



Escola de Ciências Sociais e Humanas e ISCTE Business School

Young People and Labour Market Segmentation in Europe:
An Institutionalist Perspective

Paulo Marques

Tese especialmente elaborada para obtenção do grau de

Doutor em Economia

Orientadora: Professora Isabel Salavisa
Professora Associada com Agregação
ISCTE-IUL, Instituto Universitário de Lisboa

Setembro, 2015



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Resumo

A presente tese tem como objetivo identificar as causas que estão na origem de uma crescente segmentação no mercado de trabalho, nomeadamente a que é caracterizada por uma precarização da situação laboral dos jovens. Começa-se por argumentar que as explicações baseadas numa suposta rigidez do mercado de trabalho devido a uma elevada proteção no emprego para os *insiders* ou as explicações baseadas na existência de uma dicotomia crescente entre o setor industrial e o dos serviços não conseguem explicar porque é que em alguns países europeus são sobretudo os jovens que são os *outsiders*. Em resposta a esta questão, argumenta-se que uma elevada conflitualidade social (devido à existência de um sistema de relações laborais descoordenado ou ao processo de liberalização) e uma baixa proporção de empregos no setor primário do mercado de trabalho constituem a força motriz deste processo. Adicionalmente, também se defende que, embora a elevada proteção no emprego agrave a segmentação porque reforça o poder dos grupos com mais poder político, a elevada proteção no emprego não constitui isoladamente uma condição suficiente para que o processo ocorra.

A parte empírica deste trabalho utiliza duas metodologias distintas: o fsQCA e uma análise comparada de dois estudos de caso. A análise com o fsQCA corrobora o argumento teórico e as hipóteses formuladas, e mostra que é nos países da Europa do Sul e Anglo-Saxónicos que este processo está mais presente. A análise comparada dos dois setores de atividade mostra que enquanto nas telecomunicações os jovens foram especialmente afetados pela precarização das condições de trabalho, uma situação semelhante não ocorreu no setor da fabricação de veículos automóveis.

Palavras-chave: conflito social, estudos de caso, instituições do mercado de trabalho, jovens, liberalização, QCA, setor automóvel, setor das telecomunicações, segmentação.

JEL classification:

B52 institutional; evolutionary
J42 monopsony; segmented labour markets
J 63 turnover; vacancies; layoffs
J71 labour discrimination
P16 political economy

Abstract

This thesis aims to identify the causes that have led to growing labour market segmentation, particularly the one characterized by a precarious labour situation of young people. We begin by claiming that arguments based on a supposed rigidity of the labour market due to high employment protection for insiders or arguments based on a growing dichotomy between the industrial core and the service sector cannot explain why, in some European countries, outsiders are mainly young labour market participants. To address this puzzle, it is argued that high social conflict (due to the existence of an uncoordinated system of industrial relations or liberalization) and a small proportion of primary sector jobs are the driving forces of this process. In addition, we also argue that, even though high employment protection aggravates segmentation because it reinforces the power of those with more political power, high employment protection alone is not sufficient for the process to occur.

The empirical part of this study uses two different methodologies: fsQCA and a comparative analysis of two case studies. The fsQCA analysis supports the theoretical argument and hypotheses, and shows that it is in Southern and Anglo-Saxon countries that this process is more present. A comparative analysis of the two sectors shows that while in telecommunications young people have been particularly affected by more precarious working conditions, a similar process did not occur in the vehicle manufacturing industries.

Keywords: automotive sector, case studies, labour market institutions, liberalization, QCA, segmentation, social conflict, telecommunications sector, youth.

