: labour market policy. It provides social security and re-integration support in the event of unemployment, while regulating job security arrangements for those in employment. The liberalisation of labour market institutions has become the central tool available for job creation due to the structural constraints of monetarism and austerity in a globalising capitalist economy. National political actors therefore pursued tighter obligations for the unemployed in return for benefit support (‘activation’), while deregulating temporary employment contracts to create entry points for those at the

margins of the workforce. But some countries compensated outsiders for this liberalisation with changes that mitigate status divisions in employment and welfare standards. Others, by contrast, restricted the coverage of protection arrangements to workers with stable employment biographies. These differences are fundamental to the distributive outcomes of economic liberalisation in a given capitalist regime.

Yet, as of the 1990s, *political parties* of all colours prioritised fiscal consolidation over the social protection of outsiders. Rising public debt turned into an issue of growing public concern, which was reinforced by the monetary and fiscal obligations of the Eurozone framework. The subsequent pursuit of social spending cuts therefore impeded redistributive state action for people out of work. In the absence of Keynesian policy instruments, parties instead aimed at job creation through the expansion of flexible low-wage employment and activation. Differences in partisanship therefore declined over time, thereby stimulating dualistic moves from the right as well as the left. The policy performance of the Swedish SAP's single-party minority government (1994-2006) was perhaps the clearest example of a Social Democratic party leadership that was committed to moderate cutbacks for outsiders in order to boost job creation without introducing rising public deficits.<sup>64</sup> To be sure, Sweden was hit particularly hard by the public debt crisis of the early 1990s. But the remarkably successful fiscal consolidation in following decades did not induce a significant compensation for growing unemployment and fixed-term employment (Bergmark et al. 2009, Haffert/Mehrtens 2015). The subsequent centre-right government markedly reinforced this dualistic reform trend. Regardless of robust budget surpluses, therefore, the pursuit of fiscal consolidation remained paramount in the political agenda of the Swedish right as well as the left. In a similar vein, the Austrian SPÖ under Franz Vranitzky (1986-1997) and Viktor Klima (1997-2000) became committed to social spending cuts in response to the Maastricht criteria, whereas the ÖVP merely demanded more of the very same agenda. Again, this pattern refers to a partisan difference in degree, but not in the overall direction of reform. The Danish Social Democrats adhered to the consensus reached by employers and unions in the area of active labour-market policy (ALMP) during the 1990s, but pursued unilateral cuts in social security arrangements when in office, also for the sake of sound public finances. In fact, the Social Democratic-led

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<sup>64</sup> Walter Korpi was probably among the first to anticipate the dualistic policies of the SAP. For him, it was the emerging crisis tendencies in the Rehn-Meidner model that posed threats to the practical viability of redistributive state action. Writing in 1978, he illustrated this claim by referring to the 1976 election in Sweden, where the centre-right bloc took office for the first time since 1932: "The interpretation suggested here is thus that electoral difficulties of the Social Democrats have arisen largely from the continued superiority of the capitalist class, which has constrained Social Democratic policies, necessitating compromises with dualistic consequences for potential supporters" (Korpi 1978, 322).

government under Helle Thorning-Schmidt (2011-2015) went even further than the political right by linking tax cuts for people in employment with welfare cuts for people out of work (Goul Andersen 2012b).

One way of explaining the convergence between parties of the left and the right towards dualisation is to claim that the median voter has a low level of political solidarity with unemployed wage earners relative to benefit recipients in sickness, disability, or old-age welfare schemes (Alber 1982, Pierson 1994, Giger/Nelson 2011). In that sense, as David Rueda (2007) forcefully claimed, the selective protection of ‘insiders’ may be a vote-seeking device in times of permanent austerity and economic globalisation. That ‘outsiders’ have indeed a lower probability to vote than ‘insiders’ could have strengthened this electoral calculus all the more (Schäfer 2013). It could therefore be argued that parties have little to fear from an increasingly numerous group of outsiders, because their social needs are still not significant in electoral terms.

But such a view is inconsistent with the fact that political parties imposed unilateral cutbacks on outsiders *despite* the presence of egalitarian welfare attitudes in Denmark and Sweden (see Larsen 2008, Goul Andersen 2011c, Svallfors 2011). Polling and survey data also showed that voters reacted negatively against cuts in the unemployment insurance in Denmark (Goul Andersen 2012b, Arndt 2013), whereas the Swedish SAP paid a high price for stubbornly high levels of unemployment at the 2006 election (Aylott/Bolin 2006). The decline in partisan differences appears therefore more in line with a view that highlights the structural constraints on the policy-making autonomy of governments in conjunction with neoliberal economic ideas. This position was supported by interviews with various actors about the problem definitions of Social-democratic parties in both Denmark and Sweden (see also Blyth 2001 for Sweden, Larsen/Goul Andersen 2009 for Denmark). For example, Dan Andersson, Chief Economist from the Swedish LO, observed the “enormous influence of new liberal economists” when the Swedish post-war model broke down from internal conflicts in the early 1990s, giving way to a fiscal policy, “which most Conservatives had advocated 100 years ago.” In a similar vein, Jens Christiansen, the campaign director of the Danish Social Democrats in the 2011 election, was quick to point out that the Thorning-Schmidt cabinet deliberately followed unpopular welfare cuts as means to stimulate economic growth. Dualistic policy choices were therefore not a rational vote-seeking strategy targeted at insiders, but should rather be seen in light of the structural trade-off that emerges from increasing competitiveness demands and decreasing governing capacities. In other words: when the structural demands for capital accumulation

become stronger while less policy instruments are available to enhance risk protection, social solidarity is harder to sustain.

