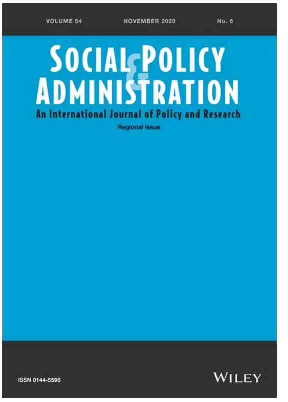
Social Policy & Administration, 2020

Accepted: 12 August 2020



Labour market liberalization and the rise of dualism in Europe as the interplay between governments, trade unions and the economy

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Abstract

Why have labour market reforms varied so much across European countries in the 30 years preceding the economic crisis? We argue that the degree of liberalization over time in each country depends on the interaction between governments' partisan leaning, the strength of trade unions and the economic problem-load pushing governments to adopt distinct labour market reform strategies. Building on existing literature, we interpret 'dualizing' labour market reforms as weaker forms of liberalization and test our argument on the cross-national variation in over 200 labour market reforms carried out in 14 western European countries between 1985 and 2007. Our empirical results show that governments are less likely to liberalize if they face a strong union movement and the economic problem-load is low. However, even in countries with strong unions, opposition may not always manage to block change. First, as unemployment becomes more severe, unions' ability to reduce the likelihood of liberalization strongly decreases. Second, trade unions often do not manage to prevent liberalization advanced by social democratic governments. Third, governments can devise three (non-rival) strategies to

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deflect opposition: (1) they can re-regulate parts of the labour market to protect certain workers from liberalization; (2) generous unemployment benefits can cushion the costs of liberalization, thereby increasing its likelihood; and (3) they can carry out two-tier reforms to insulate insider (unionized) workers employed in permanent contracts, which limits union opposition. By identifying the complex interactions between variables that explain variation in labour market liberalization across European countries, this article contributes to our understanding of the evolution of European political economy.

KEYWORDS

dualization, employment protection legislation, labour market liberalization, partisanship, trade unions, Western Europe

1 | INTRODUCTION

What explains patterns of labour market reforms in Europe over the last thirty years? The determinants and wide-ranging political and economic effects of liberalization cum dualization are a core theme of contemporary debates in comparative political economy and industrial relations (Beramendi, Häusermann, Kitschelt, & Kriesi, 2015; Emmenegger, Häusermann, Palier, & Seeleib-Kaiser, 2012; Esping-Andersen, 1999; Hall & Soskice, 2001; Lindbeck & Snower, 2002; Palier & Thelen, 2010; Rueda, 2007; Vlandas, 2018). Yet, current explanations struggle to make sense of the fact that European labour markets have been *both* significantly liberalized through deregulation (Thelen, 2012, p. 146) and markedly dualized with the increasing divergence in employment protection for different groups of employees (Busemeyer & Kemmerling, 2020, p. 377; Vlandas, 2020).

Indeed, data described in this article show that, between 1985 and 2007, European labour markets have liberalized decisively in the last 30 years, with every country barring the Netherlands implementing at least one structural reform. However, European countries have liberalized their labour markets *predominantly* by implementing reforms affecting only a fraction of workers. In other words, increased liberalization went hand-in-hand with increased fragmentation of the labour market between insiders and outsiders. This indicates that the partition of workers between insiders and outsiders, often referred to as dualization, is part and parcel of labour market reforms (Emmenegger et al., 2012; Rueda, 2007; Benassi and Vlandas, 2016; Vlandas, 2013a).

We build on existing literature to propose a novel interpretation of labour market reforms in Europe. We then test this explanation on a dataset documenting the cross-national variation in over 200 labour market reforms carried out in western European countries between 1985 and 2007. We show that liberalization cum dualization was *not* predominantly achieved by centre-right governments willing to antagonize organized labour and left parties. This contrasts with previous literature addressing the evolution of European labour markets over time. Perhaps influenced by events in the UK, which was the early liberalizer in the 1980s, liberalization was mainly understood as either a right-wing reaction to the left and organized labour (Pierson, 1994; Wood, 2001) or motivated by the underlying production structure and development path (King & Wood, 1999; Rueda et al., 2015; Thelen, 2001).

On the contrary, liberalizing and dualizing reforms were often also pursued by centre-left governments facing dire economic conditions and attempting to tackle unemployment and/or rising labour costs through pro-market supply-side policies. The characteristics of organized labour and their interaction with government partisanship is therefore at the core of our analysis, and we reach conclusions that complement previous, often more qualitative, literature. When centre-left governments faced strong unions, reluctant to accept liberalization, they persuaded them to concede to reforms through compensatory reregulatory measures; instead, when they faced weakened unions (see Baccaro & Simoni, 2008 for a definition) they stroke compromises that liberalized atypical contracts while preserving union insider's prerogatives. Liberalization has decreased decommodification of labour in western European countries towards a more market-oriented organization of the economy (Baccaro & Howell, 2017). In so doing, it has reduced the power and influence of trade unions and, *a fortiori*, of social democratic parties (Arndt & Rennwald, 2016; Baccaro & Pontusson, 2019). In other words, by supporting or accepting dualization, these two organizations have paved the way to their own weakening.

This article also shows that the problem load faced by European countries was a key push factor to bring governments to liberalize. Therefore, it offers a clearer operationalization of the drivers of liberalization and dualization on the policy-making side compared to previous research (e.g. Davidsson & Emmenegger, 2013; Rueda, Wibbels, & Altamirano, 2015; Vlandas, 2013a). However, not only do countries face different degrees of economic problem load, and hence different levels of urgency to reform, but they also differ with respect to the constellation of social actors preoccupied with labour market reforms. As a consequence, the distinct path towards labour market liberalization, and therefore its outcome in terms of degrees, was country-specific and resulted in different patterns of labour market fragmentation in Europe.

In sum, the interplay of governments, trade unions and the state of the economy is key in explaining variation across countries. Our findings confirm Trade Unions' role as important shapers of European labour markets during the 1990s and 2000s, even if their secular decline was much under way. In a seminal article, Berger (1981) had explained that the relevance of interest groups is highly contingent not only on their size, but on their relative position within the political system and the production regime: our analysis of European labour market reforms confirms her early insight.

The next section starts by discussing existing literature on labour market change in Europe. Next, we advance a novel understanding of the determinants of change by focusing on the incentives faced by governments and trade unions when pressed by economic problems. We then present data on liberalization in Europe by making a novel use of the fRDB-IZA Social Reforms Database. Results from ordinal logistic regression analyses corroborate our argument. We conclude by examining the implications of our findings for further research and for our understanding of contemporary political economies.

2 | PREVIOUS LITERATURE

Trade unions and their differences across countries were always considered as key to understand varieties of welfare and labour entitlements. The power resource theory (PRT), which was recently 'rediscovered' (Emmenegger, 2014, p. 287), argued that variation of workers' entitlements across European countries was motivated by the different strength of organized labour, and the capacity of social democratic parties to win and hold power (Esping-Andersen, 1999; Korpi, 1983, 2006). As a corollary, retrenching such entitlements ought to be the work of employers' groups or otherwise right-wing actors and political parties (Wood, 2001).

Pierson (1996) broadened this perspective into an institutional analysis. He argued that welfare state entitlements create vested interests—in the case of this article, employment protection legislation (EPL), mostly trade union organizations and labour market insiders—that will oppose change and are likely to succeed in polities where they hold veto player positions.

While addressing the political economy of liberalization, most literature—including our paper—attempts to combine arguments based on power and ideology and those based on institutional constraints. Boix (1998) argued that in a post-Keynesian context, where economic performance only depends on the ability of the supply-side to provide sustained productivity, both the right and the left will pursue pro-market policies, including liberalizations. However, the centre-left will mitigate liberalization to cater to its constituency, for instance through active labour market policies aimed at increasing the reservation wage (cf. Vlandas, 2013b).

