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Institutionalizing Dualism: Complementarities and Change in France and Germany

Bruno Palier* and Kathleen Thelen**

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* Sciences Po, Centre de recherches politiques, CEVIPOF
98 rue de l’Université 75007 Paris France
Tel: ++33 (0)1 4549 5437
Fax: ++33 (0)1 42220764
bruno.palier@sciences-po.fr

** Ford Professor of Political Science, Massachusetts Institute of Technology
Department of Political Science
77 Massachusetts Avenue, E53 Cambridge, MA 02139-4307 Tel : 617 738 5266 Fax : 617 258 6164 kthelen@mit.edu

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BRUNO PALIER
Sciences Po,
Centre de recherches politiques,
CEVIPOF
98 rue de l'Université
75007 Paris
FRANCE
Tel: ++33 (0)1 4549 5437
Fax: ++33 (0)1 42220764
bruno.palier@sciences-po.fr

KATHLEEN THELEN
Ford Professor of Political Science,
Massachusetts Institute of Technology
Department of Political Science
77 Massachusetts Avenue, E53
Cambridge, MA 02139-4307
Tel : 617 738 5266
Fax : 617 258 6164
kthelen@mit.edu

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

Introduction

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

This paper tracks developments across three institutional arenas (industrial relations, labor markets, and welfare regimes) in two important continental political economies, Germany and France. While some authors see developments in each of these realms as representing a trend toward liberalization,[3] we argue instead that both the politics and the outcomes point more toward the institutionalization of new forms of dualism. Accounts of change-as-liberalization are typically premised on a model that pits "capital" against "labor," and in which employer success is seen as a function of labor's

weakness and inability to defend traditional institutions. By contrast, we argue that dualization in the continental CMEs has been driven by an *intensification of cooperation* between labor and capital within the core economy, associated however with shrinkage in the system and, with that, a growing number of workers outside the core.[4] In both France and Germany, actors in the traditional "core" economy are well positioned to defend their own interests, even if they are no longer able to serve the leadership functions they once did, providing crucial collective goods for all.[5] In fact, we claim that the very same coalitions that have allowed the continental European countries to avoid succumbing to liberalization have also helped to promote dualization. In other words, France and Germany are resistant to outright liberalization but appear at the same time and for the same reasons to be especially vulnerable to dualization.

Our dualization thesis bears a family resemblance to (and draws inspiration from) theories from the 1970s and early 1980s, when a group of economists and political scientists identified trends toward labor market segmentation.[6] They saw these developments as a response on the part of capital to conditions of uncertainty, relating both to labor market militancy in the late 1960s and, later, market turbulence in the wake of the oil crises of the 1970s. This literature suggested cycles of change in which employers pursued segmentalist strategies in tight labor markets (erecting barriers around skilled workforces within the firm and achieving flexibility though the flexible use of unskilled labor), but abandoned these strategies "as fast as possible" in periods of high unemployment.[7] These theories, however, failed to explore the macro-political and especially institutional effects of these firm-level adjustments. Thus, where the labor market segmentation theories of the previous period saw segmentation and fluid and

cyclical, we suggest a more durable new pattern, because dualism has been progressively institutionalized across successive institutional domains (industrial relations, labour market and welfare systems), and because these divisions are now increasingly underwritten by state policy.

Some authors have already taken this macro-political view. The most recent proponent is David Rueda[8]. Rueda's is a powerful and nuanced analysis but the gist of his argument is that labor market insiders and outsiders have distinct (and in many ways, contradictory) preferences with respect to labor market policy – with insiders preferring strong employment protections over more flexibility to ease the re-entry of outsiders into the labor market, and outsiders preferring the opposite[9]. Rueda finds that Social Democratic governments pursue policies that promote the interests of insiders over those of outsiders. He finds that corporatist arrangements that provide for centralized bargaining and more unified representation of labor interests – and that in principle should bridge the gap between insiders and outsiders – have no noticeable effect on social democrats' propensity to bring the interests of outsiders on board.

While we take inspiration from Rueda's work we hope to build on it in a couple of ways. First, while Rueda's analysis is organized around voter preferences on the one hand, and policy outcomes on the other hand, we attempt here to get closer to the intermediate level – the coalitional alignments that mediate between the two. In particular, where Rueda attributes dualism to Left parties as they respond to their core constituents, we see dualism as driven much more centrally by cross-class dynamics and alignments. This somewhat different (political-economic, coalitional) vantage point we adopt here allows us to draw connections between the trends that Rueda observes in labor

market policy with other realms that he does not explore—above all, industrial relations and social protection.

To our view, the *institutionalization* of dualism is a process that has been tied up in the linkages– unexplored in the earlier literature on labor market segmentation or in the current literature on insiders/outsiders cleavages – between industrial relations changes, labor market policy, and welfare state reforms. Here we rely on political economy literature that has underlined the importance of "institutional complementarities" in the functioning of economic and social models. As is well known, in Germany the economic model was premised on large export firms in traditional industry (e.g., automobiles and machine tools); in France it was rooted in nationalized "champions nationaux" – like Renault, national railways, national electricity, or the aeronautics industry banking. In the heydays of the German model (during the 1960s and 1970s), large manufacturing industries were leading collective bargaining in Germany, and defined what was named the "Standard Employment Relation".[10] As, among others, Karl Hinrichs has shown, as a norm, the *Standard Employment Relation* implies continuity and stability of employment with not more than short interruptions of gainful work, in a full-time job based on an unlimited contract from the end of education until retirement. Resting upon employment at 'standard' conditions, *social insurance schemes* (originally developed for industrial workers under Bismarck legislation), financed mainly by employers and workers, and managed by their representatives, provide wage replacement when typical risks of wage labor occur and workers are temporarily unable to earn a market income (sickness, unemployment) or are no longer expected to do so (invalidity, old age). [11] In France, such a leading role for industrial relations and employment protection was given to the

nationalized firms (such as Renault acting as "vitrine sociale") and the State sector. Organized in a similar way as in Germany, the *Sécurité sociale* was first made for the workers in the private industry and trade.[12]

In both countries, the core industrial sectors, which were having the highest productivity gains, defined the norms and provided the model for the other economic sectors, in terms of wage and working conditions, labor contracts and social protection. In both countries (even though through different political processes, see below), the social partners from manufacturing industry, unions from the public sector as well as State policies have contributed to the diffusion, generalization and institutionalization of this model beyond the core industry to cover the (almost) whole population, directly for male wage earners, and indirectly for their relatives. We will argue that, in order to preserve the logic of the model for the sake of the core traditional economic activities, the very same agents have more recently contributed to undermine the capacity of this model to be encompassing and to provide standard jobs and similar social protection to all.

Some authors have suggested that the connections across related institutional realms operate as a stabilizing force, since would-be reformers in one area will have to consider as well the costs of possible "collateral damage" to complementary institutions.[13] In the political economy literature for example, it is argued that employers will be loath to undertake reforms in one arena if achieving the desired effects is contingent on adjustments in all other arenas as well.[14] But most of these accounts also acknowledge the possibility of a reverse effect, essentially an unravelling, as changes in one area destabilize relations in others. This second possibility is in fact more consistent with what we observe in Germany and France. In these cases, tight coupling among

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

The basic sequence runs as follows: In both Germany and France, early responses to the economic crisis created by the new international context were organized around saving their core manufacturing economy – which was the foundation for both the economic and the social model. This was accomplished by reducing the size of the workforce employed in the industrial sectors (the use of early retirement exploded in the late 1970s and during the 1980s) and increasing productivity (and job security) among remaining workers through increased internal flexibility and intensification of work. This mode of adjustment, however, robbed the core industry of its ability to serve as lead for the rest of the economy; essentially it survived by becoming "selfish," as employers streamlined operations and outsourced non-competitive/non productive activities.[15]

By concentrating on restoring competitiveness and by keeping only the most productive workers, the core sectors provided new kind of deals inside (job security against increased productivity) and left out more and more people and activities. For the latter, it appeared progressively that the norms of the core could not apply anymore: for them, new types of jobs (more flexible, less protected) should be created, and new social protection should be developed (and financed differently).

Creating new types of jobs in the low skill service sector (cheaper and more flexible) thus appear as the second step. Instead of a generalized labor market flexibility for all, new types of work contracts are created for allowing the development of new (and less productive) jobs, next to the core ones. These measures have contributed to the

emergence of a secondary labour market made of (and for) these activities and operating according to different rules: more flexibility, less security. The term “atypical jobs” itself implies that different rules apply; to the extent that such employment is considered “exceptional,” even as it grows, it is also not allowed to compete with the core sector (i.e. putting so much pressure on it so as to compromise the wages and security of labor market insiders).

The decrease in employment rate, especially due to early retirement, the increase in long term unemployment and the development of the secondary labour market based on new rules for “atypical” employees in turn generated financial and political pressure for the development of a secondary type of welfare protection. In systems such as the German and French which are premised on segregated risk pools, financed by social contribution paid by employees and employers (payroll and not general taxes), and where eligibility to the benefits is based on past contribution[16], the growth of inactivity rate and of a secondary labor market made of jobs that are (partially) exempting from paying social contribution, is bound to undermine the financial basis of the traditional regime. This system was by definition not designed to finance the social protection of those who did not participate in the “normal” economy and contribute to the traditional social insurance funds. By the 1990s, when financial pressure increased tremendously on social insurance schemes, it was eminently clear that insiders could no longer support the same level of protection for outsiders (either the unemployed who pay no social contribution, or those having "atypical" jobs, whose careers is discontinuous and who are usually paying a lower level of social contribution). Defense of their own benefits could be achieved, however, by quarantining these against demands by outsiders, for whom the

state was then asked to take responsibility. Thus in a third step, welfare reforms were developed that were premised on sharpening the line between social insurance for those who had paid their social contributions, and social assistance and in-work benefits for those excluded from the normal labor market, further re-enforcing dualist tendencies.