Rueda's electoral claim appears all the more flawed with respect to the smoothening of status divisions in Austria, given that his account predicts a reinforcement of insider-outsider divides in countries with a 'Bismarckian' institutional legacy. Contrary to his expectations, electoral dynamics had little effect, because the social partners remained the key political operators of labour market and welfare policies in Austria. Finally, his theoretical prediction that union movements oppose any expansion of social security coverage and ALMP spending – that is, outsider-supportive policies – was consistently falsified in all three cases over the entire period of investigation.

Unlike political parties, *inclusive trade unions* with high levels of density and unity continue to have an acute interest in the social protection of outsiders. High density rates integrate outsiders directly into the membership base of unions, while an administrative power position on social security and ALMP boards gives a strategic incentive to push for generous and inclusive labour market policy arrangements. It should thus come as no surprise that unions in the *Ghent* countries of Denmark and Sweden supported universal social rights over the entire period. This finding is consistent with Kathleen Thelen's (2014) claim that encompassing unionisation is important for the incorporation of outsiders into union politics. Moreover, the case of Austria suggests that high levels of labour unity through concentration and centralisation may to some extent compensate for rapidly falling membership rates in the representational scope of union politics. It broadens the inclusiveness of union confederations by providing affiliates from the low-value-added service sector with a relevant voice in the interest formation process. Their overwhelming problem is how to undermine the competition from atypical employment contracts, which allow employers to circumvent the prevailing restrictions of employment and labour law. The successful extension of social rights to atypical workers was a way of undermining this competition in Austria, because it imposed the payment of social insurance contributions on employers. Following this line of action, the weaker member unions of the ÖGB could regain bargaining power *vis-à-vis* employers, shield their members from low-wage workers and reach out to atypically employed workers. Seen in this way, the Conservative welfare state architecture provided clear material incentives for centralised unions to oppose dualisation and mobilise political support for outsiders instead.

Yet, regardless of organisational inclusiveness, trade unions in the advanced capitalist political economies lost a great deal of their political assertiveness in the reform process. They lost structural power in the wake of capital liberalisation, while the post-industrialisation of



domestic societies translated into a fragmentation of the working class. Yet, conventional producer group approaches neglected this common shift in the balance of class *power*, while highlighting cross-national differences in class *preferences* instead. Cathie Jo Martin and Duane Swank (2012, 171), for example, emphasise that encompassing peak level associations of labour and business “allow for a wider range of interests to engage collectively in articulating and implementing updated policy intervention.” Placing more emphasis on labour, Thelen (2014, 204) concludes that high levels of inclusiveness on the part of unions are “indispensable for continued high levels of social solidarity.” Their research was instructive in showing that the fragmentation of (post-industrial) interests on both sides of the class divide required the incorporation of broad segments into the peak level associations to fulfil a “solidaristic” role in the politics of economic adjustment. The findings of this thesis confirm this fundamental point on the part of unions, not employers.

But the dominant focus on preferences implies that conventional producer group approaches tend to underestimate the declining power of unions to impose constraints on the reform ambitions of governments. In spite of national traditions of consensus democracy, the peak union confederations in Denmark and Sweden, the LO, mobilised public protests in front of parliament against unilateral government action at different points in time. Moreover, the Austrian peak union confederation – the ÖGB – organised unprecedented mass demonstrations and industrial action in response to the 2003 pension reform legislated by the political right. But the impact of union protests on the final policy output remained limited, if not non-existent. This shows that even inclusive unions are no longer powerful enough to stand in the way of unilateral government action, although they continue to be institutionally entrenched in the administration of unemployment protection arrangements.

Unlike trade unions, governments continue to be strong when they are equipped with a united majority in parliament. Ideological cohesiveness and a majority of seats makes them capable of overriding union organisations that refuse to consent to cutbacks for outsiders. Not surprisingly, therefore, the strongest government observed in my case selection – the Swedish centre-right ‘Alliance’ – had the most powerful impact on dualisation by marginalising the union movement in the policy-making process. Its political power stemmed from a common political programme along the mantra of “make work pay”. Notably, they achieved a united majority in the 2006 election without having to rely on the support from a right-wing populist party. This was an important difference to centre-right governments in Austria and Denmark. Unlike the Swedish ‘Alliance’, they had to incorporate the policy preferences of right-wing populist parties, which are attached to the electoral demands of the (non-immigrant) blue-collar

working class. In Austria, the FPÖ, when in government, blocked significant parts of the ÖVP's labour market policy agenda, as the populist grassroots wing of the party openly catered to the interests of "the little man on the street". The Danish People's Party, by contrast, was merely a support party of the Liberal-Conservative minority government, but traded cuts in welfare universalism for restrictions in immigration and asylum policies.