JEL classification:

B52 institutional; evolutionary
J42 monopsony; segmented labour markets
J 63 turnover; vacancies; layoffs
J71 labour discrimination
P16 political economy

To Maria Pego
I dedicate this thesis that owes much to her help and support

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Paulo Marques, Lisbon 14 September 2015

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Abbreviations

ACAP	Portuguese Automobile Association
ALMP	Active labour market policies
ANACOM	Portuguese National Regulatory Authority for Communications
BC	Blue collar workers
CB	CaetanoBus
CGTP	General Confederation of Portuguese Workers
CSQCA	Crisp-set Qualitative Comparative Analysis
DLM	Dual labour market
DR	High levels of dualization
EP	High levels of employment protection
EU	European Union
EU-15	European Union 15 countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom).
EU-27	European Union 27 countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, the United Kingdom, Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia).
FSQCA	Fuzzy Set Qualitative Comparative Analysis
FWR	Fair Wages Resolution
HR	Human Resources
ICTWSS	Data Base on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts
ILM	Internal labour market
ILO	International Labour Organization
IMF	International Monetary Fund
INUS	Insufficient but non-redundant part of an unnecessary but sufficient (combination of) condition(s)
ISCO	International Standard Classification of Occupations
L	High levels of liberalization
LSF	Low service functionaries
MF	Mitsubishi Fuso
MSF	Mixed service functionaries
MVQCA	Multi-value Qualitative Comparative Analysis
OECD	Organization for Economic Co-Operation and Development
PCO	Poor coordination in the industrial relations system

PS	A small proportion of primary sector jobs
PSA	PSA Peugeot Citroen Mangualde
PT	Portugal Telecom
QCA	Qualitative Comparative Analysis
SCP	Socio-cultural professionals
SINTTAV	National Union of Workers in Telecommunications and Audio-visual
TO	Toyota Ovar
TQCA	Temporal QCA
TWA	Temporary Work Agency
UGT	General Union of Workers
UK	United Kingdom
US	United States
VoC	Varieties of Capitalism
VW-Autoeuropa	Volkswagen Autoeuropa
YO	High levels of outsidersness among young people

1 Introduction

As a direct consequence of the global economic crisis, millions of jobs have been lost and unemployment has soared in many European countries. In the EU-15, from 2008 to 2012, the unemployment rate increased by 3.5 percentage points (Table 1.1). However, national labour markets reacted in different ways (Lallement 2011): whereas the unemployment rate increased by 13.8 percentage points in Spain; in Germany it has decreased 2.0 percentage points and in Belgium it has increased only 0.6 percentage points. On the other hand, the rise of unemployment has particularly affected younger generations (OECD 2010; ILO 2012). Before the crisis the unemployment rate for young people was already higher than that for adults (25-55 years). In 2008 the youth/adult unemployment ratio was 2.6 in the EU-27, i.e. the unemployment rate among young people was 2.6 times higher than the unemployment rate between adults. However, the crisis has put even greater pressure on this problem, ‘the 2008-2009 recession and the resulting jobs crisis had a dramatic impact on youth unemployment. In OECD area, the youth unemployment rate reached a post-war high of 19% in 2010’ (OECD 2010, p. 23). Moreover, unemployment among young people grew faster than among adults (OECD 2010, p. 14; Liddle and Diamond 2010, pp. 76-77; Scarpetta et al. 2010, p. 11; Chung et al. 2012).

With the economic crisis and an increase in unemployment rates in several countries, youth unemployment has reached historically high levels in Southern Europe. In 2012 the youth unemployment rate reached 53.2 per cent in Spain, 55.3 in Greece, 37.7 in Portugal, and 35.3 in Italy (Table 1.1). Furthermore, using a broader definition of young people (Chung et al. 2012), we see that among those aged 25 to 29 years the unemployment rate is also higher, i.e. the problem is not seen only in the transition from school-to-work.

Given this fact, unemployment among young people has been brought to public attention at the European level (European Commission 2010).¹ However, as it will be argued throughout this thesis, youth unemployment is only one part of the story. The spread of flexible contract arrangements and the spread of low paid jobs have affected the younger generations across the past two decades and therefore, in the scope of the global economic downturn, have contributed to an unsustainable situation in the labour market position of young people (youth unemployment is just the tip of the iceberg). Youth unemployment is a serious problem, but in our view it is crucial to go further to explain why youth have seen such deterioration in their labour market position over the past two decades, especially in Southern Europe.