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

Developments in Industrial Relations: Local "egoism" and the erosion of collective bargaining

Germany and France have always diverged sharply from one another in terms of the usual measures of labor organization and strength that matter for industrial relations institutions. Germany's organization rate peaked at around 35% in the 1970s though it has since dropped below 25% today, while France peaked at about 20% of the workforce in 1955 and is down to under 10% currently.[17] The German labor movement has also been relatively centralized, featuring a few non-competing multi-industrial unions, whereas French unions are notoriously fragmented along ideological lines. Nonetheless, in both countries mechanisms were in place for much of the postwar period that provided for very high levels of collective bargaining coverage (at around 80% in both countries), as well as a relatively high degree of national level harmonization of working conditions and wages.

In Germany, this effect was achieved through the pace-setting role traditionally played by the manufacturing sector. High levels of employer organization in this sector, combined with pattern bargaining led informally by the powerful Metalworkers Union (IG Metall), allowed Germany in the 1970s and even 1980s to emulate the outcomes of the "more corporatist" countries of Scandinavia.[18] In France, by contrast, the state loomed larger in securing similar outcomes. In that country, high coverage and high harmonization were traditionally achieved through the lead role played by nationalized companies as well as the *procedure d'extension* – a tool that extends sector- or national-level agreements to all firms active within the industry or the country, even if they are signed by only a minority of the trade unions and employers' associations.[19]

In both Germany and France, however, the usual mechanisms for achieving harmonization/standardization have been severely compromised over the last three decades, as a result of decentralization of collective bargaining, and a shrinkage in the traditional "core" and an associated "inward turn" on the part of firms and sectors that once led the economy. In Germany, the decline of manufacturing employment has been accompanied by falling organization levels among both workers and firms, as well as a decline in collective bargaining coverage. Union density among the actively employed (excluding retirees and unemployed) dropped in the West between 1980 and 2004 from 32.7% to 21.7%, a result primarily of the decline of employment in manufacturing.[20] However, despite the decline in manufacturing industry, as Hassel notes, the structure of German unions still largely reflects employment structures of the 1960s, with strongholds in manufacturing and low representation in services.[21] These trends are mirrored on the employer side, where association membership among firms is low outside of

manufacturing, so that collective bargaining coverage rates in emerging new sectors are well below industry.[22]

In France as well, big changes occurred in the structure of employment. Employment declined in the industrial sector (from 25% of jobs in 1978 to 14% in 2006, but services to industry increased in parallel, showing a trend of outsourcing services out of industrial firms[23]), major public companies have been privatized after 1986. Overall, the unionization rate fell from 17% to less than 8%. However, the structure of unionization remained similar to the one before, with the rate of unionization being three times higher in big companies (public or private) than in small ones, and the rate of unionization (and the presence of at least one trade union in the place of work) being two or three times higher in industry than in service sectors such as services to industry, construction or restaurant, or personal services.[24]

As the traditional core shrank, it also turned inward in ways that compromised the ability of leading firms and sectors to continue to play the role of defining the level of wage and protection for all, traditionally assigned to them. The decline itself was relatively orderly because it was accomplished in large measure through early retirement policies negotiated consensually between labor and capital at the local level[25]. What contributed to the "inward turn" of collective bargaining was the decentralization of negotiation, both in France and Germany. Legal innovations in both countries in the 1970s and 1980s – the extension of works council rights in Germany through the Revised Works Constitution Act of 1972 and the Auroux Laws of 1983 in France – enhanced labor's plant-level powers and set the scene for local labor representatives to participate in personnel policies organized around stabilizing employment for the current workforce

while accommodating market fluctuations through the use of overtime and similar measures.[26]

The legal supports for labor's plant powers – designed by social democrats (or socialists) – ironically had ambiguous effects with respect to the power of national unions, since enhancing labor's local-level powers can certainly magnify union strength in important ways, but it can also invoke "segmentalist" tendencies in times of high unemployment.[27] This negative effect on unions was especially dramatic in France, where as Howell points out, rather than become "beachheads for union activity in the firm," the Auroux laws instead created local level competitors by encouraging the "development, reinforcement, and use of firm-specific forms of worker organization."[28]

The growth in both countries of plant-level bargaining in the 1980s and 1990s can thus be seen as a logical extension of these earlier developments. In Germany, the last ten years have seen a massive growth in company-level pacts for employment and competitiveness negotiated with works councils (*betriebliche Bündnisse zur Beschäftigungs- und Wettbewerbssicherung*).[29] While there is nothing new in local bargaining *per se,* the kinds of pacts that have emerged since the 1990s embody a new and clearly more segmentalist logic, involving trade-offs and compromises in which managers secure cost-saving concessions on working time and pay flexibility in exchange for increased job security. Thus, while very few major companies have abandoned the system of centralized bargaining, a large and growing number have negotiated some kind of company level pact along these lines.[30]

France, too has seen a trend toward the increasing importance of firm-level bargaining, and this despite the continued use of extension clauses. The result has led to

more favorable agreements in large firms than in small firms, in industry than in services, for skilled workers than for unskilled ones, for men than for women. Very similar to Germany, "the French political economy has seen the strongest individual employers (large firms) and the strongest individuals (public elites and managers) rely increasingly on their individual market power to improve their relative position."[31] Industry bargains appear no longer to place a floor on local negotiations. As Culpepper puts it, "in the early 1980s, wage agreements which covered entire sectors provided the minimum threshold below which wages and other working conditions could not fall. Yet (…) a set of legal exemptions first introduced in the 1980s steadily eroded the primacy of the sectoral level, capped by a 2004 law on social dialogue which reinforced the autonomy of firm-level bargainers in almost every domain save wages."[32]

The Politics of the inward turn

Intensified cooperation between labor and management in large (mainly industrial) companies at the local level has generated more fragmentation, undermining broader (more solidaristic) national strategies to the extent that it compromises the willingness of these firms to play the roles traditionally assigned to them in national level bargaining. In both countries, large companies in the past have been expected to support -- and in fact lead the charge for -- industry-level wage settlements that all firms in the association could tolerate even if they themselves could pay more. On the labor side, too, workers in large firms (with higher levels of organization and union strength) traditionally have been expected to "carry" the unions through strikes.

In Germany, where the system was held together largely by organized employers and unions, solidarities in both camps broke down rather dramatically in the 1990s,

beginning on the employer side. In 1995, for example, the position of the powerful Metal Employers' Association (Gesamtmetall) collapsed when plant managers proved unwilling to disrupt relations with their local works councils – refusing to heed the association's call for a lockout.[33] In 2003 the shoe was on the other foot, as labor suffered the key defections. In a major industrial conflict in that year, works councils in the West were unwilling to continue striking for gains that would redound to the benefit of workers in the East.[34] More generally, a divide has opened up within the labor movement across different industries employing different kinds of workers. In Germany this has become manifest among other things in debates over the introduction of a statutory minimum wage. This is something that, traditionally, German unions have viewed with skepticism, worrying that it would interfere with their collective bargaining autonomy. But by the early 2000s, low-skill unions have come around to a more positive view. The main service sector union (Verdi) is now in support of a statutory minimum wage (Schulten, EIRO 1999/11). But manufacturing unions are opposed, fearing that a low minimum wage would compromise bargaining autonomy and put downward pressure on wages in their sectors (Dribbusch, 2004/09 and Funk and Lesch 2005). These unions are joined in their opposition to a statutory minimum wage by the main employer confederations, the German employers' association (BDA) and the Confederation of German industries (BDI).

In France, as stated by Chris Howell, the progressive decentralization of industrial relation from sector to firm level has generally accompanied the weakening of Trade Unions and their capacity to keep relatively high wage level and employment protection for all. The unintended effects of the Auroux laws, and afterwards the

Legislation in the 1990s on the working time reduction were especially important in this regard. Each law on working time reduction (starting in 1993 with the Robien laws and ending with the Aubry II law in 2000) called for local negotiations. Whereas in the past unions had relied on strikes or government action to settle conflicts at the industry level, now "the French model of industrial relations appears increasingly oriented to outcomes that are negotiated and debated at the level of firms rather than the sector."[35] However, one should not conclude that the consequences of decentralisation of industrial relations have been the same for all workers and for all sectors (ie flexibility for everybody). As in Germany, this decentralisation has lead to a distinction between high productivity sectors and workers and low productivity sector and workers (mainly in low skill services). As Michel Lallemand notes, in the previous (Fordist) model, "every job was linked to a coefficient included in salary scales that had been negotiated by unions and employers at the sectoral level… Since the 1980s, the range of wages has increased as firms have added different bonuses to a basic wage…At the end of the 1990s, individual bonuses represented about 15% of the wages of senior managers, 6.5% for lower-level managers, and 2 % for blue-collar workers."[36]

One has indeed to differentiate the impact of this decentralization, between sectors, between large and small firms, and between the types of workers concerned. Negotiation in large (industrial) firms and in public sectors (where unions remain present as stated above and have not been replaced by non-union workers' representatives) usually traded working time flexibility and increase in productivity for job security, while in small firms, and in general in (low skilled) service sectors, working arrangements and conditions have deteriorated and external flexibility has increased[37]. As shown by

Hayden, the 35 hours lead to wage moderation, greater variability in schedules, and intensification of work for lower-paid and less-skilled workers, when the white collars and high skilled workers appreciated the better work and life quality that the negotiation of the 35 hours brought to them.[38]

In short, and contrary to accounts that mostly emphasize conflicts between labor and capital, some of the most destabilizing trends in German and French industrial relations go back to an intensification of cooperation between the two where they are still important actors (in both countries especially within large firms, in Germany in the manufacturing sector and in France in the latter and in the state sector), which complicates rather than reinforces coordination at higher levels. In both Germany and France we can see that the structures put in place in the 1970s and 1980s to enhance labor's voice at the plant level ironically provided ideal vehicles for fuelling these trends toward dualism.