Rueda (2007) disagreed, and offered an alternative view based on an analysis of the preferences of the centre-left constituency. Rueda's core argument is that the latter is composed of unionized or otherwise 'insider' employees. Hence, the party-union link on the left makes the former promote policies that cater to the need of insiders, such as defending EPL for traditional workers, as opposed to the needs of outsiders (that is, those in precarious employment or in unemployment), such as active labour market policies.

This key difference between Rueda's and Boix's explanations implicitly suggests the need for further research and intervening variables, which again leads to seek differences in unions structures and their combination with government partisanship. In this guise, a strand of the literature attempted to disentangle liberalization that affects insiders and liberalization that affects outsiders. Indeed, regulatory differences between insiders in permanent full-time employment and outsiders in precarious employment or in unemployment have increased over time (Adams & Deakin, 2014; Emmenegger et al., 2012; Rueda, 2007; Stephens, van Kersbergen, Hassel, & Palier, 2012). These studies have observed that governments have mostly preserved old policies which apply to labour market insiders (e.g. EPL of regular contract), while decreasing the policy entitlements of outsiders (e.g. Palier & Thelen, 2010). While this literature investigates power dynamics in dualized labour markets, where insiders are likened to the unionized—hence more influential—portion of the labour market, it does not analyse systematically the emergence of labour market reforms that lead to such dualization.

A recent exception is the account by Rueda et al. (2015) that focuses on the origins of dualization. They argue that countries which based their economic development on 'internally-oriented industrialization', as opposed to export-oriented development, favoured strong employment protection of insiders. Such legislation, later on and in a context of more open economies, proved detrimental to the competitive needs of (newly) export-oriented firms, so that dualization, that is, the relaxation of EPL at the margins of labour markets, was the easiest way in order to improve national competitiveness. This contribution can be grouped with other works focusing on the underlying features of the production regime as ultimate drivers of regulation and *a fortiori* regulatory reforms, that find their stronger proponents within the varieties of capitalism (VoC) approach (Hall & Soskice, 2001).

This latter VoC tradition has argued in different veins that countries already mostly entrenched with liberal (coordinated) market institutions will tend to liberalize (not fully liberalize) labour markets in order to increase systemic institutional coherence. Examples of such arguments, where reforms are implicitly driven by the model of production, include the interpretation of the Thatcherite reforms in the 1980s suggested by King and Wood (1999) and the interpretation of Germany's liberalization by Hassel (2009) and Thelen (2012). The latter argue that German reforms were designed to protect the high level of entitlements of workers in the core industrial sectors, because these entitlements are crucial to support the high productivity dynamic of these sectors.

A third stream of literature engages more directly with our focus in this article, that is, the politics of liberalization, and the impact of related variables on cross-country differences in liberalization degrees, between partial (dualizing) liberalization and full (structural) liberalization. Avdagic (2013) argues that liberalizing reforms are more likely to occur when the centre-left governs in countries with strong veto players, because the government can share the blame of reforms with the latter, or when the centre-right governs in countries with weak veto players, because the government encounters less resistance. Intermediate configurations would instead lead to dualizing reforms or no reform at all. Avdagic's (2013) conclusions offer strong empirical arguments against traditional PRT approaches, with which we broadly sympathize, that is, partisanship and the strength of organized labour is no longer a direct and meaningful predictor of policies generally seen to be in favour of workers.

However, her analysis does not focus primarily on the crucial role played by trade unions, both theoretically and empirically. Indeed, her empirical measure of 'veto player' does not include unions. Instead, a measure of union density, that is, the share of unionized employees, is included as a control in her econometric analysis. As a result of this empirical strategy, her core argument on blame-avoidance does not specify by which actors governments fear being blamed by.

Instead, other literature points convincingly to the fact that trade unions are relevant both theoretically and empirically to understand the mechanics of labour market policy-making in Europe. Simoni (2013) analyses centre-left strategies in the same time period as this article and through archival research shows that in the 1990s and 2000s, that is, when most of the labour market liberalization took place, the European centre-left in the majority of countries has pursued its economic agenda in agreement with trade union organizations.

In addition, Emmenegger (2014) brings back a more complex conceptualization of trade unions' role in the politics of labour market policy. He articulates three reasons that push them to oppose labour market liberalization. First, they do so in order to protect their members. Second, because EPL protects their organization by making it easier for them to retain membership. Third, because their statutory roles in unemployment benefit management give them negotiating power within individual companies. According to Emmenegger (2014), country variation in liberalization patterns depends on the relative importance of these factors and his analysis hints—but does not explore—the possibility that unions may consent to reforms if their reasons to opposing them are taken into account.

Bo and Emmenegger (2013) focus more specifically on two-tier reforms, that is, reforms which liberalize the labour market only at the margins, while retaining the entitlements of employees in permanent contracts. Using fsQCA, they analyse the conditions under which two-tier reforms of the labour market occur. They find that trade unions oppose liberalization and concede two-tier reforms, leading to dualization, first and foremost to protect their institutional role as power brokers in the political economy, rather than to protect their core membership. In other words, Unions are likely to support two-tier labour market policies if they need to do so for organizational reasons, regardless of whether they are able or unable to include or outsiders in their rank-and-file.

This work is particularly important because it shows that institutional factors (i.e. the role of unions as power brokers in policy-making) and partisan factors (i.e. the political leaning of the government) are distinct factors shaping labour market reforms, and hence should be treated as independent variables.

Another empirical paper analyses a peculiar strategy that governments may adopt to diffuse rather than shift the blame of unpopular reforms. Jensen et al. (2014) focus on reforms that cut back on unemployment benefit replacement rates in 18 OECD countries, and find that the governments passed such reforms by associating them with compensatory measures which were substantially less relevant than the former, yet able to obfuscate the electorate. Indeed, a time-honoured scholarly tradition has analysed different dimensions of potential 'political exchanges' between government and unions. Early on, Pizzorno (1978) focussed on the indirect exchange between low wage increases and increased welfare provisions (and investments). In poster-child Ireland, where union agreement was core to the economic boom in the 1990s, the exchange was between low wage increases and decreasing income tax (Baccaro & Simoni, 2002). So exchanges between parallel, yet separate, policy items is the norm rather than the exception in government-unions relations. Therefore, we should expect to observe similar mechanisms at play also in the case of labour market liberalization.

3 | OUR MODEL AND HYPOTHESES

Our understanding of liberalizing reforms in Europe starts from two assumptions derived from previous research reviewed above. First, because liberalizing reforms are going to elicit opposition and governments care about consensus, we posit that governments of any colour undertake unpopular reforms only if pressed by economic problems (for a similar logic, see Baccaro & Simoni, 2008). Second, trade unions, ceteris paribus, oppose labour market liberalization because it weakens the market power of their members and because it weakens their recruiting capacity (and, as a consequence, their institutional prominence, see Emmenegger, 2014; Martin & Ross, 1999). Considered together, these two assumptions point to the need of theorizing the role of two opposing forces: (a) the pressures to change arising from economic problems—which vary across countries; and (b) the opposition to change coming from trade unions—which also varies across countries.

Economic problems that can push governments to undertake labour market liberalization can relate either to low employment/high unemployment, or to excessive labour costs relative to productivity. High unemployment generates social unrest and it is likely to dampen electoral prospects, labour cost dynamics stronger than productivity dynamics—as measured typically by unit labour cost—are likely to hurt growth prospects, particularly in an open economy. Interestingly, both these measures have been widely used in the literature on the impact of trade unions and labour market institutions on the economy (e.g. Blanchard & Wolfers, 2001; Eichengreen & Iversen, 1999; Traxler, 2003).