Table 1.1 – Unemployment rate by age group

	15-24		25-29		30-34		15-64	
	2008	2012	2008	2012	2008	2012	2008	2012
EU-15	15.4	22.2	8.9	14.1	6.9	11.4	7.2	10.7
Austria	8.0	8.7	4.8	5.8	3.6	3.9	3.9	4.4
Belgium	18.0	19.8	9.0	11.1	7.1	8.0	7.0	7.6
Denmark	8.0	14.1	3.4	11.0	3.7	8.2	3.5	7.7
Finland	16.5	19.0	6.7	8.9	5.0	6.2	6.4	7.8
France	18.6	23.8	9.2	12.9	6.7	9.6	7.4	9.9
Germany	10.6	8.1	8.4	6.5	7.7	5.5	7.6	5.6
Greece	22.1	55.3	13.1	37.5	8.7	27.5	7.8	24.5
Ireland	12.7	30.4	6.8	17.3	5.4	14.1	6.1	15.0
Italy	21.3	35.3	11.0	17.9	7.3	12.5	6.8	10.8
Netherlands	5.3	9.5	2.2	5.5	1.8	4.4	2.7	5.3
Portugal	16.4	37.7	10.8	20.1	7.0	16.5	8.1	16.4
Spain	24.6	53.2	13.6	32.2	10.6	25.3	11.4	25.2
Sweden	20.2	23.6	6.7	9.5	4.7	6.4	6.3	8.1
United Kingdom	15.0	21.0	5.7	8.7	4.6	6.4	5.7	8.0

Source: Eurostat, Labour Force Survey. Extracted on 26 March 2014.

¹ For example, the British newspaper ‘The Observer’ on Sunday 29th January 2012 had the following headline: ‘Despair of “lost generation” sparks EU leaders to action’ (*The Observer*, 29 January 2012). More recently, ‘The Economist’ dedicated its first page to this issue: ‘Generation jobless: The global rise of youth unemployment’ (*The Economist*, 27 April 2013). Interestingly, both articles pay particular attention to the Southern European case.

1.1 The research puzzle

Recent research in the field of comparative political economy has pointed to a growing inequality across the Western European world. While some authors have underlined the process of liberalization (Streeck 2009), others have pinpointed the process of dualization as the main driver of change (Emmenneger et. al. 2012). While the former constitutes a powerful critique to the varieties of capitalism (VoC) approach (Hall and Soskice 2001), the latter attempts to show how change is constrained by an attempt to maintain a set of institutional comparative advantages (very much in line with the VoC framework).

The liberalization literature is an institutional theory of capitalism rather than of its varieties, and tries to capture the logic that structures the process of change in all capitalist economies (Streeck 2009, Chapter 17). In Streeck's (2009, p. 130) point of view 'the concept of capitalism draws our attention to a core process of market expansion and accumulation. Moreover, it also and at the same time moves into the center of analysis the fundamental issue of the compatibility of expanding markets with the basic requirements of social integration, thereby providing a coherent analytical framework in which to consider the manifold social conflicts associated with the "capitalist constant" (...) of progressive commodification'. The concept of capitalism is based on three building blocks. Firstly, it expands the historical institutionalist theory of institutional change (Streeck and Thelen 2005) by arguing that change in all capitalist economies is towards liberalization. This is so because 'differential resource endowment under capitalism works in favour of interests in the liberalization of social obligations, imparting on gradual institutional change a bias towards disorganization unless counteracted by political intervention' (Streeck 2009, p. 241). Secondly, drawing on Polanyi's (1944) 'double movement' of market expansion and market containment thesis, Streeck emphasizes the intrinsic conflictual and evolutionary logic of the capitalist system and criticizes the functionalist bias towards cooperation and equilibrium. Thirdly, Streeck explains coordination in the 'coordinated market economies' as an unintended consequence of the conflict between market expansion and market containment, since, in his view, 'capitalist inventiveness is capable of using institutions for economizing, for example in transaction costs, that had originally been intended to serve very different objectives, including not least market breaking ones' (2009, p. 257). In short, by emphasizing the

need to bring capitalism back in, Streeck stresses the similarities between capitalist economies and its conflictual and evolutionary logic. Notwithstanding, as is discussed in the next chapter, liberalization is not necessarily identical with de-institutionalization, and important differences between countries may remain.