Understanding how unions can still impose their claims on parties requires detailed attention to the autonomous reform capacity of national governments. Governing parties are unable to suppress the claims of unions, when they are themselves unable to formulate and pass reforms independent from organised interests. Under this condition, they have a powerful political incentive to share policy-making authority with unions, because they require an extra-parliamentary channel of consensus mobilisation. One way that governments become weak is through intra-coalitional divisions between ideologically divided parties. The Austrian grand coalition instructively demonstrated this type of weakness, given that its recognition for the necessity of consensus went hand in hand with mutual reform blockages and growing electoral competition. Another way that governments become weak is a lack of parliamentary support. The Danish centre-right minority coalition of the late 1980s stands out in this regard, given its weak position in parliament and inability to compromise with the opposition. In both cases, national governments fell back on tripartite negotiations with employers and unions to mobilise a durable consensus in the interest of successful economic adjustment.

In sum, the power-distributional interaction between an inclusive union movement and a politically weak government was found to be the dominant coalition behind the material compensation of outsiders for economic liberalisation. An inclusive union organisation through high density and centralisation rates incorporated the interests of outsiders into the producer group arena. But it was the presence of a politically weak government that created the necessary opportunities for unions to achieve formal policy influence on behalf of outsiders. Previous chapters therefore explored how variations in the strength of governments influenced the success of trade unions in enhancing the protection of outsiders. In the next section of this concluding chapter, I will discuss the potential limitations and extensions of this argument.

### **Limitations and Extensions**

The argument of this thesis is a result of qualitative comparative research on labour market policy change in Austria, Denmark, and Sweden. It is therefore rich in empirical depth and causal tests, but it could not be applied in detail to a broad range of cases within the confined space of a single PhD thesis. To assess the contextualised generalisability of my argument, I

first outline two potential limitations resulting from my selection of country cases. I then attempt to extend my argument to the cases of Italy and Spain to show how my argument may still provide us with a better understanding of the broader phenomenon of labour market reform in national contexts of liberalisation that are diverse from the ones studied in this thesis.

The first potential limitation of my argument emerges from its empirical focus on three small West-European states with similar corporatist legacies (Katzenstein 1985). This similarity refers to the presence of institutionalised channels of tripartite macro-bargaining and national peak level associations that have strong micro-foundations at the workplace level. It could therefore be argued that my argument has no explanatory merit for other states that are non-corporatist and large in size. Yet, the fundamental fact that corporatist legacies were *not* sufficient for the policy-making influence of organised labour may point to mechanisms applicable to a broader set of countries. Tellingly, my argument on variations of government strength drew on the social pact literature, which primarily looked at countries *without* corporatist legacies. In fact, the claim that weak governments are more likely to strike policy deals with unions originated from studies on non-corporatist cases such as Ireland, Italy and South Korea (Baccaro/Lim 2007, Baccaro/Simoni 2008). Tripartite policy-making forums appear therefore less influential on the reform strategy pursued by national governments than in the Keynesian post-war era.

The second potential limitation, however, is more difficult to refute. As I emphasised above, my case selection covers only countries with relatively inclusive union movements. They thus had stronger incentives to mobilise political support for outsiders than union movements in countries with lower levels of inclusiveness. Let us recall that the union movements of Denmark and Sweden pushed for the protection of outsiders, because they incorporated a high level of workers at risk of unemployment into their membership base. High levels of density therefore gave unions a strategic incentive to strike policy deals for outsiders. The union movement of Austria, by contrast, had an acute interest in the protection of outsiders, because the strong authority of the confederate level empowered the voice of member unions hit hardest by precarious labour standards in the interest formation process. It seems therefore fair to say that high levels of centralisation counteract a shrinking scope of interest representation resulting from a decline in membership rates. By implication, where unions lack (i) members at risk of unemployment as well as (ii) the centralised structure to give voice to precarious sectors of the economy, they may well prioritise the interests of insiders to defend the rights of their remaining core membership. In short, my argument that labour-inclusive

reform negotiations protect outsiders does *not* necessarily hold in cases with exclusive union movements.