Trade union opposition to liberalization is shaped by two factors unveiled by previous research but rarely considered together. The first factor is the partisan leaning of the government, which determines the importance of unions as a constituency for the incumbents (Rueda, 2007; Simoni, 2013). The second factor is the extent to which the proposed reforms are likely to impact on union members. In turn, the latter can be relatively minor if strong welfare cushions, such as generous unemployment benefits, are present and left intact. Otherwise, liberalization's effects can be reduced though compensatory and simultaneous reregulation policies, mimicking a renewed 'political exchange' (Bo & Emmenegger, 2013; Pizzono, 1978). From this stylized reasoning, we derive five main hypotheses in the following paragraphs.

Our first hypothesis builds on a quintessentially 'constructivist' logic (cf. Chwieroth, 2007) to argue that governments' perception of the need to undertake liberalizing reforms will be based on their assessment of labour market problems. As Dickens (2004, p. 604) argues: "Flexibility is seen as necessary by European member states to reinforce the competitive performance of companies, sectors [and] countries". Indeed, since the late 1970s, the neo-classic economic paradigm dominates policy prescriptions given by economic experts (Notermans, 2000). Thus, in case of labour market malaise, liberalization would be the standard recipe that a government will attempt to apply. We, therefore, expect a greater problem load to lead to more liberalization.

Second, we do not necessarily expect stronger unions to always be associated with a lower likelihood of liberalization because this depends crucially on other factors, most notably the extent of economic problems, the partisan leaning of the government, and the presence of a strong welfare state and/or compensatory policies. With respect to the former, we theorize that the extent to which unions can dilute (or block) labour market reforms decreases as the economic situation deteriorates.

By contrast, it is less straightforward how the interaction of union strength with partisanship will play out. On the one hand, unions could be better able to counteract liberalization attempted by the centre-left because of their ideological and organizational ties and because they are a core constituency of the left (Rueda, 2007). However, as Simoni (2013) showed for the period under observation, the centre-left has pursued across European countries pro-market labour and welfare state reforms, while being able, in the majority of cases, to do so in political alignment with the trade unions. On balance, we expect the ability of trade unions to block liberalization reforms to be lower when faced with a strong social democratic party in government, but we leave this to empirical verification.

Finally, we also expect the likelihood of liberalizing reforms to depend on both existing labour market policies and other simultaneous reforms that might be introduced alongside liberalization. First, in countries where existing benefits are more generous, the cost of liberalizing the labour market can be expected to be lower, and hence liberalization is more likely. This reflects the wider literature on flexicurity, which documents how certain countries were able to develop a combination of flexible labour markets and generous unemployment insurance regime (Madsen, 2008; Wilthagen, Tros, & Van Lieshout, 2003). Second, governments can mitigate opposition and deliver change using compensatory measures to reduce Unions' opposition. Compensation can most notably occur through contemporaneous reregulation of smaller parts of the labour market of particular interest to unions, that is, where union membership is higher.[1]

In sum, we have the following expectations:

Hypothesis 1 The likelihood of liberalizing reforms increases when economic and labour market problems are higher.

Hypothesis 2 The negative effect of trade union strength on the probability of liberalizing reform becomes lower or insignificant when unemployment deteriorates.

Hypothesis 3 The negative effect of trade union strength on the probability of liberalizing reform is lower or insignificant when the centre-left is in power.

Hypothesis 4 The likelihood of liberalizing reforms is higher when existing unemployment benefits are more generous.

Hypothesis 5 Reregulation increases the likelihood of liberalizing reform and reduces the negative effect of union strength on the probability of liberalizing reform.

4 | DATA AND METHOD

The timeframe of our analysis starts in 1985 due to data availability and stops in 2007 because the financial and economic crises have profoundly altered policy reform dynamics in Europe. Different research would be necessary to investigate labour reform pattern post-2007 (see for instance Theodoropoulou, 2018).

The EPL index collected by the OECD is perhaps the most used measure of labour market protection in the literature. We do not use the EPL indicator as our main dependent variable (although we use it as a robustness check) because our purpose is to investigate the logic and dynamic of actual reforms over time, not simply of their comparative outcome. Instead, in order to explore labour market reform dynamics, we use the fRDB database (Catania et al., 2007) to build a finer and novel index of reform activity. This database includes details of each EPL reform that has occurred in each of 14 Western European countries between 1980 and 2007. Each reform is coded on three separate dimensions: (a) if it increases or decreases flexibility, that is, liberalization versus reregulation; (b) if it is ‘structural’, that is, addressing ‘the broader design of existing systems’; or ‘marginal’; (c) if it is ‘complete’, that is, it concerns the whole workforce; or ‘two-tier’, that is, it concerns only a portion of the workforce. The different topics covered by the reform dataset can be found in Table A1.4 in the online appendix.

We build on this useful distinction to translate these values into a workable time-variant index by combining the scope and extent of such reforms in a simple two-by-two matrix. This exercise yields four types of liberalizing reforms: structural/complete (cell 1 in Table 1); structural/two-tiers (cell 2); marginal/complete (cell 3); and marginal/two-tiers (cell 4). The magnitude of these reforms in terms of impact on liberalization is straightforward in the extreme cases (cells 1 and 4), but less so in the two intermediate cases. Therefore, we consider intermediate cases as being equivalent in terms of ‘liberalization strength’.

Hence, for each country/year, our index captures the extent of labour market liberalization: it takes the value of 3 when a structural/complete liberalizing reform is coded in the fRDB database; a value of 2 for reforms with either a lower coverage or a smaller scope; a value of 1 for marginal/two-tiers reforms, and 0 if no reform is passed. Note that this contrasts with the precise coding used by Riekhoff (2017): while the latter focuses on the number of

TABLE 1 Index of labour market liberalization

Scope/Coverage	Complete	Two-tier
Structural	Structural reform that applies to the entirety of the labour force: maximum impact, coded 3	Structural reform that applies to a fraction of the labour force: intermediate impact, coded 2
Marginal	Marginal reform that applies to the entirety of the labour force: intermediate impact, coded 2	Marginal reform that applies to a fraction of the labour force: minimal impact, coded 1

reforms with comprehensive features,[2] we are interested in whether the reform is marginal, intermediate or structural. The sign of our variable is therefore positive for reforms that increase flexibility, while at the same time capturing the degree to which the reform is liberalizing the labour market.

Given this tailor made reorganization of the index, it is useful to check how it compares to an established indicator. To do so, we compute a country average of our index over the period of reference, which correlates at 84% (p-value < .000) with percentage changes in the OECD EPL index in the same period. This is shown graphically in Figure A2.1 in the online appendix, where both indicators are coded so that positive values capture liberalization of EPL, that is, in the case of OECD index a fall in EPL index. Crucially, this supports empirically our interpretation of two-tier reforms and marginal reforms as weaker forms of liberalization. Compared to the OECD index, however, our indicator retains variation in both the dimensions that have characterized labour market change in Europe: coverage and scope. As such, it accounts for both structural liberalization and the (more prevalent) cases of labour market dualization.

We carry out a multivariate analysis to identify the conditions under which different types of liberalization reforms are more or less likely to be adopted. We describe the independent variables that we have used to operationalize our hypotheses and then move on to present our methods and results. First, unit labour cost and the unemployment rate, both collected by the OECD, are the two variables we use to identify the exogenous problem load pushing governments to undertake labour market liberalization. Unit labour costs measure the average cost of labour per unit of output, while the unemployment rate is calculated as the unemployed as a percentage of the civilian labour force. We expect that in each country/year the likelihood of EPL liberalization should increase the higher the unit labour costs and the higher the unemployment rate.

Second, we measure union strength by multiplying the following two variables: union density and bargaining coverage. To measure union density we rely on net union membership as a proportion wage and salary earners in employment. Bargaining coverage is defined as the share of employees covered by wage bargaining agreements as a proportion of all wage and salary earners in employment. The reason to use a composite index is best illustrated by the case of France where small (in terms of membership) unions can elicit strong political opposition if the law extends their influence to non-union sectors that have to apply the wage agreement bargained by them (Hyman, 2001). We expect this proxy of union strength to be associated with a lower likelihood of labour market liberalization, but only under certain contextual conditions captured by government partisanship, the extent of compensatory policies and of labour market problems.