Thus, one of the consequences of the shrinking of the core sectors (in size and in the social coverage of their agreements) and the stabilization of employment and protection within this core is that it drives a general outsourcing of certain functions that were formerly done within large firms. In Germany, the use of temporary workers is providing flexibility in key industries. Ten percent of the workforce at the Mercedes Benz factory in Wörth, for example, consists of temps; at another auto plant the proportion is nearly a third (29%).[39] Other forms of atypical work (discussed at length below) flourish in the service sector and at the service of the core sectors, as manufacturing enterprises

increasingly outsource peripheral, low-productivity jobs such as maintenance or cleaning to this more flexible labour market.

France has gone through a similar process, and temporary work is also pervasive in French industry. On average, during the 2000s, about 10% of the French car industry's workforce was temporary workers.[40] Increased outsourcing also provides flexibility in France. As INSEE shows, the share of services bought by firms has multiplied by 2.5 between 1959 and 2006, to become the fourth largest category of intermediary expenditure by firms. Buying cheaper labor from the outside has progressively replaced hiring staff to perform services such as cleaning, security, recycling, transportation, consulting and information technologies within the firm.

These trends, along with the development of a broader range of new services (construction, restaurants, goods delivery, childcare, elder care, which are aimed at responding to the increasing demand for services by labor market insiders) have fuelled the rise of a secondary labour market, marked by "non-standard" work contracts and lower standards (for pay, working conditions and social protection).

In sum, in Germany and France, industrial restructuring sometimes meant closing down whole industries, but mainly it involved shoring up the competitiveness of core sectors by reducing the size of the workforce and increasing the productivity of the remaining workers. Early retirement allowed for a relatively orderly retreat, even if the departure of older workers did not – as advertised – make room for younger workers so much as it stabilized the remaining jobs whose inhabitants were also then expected to worker harder and more flexibly than before. Achieving competitiveness through increased productivity and internal flexibility (along with wage moderation, especially in

Germany) made it difficult to continue to align working standards for the unskilled (those lacking university diploma or vocational training) with those of more productive workers in the core. Labor market reforms reflect this divide. They did not impose a unified flexibilisation for all, as theories of general liberalization would argue. Instead, the labor market reforms did not really touch the status of typical jobs, maintaining strong protections for workers in "normal employment" relationships in exchange for them to work stronger to preserve or regain core sectors' competitiveness. For those not able to be productive enough, though, labour market policies developed new types of (subsidized) jobs, much more flexible and insecure, mainly in the (low skilled) service sectors [41]

Labor market reforms: the growing divide between the insiders and the "a-typical" secondary labour market.

Against the idea of a generalized flexibilisation of labor markets in both Germany and France, there were and continue to be multiple protections for core workers in regular employment in these two countries. In Germany such protections involve various legal stipulations but large companies also feature very strong workers councils with significant rights in the area of plant personnel policy. Among all of the various proposals for flexibilizing the labor market and social policy in Germany that have been floated over the last two decades, one idea (associated especially with the F.D.P.) that has gone nowhere is the demand for a general relaxation of employment protection legislation (p. 403). In France as well labor market reforms since the 1980s have not significantly relaxed protections for regular workers in the core economy. Initiatives in

the mid-1980s (under the Chirac government of 1986-88) removed mandatory prior authorisation for collective dismissals on economic grounds, and at the same time made it easier for firms to use new fixed-term, temporary or agency work, and part-time contracts (see below). However, as soon as Mitterand was re-elected in 1988, the Rocard government re-instated protections for regular workers by introducing a new requirement, the 'social plan,' which again extended the role of the public administration and then courts of justice in controlling economic dismissals. In 1993, this requirement was reinforced by a further law that required social plans to contain detailed provisions concerning the workers to be dismissed.[42]

However, alongside these stable and still well-protected jobs, various forms of "atypical" employment have been on the rise in both countries over the past two decades. In the two countries, under employers' pressure for implementing more flexibility on the labor market, trade unions have resisted too big changes in the employment protection of core workers. However, they have accepted increase in flexibility for other types of jobs, by the creation of specific work contracts and statuses at the margin of the core labor market, thus institutionalizing a secondary labor market with its own specific jobs an rules. In order to protect the core sectors, these new jobs – often subsidized – are considered "atypical" and as Isaac Martin has put it, effectively quarantined so as to avoid their becoming the new norm for the whole labor force.[43]

In Germany, the increase in atypical jobs dates back to the mid 1980s but their numbers have increased steadily since the late 1990s even as their pay and benefits have declined relative to "regular" employees.[44] Reforms in the 1980s eased restrictions on the use of agency workers and temporary contracts (the preferred type of atypical

employment within manufacturing). The use of fixed term contracts has expanded. Since this type of employment was first regulated in Germany (in 1972), limits on the duration of temporary contracts were successively extended, particularly in the 1990s in the context of growing unemployment -- up to 12 months by 1997. The Hartz reforms of 2002 further relaxed the duration of such contracts to two years.[45] But the most important measures are those that have promoted the growth of so called mini jobs (legislation in 1999 and especially 2002).[46] Mini-jobs refer to low-level, part-time work that is not fully covered by social insurance contributions.[47]

These jobs have been around a long time. In the "Golden Era" of the 1960s and early 1970s, they were occupied by students, housewives and others who were covered through derived benefits and who preferred very low working hours and in any event did not rely on such jobs as a primary source of income or benefits. Employers who hired such workers on a part time basis had traditionally been absolved of all contribution requirements up to a ceiling of earnings set at 620DM per month. Instead of contributions, employers paid a lump-sum tax amounting to 20% of the worker's earnings, though the tax was often passed on to the workers, who in many cases were tax exempt (being high schoolers, university students, or retirees) (Bundestag debates). As non-wage labor costs grew in the 1980s and 1990s employers increasingly turned to this form of employment, and as a result the number of such jobs increased well beyond the originally intended clientele (see also Silvia 2002).

Over the course of two reforms (1999 and 2002), the Red-Green government has promoted the growth of these forms of work, working very much against the interests of low skill unions and workers but with the tacit consent of manufacturing workers. Thus a

first round of reform in 1999 rejected calls by service sector unions (and the left wing of the SPD) to limit minijobs and in fact replaced the lump sum tax with employer contributions that would flow into funds on which minijobbers could not themselves draw unless the minijobbers themselves make additional voluntary contributions (which they typically do not do, given their low incomes). In other words, employer contributions for this low wage work actually flow into the social insurance funds that cover regular full time workers! Subsequent legislation (in 2002) expanded the low wage sector by raising the threshold of earnings above which regular contributions (and benefits) kick in (as well as eliminating a previous limit of 15 hours per month, and allowing tax- and contribution-free mini-jobs as a second job, something that had not been possible under the 1999 legislation).

The softening of limits on so-called mini-jobs was an important component of the labor market reforms associated with Hartz IV and the subsequent Agenda 2010.[48]
Not surprisingly, these changes were welcomed by the peak employers' confederation, BDA,[49] but they were not actively opposed by core manufacturing unions. Indeed, when the 1999 legislation was being debated, SPD spokesman Dessler noted that employer contributions from these jobs (as well as from about 1 million so called pseudo self employed were needed to bring 10 billion DM into the strapped insurance funds. These additional resources, he noted, are "urgently needed" in order to avert another increase in social contributions on standard, full time jobs (which otherwise would be "nearly unavoidable" (pfn 12 August 1998), and necessary as well to avoid a "zero round for retirees" (ibid).

Manufacturing workers had fought tenaciously to oppose proposals that promoted a low wage sector but only so long as it looked like their own members would bear some of the costs.[50] Once the new proposals came out that reversed the logic and tapped low wage work to replenish their social insurance funds (with virtually no benefits for atypical workers[51]), they sat back. None of the major manufacturing unions including the metalworkers and the chemical workers submitted position papers on the final bill in parliamentary hearings and mostly they stayed quiet in the press as well, with the notable exception of the Metalworkers union which, after the law's passage, "welcomed" the new regulations as a way of moving beyond the shadow economy and stabilizing the social insurance funds (PFN 20. May 1999).[52] These unions did not have a strong interest in preventing the growth of low wage work because the kind of workers who occupy these mini-jobs (often women) are not direct competitors, and this form of employment is really more prevalent in services than in manufacturing (Carlin and Soskice). The subsequent 2002 legislation that vastly relaxed significantly the restrictions on minijobs passed without much of a fight.

Since 1999 the rise in mini-job employment has been substantial, increasing from about 2 million in 1991 to 4.7 million in 2005, not counting about 1.7 million additional secondary mini jobs (the increase in the latter coming strongly after the 2003 legislation).[53] Mitlacher cites a study that shows that between 20 and 40 percent of all unskilled Germans perform minijobs.[54] Studies have shown that over 2/3 of these jobs are in the service sector, and about the same percentage (64%) are held by women.[55] Bäcker notes that very often in these cases, "women are shunted into the traditional role of supplemental family income."[56]

The divide in Germany thus has a strong gender component to it.[57] The growth of atypical work has opened new possibilities for women to enter the labor market and participation rates have increased noticeably (by 8% between 1995 and 2007).[58] While some research has shown that certain forms of atypical employment (e.g., fixed term contracts) can serve as a bridge to permanent jobs in Germany (see, especially Gash and McGinnity and Gash),[59] it is not at all clear that this is true for minijobs (which are far more prevalent among women).[60] Women's' groups argued strongly against the expansion of minijobs in 1999 because the lack of benefits reinforces women's continued dependence on husbands. Moreover, these jobs do not segue into high skills or better wages over time. In fact, representatives of key service sector unions (in which women are heavily employed – like retail trade and the hospitality industries) worried openly that workers would be drawn into these jobs because they in fact offered more take home pay than regular part time work. In one example raised by the working group of municipal women's bureaus, in order to make 640DM net, a regular part time worker (responsible for taxes and contributions) would have to earn more than 1200 DM gross per month. Labor representatives were concerned that the short term advantages (with respect to take home pay) would make regular part time work less attractive, even though workers would be depriving themselves of the longer term benefits of such employment.