To better understand insider-oriented policy choices of exclusive union movements in the neoliberal era, it is essential to make a conceptual distinction between *preferences* and *priorities* (see also Gordon 2012, 46f.). Preferences, on this reading, describe a number of first-best policy goals sought by labour movements. They are subject to internal deliberations and usually laid out in official statements and manifestos. But unions face power relationships and institutional constraints that rule out the achievement of ‘ideal’ policy outcomes vis-à-vis governments and business; that is to say, they have to pursue second-best policy choices. Priorities decide over the kind of preferences trade unions are willing to sacrifice to achieve concessions in areas to which they attach the highest strategic importance. In other words, priorities refer to the preference structure of trade unions in the context of institutional and political constraints. To be sure, it is not always easy to distinguish between the two concepts in the empirical reality, but it remains important to keep in mind that unions inevitably face trade-offs in political negotiations. Faced with declining membership numbers, increasing unemployment rates, globalised competition for mobile capital, and permanent austerity, nationally anchored labour movements of the neoliberal era no longer had the political capacity to pursue maximalist solutions that satisfy the demands of an increasingly heterogeneous labour force. That trade unions *did* accept dualistic policy outcomes does therefore not reflect their policy preference. It rather illustrates that they prioritise the interests of insiders over those of outsiders in hard times. Or, in the words of Walter Korpi (2006), exclusive union movements should be seen as “consenters” to dualistic reforms (in case they were actually asked to consent), but the “protagonists” of this outcome remains capital.

The above reflections about the limitations of my case selection allow me to sharpen the theoretical propositions of my argument. First, I contend that variations in government strength have a *similar* impact on the level of union influence in a diverse set of European countries: the weaker the government, the stronger the influence of unions. This argument rests on the empirical observation that corporatist legacies were neither sufficient for union influence in Austria, Denmark, and Sweden, nor necessary for the conclusion of labour-inclusive social pacts in non-corporatist countries. Second, the involvement of unions has a *dissimilar* impact on the protection of outsiders in a diverse set of European countries: the higher the inclusiveness of union movements, the more “solidaristic” the distributive outcomes of labour-inclusive reform negotiations. This claim rests on the empirical observation that differences in inclusiveness increased over time (Hassel 2015), and that these differences impact on the

representational outlook of unions (Thelen 2014, Gordon 2015). It follows that I expect the policy-making influence of union movements with low levels of inclusiveness – measured in terms of density and centralisation rates – to benefit insiders more than outsiders.

The next section of this chapter examines these two propositions in the Italian and Spanish cases on the basis of secondary literature. A brief consideration of these two countries has the methodological advantage that they are very different from the ones studied in this thesis. First, both cases are non-corporatist and large in size. Across these differences, I will show, variations in government strength had a remarkably similar impact on the capacity of trade unions to influence the policy output. Second, both cases feature relatively decentralised union movements that lack an encompassing membership base. They therefore faced a stronger incentive to prioritise the interests of insiders than their counterparts in Austria, Denmark and Sweden. I will now show that Italian and Spanish union movements had similar insider-oriented priorities, but diverged in their capacity to protect their core membership due to variations in government strength.

#### *Evidence from the Mediterranean: Italy and Spain*

Italy and Spain constitute the Mediterranean “mixed-market” type of capitalism. Unlike the small and corporatist cases studied in this thesis, they display fragmented industrial relations with relatively weak coordination capacities and high levels of industrial conflict. The union movements of both countries developed a more conflict-oriented outlook than in North-Western Europe, because their historical formation in the post-war era was met with state repression (Bonoli/Emmenegger 2010). This created ideological divisions between different wings of the labour movement, which were conducive to the formation of fragmented and particularistic interests. State interventions are therefore required to compensate for the lacking capacities of organised interests to coordinate the national political economy (Molina/Rhodes 2007). From a public-policy perspective, political actors of both countries liberalised their labour markets through dualisation. That is to say, they maintained the institutional legacy of relatively high levels of statutory job security for “regular” workers on the one hand, and rudimentary unemployment support on the other, whilst deregulating job security arrangements for a large group of “atypical” workers at the same time. But the process of dualisation started earlier in time and was more pronounced in depth in Spain than in Italy, moving the former to the Anglo-American type of across-the-board deregulation and the latter more to the German type of pronounced dualisation (Picot/Tassinari 2014, Bulfone 2016). The question is, why?

Drawing on Oscar Molina and Martin Rhodes (2006), one factor that helps understand this variation is the stronger autonomy of governments in Spain than in Italy. A lower number of constitutional veto points and the dominance of single-party governments with relatively strong executive powers, formed either by the socialist PSOE (*Partido Socialista Obrero Español*) or the right-wing PP (*Partido Popular*), allows political parties in Spain to pursue radical reforms against the interests of unions. This contrasts with the prevalence of either multiparty or technocratic governments in Italy, which were haunted by instable power relations and constitutional veto points. Following the argument of this thesis, I claim that the variation in the strength of governments helps explain why Spanish unions were less successful in protecting “insiders” than their Italian counterparts (see Molina/Rhodes 2011, Hamann/Kelly 2011).