Third, our Social Democratic Government variable measures the share of the parliamentary majority composed by the social democratic party, which is a time-varying measure of the leverage that Social Democratic party has on the government (Simoni, 2013). This SDGOV variable is equal to 0 when the social democratic party is in opposition, it is 1 or greater when it forms a single-party government (or, theoretically, when it is in a coalition while holding the absolute majority of seats), and it is between 0 and 1 when it is in a coalition government (Simoni, 2013, p. 332). We expect this variable to be associated with a lower probability of labour market liberalization but also to moderate the negative effect of union strength on liberalization reforms (please see Table A1.1 in the online appendix for the precise formula).

Fourth, we use a measure of reregulation to identify reforms that decrease flexibility in parts of the labour market in order to provide side-payments for overall liberalization. Our measure is scaled like our liberalization variable: complete structural reforms are coded 3; marginal complete and structural two-tier reforms are coded 2; marginal two-tier reforms are coded 1; and the variable is coded 0 where there are no reregulatory reforms. We expect reregulation to be positively associated with the probability of a liberalizing reform in the same year and also to condition the effect of union strength.

Fifth, to measure benefit generosity, we use data on unemployment benefit duration provided by the OECD. This variable proxies the generosity of income protection in case of unemployment, hence this variable is expected to be positively related to the likelihood of reform. Note, crucially, that this variable is constructed in a way that explicitly incorporates the generosity of the benefit by taking a weighted average of the replacement rate at different points in time after an individual becomes unemployed (see Table A1.1 in the online appendix for more details).

Finally, we also add two further controls. First, there is some evidence that economic globalization increases the likelihood of liberalizing EPL for regular workers because of regulatory competition, increased regulatory cost, and because trade openness may divert resources away from highly unionized protected sectors (Potrafke, 2010). We thus control for a measure of the trade to GDP ratio. Second, because the analysis starts at a given point in time where institutions already exist, it is particularly important to ensure there are no unobservable factors that were determined in previous periods. To address this problem, our analysis controls for a (lagged) measure of the OECD EPL index to account for the pre-existing level of regulation. The source, definition and descriptive statistics for all independent variables are presented in Table A1.1 and A1.2 (see online appendix).

Our dependent variable is the index of labour market liberalization we derived from the fRDB database (described earlier) that scores: 3 in country/year when a structural liberalization occurs; 2 when an intermediate liberalization occurs; 1 when a minimal liberalization occurs; and 0 when no reform occurs. Since our dependent variable has four distinct ordinal values, our models are estimated using ordinal logistic regression analysis, which allows us to estimate the probability of each type of labour market reform. We have carried out a Brant (1990) test to check whether the proportionality assumption underpinning ordinal logistic regression is warranted given the structure of our data. Since our test statistic is not statistically significant we do not have evidence that the parallel regression assumption has been violated and conclude that ordinal logistic regressions are appropriate.

Given possible unobservable country heterogeneity and autocorrelation typical of time series cross-section data, we include a full set of $i - 1$ country dummies to account for unobserved time invariant country heterogeneity and report robust standard errors. Following recommendations by Carter and Signorino (2010) we also include linear, quadratic and cubic trends to capture the time dimension of our panel dataset.

It is useful to recall that regression coefficients in logistic regression analysis should be interpreted with caution: their statistical significance and magnitude only refers to the effect of the relative variable at average level of all the other independent variables. Hence, we will first discuss their sign, and then proceed to discuss marginal effects and their confidence levels. We do not report the coefficients of interaction terms because "the magnitude of the interaction effect in nonlinear models does not equal the marginal effect of the interaction term, which *can be of opposite sign*" (Ai & Norton, 2003, p. 124) and "its statistical significance is *not equal* to the significance of the coefficient of the interaction term" (Ai & Norton, 2003, our emphasis). In other words, in non-linear regressions with interaction terms, coefficients of the latter are completely misleading, and therefore interactions have to be investigated through the analysis of marginal effects plots.

5 | RESULTS

5.1 | Descriptive evidence

As is shown in Figure 1, the OECD EPL index confirms that nearly all European countries that in 1985 displayed a relatively rigid labour market have passed liberalization reforms by 2007, with the exception of France (OECD database). Next, Table 2 allows us to unpack a number of patterns of labour market reforms in Europe broken down by the different dimensions identified in Table 1. First, liberalizations exceed reregulations, that is, European labour markets have liberalized decisively in the last 30 years. Second, marginal reforms are vastly superior in number to structural reforms, which is not surprising, given the greater difficulty of implementing structural reforms. However, we find instances of structural reforms in every country—except the Netherlands—so that any satisfactory explanation must account for different types of liberalizations. Third, two-tier reforms are about 20% more numerous than complete reforms, which indicates that the fragmentation of labour markets between insiders and outsiders, what is often referred to as dualization or dualism, is an integral part of 20 years of labour market reforms.

How do these patterns of labour market reforms relate to union and left strength? Figure 2 shows that—on average—liberalization increase went hand-in-hand with unionization decline, which suggests overall explanatory power

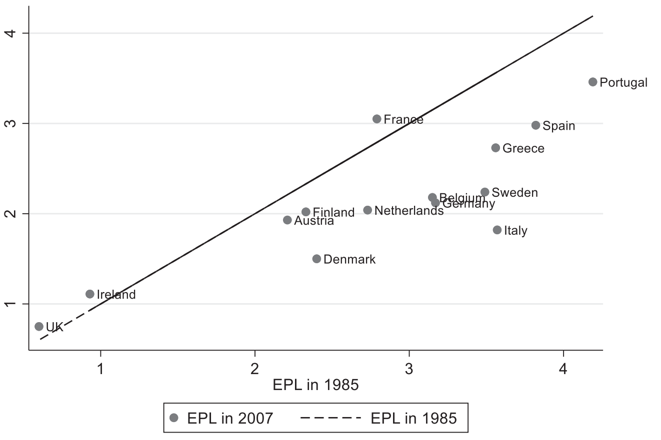

FIGURE 1 EPL in 1985 and 2007. EPL, employment protection legislation

for the PRT mentioned earlier (Korpi, 1983, 2006), and other theories of institutional path-dependency (or lack thereof: institutions falter as their socio-political underpinning weakens). However, a cursory inspection of cross-country differences in Figure 3 questions both the causal mechanisms and the dynamics behind such claims. Liberalization was strongest in countries such as Sweden and Denmark where social democratic parties have held very long governmental tenures and where trade unions arguably hold stronger veto position than, say, France where liberalization overall was more modest as was union density. In addition, Figure 3 seems to suggest a (mild) positive correlation between the strength of the centre-left and our index of labour market liberalization which would be in direct contrast with old (Korpi, 1983) and new (Emmenegger, 2014) versions of the PRT because the transmission mechanisms identified by these authors link the strength of organized labour to its capacity to push legislation through its political representation on the centre-left.

5.2 | Ordinal logistic regression models

Table 3 displays results from a series of ordinal logistic regression models without interactions. The findings broadly corroborate our expectations. Unemployment and unit labour costs increase the probability of liberalizing reforms. In contrast to Rueda et al. (2015), and by arguably using a larger and finer dataset compared to theirs, we find no evidence of an impact of trade openness. Stronger unions are statistically significant, but not in all specifications consistent with the notion that the size and statistical significance of its effect on liberalizing reforms may be conditional on other factors. Social democratic control of the government is associated with a lower probability of liberalizing reforms. Therefore, the combination of an increased problem load, a declining union movement in Western Europe in the last three decades and the vast prevalence of liberalizing normative discourse, has meant that vested interests were not able to contain labour market liberalization which indeed diffused across Europe.