Beyond this, they worried about perverse incentives with respect to wage increases, whereby workers in these minijobs would in fact fear wage increases that would take them above the 620DM limit and push them into an employment zone (subject to full contributions) that would drastically reduce their take home pay. The late addition into the law of a stipulation that enhanced works councils' rights in the area of

hiring minijobbers was (accurately) dismissed as mostly irrelevant in the sectors of the economy where mini jobs are most prevalent – small businesses that have no works councils to begin with, and low wage sectors where unions and labor representation is especially weak. So, the expansion of the low wage sector in Germany has certainly increased both incentives and opportunities for women to become more active in labor market, though it is not at all clear that these are good jobs and that they really reduce dependence on male breadwinner.

In France as well, the number of "a-typical" working contracts and jobs has expanded massively since the 1970s. In 1970, a-typical jobs (fixed term, part time and agency jobs) represented 3% of all employment, and more than 25% in 2007 (see details below). Moreover, 70% of the new job contracts are currently "a-typical".[61] As in Germany, we see in France a strong resistance by Unions to allow for a general flexibilisation of the labor market, especially on the hiring and firing regulation, but a specific support for the development of cheaper and more flexible jobs at the margins of the labor market, through the relax of conditions for the use of fixed term contract, part time and agency work. In a detailed analysis of what he calls dual reforms, Johan Bo Davidsson analyses the position of French employers and unions. He shows that since the early 1980s, employers have pushed for more flexibility on the French labor market, but that Unions resisted this general trend.[62] They have however accepted (since new legislation have always been "pre-negotiated" as Johan Bo Davidsson puts it) more flexibility at the margin of the labor market.

As already said, the part of the 1986 reform that removed mandatory prior authorisation for collective dismissals on economic grounds has been changed by the

(left-wing) Rocard government in order to better regulate economic dismissals. In 1989, a new law extended the role of the public administration in controlling economic dismissals by introducing a new requirement, the 'social plan'. In 1993, this requirement was reinforced by a further law, which established that the social plan must contain detailed provisions concerning the workers to be dismissed. However, the other aspect of the 1986 legislation, the easier use of new fixed-term, temporary or agency work, and part-time contracts has not been changed. The ordinance of August 1986 enabled firms to hire temporary workers for their normal activities, while the maximum period for such arrangements was extended for two years. The employer's contributions for these jobs are especially low in order to encourage the participation in the labour market of the young people (under age 25). The socialist government of Michel Rocard, named by François Mitterrand who was re-elected in 1988, did not reverse this trend and kept the reforms intact. As David Bo Johansson shows, most trade unions (apart from CGT) supported this dual approach to flexibility in the labor market. As he puts it: "When the unions have had the possibility to influence reforms they have prioritized to defend the employment protection legislation for regular workers and have instead agreed on the introduction of flexibility at the margins, in the form of easing the regulations concerning temporary employment, and thereby creating a *dual reform*." [63]

As a consequence of this "dual reform" of the labor market, in France, the share of agency workers in the total workforce increased from 0.6% in 1982 to 2.5% in 2001 and 2.2% in 2005, which translates into 585,700 such jobs (full time equivalent).[64] The increase in fixed term contracts has also been rapid: from 4.7% of total employment in 1985 to 12.5% in 1996.[65] Part-time work represented 10.9% of total employment in 1985,

11.9 in 1990, 15.5% in 1995 and 16.6% in 1997. "Between 1990 and 2000, people employed with a short-term contract grew by 60%, those who benefited from a training period or special contract with public financing by 65%, and temporary workers by 130 %. During the same period, employment in "regular" jobs increased by only 2%. The victims of this kind of flexibility are mainly found among youth, women, and groups with lower skill populations." [66] One could argue that this increase in contingency is only temporary for people, if mobility on the labor market has also increased and if people start by temporary jobs but end up with full-time jobs. Gazier and Petit reviews several panel surveys to test this hypothesis and finds that actually in France workers in short-term work contracts are trapped in this situation.[67]

Regarding who are concerned by these new trends, if high skill people may sometimes enjoy suitable flexibility, Gazier and Petit confirms that high skill people are mainly participating in a primary internal labor market: "figures of average job tenure have been slowly rising in France since the eighties. They remained at a position similar to Germany and Sweden between 11 and 12 years. This stability suggests that more and more well protected workers stay longer in their enterprise (possibly fearing the consequences of a mobility decision), while another group of less favoured workers is trapped into a circuit and alternate unstable jobs and spells of unemployment."[68] Those concerned by a-typical jobs are mainly the low skilled, on a growing secondary labor market. According to the yearly survey of the labor market conducted by INSEE[69], in 2007, low skilled people are much more hit by unemployment than skilled people, and unskilled women more than men. Most of part time jobs are taken by women (80%), 30% of women are working part time, and 30% of them declare they would rather work more

hours. Low skilled young people finds it more difficult than before to get an open-ended contract.[70] Recent studies have also shown that migrants (especially from North African origin) are much more unskilled and concerned than other by contingency and a-typical jobs: unemployment rate of immigrants is twice higher than the one of non-immigrant, migrants workers are more concentrated in low skilled jobs than non-immigrants workers, and 25% of female immigrants are occupying non skilled employment.[71] Children of immigrants, despite having French nationalities, continue to encounter difficulties in the labor market.[72]

Assessing the impact of labor market policies on the labor market segmentation, Gazier and Petit conclude that they have actually contributed to re-enforce dualism rather than reduce it: "The results of preceding policies have been quite deceiving. They range from the successful integration into regular jobs for more and more skilled workers to persisting high levels of unemployment and a wide zone of situations intermediate between work and welfare, situations which tend to be durable, notably for the less skilled and less favoured workers". Among others, the multiplication of subsidised (but poorly paid) jobs for specific (low skilled) population have contributed to this increased segmentation of the labor market.

As in Germany, subsidized jobs have increased since the early 1980s. Starting in 1982 with "Travaux d'utilité collective, and then "Contrats emplois solidarities," followed in the late 1990s by the "emplois jeunes," and then Contrat d'insertion RMI or CIVIS in the early 2000s, there has been around 30 different types of these subsidized types of jobs (called "contrats aidés" in French). The number of these subsidized fixed-term, low paid jobs for the low skilled workers peaked in 2005 at around 500,000. In its

"Rapport Annuel", the French Cour des comptes states that in 2004, 5,7 billion Euros were spent on these jobs, to which one should add the social contribution exemption of 17 billion Euros for the low paid "normal" jobs.

In France, the creation of these jobs were part of insertion policies "*politiques d'insertion.*" Similar to the so-called mini-jobs and "one-euro" jobs in Germany, their official goal was to enable the young and long-term unemployed to remain in the mainstream of society by providing a minimum income in exchange for some kind of activity, be it work or training. In contrast to the protected, permanent workers whose rights (to unemployment compensation) were defended by the trade unions, the young and the long-term unemployed represented a weak, poorly organised constituency. Thus targeted programmes were the favourite policy instruments for implementing Active Labor Market Policies (ALMPs) since the late 1980s, allowing various governments to avoid direct confrontation with the representatives of the more permanent segment of the labor force, while allowing them to present subsidization as the price to pay for job creation in the service sector.[73]

In short, the trends in France are very similar to those for Germany, and both countries present a picture that seems quite different from the Nordic pattern.[74] As Maurin and Postel-Vinay note, "the starkest contrast with France or Germany seems to come from Scandinavia." Between 1991 and 2001 temporary jobs account[ed] for 50% of total employment growth in France and 100% of employment growth in Germany. By contrast, "temporary jobs account[ed] for less than 20% of total employment gains in those years in Sweden, and in Denmark temporary employment in fact fell."[75] Germany,

atypical employment of all varieties increased from 17.5% to 25.5% between 1997 and 2997, while coverage of social insurance dropped by 10% (between 1995 and 2007).

Ebbinghaus and Eichhorst's conclusions with respect to recent developments in German labor market policy echoes French experts conclusion on the French situation : "labor market institutions foster a dual labor market with high security and stability at the core and higher turnover and instability at the margin. In order to enhance labor market flexibility without threatening the stability of regular employment, gradual reforms fostered atypical employment. Thus the increasing numbers of temporary work agencies and fixed-term contracts but also of part-time and marginal employees (mini job holders) together with persistent long-term unemployment, have slowed the increase in labor force participation of women, and also account for low employment levels of older workers. Hence, German labor market institutions favor a certain segmentation of the labor market, maintaining security at the core and slowly increasing flexibility at the margin."[76] M. Malo, L. Toharia and J. Gautié conclude on France that "some sort of incomplete legal round trip appears to have characterised the evolution of the French regulation of economic dismissals. Fixed-term contracts allow governments to introduce some flexibility into the labor market without endangering the employment security of most permanent workers. Overall, the results of these changes can be summarised as a relatively minor and short-lived expansion of employment together with an expansion of the secondary, unstable segment of the labor market."[77]

Eichhorst and Kaiser, similarly, write of a compartmentalization of regular employment and the "encapsulation" of low wage employment—keeping the two strictly separate. "So while regular employment is still stabilized through existing welfare state

arrangements and benefits from more flexibility in collective bargaining, the overall structure of the German labor changes as it moves closer to a dual labor market."[78] This clear and impervious division of labour markets (internal flexibility but job security for the insiders, labour market flexibility and lower standards for the others) seems to represent a typical continental answer to the new economic context, and differs from both flexibility for all as in Liberal economies, and flexicurity as in the Netherlands or Denmark.

The dualising dynamic of Welfare Reforms in France and Germany

Confronted with financial deficits and a growing number of a-typical situations that they were supposed to continue to protect, the defenders of the traditional social insurance system asked for their welfare system to be preserved by focusing it on its core mission (i.e. guaranteeing income security for those who have previously worked) and allocating responsibility for the protection of the others (young, long term unemployed, a-typical workers) to the state.