The second approach (Palier and Thelen 2010; Emmenegger et al. 2012a, pp. 10-16) recognizes that the structural pressures (globalization, deindustrialization and the feminization of employment) triggered by the twilight of the industrial era in the early 1980s have jeopardized the former mechanisms of redistribution; however, in contrast to liberalization scholars, they argue that the current era is characterized by dualization, a political process that is becoming a structural feature of our times. In fact, Emmenegger et al. (2012a, pp. 10-16) advocate that dualization is a process ‘in which politically and economically stronger groups are using their power resources to insulate themselves from the negative effects of [the] structural pressures, and in which governments make deliberative choices in favour or against outsiders. Thereby, changes in the labour market are translated into the social policy realm, where new distinctions arise or old institutional distinctions are re-activated ... dualization implies that policies increasingly differentiate rights, entitlements, and services provided to different categories of recipients. Thereby, the position of insiders may remain more or less constant, while only the position of outsiders deteriorates.’ By emphasizing the role of policies, this theory stresses that the dualization process does not imply that all countries will necessarily experience high levels of insider-outsider divides. They argue that the existing differences between regimes (Esping-Andersen 1990) illustrate how dualization is reinforced by some policies whereas others may tackle it (e.g. when outsider policies are relatively generous).

To explain the causes of the changes in the labour market (the structural drivers), the dualization literature draws on the work of Palier and Thelen (2010, 2012). Palier and Thelen argue that the attempt to save the ‘core manufacturing economy’ has been the main driver of dualization in Continental Europe. The authors claim that reforms during the 1980s and 1990s shrank the industrial sector and therefore allowed the expansion of new types of jobs in the outside, giving rise to the emergence of a secondary labour market. To maintain a set of comparative institutional advantages, coordination between capital and labour was kept within the ‘core manufacturing industry’ (thus preserving a number of stable and well

remunerated jobs), but the expansion of the secondary sector contributed to the spread of poor jobs.

As regards the insider-outsider divides, several authors have pointed out that post-industrial labour markets have downplayed the position of young people, women and the low skilled (Esping-Andersen 1999a, p. 306; Bonoli 2006, p. 3; Oliveira, Carvalho and Veloso 2011, p. 163; Emmenegger et al. 2012a, pp. 6-7; Häusermann and Schwander 2012, p. 29). This can be explained by the fact that younger generations hold a much weaker position in the labour market and are therefore endowed with few power resources. Indeed, as Price et al. noted ‘young people have less experience in employment relationships and less capacity to bargain with employers, relative to their adult counterparts, based on endemic disparities of power’ (2011, p. 4).

Taking into account the fact that post-industrial labour markets are characterized by a growing number of jobs in services and by the fact that these jobs are more insecure and less regulated by collective arrangements than jobs in the manufacturing sector, it is not surprising that young people are more vulnerable to this process and therefore more penalized. On the other hand, by comparing two different historical époques (deruralization and deindustrialization), Esping-Andersen (1999, pp. 298-299) highlights an interesting fact: even though factory and construction job growth were very high during the process of deruralization (absorbing a large number of workers formerly employed in the agricultural sector), this does not fully explain why youth and women faced few problems during that period. Compared with deindustrialization, labour supply growth was lower during deruralization. Indeed, pressure from the new entrants (as a result of the small 1930s cohorts) and from women (at that time predominantly still outside the labour market) was lower. In summary, deindustrialization with its consequences in terms of job quality, together with a high number of new entrants and women in the labour market, contributed to insider-outsider divides that disproportionately affected women and the young people.

The weaker position of youth in the labour market would be less problematic if individuals only experienced this situation for a short period of time, i.e. if it was only a transitory stage. Esping-Andersen (1999, p. 294) defends this view and argues that ‘we should be cautious in believing that such trends [towards growing insider-outsider divides] create class structure’. Recent studies have challenged Esping-