Next, the pre-existing level of EPL has a positive effect on the probability of liberalization reform but its significance is not stable, suggesting that reform activism is not only related to pre-existing labour market rigidity. Note that the lag of EPL is *not* a lagged dependent variable, and hence our results do not suffer from Nickell (1981) bias. Indeed, whereas a simple bivariate OLS reveals that the lag of EPL accounts for 98% of the variation in current EPL, it accounts for less than 1% of variation in our liberalization index.

Finally, both higher generosity of unemployment benefits and the contemporaneous approval of reregulatory policies are associated with a higher likelihood of liberalization (and the effect of the former holds regardless of whether it is included with a lag—see Table A2.2 in online appendix). This suggests that existing social policies affect

TABLE 2 Patterns and content of reforms across Western European countries in the period 1980–2007

Country	Liberalization				Reregulation								
	Two-tier marginal	Two-tier structural	Complete marginal	Complete structural	Two-tier marginal	Two-tier tructural	Complete marginal	Complete structural	Total	Total two-tier	Total complete	Weighted reform count	OECD EPL change 1985–2007
Austria	4	0	0	1	8	0	2	0	15	12	3	−0.04	0.13
Belgium	7	2	0	0	4	0	3	0	16	13	3	0.01	0.31
Denmark	3	1	2	0	1	0	2	0	9	5	4	0.03	0.38
Finland	3	1	2	4	2	2	0	2	16	8	8	0.11	0.13
France	8	0	6	2	3	2	7	2	30	13	17	−0.02	−0.09
Germany	8	6	0	4	3	0	2	2	25	17	8	0.21	0.33
Greece	4	2	3	2	3	0	4	0	18	9	9	0.13	0.23
Ireland	0	0	1	0	5	1	9	0	16	6	10	−0.22	−0.19
Italy	13	4	0	1	4	1	0	1	24	22	2	0.19	0.49
Netherlands	3	0	9	0	6	0	3	0	21	9	12	0.09	0.25
Portugal	1	3	5	2	6	0	3	0	20	10	10	0.11	0.17
Spain	10	6	5	1	9	2	2	0	35	27	8	0.06	0.22
Sweden	4	1	8	1	7	0	5	0	26	12	14	0.09	0.36
UK	4	0	11	0	3	0	23	0	41	7	34	−0.27	−0.25
Total	72	26	52	18	64	8	65	7	312	170	142	Correlation=	0.84 (p < .000)

Note: The data differentiates between both the scope (marginal versus structural) and coverage (two-tier versus complete) of reregulatory and liberalizing labour market reforms.
Abbreviation: EPL, employment protection legislation. In the last two columns, both indicators are coded so that positive values capture liberalization of EPL. See online appendix for more details.
[a]*Source:* fRDB database.

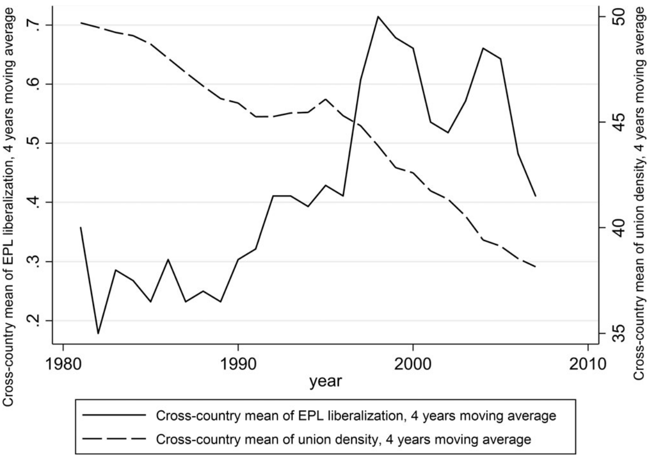

FIGURE 2 EPL liberalization and union decline. Four years moving average of liberalization index, cross-country average. EPL, employment protection legislation

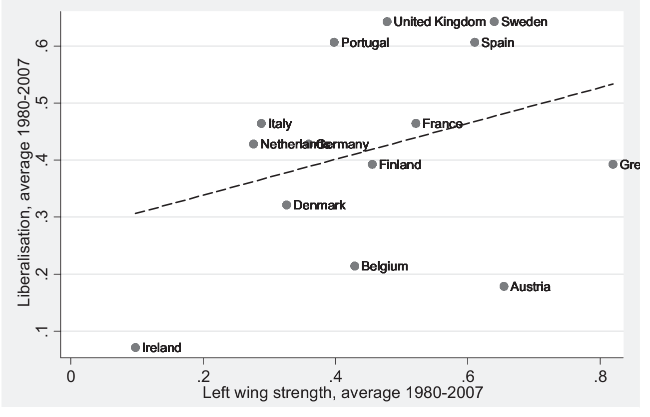

FIGURE 3 Liberalization and left wing strength across countries, period average

the probability of reform by cushioning the effects of liberalization on workers welfare, and that a compensatory logic to protect union members is in play.

We carry out a number of robustness checks. First, we show that removing the controls for temporal effects does not change the results (column 2). Second, we control for district magnitude in column 3. Countries with more proportional representation systems are associated with a higher likelihood of liberalization. Proportional representation (PR) systems are known to favour coalition governments (Persson, Roland, & Tabellini, 2003) which may be better able to aggregate different societal interests. Given that PR is by definition likened to political systems with higher number of veto player, this result is consistent with previous research by Avdagic (2013).

Third, replacing our measure of social democratic control by different proxies of left share of cabinet or parliamentary seats continues to suggest that left power is negatively associated with liberalizing reform propensity (columns 4 and 5). Equally, removing country fixed effects does not change the association between the left and reform liberalization (Table A2.3 in online appendix). Fourth, we rerun our analysis while excluding the lagged EPL, which removes the statistical significance for trade union strength and the lag of unemployment benefit duration, although note that this might be more indicative of an omitted variable bias since the coefficient for the lagged EPL was statistically significant and there is no collinearity in our model (column 6).

Fifth, removing the control for trade openness does change our results. Because the reregulatory variable might raise endogeneity concerns we also rerun our analysis while excluding it. We find that union strength and social democratic control of government continue to be negatively associated with reform propensity, whereas

TABLE 3 Main regression results

Column	1	2	3	4	5	6	7	8	9
EPL (lagged)	1.994**	1.184*	2.005**	1.817**	1.856**		2.009**	1.989**	1.595*
Union strength	−9.935*	−11.749***	−10.149*	−9.642*	−9.720*	−4.986	−9.916*	−10.079*	−5.460
Social democratic power	−1.642***	−1.218***	−1.664***			−0.790**	−1.629***	−1.571***	
Left cabinet share				−0.015***					
Left parliament share					−0.015***				
Unemployment rate (lagged)	0.300**	0.244**	0.309**	0.321**	0.317**	0.181**	0.303**	0.297**	0.305**
Unit labour cost (lagged)	0.169**	0.083	0.169**	0.177**	0.171**	0.101*	0.169**	0.167**	0.152*
Trade openness (lagged)	−0.004	0.031	−0.005	0.002	0.002	−0.005		0.007	0.022
Reregulation	0.609***	0.641***	0.612***	0.591***	0.599***	0.594***	0.606***		0.553**
Benefit duration (lagged)	5.284**	5.629***	5.826***	5.255**	5.353**	1.694	5.340**	5.123**	5.277**
District magnitude			7.099						
Constant cut 1	0.159	7.036	2.102	4.102	1.482	0.771	1.959	2.029	24.825
Constant cut 2	0.936	7.777*	2.880	4.873	2.254	1.455	2.736	2.777	25.575
Constant cut 3	2.606	9.392**	4.554	6.535	3.920	3.223	4.406	4.381	27.208
Observations	246	246	244	246	246	311	246	246	246
Country fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time cubic terms	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo *R*-squared	0.140	0.113	0.141	0.131	0.133	0.105	0.140	0.120	0.109

Note: Robust *standard errors*.
Abbreviation: EPL, employment protection legislation.
*** $p < .01$.
** $p < .05$.
* $p < .1$.

unemployment and ULC continue to have significant positive effects (column 8). Sixth, when removing social democratic power from our regression, all our results remain except for trade union strength which becomes insignificant. As with the removal of lagged EPL discussed earlier, we ascribe this to the omitted variable bias that this removal generates and also note that we do not necessarily expect trade union strength to have a stable statistically significant effect on its own.