As is well known by now, the extensive use in France and Germany of early retirement in the 1980s and 1990s had a stultifying effect on employment. These policies created a vicious cycle in which increasing numbers of retired workers had to be supported by fewer active workers, driving up non-wage labor costs (in both cases to over 40 percent of gross wages) and dampening job creation.[79] A first response to these problems in both countries was to adjust the rules under which social insurance benefits were calculated, making it more difficult to obtain the highest replacement rate. In Germany, for example, the Kohl government cut unemployment insurance coverage for

regular workers from 70 to 64 % of previous wages, a measure that was rescinded by the first Red-Green government of 1998 but subsequently folded back into their own pension reform.

In France, an agreement signed by the social partners in February 1984 excluded those with the shortest contribution records from any entitlement to unemployment insurance and shortened the duration of payments for others. In 1992, another agreement replaced the pre-existing unemployment insurance benefits with a new integrated benefit (AUD, *allocation unique dégressive*), with benefit levels that declined as the period of unemployment continued according to a mechanism called 'degressivity.' The AUD increased the minimum contribution period required for access to any unemployment insurance benefit from 3 to 4 months in the last 8. It also sharply reduced the duration of benefit entitlement for those with only 6 months of contributions in the last year, from 15 months for persons under 50 years old and 21 months for those over 50 to only 7 months for unemployed of all ages.[80] Such cuts were designed not to undermine the traditional based system but rather shore it up by strengthening its basic principle, i.e. 'contributivity.'

When these measures failed to solve the crisis however, further reforms came into play. The core problem in both countries was the growing number of workers who had not and would not make contributions *into* the system in proportion to what, under the existing laws, they would likely be drawing *out of* the system. In both countries, this applied to the increasing number of long-term unemployed as well as the growing numbers of atypical workers just discussed. In Germany, these numbers also of course

included very significant numbers of workers in eastern Germany, who did not have contribution records but were heavily supported under the existing laws.

In this context, the search for solutions to stabilize the Bismarckian insurance-based model came increasingly to focus on “clarifying” the line between occupational insurance/contributory benefits and non-occupational/non-contributory benefits – with the idea that the state should take more responsibility for the latter. The result has been to produce residual, income-tested and in-work benefits for some (outsiders), with continued contributory benefits (albeit lower) for insiders that can however be supplemented through collective bargaining or firm level deals.[81] Thus, while those with full-time permanent jobs continue to be insured (though relatively less well than before, thus needing to complement their protection with private schemes), more people must now rely on other types of social protection than typical social insurance (mainly assistance). In response to growing numbers of jobless, youth and single parents or long-term unemployed, new benefits have been created, or former marginal benefits have been developed. These flat-rate assistance benefits, usually financed by taxation and run by the state, are targeted to the excluded. This has been the case for the unemployed in both Germany and France (notably with the Hartz reforms in Germany, and the creation of RMI in France). We deal first with the changes in France since that is where developments in this field started earliest.

The period between winter 1982 and spring 1984 was one of intense public conflict over unemployment insurance in France. But it was also a period during which an implicit compromise was being negotiated between the unions, the employers, and the government over a way of adapting labor market policy to an emergent preoccupation

with fiscal austerity. This implicit compromise respected the Bismarckian heritage of UNEDIC, but reinterpreted it in a manner compatible with cost containment, if not – initially - retrenchment. The idea was to better distinguish between the sphere of insurance (benefits financed through social contributions and managed by the social partners) and the sphere of 'solidarity' (benefits financed through taxes and managed by the state). An agreement signed by the social partners on February 24, 1984 excluded those with the shortest contribution records from any entitlement to unemployment insurance benefits.

The restriction, and then retrenchment, of unemployment insurance was negotiated on the basis of the state taking over responsibility for benefits that had previously been financed out of social contributions and managed by UNEDIC. The creation of state-managed, tax-financed unemployment assistance benefits – the *Allocation Spécifique de Solidarité* (ASS) for the long-term unemployed, and the *Allocation d'Insertion* (AI) for labor-market entrants – was the explicit compensatory measure agreed by the then socialist Minister of Finance Pierre Bérégovoy in the protocol agreement of January 1984, allowing the social partners to arrive, one month later, at an acceptable compromise over reform of unemployment insurance. Relieving UNEDIC of certain responsibilities while simultaneously confirming the position of contribution-financed, social partner-managed unemployment insurance as the principal instrument of French labor market policy -- this *quid pro quo* was enough to help the social partners agree on the limited cuts decided at this time.[82]

Due in part to these reforms, the number of 'excluded people' increased during the 1980s, so that it became one of the most pressing social issues of the late 1980s. In order to

cope with new social problems that social insurance was unwilling and unable to deal with, governments have been developing new policy instruments, with reference to new social policy goals. The creation of the RMI (*Revenu Minimum d'Insertion*) is the most important of these new social benefits. This non-contributory scheme, meant for those having no or very low income, was introduced in December 1988. Its main features are the guarantee of a minimum level of resources to anyone aged 25 or over, which takes the form of a income-tested differential benefit. In addition, the RMI has a re-insertion dimension, in the form of a contract between the recipient and 'society.' Recipients must commit themselves to take part in some re-insertion programme, as stated in a contract, signed by the recipient and a social worker. The programme can involve intensified searching for employment, undertaking vocational training, or participating in activities designed to enhance the recipient's social autonomy.

When it was created, this new benefit was supposed to be delivered to 300,000-400,000 people. However, by December 2007, 1.2 million persons were receiving RMI. Including spouses and children of recipients, 3.5% of the French population have become involved. Besides RMI, France has now seven other social minimum income benefit programs. More than 10% of the French population is currently receiving one of these. This means that through the development of new social policies and the development of minimum income benefits, part of the French social protection system is now targeting specific populations and using new instruments (income-tested benefits delivered according to need, financed through state taxation and managed by national and local public authorities), with reference to a new logic (to combat social exclusion instead of guarantee income and status maintenance). [83]

The creation of the assistance schemes eased cuts in the unemployment insurance scheme itself. Each time retrenchments were introduced, more people were shifted from insurance benefits to social assistance. Exemplary of this trend is the 1992 unemployment insurance reform, which was accomplished through an agreement between one trade union (CFDT) and the employers' association. The reform replaced all previous unemployment insurance benefits with a new one, the *Allocation Unique Dégressive* (AUD). The new unemployment insurance benefit is payable only for a limited period of time, depending on contribution record. The amount of the benefit decreases with time, and entitlement expires after 30 months. Afterwards, unemployed persons must rely on tax-financed income-tested benefits. The level and the volume of unemployment benefits started to fall after 1992, the reduction being stronger for the income-tested benefits than for the insurance one. As AUD was delivering smaller benefits for a shorter period, the minimum income benefits increasingly functioned as a safety net for the long term unemployed.

Overall, this whole 'clarification' process has re-enforced the distinction between workers who are still linked to the core labor market (even though temporarily unemployed) and those who are moving away from it, for whom assistance and in-work benefits have been created. In order to improve the incentives to go back to the labor market, the Jospin government in 2001 created a tax credit, called "Prime à l'emploi," which is a negative income tax for low paid jobs (in-work benefits). With that, a totally new rhetoric (unemployment trap, work disincentive) and a totally new type of social policy instrument (working family tax credit) have been imported into the world of poverty alleviation in France. In the same vein, in 2003, the Raffarin government wanted

to transform the RMI into RMA (*revenu minimum d'activité*) for those having benefited from RMI for two years, in order to increase incentives to work. Since June 2009, a new scheme, called *Revenu de solidarité active* (an income given to those entering subsidised low skill low paid jobs), is planned to progressively replace RMI.

Like the French system, the German social insurance system became untenable in the 1990s due to increasing unemployment (particularly in the East), increasing old age pension and health care expenditures and the staggering costs of supporting the early retired and the unemployed. The previous division of labor between social insurance funds (administered by social partners) and state assistance broke down, de facto, as the government was repeatedly called upon to bail out the former on a massive scale.[84] In the mid 1990s the CDU/FDP government carried out a series of reforms that first cut sick pay and then pension benefits, but these measures were revoked by the Red-Green government that came to power in 1998. Meanwhile, ongoing fiscal crisis drove the search for new solutions, as efforts at achieving a negotiated solution foundered.