Andersen's optimistic perspective by considering that while in some countries the labour market position of the young people is a transitory stage, in others it tends to become more persistent over time (Lodovici 2000; Blanchard 2006, p. 12; Ebbinghaus 2006a, p. 125; Chauvel 2010; Häusermann and Schwander 2012).² Häusermann and Schwander (2012, p. 34) identify different patterns of dualization, claiming that 'in the Nordic and Continental countries, gender is the most important criterion, while in the Southern European regime, outsidership concerns mostly young labour market participants, and in the Liberal countries, outsiders are predominantly found among the low-skilled'. In their analysis, Häusermann and Schwander show that in Southern Europe 59.7% of young people (those under 40 years old) are outsiders while in other regimes younger people are much less affected (31%; 21.8% and 33.8% in Anglo-Saxon, Nordic and Continental Europe respectively). Chauvel (2010) supports these conclusions by arguing that differences between age groups are higher in Southern Europe and France. The author provides data on the earnings of the different age groups in France and concludes that 'in 1977, the earnings gap between age groups 30-35 and 50-55 was 15%, the gap is now about 40%'. Furthermore, by comparing France, the United States and Italy, Chauvel (2010, pp. 32-33) argues that 'France and Italy show profound redistributions of living standards to the profit of seniors and at the expense of younger and mid-aged adults whereas Denmark and the US face no massive transformations'.

Thus, in Southern Europe age plays a crucial role in describing the existing divides in the labour market. It is not the dichotomy between jobs in the manufacturing sector versus jobs in services, nor divides within the service sector between high-skilled versus low-skilled jobs that mainly characterizes the situation in Southern European countries.

Our puzzle relies precisely on this paradox. Given its emphasis on efficiency (inspired by the VoC approach), the dualization literature (Emmenegger et al. 2012a) does not consider explanations based on age. Indeed, by arguing that the process of dualization began with the attempt to save the 'core manufacturing economy', Palier and Thelen (2010) point to efficiency as the main driver of labour market reforms,

² Although emphasising the optimistic perspective, Esping-Andersen has also pointed out that in the 1990s the rates of long-term youth unemployment were two to three times higher in Germany, France and Italy than in the Nordic countries or the United States (1999, p. 304).

given that comparative advantages would otherwise be undermined.³ In Southern Europe however, it seems that the opposite has occurred, especially if we take into consideration the consequences of the existing divides. Indeed, age dualities have contributed (especially during the crisis) to a dramatic increase in youth unemployment in Southern European countries. This situation has short and medium term consequences for the sustainability of the welfare state (Chauvel 2010, p. 26), to the extent that it has an impact on contributions to social security, given that an increase in unemployment raises social protection expenditure and diminishes contributions. Delaying the entrance of young people into the labour market, and the type of contract under which they are employed (precarious work) both have a negative influence on fertility rates, which worsens the problem of an ageing population (Chung et al. 2012, p. 315). If we take into account the fact that the younger generations are comparatively more educated, the situation becomes even more dramatic, due to the waste of productive potential. The constraints discussed above, together with the fact that a huge proportion of young people have inadequate jobs for their level of education, are jeopardizing the future of these countries.

1.2 The argument in brief

The core argument of this thesis is that the tendency to see institutions as ‘guardians’ of efficiency (as rationalist scholars often do) has concealed crucial features of some countries and neglected the conflictual logic of the capitalist system. In our view, this has contributed to a lack of understanding of the growing age-based labour market inequalities. To overcome these problems, it is crucial to highlight the distinctive characteristics of the industrial relations system in some countries and to place greater emphasis on liberalization. Finally, it is also because some countries lack what Palier and Thelen (2010) have called the ‘core manufacturing economy’ that a growing number of outsiders among young people exist. It is the combination of these three factors (the existence of different patterns of interest intermediation, liberalization, and the absence of a ‘core manufacturing economy’) that leads to the process of *dualization as generational layering*.

³ Hall (2007) and Iversen and Soskice (2009) point to efficiency to explain change as well.

The functioning of the industrial relations system in European countries diverges: while more cooperative relations between social partners characterize Continental and Scandinavian countries, more conflictual relations historically typify Southern Europe and Anglo-Saxon countries. Colin Crouch (1993, pp. 61–62) analyzed how the industrial relations system evolved between 1870 and 1990 in a large set of European countries and stressed the existence of three ideal types of interest intermediation: (i) contestative relations, (ii) pluralist collective bargaining, and (iii) neo-corporatism. It is well documented that contestative relations characterize Southern Europe, pluralist relations the Anglo-Saxon countries, and neo-corporatism Continental and Scandinavian countries (Ebbinghaus 2006b, p. 69; Molina and Rhodes 2007; Lima and Naumann 2011).