Due to reasons of space, additional robustness checks are presented in the online appendix. First, taking the mean or a common principal component of union density and bargaining, instead of their product, continues to suggest that union strength is negatively related to reforms (Table A2.4 in Data S1). Second, we rerun our analysis while changing the dependent variable. If we code a new dependent variable 1 if it is a structural liberalization and 0 otherwise, we can observe that reregulation continues to be positively associated with higher likelihood of reform, while social democratic power continues to be negatively associated. Next, we create a new dependent variable coded 1 if the reform is two-tier and 0 otherwise. Lagged EPL and unemployment rate remain positively associated with reform probability, while social democratic power continues to be negatively associated. Both reregulation and benefit generosity are positively associated with two-tier reforms (Table A2.6 in Data S1).

Moreover, we also rerun our analysis with the much more time invariant first difference in OECD EPL index as our dependent variable (reversing the scale so that positive changes capture liberalization as is the case with our baseline dependent variables). Given the many 0s of this first difference variable and the very few positive or negative values (28 are negative, 271 are 0, and 9 are positive out of a total of 392 total potential observations) this should be seen as an extremely conservative robustness check: it therefore only makes sense to check if any of our independent variables has a *statistically significant opposite* sign. Indeed, given very few changes, lack of statistical significance in itself is not an invalidation of our results using more fine-grained and superior data. The results suggest that social democratic control of government is still negatively associated with liberalization, while benefit duration and reregulation are positively associated with reform (Table A2.7 in online appendix).

Finally, despite the fairly low number of countries in our sample, stepwise exclusion of each country shows remarkably stable results: the coefficients for lagged EPL, ULC, unemployment, benefit duration and reregulation are always positive and statistically significant, while the coefficients for social democratic governments are always negative and statistically significant (see Table A2.5 in online appendix).

5.3 | Three routes to labour market reforms

While our model corroborates our expectations, it still tells us little about the causes of cross-country variation in liberalization, as well as the different effects of these variables on minimal, intermediate or structural labour market liberalization. We therefore rerun the same model as in column 1 of Table 3, but this time including a series of interaction effects between union strength on the one hand, and unemployment rate, social democratic power and reregulation, respectively, on the other hand. This is necessary because our hypotheses suggest that the actual reform output (fully liberalizing, intermediately liberalizing or minimally liberalizing) depends on the balance between the economic problem load (pushing for reform) and union strength (opposing reform) as mediated by partisanship and by available compensatory reforms that the government can offer to unions. When we add interaction terms in a logit model we cannot refer to variable coefficients and significance levels in order to interpret the effects of the interacted variables on our dependent variable (Ai & Norton, 2003). Therefore, we calculate marginal effects at different values of the conditioning variable to interpret results.

The results presented in the previous section have to be discussed with reference to two dimensions: first, the different combination of covariates that can occur in each country/year; and second, the different impact that the combination of covariates can have on marginal as opposed to intermediate or structural reform. Figure 4 plots the marginal effect of trade union strength on the probability of each type of reform, conditional on different levels of unemployment rates, while holding over covariates at their mean value. The first row plots the marginal effect (with

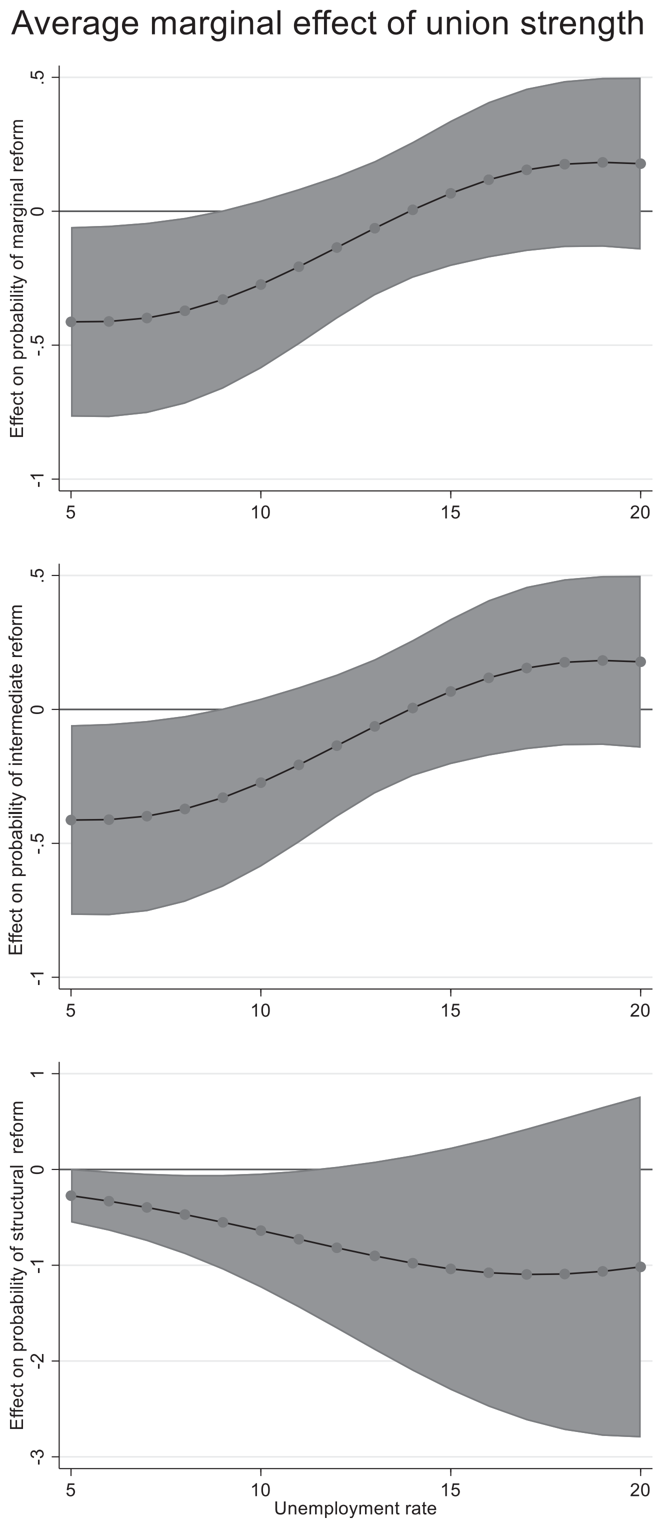

FIGURE 4 Average marginal effect of union strength on different types of liberalization reforms at different levels of unemployment rate

TABLE 4 Average marginal effect of union strength on different types of liberalization reforms at different levels of social democratic power

Column 1	Column 2	Column 3	Column 4
Social democratic strength	Marginal effect on probability of marginal reform (*p*-value in bracket)	Marginal effect on probability of intermediate reform (*p*-value in bracket)	Marginal effect on probability of structural reform (*p*-value in bracket)
0.1	−0.33 (.116)	−0.86 (.083)	−0.59 (.096)
0.3	−0.39 (.089)	−0.80 (.081)	−0.46 (.093)
0.6	−0.42 (.082)	−0.67 (.083)	−0.31 (.093)
0.9	−0.39 (.086)	−0.53 (.092)	−0.20 (.106)

90% confidence interval) of union strength on the probability that a marginal labour market liberalization is achieved. Confirming our hypotheses, union strength turns from being negatively associated with a marginal reform to not being statistically significant and hence having no effect when the unemployment rate increases beyond a certain level (top quadrant). Reduced opposition to reform in case of high unemployment is found also in the second row which refers to intermediate liberalization. The marginal effect of trade union strength on the probability of structural liberalization, shown in the third row, remains negative for higher levels of unemployment (now clearly above 10%). These results confirm our earlier insight: trade unions—in particular if they are large and influential in the political economy—might accept some liberalization that does not affect their members if the economic conditions are dire. However, structural reforms represent a larger threat to which they are more likely to remain opposed unless unemployment is even higher.