In Spain, the PSOE’s neoliberal turn to unilateral government action in the 1980s and 1990s seems to confirm my claim that government strength has become more influential than left-right differences in partisanship. After having signed a social pact on wage moderation and fixed-term contracts in return for increased public spending with one of the two dominant union confederations in 1984, the UGT (*Unión General de Trabajadores*), the socialist government ruled out any formal concessions and welcomed the rapid spread of temporary employment as a way of reducing labour costs (Molina/Rhodes 2011, 180-181). Between 1984 and 1997, therefore, there was no formal policy agreement between the government and organised labour. In 1992, the single-party majority government of the PSOE effectively imposed a cut in the maximum benefit duration by one third on the unemployed, which led the entire union movement to call a general strike (Knotz/Lindvall 2015, 607-608). Public protests did not induce any form of compensation for this cutback. In a similar vein, the 1994 labour market reform was unilaterally legislated with the tacit support of the centre-right Catalan CiU (*Convergència i Unió*), because the union movement rejected the proposed expansion of part-time contracts, private employment agencies and the decentralisation of collective bargaining (Molina/Rhodes 2011, 184-185). Again, the 1994 general strike did not induce the government to renew talks with the unions. In sum, the PSOE successfully rejected the unions’ demands for a re-regulation of fixed-term contracts, although more than one third in total employment was in temporary contracts at that time, thereby displaying the highest figures in the OECD countries (OECD stats.).

With the 1996 election, the incoming centre-right coalition between the PP and three right-wing regionalist parties was in a minority position and thus relatively weak by Spanish standards (Hamann/Kelly 2011, 118; Molina/Rhodes 2011, 185). Its weak position on the one

hand, and the union's previous failure to threaten the PSOE with industrial action on the other, contributed to a favourable context for a political exchange. In the 1997 social pact, the unions successfully obtained measures to counter the spread of fixed-term contracts and re-centralise collective bargaining. A change in government did not undermine union influence in Spain, as the PSOE was also in a minority position backed up by two small (leftist) parties. The unions could sign a bipartite pact that "included a general commitment to employment stability and quality" with the employers in 2001 (Molina/Rhodes 2011, 189) and another labour market reform aimed at limiting the incidence of temporary employment in 2006 (ibid., 191). To sum up, in the words of Molina and Rhodes, "[...] one of our more robust conclusions is that government weakness is the best predictor of successful pacting, alongside relations between and within the Spanish unions" (2011, 175). Responding to the rapid growth of temporary employment contracts, the union movement indeed used the conclusion of social pacts to enhance the protection of outsiders by countering the pronounced dualism in job security regulations. But the impact of their achievements remained limited, as the share of temporary contracts in the labour force fell only modestly from 33.5 percent in 1997 to 31.8 percent a decade later (ibid.). At the same time, fiscal austerity undermined the expansion of unemployment support, while weak coordination capacities of the public employment service were detrimental to the activation of the unemployed (Mato 2011).

The onset of the Great Recession in tandem with a parliamentary majority induced the PP government to pursue a unilateral reform strategy, which included a substantial dismantling of job security for permanent workers and another decentralisation of collective bargaining (Picot/Tassinari 2014). Notably, the PP emphatically rejected increased spending on unemployment support to compensate organised labour for growing economic uncertainty on a volatile labour market with record high unemployment. Once again, a general strike had no effect on the final policy output. While principally remaining "Bismarckian" in character, this state intervention was decisive in moving Spain in the direction of an Anglo-American type of deregulation (ibid.). The autonomous reform capacity of single-party majority governments appears to be a crucial factor behind the unions' inability to defend the job security of insiders (during the Great Recession) and strike concessions for outsiders (during the 1980s and 1990s). Importantly, the main union confederations were excluded from reform deliberations in most instances, so it would be wrong to attribute the distributive outcomes of the Spanish dualisation path to union *preferences*. Rather, it was the lack of *capacity* to resist unilateral government action under the conditions of a strong government. If anything, in fact, the unions mobilised on various occasions public support for the growing number of fixed-term workers.

Italian governments were much weaker than their Spanish counterparts. During the early 1990s, the collapse of the party system in the wake of anti-corruption investigations (*Mani pulite*) led to a series of technocratic and instable party governments that relied on extra-parliamentary support in the mobilisation of political consensus and legitimacy (Baccaro/Lim 2007, Baccaro/Simoni 2008). Proof of this commitment to tripartite economic adjustment came with two important social pacts aimed at reforming the wage-setting regime in 1993 and 1994. Following the subsequent 1994 election, Silvio Berlusconi's centre-right coalition received a substantial majority of 58 percent in the lower house of the parliament, albeit falling two seats short of a majority in the upper house (Hamann/Kelly 2011, 128). Still, the government had a relatively strong electoral mandate, which allowed Berlusconi to challenge the influence of organised labour in the areas of pension policy and fixed-term employment. Yet, with the withdrawal of the Northern League (*Lega Nord*) from the coalition, Berlusconi had to give up his unilateral reform ambitions and resign after a few months in office (Haman/Kelly 2011, 129). Unlike Berlusconi's short-lived centre-right coalition, the subsequent government led by Lamberto Dini again consisted of technocrats with no affiliation to any political party in parliament. This had paved the way for another tripartite agreement on pension reform in 1995.