The Red-Green government's solutions to these problems mirrored those adopted in France, drawing a sharper line between those who will be supported by insurance funds and on a contributory basis, and those who slip outside this system and into state-financed, income-tested assistance. As the head of the Federal Chancellery (and Minister in Charge of Special Tasks) under the first Schröder government put it, "social assistance should be concentrated on the neediest, and the line between contribution- and tax-based benefits should be drawn more sharply."[85] The most comprehensive reforms in this direction were undertaken in the so-called Hartz reforms, of which Hartz IV is the most directly relevant in this context. Before Hartz IV, there were three levels of assistance:

unemployment insurance (benefits related to earnings), unemployment assistance (lower benefits but still earnings related) and social assistance (income tested) for the long term unemployed. Hartz IV brought two important changes: one was to reduce the duration of unemployment insurance (for older workers, from previous 32 months to 18 months, for other workers down to 12 months); the second was to do away with the middle tier of unemployment assistance altogether and instead merge this with social assistance (geared not toward status/income maintenance but basic poverty alleviation). In other words, under Hartz IV, workers who exhaust their unemployment insurance benefits drop immediately to flat-rate income tested social assistance.[86]

The aim of the Hartz IV reform was to merge the unemployment assistance and the social assistance schemes into one institution. The people eligible for the new benefit type *Arbeitslosengeld II* (*ALG II)* are those of employable age who are "able to work" and obliged to seek employment. The logic of ALG II is distinct from the system of unemployment insurance (ALG I) that continues to cover workers with sufficient contributions, at least through shorter bouts of unemployment. As Karl Hinrichs puts it, "only those with no prior or insufficient *ALG I* entitlements are dependent on the flat-rate benefit [in 2007, of € 347 per month] from the start of their claim. *ALG II* is not merely a basic security scheme for registered unemployed, but rather, it is designed to serve all needy people of working age. As with social assistance before, *ALG II* may be paid if income from employment is too low to meet the needs of the household."[87] In this sense, receipt of ALG II assistance under Hartz IV "goes with" the one-euro jobs for the long-term unemployed discussed above. It also allows other types of in-work benefits (e.g., the mini-jobs discussed above), so that in October 2006, about 1.2 million persons

combined *ALG II* and income from waged work — an increase of 500,000 compared to early 2005.[88]

As Eichhorst and Kaiser point out, these measures have served to "encapsulate" low wage employment through benefit top up, because these one-euro jobs (and mini jobs as well) set earnings and working time thresholds that are difficult to pass, making it hard for these workers to segue into regular employment. Thus as they note: "Given the implicit in-work benefits, Hartz IV turned into a massive spending program with more and more people topping up low earnings through public resources. As benefit recipients, low wage earners, and employers quickly adapted to the new incentives in an unexpected way, the low wage sector was furthered through the back door, thus contributing to the growth of the low wage sector.[89] Strong "activation" requirements in this segment of the workforce fit with the non-insurance based logic on which support in this "secondary" part of the labor market is premised: where worker benefits no longer have the character of deferred (earned) wages, then workers receiving assistance seem to be getting "something for nothing" – which allows the state to then ask for something in return as a condition for continued support, namely activation.

Hartz IV is typically characterized as part of a straight neoliberal offensive visited upon the German working class by a social democratic government that had abandoned tripartism and embraced unliaterialism as the only way forward. It is true that Hartz IV was certainly not passed with the active support of Germany's unions; however the reality is that the effects of the law are uneven in the extreme. Clearly, skilled workers in the core manufacturing industries are unlikely to be directly affected. In light of the very strong employment protections cited above, workers in large firms in particular, are not

likely to become unemployed in the first place, and skilled workers (particularly in the West) are highly unlikely to stay unemployed for more than a year. This accounts for why centrist unions like the chemical workers union (classically representing highly skilled workers with stable employment) were rather supportive of the new law, or certainly not on the barricades (Streeck/Trampusch 2005). Unions like the IG Metall. took a more vocal position against the legislation as it worked its way through the parliamentary committees – but mostly they cared about unemployment support of long duration because it was a foundation for their early retirement negotiations with employers.[90] Low skill workers and service sector unions like ver.di, by contrast, were justifiably concerned both about the activation rules and associated wage effects, since ALG II recipients have to accept any legal job they are offered, whether or not it is covered by a collective bargain (EIRO 2004/05).

There is also a strong regional dimension to the impact of Hartz IV since the hardships it imposed were more likely to be borne by workers in the East. Before the law took effect, there had been some protest in the West, but once the cuts to long term unemployment assistance were actually being implemented, the demonstrations were strongly concentrated in the East. Surveys were sent in July 2004 to all recipients of unemployment assistance to assess their eligibility for benefits under Hartz IV), and this triggered weekly protests that ran through July and August. But the vast majority of these "Monday demonstrations" (harking back to the Monday demonstrations that had precipitated the fall of the communist regime) took place in the East.[91] While some low skill unions like ver.di participated, the national trade union confederation (DGB) declined to call its members out (citing political exploitation of the demonstrations by the

radical right) (EIRO 06-09-04). What was very clear by this time was that the willingness of western members to fight battles for eastern workers was fully exhausted. After all, the strike in metalworking just one year earlier had collapsed precisely because western works councilors refused to shut down production in support of the strikes in the East.

Moreover, analyses that focus on the cuts to regular workers on the benefit side miss the fact that, on the financing side, Hartz IV very much shores up the traditional model, preserving a social insurance logic for core constituencies – above all skilled workers in manufacturing – while for others less tightly linked to the labor market "social benefits break with the principle of status protection and turn more and more into a basic protection regime" (Eichhorst and Kaiser 22). The Hartz reforms move toward a system organized more around poverty reduction than income/status maintenance for labor-market "outsiders," including – all important – a shift in financing that relies more heavily on taxation to support the (non-contributing) working poor. Thus, viewed from the finance (as opposed to benefit) side, labor market insiders did benefit, since this shift in financing has meant savings for the unemployment insurance funds. By 2007, the social insurance contribution paid to unemployment insurance could be lowered from 6.5% to 4.2% (Hinrichs 2009).

It is thus also clear that these measures preserve a social insurance logic for core constituencies even as they recognize that the days are over when benefits to male breadwinners will suffice to cover all. No wonder, therefore, that recent proposals to revise Hartz IV do not attack the core logic that separates contributory social insurance from income-tested social assistance. They focus, rather, on (re-)extending insurance

coverage to reincorporate long-time contributing standard workers. Thus in December 2007, the Grand Coalition government amended the unemployment rules to allow unemployed persons over the age of 50 to draw regular unemployment benefits for 15 (rather than 12) months, for 55+ year olds, for 18 months, and for 58+ for two years.[92]

In sum, these reforms have set in motion in Germany a trend that is very similar to that in France. Hartz IV, by merging unemployment insurance for the long term unemployed with social welfare assistance (poverty alleviation), moved toward a system organized more around poverty reduction than income/status maintenance for labor-market "outsiders." At the same time, there has been a shift in funding as the welfare system has come to rely more heavily on taxation to support the (non-contributing) working poor.[93] This shift in financing has meant savings for the unemployment insurance funds: the social insurance contribution paid to unemployment insurance was lowered from 6.5% to 4.2% in 2007.[94] In conjunction with all of this, as Eichhorst and Kaiser note, "social benefits break with the principle of status protection and turn more and more into a basic protection regime."[95]

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

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

As we have shown, many of these changes have been framed in order to organize a *quid pro quo*[96] -- one that is based on the distinction between what should remain in the world of occupational social protection (and be financed through contributions) and what should be distinguished as a new world of social protection, aimed at those with an atypical employment situation (and be financed through taxation). Retrenchment in social insurance programs thus reinforces dualism to the extent that it is accompanied by a clarification of responsibility: the government proposing to the social partners to assume the financing of non-contributory benefits (flat rate social minima for the elderly, the handicapped, the long-term unemployed; the crediting of contributions for periods out of work because of unemployment, child rearing and the like) in exchange for reductions in social insurance benefits but also the guarantee of the maintenance of a secure social insurance systems for the insiders.

Daniel Clegg summarizes developments in such Bismarckian systems this way: “Generally, policies have enhanced protection for ‘insiders’ while targeting both benefit cuts and new activation initiatives on ‘outsiders’. After a quarter-century of reforms these are thus neither fully activating nor fully compensatory welfare states, but ones that combine these facets in apparent contradiction. There is a suggestive parallel – and

probably a two-way causal link - here with the dualism of labor market regulation increasingly found in much of continental Europe, where precarious employment contracts have been expanded as 'exceptions' that simultaneously contradict and reinforce the 'rule' of the standard employment relationship for core workers."[97]

Conclusion:

By tracing the interrelated changes in industrial relations, labor market policy, and welfare reforms in Germany and France, we demonstrate that these processes of dualization occurred incrementally and often with the support – explicit or tacit – of "insiders" on both sides of the class divide whose understandable defense of their own position within a context of retrenchment has been relatively successful but has largely come at the expense of a growing number of "outsiders." Instead of a process of liberalization within these "coordinated" market economies, continental CMEs like these two appear to be building a new (less egalitarian but possibly quite robust) equilibrium in order to adapt their political economies to the new, more competitive, international economic context. This does not mean that Germany and France are becoming Americanized, since on the one hand a-typical jobs still benefit from status and regulation, and on the other hand, outsiders benefit from State support so that a minimum income is guaranteed.

In Germany, recent reforms (including pension reform in 2001 and even the Hartz IV reforms of 2004) involve an increase in solidarity at least at the lowest end of the social spectrum. Even as pensions were reduced for some core groups in Germany in 2001, a new minimum pension was introduced that among other things redounded to the

benefit of women [elaborate]. And Hartz IV, which is considered the harshest of the recent reforms, actually provided a boost for the lowest tier of social assistance recipients. Both the old social assistance benefits and the new ALG II are income-tested, but the benefits under the latter are in some ways more generous than under the former (among other reasons because fewer private assets and less privately owned property are counted against a recipient's claims to benefits under the new ALG II). Goebel and Richter show that one-third of previous recipients of social assistance are actually better off in monetary terms under Hartz IV (2007: 753 and passim). Hartz IV also represents an upgrade in benefits for single mothers, who under the new legislation (and unlike previous social assistance) are not forced first to turn to their parents and children for support before becoming eligible for public benefits (Hassel and Schiller 14). For the first time, this group has an entitlement to benefits that is completely independent of their husbands and families (Hassel and Schiller 13). In sum, while these reforms have mostly spared the core workforce in the ways we have describe above, they also have involved some redistribution among the lowest income groups, redounding to the disadvantage of low wage workers but benefiting some of the most marginal groups (women and the lowest tier of social assistance recipients) -- with all caveats about activation applying to both groups (Hassel and Schiller).