Next, we calculate the average marginal effect of trade union strength conditional on the level of social democratic power at four levels: a low value of power (0.1); two intermediate values (0.3 and 0.6); and a high value of power (0.9) in our sample. The results are shown in Table 4. The results in the second column make clear that social democratic power does not really mediate the impact of trade union strength on the probability of *marginal* reform: for a value of social democratic power equal to 0.1, the effect of union strength is not statistically significant, while for values of 0.3, 0.6 and 0.9, the effect of union strength is significant, but of fairly similar magnitude (between −0.39 and −0.42) despite the different levels of power. In the case of intermediate and structural reforms (shown in columns 3 and 4, respectively), social democratic power appears to reduce the negative marginal effect of trade union strength. In the case of intermediate reforms, the marginal effect of trade union strength on the probability of liberalization falls from a statistically significant −0.86 at the lowest level of social democratic power to −0.53 for intermediate reforms at the highest level of power. Even more clearly for the case of structural reforms, the marginal effect of union strength falls from a statistically significant −0.59 at the lowest social democratic power to a non-significant −0.20 at the highest level of power. These findings are consistent with previous literature on the period under observation that has unveiled the convergence of social democratic parties towards pro-market economic agendas (Przeworski, 2001) and yet their ability to retain close political alignment with trade union organizations when in government (Simoni, 2013) with the related need to identify workable compromises (Cameron, 1984).

Finally, we investigate a governmental strategy which combines liberalizing reforms with compensatory reregulatory reforms. The latter are reforms that reduce labour market flexibility, therefore we are investigating now a quintessentially dualizing reform strategy. In order to do so, we interact the reregulation variable and union strength in the same model as in column 1 of Table 3. We then calculate the average marginal effect of union strength on various types of liberalization reforms where different types reregulatory reforms are also undertaken in the same year. The top quadrant of Figure 5 shows that stronger unions are associated with a lower probability of marginal liberalizations only when there are no simultaneous reregulation or when this reregulation is marginal. By

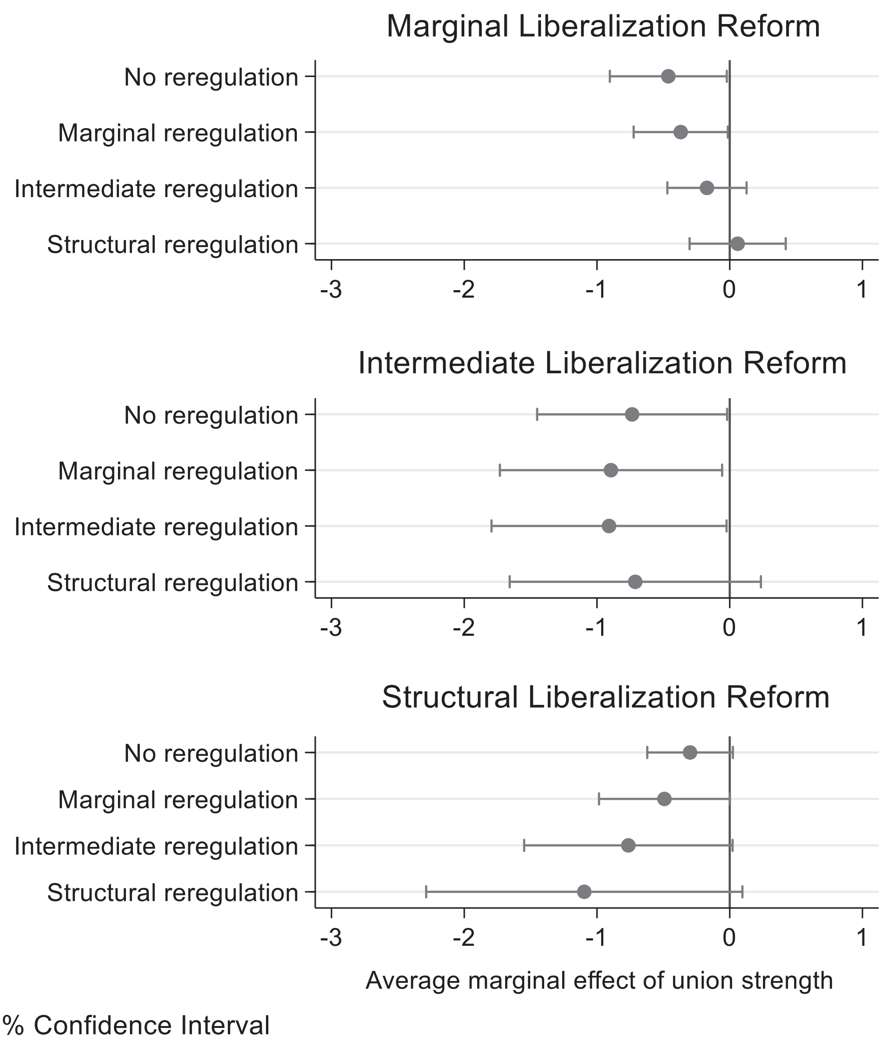

FIGURE 5 Average marginal effect of union strength on different types of liberalization reforms at different levels of simultaneous reregulatory reforms

contrast, in cases where there are simultaneous intermediate or structural reregulation, the effect of union strength on the likelihood of liberalization is no longer statistically significant. The results are similar for intermediate liberalization reforms: union strength reduces the probability of liberalization when there are no or marginal simultaneous reregulation, but also now when there are intermediate reregulatory reforms. However, when there is a simultaneous structural reregulation, union strength is no longer negatively associated with a lower probability of intermediate liberalization. Lastly, reregulation does not mediate the relationship between union strength and structural liberalization reforms.

We can summarize the results we have presented in this section through a stylized picture that includes three different routes to labour market liberalizations. Faced with a problem load that pushes them to reform the labour market, and faced with reluctant and non-negligible trade union organizations, governments can devise three strategies in order to reduce union's opposition: (a) they can choose to enact only marginal liberalization; (b) they can make sure existing unemployment benefits are more generous; and/or (c) they can simultaneously introduce reregulatory reforms as a compensatory measure. All these strategies may over time partly result in higher labour market dualization. This confirms empirically a widely held—but rarely empirically tested—conceptualization in the literature that dualization is a weak form of liberalization. We show that the degree and nature of such dualization will depend on the different weight that, in each national case, the three strategies will have. As we discuss in the next section, these findings from a quantitative analyses help us make sense qualitatively of the variety of labour market dualization that have been observed across Europe.

6 | DISCUSSION: UNIONS AND PARTISANSHIP IN EUROPE

The results we have presented help reconcile a number of apparently conflicting expectations from the literature, in particular those that derive from explanations that emphasize interest based power struggles as opposed to institutional path-dependency. In this section, we examine how our results are consistent with existing literature on a variety of country-specific reform patterns.