In the area of labour market policy, Italian governments negotiated two important reforms with the unions: the *Treu* law of 1997 on the one hand, and the *Biagi* reform of 2001 on the other. Named after the labour lawyer and Minister of Labour, Tiziano Treu, the first reform was driven by the centre-left 'Olive Tree' alliance led by Romano Prodi, which was a minority government supported by the far-left RC opposition party. The government's reliance on a small far-left party posed constraints on its autonomy, especially in the area of workers' rights (OECD 2009, 254). Mindful of the unions' united opposition to changes in the statutory employment protection of permanent workers, the government aimed at easing restrictions of fixed-term employment instead. In other words, its principal objective was to facilitate the 'hiring' of groups with weak labour market attachment through deregulations, while leaving untouched the legal constraints on the 'firing' of established workers.

Faced by a relatively weak government, the unions successfully defended their past achievements for permanent workers, while consenting to the introduction of temporary agency work and a moderate liberalisation of part-time employment in return for the introduction of labour grants in the area of ALMP for young people (*ibid.*). While this outcome clearly reflects the prioritisation of well-protected "insider" interests, the successful demand for ALMP measures also shows that the unions incorporated young "outsiders" into their representational outlook. Still, the amount of social investment flowing to labour grants was quite limited



(equivalent to 0.05 percent of GDP). By contrast, the employers accepted tax increases for state-funded job creation activities (Regini/Colombo 2011, 131). Overall, during the 1980s and 1990s, Italian unions were more successful than their Spanish counterparts in taming the deregulatory agenda of partisan actors to the benefit of permanent workers. The result was a late and moderate dualisation of job security arrangements.

The 2001 election paved the way for a centre-right government led by Silvio Berlusconi, which had a majority both in the lower house (59 percent) and in the upper house (56 percent) (Hamann/Kelly 2011, 129). With a strong parliamentary position, the government threatened to eschew negotiations with unions and legislate another round of liberalisation unilaterally. Eventually, this announcement split the union movement, since the two moderate union confederations, CISL and UIL, proved willing to enter into negotiations on the basis of the government's reform proposals, while the main union confederation, the CIGL, left the bargaining table. The final content of the 'Biagi reform' removed restrictions on the usage of various temporary employment contracts, but the unions managed to block the government in its attempt to restrict the coverage of statutory employment protection for permanent workers in firms with more than 15 employees (Article 18 of the Workers' Statute). Unlike the 'Treu law', the 'Biagi reform' included no compensation for deregulations at the margins of the workforce, except for their successful veto on reforming Article 18 (EIRO 2002b). This absence of compensations in large part reflects the strengthened position of the government *vis-à-vis* a weakened and divided union movement (Regini/Colombo 2011, 133).

Due to these changes, between the mid-1990s and 2007, the share of atypical employment in total employment almost doubled to about 20 percent, consisting of eight percent part-time and 11.9 percent fixed-term workers (Jessoula/Vasan 2011, 146). As described above, these figures are much lower compared to the ones in Spain. Overall, the unions successfully blocked the deregulation of permanent contracts, but not temporary contracts. Yet, what it also successfully blocked was a more general redistribution of public resources from the heavily subsidised pension system to unemployment protection and ALMP (ibid., 159-160). Judging from the *Treu* law and the *Biagi* reform, it appears accurate to say that the Italian union movement pushed for an expansion of additional resources for outsiders, but without being willing to accept a redistribution of existing resources from insiders to outsiders. The interpretation suggested here is that the unions' forceful defence of statutory employment protection must be placed in the historical-institutional context of the Italian welfare state, where job security regulations have traditionally been a functional equivalent to social benefits for people out of work (Locke/Thelen 1995, Bonoli 2003). In the absence of

corporatist trust relations as well as fiscal and monetary room for manoeuvre, the Italian union movement mobilised its political power for the defence of past achievements (Bonoli/Emmenegger 2010).