The conflictual logic of some industrial relations systems is problematic to the dualization framework given the emphasis that this literature places on cooperation. It is at the very least debatable to suggest that trade unions, which historically followed a class struggle approach, guide their behaviour on the basis of strategic coordination with the employers of the core manufacturing economy. In our opinion, a different point must be highlighted: in countries with poor coordination between labour and capital, the limited union density led unions to represent their members first and foremost and to neglect the remaining workers (i.e., to protect workers with more political power rather than those in a weaker position), through a process of confrontation rather than cooperation with employers. Since younger generations are less unionized and therefore have less political power, this process has affected them in particular (Lima and Artiles 2013, pp. 351-352).

Furthermore, social conflict can also result from market expansion, as liberalization scholars have emphasized. The liberalization literature, as an institutional theory of capitalism, emphasizes the communalities between countries rather than their distinctions and criticizes the functionalist's assumptions on which the VoC relies (Streeck 2009). Drawing on Polanyi's (1944) 'double movement' of market expansion and market containment thesis, Streeck argues that change in all capitalist economies is driven by a process of market expansion and by the social conflicts associated with it. This emphasis on the conflictual logic of the capitalist system (Streeck 2009, pp. 5–6), is very much in line with the point we stressed above: politics plays a crucial role in countries with more conflictual relations since insiders are the ones who are more organized (and hold more political power), rather than

those with more specific skills. The social countermovements have protected these workers more, but this is neither an efficient nor a stable solution. The two factors – poor coordination in the industrial relations system and the liberalization process – can be synthesized under what we call *fertile breeding grounds for social conflict* because both market expansion and a conflictual industrial relations system are conducive to social conflict. Social conflict has a negative effect on young people because, as mentioned above, they hold less political power.

Besides its emphasis on social conflict, the literature on liberalization is crucial for an additional reason. Above, we argued that conflictual relations between social partners and market expansion are conducive to social conflict, but we did not explain why older people were able to obtain more stable jobs in the past. To shed light on this, it is necessary to first clarify how Streeck defines liberalization.

Against some misconceptions, liberalization does not claim the end of strategic coordination between capital and labour in ‘coordinated market economies’ and does not argue that all capitalist economies are converging towards the ‘liberal market economy’ model. As for the role of institutions, Streeck (2009, p. 158) clearly notes that ‘while liberalization sometimes does create atomistic markets, or aims to create them, it is not in principle hostile to institutions, provided their purpose is confined to making markets, or making them more efficient’. What Streeck does defend is that the German political economy underwent a process of liberalization that led to a shift from organized to disorganized capitalism (rather than from a coordinated to an uncoordinated system – from Streeck’s point of view, coordination may go hand-in-hand with disorganization), the first being characterized by what he calls *Durkheimian* institutions and the latter by *Williamsonian* ones (Streeck 2009, Chapter 11). According to Streeck (2009, pp. 154–155): ‘Durkheimian institutions authoritatively constitute an obligatory public order that in principle exists apart from and beyond the choosing of those subject to it. To them they are “social facts”’: a constraining external reality that they are not in principle free to adopt, reject, or change [while] (...) Williamson institutions, by contrast, are devices for nonmarket though market-responsive and indeed market-driven coordination of economic behaviour. They are purposely and voluntarily constructed by market participants to increase the efficiency of their exchanges.’ Therefore, the shift from organized to disorganized capitalism is characterized by the shift from Durkheimian institutions to Williamsonian institutions.

By distinguishing organization and coordination, and arguing that liberalization is a process characterized by a shift from organized to disorganized capitalism (rather than a shift from a coordinated to an uncoordinated system), Streeck shows that coordination is compatible with market expansion, provided such coordination comes about voluntarily and from below. There are, however, countries (e.g., in Southern Europe) where coordination is almost absent. As a consequence, the impact of the shift from an organized to a disorganized capitalism is stronger. In Southern Europe, a large part of stable jobs were created in the public sector (rather than in the ‘core manufacturing economy’), both due to the great expansion of the welfare state during the 1980s and the existence of a large number of state-owned enterprises (Ferner 1994, p. 57; Chauvel 2010, p. 25). The privatizations of these enterprises and the cuts in public services have reduced the share of these jobs. This explains why older people were able to find more stable jobs in the past.