First, our findings concerning the effect of unions on different types of reform are consistent with the fact that liberalizing reforms occurred either in countries characterized by very weak unions such as the UK and Ireland, or countries in which protection for workers and other decommodifying institutions did not falter or even grew stronger, in particular Denmark and Sweden. The first two examples are of countries that liberalized while facing weak unions. By contrast, Scandinavian countries have systematically supported increased market exposure of workers across sectors. But they had existing social policy protection of workers through universal programs such as transfers, benefits, training and retraining, which echoes debates in the literature about so-called flexicurity where liberalization takes place in countries with generous unemployment benefit system (Wilthagen et al., 2003).

Second, the most strongly dualizing, that is, two-tier, liberalizing reforms, occurred in countries characterized by weakened but still influential unions. This is also consistent with our results. Unions accepted two-tier reforms as a compromise that would modestly impact their membership at the time in which the reform passed. However, over time, liberalization has nonetheless had an impact on the representation capacity of unions, as well as on the distributive dimension as wage inequality increased across many of these countries (Lupu & Pontusson, 2011; Vlandas, 2018). In addition, depending on the exact type of compromise that were reached, outsiders were predominantly either young people—in countries such as Spain or Italy—or workers in the service sectors as opposed to manufacturing sectors—as in Germany. These differences are likely to have had significant economic repercussions in terms of either preserved productivity levels (like in Germany—see Hassel, 2014; Thelen, 2009) or reduced productivity levels. What is clear however is that by reducing unions' ability to recruit workers, dualization and related reforms have indirectly also weakened the core constituent of social democratic parties.

This casts an increased shadow on centre-left leaders' clairvoyance in the 1990s and 2000s, in particular when combined with our third result: unions have been less likely to oppose liberalizations carried out by centre-left governments. This latter result is consistent with previous literature on the sustained left-labour policy alliance during the 1990s and 2000s (e.g. Simoni, 2013) and it is also consistent with other studies (e.g. Avdagic, 2013) pointing the finger to blame-avoidance and power-sharing as a preferential route to pass difficult reforms.

Third, our results are also consistent with secondary literature on country-cases of EPL reforms. Without the argument and findings presented in this article, country case studies on labour market liberalization appeared as pieces of a disconnected puzzle. Instead, our framework helps us make sense of various types of reforms across countries as different as Germany, Italy, the UK, Denmark and the Netherlands, which we—by necessity—can only briefly illustrate in the next paragraphs.

In Germany, the Hartz reforms were passed by the centre-left under considerable economic pressure. The EPL reforms in Germany were largely two-tier and as such did not elicit meaningful opposition by trade union (Tompson, 2009, pp. 223–236). As Thelen (2009, p. 484) concludes, the result is that "safeguards that core workers in the German labour market enjoy are as strong as ever". Similarly, the liberalizing Treu Package in Italy in 1997 was approved by the centre-left and trade unions substantially agreed on it, not *despite*, but as we can now argue, *because of* the liberalization of 'atypical' employment went hand-in-hand with increased role for collective bargaining.

Considering reforms in countries with unions that do not have intermediate levels of union strength also illustrates the explanatory reach of our theoretical framework and quantitative results. Very significant EPL reforms occurred both in countries led by conservative governments and facing weak unions and in countries that significantly compensated workers or had generous labour market policies already in place. The UK is a good example of the former case. Following massive economic problems in the 1970s, the conservative Thatcher government undertook a combined strategy of relaxing dismissal rules as well as weakening unions with several Employment acts in the early 1980s (Clasen & Clegg, 2003). The unions' fight was defeated as it had no inside leverage on the Tories' constituents, and it was comparatively weak. A good illustration of strong unions being generously compensated can be found in Denmark. Its flexicurity model combined the easing of firing restrictions with active labour market programs (Madsen, 2008). As a result of this combination, Danish unions often supported the flexicurity model (EIRO, 2010).

Finally, our argument and findings help us make sense of the fact that rapidly deteriorating economic conditions made it possible to pass substantial liberalization in several countries, even when trade unions were relatively strong and in the absence of other protections or compensation. Often this was made easier, not harder, by the presence of left wing governments, as was also the case in many European countries after the crisis. On the other hand, where economic problems were not very large and/or unions were strong and governments had limited margins to manoeuvre, reforms were only very marginal and targeted on the outsiders (for a detailed treatment of recent labour market reforms during the crisis, see Theodoropoulou, 2018).

Our understanding of labour market reforms can also help shed a new light on Western European polities after the financial and economic crisis. Indeed, part of the literature asks why the left did not benefit electorally from the economic crisis. Some found this surprising in light of the blame banks and other economic institutions had to carry for the onset of the crisis. However, when the crisis hit, marginal and atypical workers—in particular the young ones—suffered the most from reduced income and job opportunities. Given that, as we have shown, many dualizing reforms were actively promoted by the centre-left as a way to surpass union's opposition to liberalization, it is plausible that such workers blamed traditional centre-left for their condition and either reverted to so-called populist parties (e.g. Halikiopoulou and Vlandas 2019) or, more simply, disenfranchised themselves (as shown recently by Häusermann, 2020), thereby reducing the representation capacity of the political systems and, *a fortiori*, its ability to address those concerns.

7 | CONCLUSION

This article argued that the extent to which governments liberalize their labour markets is a function of a number of economic 'push factors' such as unemployment. However, unions oppose these reforms, and this is consistent with the expectations from the institutionalist literature. Governments are therefore less likely to liberalize if they face a strong union movement and the problem load is under a certain threshold. Thus, the combination of an increased problem load and a declining union movement in Western Europe in the last three decades can explain to a large extent the wave of labour market liberalization across the continent. Indeed, our findings suggest that beyond a certain level of unemployment, union strength no longer reduces the likelihood of intermediate or marginal liberalizing reforms. They also provide a novel empirical foundation to the claim that as unions weaken, partisan differences in economic strategy are also likely to subside.

However, and as predicted by more recent contributions (Davidsson & Emmenegger, 2013; Häusermann, 2010), even in countries with strong unions, opposition may not always manage to block change, and as a result liberalization occurs in many instances. First, in countries where unemployment benefits are sufficiently generous to protect the future losers from the liberalization reform, governments are - somewhat paradoxically - better able to surpass unions' opposition. Second, governments can reregulate parts of the labour market to improve the protection of certain workers from liberalization, or straightforwardly insulate such (often unionized) groups from liberalization. While all reregulatory reforms make liberalization more likely, only very significant reregulation can fully offset the negative effect of union strength on partial liberalization.

Perhaps more relevant, union opposition and the strategies adopted to overcome it, also deflects the nature and extent of liberalization. Thus, governments can choose to carry out two-tier reforms to insulate insiders in permanent contracts and neutralize union opposition. As a result, constellation of 'dualized' labour markets, whereby insider/outsider cleavages differ across country, emerged in Europe, depending on the type of compromise reached by governments that attempt to balance the country-specific economic pressures for reforms with the country-specific institutional and political landscape.

ACKNOWLEDGEMENTS

We are grateful for comments on previous versions of the manuscript to the participants of the first EPSA conference, various colleagues at the European Institute in the LSE and the politics and social policy departments at the University of Oxford. Many thanks also for excellent research assistance to Michael Ganslmeier.

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ENDNOTES

[1] It should be noted that we do not specify the mechanisms through which unions influence on parties and governments materializes. This would require a different institutional analysis of the labour movement that goes beyond the scope of this article, and it would not add to the core argument we are making (for a different example see: Baccaro & Simoni, 2010).

[2] Specifically: '(a) any reform, (b) a reform having at least one comprehensive feature, (c) a reform having at least two comprehensive features, (d) a reform having at least three comprehensive features or (e) a reform having all comprehensive features'.

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SUPPORTING INFORMATION

Additional supporting information may be found online in the Supporting Information section at the end of this article.

How to cite this article: Simoni M, Vlandas T. Labour market liberalization and the rise of dualism in Europe as the interplay between governments, trade unions and the economy. *Soc Policy Adm*. 2020;1–22. https://doi.org/10.1111/spol.12648