In 2012, at the height of the Eurozone crisis, the appointment of a technocratic government led by Mario Monti put an end to the era of social pacts in Italy (Culpepper/Regan 2014). Its political mandate came with external pressure from the ECB and public apprehensions asserting that Berlusconi's centre-right government lacked the capacity to tackle the Italian sovereign debt problem. Unlike previous technocratic governments of the early 1990s, the Monti cabinet pursued a unilateral approach when it faced opposition from both sides of the class divide for different reasons. Named after the labour and welfare minister, the 'Fornero reform' followed EU council recommendations within the constraints of the tightened EMU governance framework. First, it was presented as an attempt to smoothen divisions in the level of job security between permanent and temporary employment contracts. The unions opposed changes to Article 18 that required employers with more than 15 employees to reinstate workers who are found to be unfairly dismissed, whereas the employers protested against additional restrictions on the usage of temporary contracts (Tiraboschi 2012, 81). In response to sustained lobbying efforts on the part of the (left) Democratic Party and the unions, the Monti cabinet watered down the liberalisation of Article 18 in favour of workers (Culpepper 2014). In a similar vein, the government's efforts on the re-regulation of fixed-term contracts did not have a significant 'de-dualising' effect. According to Picot/Tassinari (2014), institutional dualisms therefore turned out to be more persistent in Italy than in Spain: "[...] the extent of liberalization of EPL for insiders is not as far-reaching as in Spain, and the attempts at recalibration in the regulation of temporary contracts remain moderate." Moreover, the 'Fornero reform' was an attempt to extend the coverage of unemployment protection to workers with fixed-term contracts by replacing the ordinary benefit scheme with the so-called ASP and the Mini-ASPI. In effect, the new system reduced the number of workers not covered by unemployment insurance by two thirds (Bulfone 2016). This was a notable partisan attempt to limit inequality in welfare standards, which was informed by a broad consensus to address the dualisation of the labour market. At the same time, however, the benefit system remains strictly insurance-based in character, tying the level and duration of benefit entitlements to the individual contribution record.

The successful legislation of an electoral law reform in 2015 weakened the institutional veto points on government action and introduced majoritarian elements at the same time. By strengthening the autonomy of the executive, it poses constraints on the lobbying efforts of a

gradually declining union movement losing both members and unity at the same time. An increase in government strength and decrease in union power represent two parallel processes that favour a reinforcement of a unilateral policy-making style that excludes unions. It appears therefore likely that the process of union marginalisation in Italy will continue to follow the road taken by governments in Spain. A far-reaching reform of the labour market in Italy – the so-called ‘Jobs Act’ – seems to confirm the expectation that the exclusion of an insider-dominated union movement is necessary for undermining the established rights of workers with long job tenures. Even though the unions welcomed the further extension of unemployment insurance coverage under Matteo Renzi, they fiercely opposed any changes to job security regulations for insiders (EIRO 2015). The ‘Jobs Act’ may therefore be taken as evidence for the position that exclusive union movements prioritise the interests of insiders over outsiders in hard times.

This brief overview of labour market policy change in Italy and Spain tends to support the view that variations in government strength help us to understand differences in the distributive outcomes of national liberalisation paths in other cases than Austria, Denmark, and Sweden. It thereby followed the argument of Molina/Rhodes (2007) that this variation was crucial in imposing the costs of liberalisation on two different actors: the state in Italy (via public debt) and labour in Spain (via labour market deregulation). As a result, the liberalisation of labour market policy left insiders better protected in Italy than in Spain. The political mechanisms underlying this variation suggest that the claim advanced in this thesis is not necessarily restricted in scope to the countries characterised by corporatist legacies and small size.

### **Government and Liberalisation**

One popular way of looking at the liberalisation of capitalism is to say that the strengthening of market mechanisms required the weakening of governments. This notion refers to the gradual decline in the relevance of the nation-state in managing the social outcomes of capitalist market expansion. The return of mass unemployment and atypical jobs that lack security across all national sovereign democratic states of the Western world seems to justify this idea of a weak government *vis-à-vis* capitalism. But the *politics* of liberalisation required a government strong enough to insulate the expansion of markets mechanisms from popular demands of voters and unions. It is in this sense that the past four decades of liberalisation were characterised by a dialectic between a government weak in relation to the capitalist economy but strong in relegating calls for democratic state interventions (Streeck 2015).

This dialectic might resolve the theoretical paradox of why precisely the weakest governments were most responsive to the social needs of workers hit hardest by the liberalisation of national models of capitalism. When governments are not sufficiently united or encompassing to act unilaterally in the policy-making process, they cannot fend off the political demands from others. They instead reach out to trade unions, because labour-inclusive negotiations provide them with an extra-parliamentary channel of consensus mobilisation. The price for this consensual adjustment is a compensation to workers for the costs of liberalisation. When unions are sufficiently inclusive to the margins of the workforce, this compensation predicts outsiders. But strong governments dismiss the policy demands from others to prevent a distortion of their political agenda. This is especially the case when these demands come from trade unions whose structural power and electoral significance have faded over time.

The foregoing reflections might call for a return of theoretical attention to questions of class power. Recent welfare state and political economy scholarship produced illuminating insights about the ways in which the post-industrialisation of labour markets animated new sets of preference constellations. But the analysis of preferences obscures the shift in the balance of class power from labour to capital. Much of the contemporary literature instead pits the preferences of blue-collar workers for “passive” benefit transfers and “rigid” job security against the ones of the new middle class for “active” social investment policies. This distinction is informed by the idea of the social investment agenda to internalise economic uncertainties with a redistribution of welfare state resources to policies designed to adapt workers to changing market demands. But it is clear that the economic uncertainties emerging from capitalist market expansion reflect the preferences of employers, managers and international finance. What is less clear is why *strong* governments so often follow the preferences of capital to the detriment of *precarious* workers. An analysis of the power resources available to both sides of the class divide in the battles over the constraints put upon capital accumulation allows us to address this question. This would ultimately restore the study of politics to the central place it deserves in contemporary debates about the general interest of human society.