In the same vein, the development of RMI and the eight other social minima in France are here to guarantee that nobody can be left with no support. *Revenu de Solidarité Active (RSA*) is even promising a better situation for those who accept some activities. This new benefit provides social contribution exemptions to employers hiring RMI beneficiaries or long term unemployed, and guarantees a permanent negative

income tax to the new low-wage workers so that they get at least 200 euros more than what the RMI would have provided them with. With the development of these basic safety net, despite the dualisation trends, poverty on the whole has not increased as much in France than in other OECD countries. As shown by OECD, « the poorest 10% of the French population have an income of almost US$ 9,000 per year – about 25% higher than the average for OECD countries ».[98] However, as Gazier and Petit point out: "the composition of poverty changed dramatically. The poor (defined as households living with less than 50 % of the median household income) at the beginning of the eighties were mainly out of the labour force; during the nineties, poor households with at least one member belonging to the labour force became the majority. And in this group, more and more households have one or two members engaged into paid work. What is more disturbing is that situations of poverty appear more and more for stable workers, not even in part-time contracts. We find here again the implicit emerging norm, fostered by two connected processes. First, the "structural" efforts for integrating workers focussed on a lessening of existing employment protections, seen as barriers; this has been done through the multiplication of special, dispensatory labour contracts for the newcomers; second, incentives problems appeared, notably with low - paid jobs and intermediate situations mixing some work with welfare payments. For example, the RMI's benefit is approximately half of minimum wage for one person but reaches the minimum wage level when paid to households with two adults and several children. In order to fight exclusion, the French policies largely contributed to create a new segment of disadvantaged workers: the working poor often combining low pay and transfers payments."

In the end, then even if Germany and France have not sunk to the American model, the developments we document here represent an important break from the past. In each of the realms we have analyzed – industrial relations, labor market policy, welfare regimes – the changes we document have been gradual and mostly undertaken in the name of stability, billed as necessary adjustments to preserve core economic activities and the existing institutions around them. What has disappeared though is the capacity of the model to be encompassing and to cover all citizens under one type of work contract and social protection. In both countries, the industrial relations system has seen a gradual erosion that has proceeded not so much through rupture or even a full frontal attack by employers, but rather though the effects on the periphery of an intensification of cooperation between labor and management in a still-solid core with its center, in Germany, in large manufacturing companies, and in France, in large manufacturing and public sector firms. Related to this, labor market reforms have generally promoted developments in which the status and privileges of labor market insiders remain relatively well protected, with the flexibility necessary to stabilize the core being achieved at the expense of a growing number of workers in “atypical” or “non-standard” employment relationships. Welfare reform are also characterized by a gradual dualisation, a sharper line being drawn between occupational insurance/contributory benefits for core workers and a new but growing world of assistance and in-work/non-contributory benefits for labor market outsiders.

[1] Wolfgang Streeck and Kathleen Thelen (ed.), *Beyond Continuity: Institutional Change in Advanced Political Economies*, (Cambridge: Cambridge University Press, 2005), 103-26; Bruno Palier and Claude Martin (ed.), “Reforming the Bismarckian Welfare Systems” special issue of *Social Policy and Administration*, (41 no. 6, 2007).

[2] Maurizio Ferrera, Anton Hemerijck, Martin Rhodes, “Recasting European welfare states for the 21st century," *European Review*, vol. 8, n. 3, 2000, 427-446.

[3] Andrew Glyn, *Capitalism Unleashed: Finance Globalization and Welfare* (Oxford, Oxford University Press, 2006); Chris Howell, “Varieties of Capitalism: And Then There Was One?” *Comparative Politics* 36:1 (2006): 103-24.

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

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

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

[7] Sengenberger, “Einfuehrung,” in Sengenberger, ed., Der gespaltene Arbeitsmarkt, 255, 256.

[8] See Rueda, David, 2007, *Social Democracy Inside Out: Government Partisanship, Insiders, and Outsiders in Industrialized Democracies*. Oxford, Oxford University Press. Rueda, David, King, Desmond, 2008, “Cheap Labor: The New Politics of ‘Bread and Roses’ in Industrial Democracies” *Perspectives on Politics*, 6 : 279-297.

[9] The idea that insiders and outsiders have opposite views on labor market flexibility is at least debatable, see Patrick Emmenegger, « Barriers to entry: insider/outsider politics and the political determinants of job security régulations », Journal of European Social Policy, May 2009; vol. 19: pp. 131 - 146.

[10] Mückenberger, U. (1985). "Die Krise des Normalarbeitsverhältnisses - Hat das Arbeitsrecht noch Zukunft?" Zeitschrift für Sozialreform, 31, 415-434 and 457-475

[11] Karl Hinrichs, "Social Insurance State Withers Away. Welfare State Reforms in Germany – or: Attempts to Turn Around in a Cul-de-sac" in Bruno Palier (ed) *A long Good Bye to Bismarck: The Politics of Welfare reforms in Continental Europe*, Amsterdam University Press, forthcoming.

[12] Pepper Culpepper, Peter Hall, Bruno Palier (ed.) *Changing France, the Politics that Markets Make*, (London, Palgrave, 2006)

[13] Paul Pierson, *Politics in Time* (Princeton, NJ: Princeton University Press), 150; see also Neil Fligstein, paper presented to conference at Northwestern University, July 2008.

[14] Hall and Soskice, *Varieties of Capitalism,* chapter 1.

[15] Wolfgang Streeck, "Neo-corporatist Industrial Relations and the Economic Crisis in West Germany," in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Clarendon, 1984), 291-314.

[16] Social insurances, either for unemployment, old age or sickness, are supposed to deliver "contributory benefits" to insured persons, who must first pay their social contribution to become eligible to full social rights.

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

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

[19] Michel Lallemand, "New Patterns of Industrial Relatons and Political Action since the 1980s," in *Changing France, The Politics That Markets Make,* ed. Pepper Culpepper, Peter Hall, Bruno Palier

(London, Palgrave, 2006), 50-104.

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

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

[22] Anke Hassel, "The Erosion of the German System of Industrial Relations," *British Journal of Industrial Relations* 37:3 (September 1999): 495.

[23] INSEE PREMIERE, 2007, "les ressorts de l'économie de service: dynamique propre et externalization", INSEE *Premiere,* n°1163, (Paris, INSEE, November 2007).

[24] DARES, "Le paradoxe du syndicalisme français" *Premières syntheses,* n°16.1 (Paris, Ministère des Affaires socialesApril 2008).

[25] See Bernhard Ebbinghaus, *reforming Early Retirement in Europe, Japan and the USA*, Oxford, Oxford University press, 2006.

[26] Werner Sengenberger, *Der gespaltene Arbeitsmarkt: Probleme der Arbeitsmarktsegmentation* (Frankfurt: Campus, 1978); Rainer Schultz-Wild, *Betriebliche Beschäftigungspolitik in der Krise* (Frankfurt: Campus, 1978); Gerhard Brandt, Otto Jacobi, and Walther Müller-Jentsch, *Anpassung an der Krise: Gewerkschaften in den siebziger Jahren* (Frankfurt: Campus, 1982); Paul Wildolf, Hans-Willy Hohn, *Arbetismarktschancen in der Krise* (Frankfurt: Campus, 1984).

[27] Wolfgang Streeck, "Neo-corporatist Industrial Relations and the Economic Crisis in West Germany," in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (Oxford: Clarendon, 1984), 291-314.

[28] Chris Howell, "The Contradictions of French Industrial Relations Reform," *Comparative Politics* 24: 2 (January 1992), 182, 192. See also Chris Howell, 2009, "The

Transformation of French Industrial Relations: Labor Representation and the State in a Post-*Dirigiste* Era", *Politics & Society*, Vol. 37, No. 2, 229-256.

[29] Britta Rehder, *Betriebliche Bündnisse für Arbeit in Deutschland. Mitbestimmung und Flächentarif im Wande (* Frankfurt am Main: Campus, 2003).

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

[31] Pepper Culpepper, "Capitalism, Coordination and Economic Change: The French Political Economy since 1985" in *Changing France, the Politics that Markets Make*, ed. Pepper Culpepper, Peter Hall, Bruno Palier (London, Palgrave, 2006), 46.

[32] Pepper Culpepper, "Capitalism, Coordination and Economic Change," 37.

[33] For a full account see Kathleen Thelen, "Why German Employers Cannot Bring Themselves to Dismantle the German Model," in *Unions, Employers and Central Banks: Macroeconomic Coordination and Instituitonal Change in Social Market Economies* (New York, Cambridge University Press, 2000).

[34] *Süddeutsche Zeitung*, June 24, 2003, 20 and June 25, 2003, 6.

[35] Pepper Culpepper, "Capitalism, Coordination and Economic Change," 40.

[36] Michel Lallemand, "New Patterns of Industrial Relations" in Culpepper et al., eds., *Changing France*, 56.

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

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

[39] "Schnell Rein, Schnell Raus," *Der Spiegel* 1/ 2007, 60; and Lars W. Mitlacher, „ The Role of Temporary Agency Work in Different Industrial Relations Systems: A Comparison Between Germany and the USA," *British Journal of Industrial Relations* 45: 3 (September), 592. Temporary agency workers are more concentrated in manufacturing than in services in Germany (34.8% of temps work in manufacturing, as

against 15.5% in services) (ibid, 582). Other forms of atypical employment (so-called minijobs for example) are far more prevalent in services.

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

[41] Werner Eichhorst and Lutz C. Kaiser, "The German Labor Market: Still Adjusting Badly?" (Bonn: Forschungsinstitut zur Zukunft der Arbeit, July 2006), 11, 14.

[42] M. Malo, L. Toharia and J. Gauthié, "France: the deregulation that never existed," in *Why deregulate labour markets?* eds Esping-Andersen and Marino Regini, (Oxford, oxford University Press, 2000), 245-271.

[43] Comments on this paper for a conference in Stockholm

[44] Peter Bleses and Martin Seeleib-Kaiser show that "in the early 1970s the relationship between regular employment and atypical work was 5:1, by the mid-1980s the relationships had dropped to 3:1, and by the mid-1990s it had reached a level of 2:1. Peter Bleses and Martin Seeleib-Kaiser, *The Dual transformation of the German Welfare State* (New York, Palgrave, 2004), 33.

[45] Dekker and Kaiser provide a timeline of relevant reforms: In 1972, temporary contracts were limited to 3 months; in 1985 this was extended to 6 months, and in 1994 and 1997 to 9 and 12 months respectively. See Ronald Dekker and Lutz C. Kaiser, "Atypical or Flexible: How to Define Non-Standard Employment Patterns: The Cases of Germany, the Netherlands, and the United Kingdom," Tilburg Institute for Social Security Research and German Institute for Economic Research, 5. See also Lars W. Mitlacher, "The Role of Temporary Agency Work in Different Industrial Relations Systems," *British Journal of Industrial Relations*.

[46] See especially Bernard Ebbinghaus and Philip Manow, *Comparing Welfare Capitalism: Social Policy and Political Economy in Europe, Japan and the USA* (London, Routledge, 2001), introduction; and Werner Eichhorst and Lutz C. Kaiser, "The German Labor Market: Still Adjusting Badly?"

[47] This type of contribution-free job predates Hartz. Up to 1999 workers earning under 630DM/month were exempt from contributions to social insurance as were their employers (though employers paid a lump sum tax). In 1999, the Red-Green coalition introduced employer contributions (but not employee

contributions) because of worries that these employees would become a drain on the already strapped social insurance system.

[48] See especially Werner Eichhorst and Lutz C. Kaiser, "The German Labor Market: Still Adjusting Badly?" 11, 14.

[49] Lothar Funk, "New legislation Promotes 'minor jobs,' EIROnline 2003/02.

[50] One early proposal, for example, provided full coverage for minijobbers but without reduced contributions (Spiegel May 1999).

[51] Some but not full claims in terms of health insurance, no unemployment insurance and pension coverage only if the worker makes additional, voluntary contributions (as against regular part time work but also for that matter fixed term and agency work which have better coverage).

[52] As a matter of fact, the metalworkers were at the time occupied in a rather intense bargaiing round organized around the theme of "an end to wage restraint."

[53] Bernhard Ebbinghaus and Werner Eichhorst, "Distribution of Responsibility for Social Security and Labour Market Policy," Amsterdam Institute for Adanced Labour Studies Working Paper 07/52 (January 2007), 25; see also Gerhard Bäcker, "Was heisst hier 'geringfügig?' Minijobs als wachsendes Segment prekärer Beschäftigung," WSI Mitteilungen 5/2006.

[54] Mitlacher, "The Role of Temporary Agency Work," 584.

[55] Eichhorst and Kaiser, "The German Labour Market," 17.

[56] Bäcker, "Was heisst hier geringfügig?" 259.

[57] The ethnic component is not as strong, interestingly. The most visible ethnic minority in Germany, the Turkish community, is not well integrated into society, even though Turkish workers are in fact firmly entrenched in unions (see especially Leo Halepli, "The Political Economy of Immigrant Incorporation: The cases of Germany and the Netherlands" (LSE dissertation). Since registered foreign workers are heavily concentrated in manufacturing, their organization rate is rather high, 59.5% (thus well above the national average and consistent with the general level in manufacturing). In core unions like the metalworkers, foreign workers make up 9.2% of the union's membership – in line with the overall population. Other nationalities are more affected, East Europeans, for example, who are more likely to be found in services.

[58] Wolfgang Streeck, "Flexible Markets, Flexible Society," MPIfG working paper 08/6.

[59] Vanessa Gash and Frances McGinnity, "Fixed term contracts: the new European inequality? Comparing men and women in West Germnay and France," SocioEconomic Review 5 (2007), 467-496; Vanessa Gash, "Bridge or Trap? Temporary Workers' Transitions to Unemployment and to the Standard Employment Contract," European Sociological Review, 24: 5 (2008), 651-668.

[60] Women make up 14.7% of total fixed term contracts, and 45.8 percent of part time workers, which include minijobbers.

[61] Robert Castel, *La montée des incertitudes*, p. 165, (Paris, Seuil, 2009)

[62] Despite a low level of unionization, and their division, French Trade Unions are still aboe to act as veto players in labor market and social policies, because of both their mobilizing capacities, and their institutional roles within employment and social policy bodies and negotiations. On this apparent paradoix, see Palier, 2005 or Howell, 2009.

[63] David Bo Johansson, « The Politics of Employment Policy in Europe: Two Patterns of Reform », paper presented at the ECPR conference in Lisbon, 14th to 19th of April 2009.

[64] INSEE PREMIERE, "les ressorts de l'économie de service."

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

[66] Lallemand, "New Patterns of Industrial Relations," in Culpepper et al., eds. *Changing France,* .57.

[67] Among other studies, Gazier and Petit (2007) summarize the following ones: "Sauze (2006) was able to show that, on the whole, only one fifth of fixed term contracts were converted into long term ones. The conversion rate of fixed term contracts into long term ones has cyclical variations but, overall, always oscillated around 20%. In the end, the increase in the share of contingent contracts is high enough to be interpreted, at least partly, as an increase in the share of secondary labour market jobs… Calandrino and Gagliarducci 2004 focussed on the transition rates between such states as employment (short term and long term contract), unemployment and inactivity, in the E.U. 15 countries from the mid – nineties to 2001. They found in the case of France quite low rates of transitions from unemployment to employment, and, weak rates of transitions between short-term and long-term employment." See Sauze D. (2006), *Le recours aux contrats de travail à durée déterminée en France : une analyse sur données d'entreprise (1985-2000)*, Thèse pour le doctorat de Sciences Economiques, Université Paris I, Décembre and Calandrino M. and

Gagliarducci S. (2004), "Labour market transitions and advancement: temporary employment and low pay in Europe", *Employment in Europe 2004*, The European Commission, ch. 4, pp 159 - 186

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

[69] INSEE (institut national de la statistique et des etudes économiques), "Photographie du marché du travail, résultats de l'enquête emploi" *INSEE première*, n°1206, August 2008.

[70] As explained by Gazier and Petit, 2007, Yves Fondeur, when he examines the proportion of each cohort being employed after seven years, and the proportion having a stable job, finds that "For the 1975 – 1980 generations, after seven years the proportion of workers in a stable (long-term) jobs reaches 95 %. From 1986 to nowadays, the proportion goes down slowly to 90 % and the trend remains in this downwards orientation" Gazier and Petit, 2009, quoting Fondeur Y. (2005), "Les générations entrant sur le marché du travail", in IRES 2005, Les mutations de l'emploi en France, La découverte pp 61 – 74.

[71] INSEE, "L'activité des immigrés en 2007", iINSEE premièrei, N°1212, October 2008.

[72] Dominique MEURS, Ariane PAILHE, Patrick SIMON, « Persistance des inégalités entre generations liées 1'immigration : I'accès a 1'emploi des immigrés et de leurs descendants en France » *Population-F*, 61(5-6), 2006, 763-802.

[73] Anne Daguerre, Bruno Palier, "Francia", in Martin Rhodes, Maurizio Ferrera, (ISFOL), *Sistemi di wlefare e gestionedel rischio economico di disoccupazionze*, (Milano, Franco Angeli, 2004) pp.195-236.

[74] Martin and Thelen, "The State and Coordinated Capitalism."

[75] Eric Maurin and Fabien Postel-Vinay, "The European Job Security Gap," *Work and Occupations* 32: 2 (May 2005), 231, based on OECD data.

[76] Bernhard Ebbinghaus and Werner Eichhorst, „Distribution of Responsiiblity for Social Security and Labour Market Policy," 11

[77] M. Malo, L. Toharia and J. Gauthié, "France: the deregulation that never existed," 252.

[78] Eichhorst and Kaiser, "The German Labour Market,"16, also 21.

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[79] Wolfgang Streeck and Christine Trampusch, "Economic Reform and the Political Economy of the German Welfare State," *German* Politics 14: 2 (June 2005), 176; Bruno Palier, *Gouverner la Sécurité sociale* (Paris, PUF, 2005) p. 209 for France.

[80] Daniel Clegg, BrunoPalier, "From labour shedding to labour mobilisation: The staggered transformation of French labour market policy", paper presented at the 2007 Annual Meeting of the American Political Science Association, August 30th-September 2nd, 2007.

[81] See, e.g., Christine Trampusch, "Industrial Relations as a Source of Social Policy: A Typology of the Institutional Conditions for Industrial Agreements on Social Benefits, "*Social Policy & Administration*, 41(3), 251-270.

[82] Clegg and Palier (2007).

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

[84] Streeck and Trampusch, "Economic Reform."

[85] *Frankfurter Allgemeine Zeitung,* November 9, 1998.

[86] Karl Hinrichs, " Social Insurance State Withers Away. Welfare State Reforms in Germany – or: Attempts to Turn Around in a Cul-de-sac" in Bruno Palier (ed) *A long Good Bye to Bismarck: The Politics of Welfare reforms in Continental Europe*, Amsterdam University Press, forthcoming.

[87] Hinrichs, forthcoming

[88] Hinrichs, forthcoming.

[89] Eichhorst and Kaiser, "The German Labor Market," 21 and 25.

[90] Streeck. As last at 1999 the unions were calling still for Rente mit 60 ,though by 2004 pension reforms had put up additional barriers to early retirement

[91] Compare the numbers: 20,000-30,000 showed up in Leipzig, 15,000 in Magdeburg, 5,000 in Rostock and only 1,200 in Dortmund (EIRO 06-09-04).

[92] Heiner Dribbusch, "Germany: Industrial Relations Developments in Europe 2007," EIROnline,

September 23, 2008.

[93] Financed through an increase in the value added tax, with a separate "ecology tax" being devoted to shoring up the pension funds.

[94] Hinrichs 2007.

[95] Eichhorst and Kaiser, "The German Labor Market," 22

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

[97] Daniel Clegg, "Continental Drift: On Unemployment Policy Change in Bismarckian Welfare States," in Martin, Palier, 2008, *op. cit* p. 78

[98] OECD, Growing Unequal? : Income Distribution and Poverty in OECD Countries
country note: France (Paris, OECD, 2008)