## **Appendix: List of interviews**

### **Austria**

Walter Pöltner, Senior Official, Federal Ministry of Labour, Social Affairs and Consumer Protection, Vienna, 27.11.2014.

Head of Internal Section, Federal Ministry of Labour, Social Affairs and Consumer Protection, Vienna, 28.11.2014.

Wolfgang Tritremmel, Former Head of Section (Labour and Social Affairs), Federation of Austrian Industries, 02.12.2014.

David Mum, Trade Union for Private Sector Employees, Graphical Workers and Journalists, 05.12.2014.

Andreas Khol, Former Party Whip (1994-1999, 2000-2002) & President of Parliament (2002-2006), Austrian People's Party, 09.12.2014.

Senior Official of Labour Market Section, Chamber of Labour, 11.12.2014.

Martin Gleitsmann, Head of Section (Social Affairs and Health Care), Austrian Economic Chamber, 12.12.2014.

René Schindler, Senior Advisor, Trade Union for Metal Workers and Production, 17.12.2014.

Erwin Buchinger, Former Minister of Social Affairs (2006-2008), Social Democratic Party, 18.12.2014.

Josef Kalina, Former Party Whip, Social Democratic Party, 18.02.2015.

Günther Chaloupek, Former Head of Economics Section, Chamber of Labour (1986-2011), 20.02.2015.

Alexander Prischl, Senior Official, Austrian Trade Union Confederation, 05.03.2015.

Lore Hostasch, Former President of Chamber of Labour (1994-1997), Former Minister of Social Affairs, Health Care and Labour Market Affairs (1997-2000), Social Democratic Party, 27.02.2015.

Stefan Potmesil, Former Head of Labour Market Department, Ministry of Labour, Social Affairs and Consumer Protection (2000-2010), 27.08.2015.

Walter Neubauer, Senior Official in the Ministry of Labour, Social Affairs and Consumer Protection, 29.06.2015

### **Denmark**

Anita Vium Jørgensen, Chief Economist, Worker's Union (3F), 16.12.2013.

Jørgen Bang-Petersen, Senior Advisor, Confederation of Danish Employers, 11.12. 2013.

Bertel Haarder, Former Minister in various posts, Liberal Party, 11.12.2013.

Consultant of Confederation of Danish Unions (LO), 13.12.2013.

Thomas Qvortrup Christensen, Senior Advisor, Confederation of Danish Industry (DI), 09.12.2013.

Claus Hjort Frederiksen, Former Minister of Employment (2000-2009) and Finance (2009-2011), Liberal Party, 10.12.2013.

Jan Birkemose, Editor in Chief of *Ugebrevet A4* (Magazine of LO), 10.12.2013.

Kristian Madsen, Journalist, *Politiken* (Daily Newspaper), Former Consultant at Worker's Union (3F) and Confederation of Danish Unions (LO), 18.12.2013.

Karsten Lorentsen, Press Spokesman, Danish People's Party, 11.12.2013.

Nadeem Farooq, Labour Market Spokesman, Social Liberal Party, 11.12.2013.

Jan Kæraa Rasmussen, Chief Economist, Confederation of Danish Unions (LO), 12.12.2013.

Torben Hansen, Labour Market Spokesman, Social Democratic Party, 12.12.2013.

Eigil Andersen, Labour Market Spokesman, Socialist People's Party, E-Mail Questionnaire.

Finn Sørensen, Labour Market Spokesman, Red-Green Alliance, E-Mail Questionnaire.

Political Consultant, Social Democratic Party, 16.12.2013.

Expert, Welfare Commission (2004-2007), 09.12.2013.

Mogens Lykketoft, Former Minister of Finance (1994-2001), 13.08.2014.

Jens Christiansen, Campaign Director of Social Democratic Party in 2011, 12.08.2014.

Hans Mortensen, Journalist (weekendavisen.dk), 11.08.2014.

Sigge Winther-Nielsen, Political Scientist and Expert on Voting Behaviour, 11.08.2014.

Jørgen Rosted, Head of *Zeuthen* Commission, 11.08.2014.

## **Sweden**

Dan Andersson, Former Chief Economist, LO Sweden (2000-2008), 05.05.2015.

Boa Ruthström, Head of *Arena* (LO-affiliated think tank), 28.09.2015.

Patrik Karlsson, Labour Market Policy Spokesman, Swedish Business, 29.09.2015.

Sture Nordh, Former Head of TCO, 30.09.2015.

Samuel Engblom, Policy Director, TCO, 01.10.2015.

Thomas Carlén, Economist, LO Sweden 01.10.2015.

Mats Wadman, Former Senior Official at Ministry of Employment, 02.10.2015.

Eva Uddén Sonnégård, Former State Secretary at Ministry of Employment, 02.10.2015.

Sven-Otto Littorin, Former Minister of Employment, Conservative Party, Skype interview.

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