Finally, by arguing that the dualization framework is particularly well suited to explaining the situation in Continental European countries, we do not mean that the emphasis on differences between the primary and the secondary sector is useless for understanding the situation in Southern Europe. In our view, that emphasis is important, but for a different reason. We argue that it is also because some countries lack what Palier and Thelen (2010) have called the ‘core manufacturing economy’ that a growing number of outsiders among young people exist. Indeed, while in Continental Europe the manufacturing sector still provides access to a large number of stable jobs, the same does not apply to the Mediterranean regime. The number of jobs in the core sectors of the public economy was already falling before the sovereign debt crisis, but the levels afterwards plummeted. Indeed, together with austerity policies in the public sector, the massive process of privatization of public enterprises that has taken place since the 1980s (coinciding with the accession to the European Economic Community) has also contributed to reducing the power of unions, as well as the share of workers covered by stable work arrangements. The new generations entering the labour market after/during this process have been severely affected. The deterioration of the position of young people on the labour market is therefore directly related to the spread of poor jobs.

Taking these two factors together – fertile breeding grounds for social conflict, and the absence of a ‘core manufacturing economy’ –, we argue that the process of change in Southern Europe is therefore best described as change through layering:

while the core labour force has remained protected, the fringes have been affected the most. Given the characteristics of the industrial relations system, a radical and abrupt change towards liberalization is difficult to implement in Southern Europe, as contestative relations constrain labour market reforms. However, transformation can occur without disruption (Thelen 1999). Streeck and Thelen (2005) built a powerful theory to explain institutional change and stressed the importance of incremental change with transformative results. They highlighted the existence of at least five broad modes of gradual but nevertheless transformative change (displacement, layering, drift, conversion, and exhaustion). We believe that change through layering is the most accurate way to classify the process of labour market adjustment in Southern Europe. For Streeck and Thelen (2005, pp. 23–24), ‘change through layering can set in motion path-altering dynamics through a mechanism of what we might think of as *differential growth*. (...) Layering involves active sponsorship of amendments, additions, or revisions to an existing set of institutions.’ This was precisely what happened in Southern Europe. Although no structural changes took place regarding employees with permanent contracts and covered by collective agreements, massive changes were implemented outside this core. By resisting policies aiming to make the labour market more flexible, unions have been able to protect their core constituencies (in contrast to Continental Europe, protected workers are found not in the ‘core manufacturing economy’, but where the strength of trade unions is higher, i.e. in the core sectors of the public economy). As a consequence, gradually, from the 1990s onwards, a new labour market was created, characterized by the expansion of a secondary labour market, where fixed-term contracts, low paid-jobs, and low union density are its main features.

1.3 An overview of the study

This study has been organized in the following way. The second chapter sets out the theoretical framework, the third chapter explains why Fuzzy Set Qualitative Comparative Analysis (fsQCA) is used in the scope of this thesis, the fourth chapter contains the main results of the fsQCA analysis, and the fifth chapter contrasts two case studies, the telecommunications and vehicle manufacturing sectors, to explain

why dualization as generational layering captures well the transformations that are taking place in Southern European labour markets.

The analytical framework is presented in the second chapter. This chapter is composed of four sections. The first deals with the debate over the different variants of institutionalism and argues that seeing institutions only as drivers of efficiency (and therefore of stability) contains several pitfalls that may undermine a thorough analysis of institutional change. To overcome the rationalist bias of much of the existing institutionalist literature, the second section reviews the historical institutionalist theory concerning the problem of change. The third section reviews the literature on labour market segmentation by contrasting classical and contemporary perspectives on this topic. This section also highlights the controversies between institutionalist and mainstream approaches. Finally, based on the discussion carried out so far, the last section presents our theoretical argument. It is argued that the literature on dualization has to overcome its efficiency bias. Towards this aim, it is argued that dualization and liberalization literatures should be combined because by doing so the growing labour market inequalities based on age will become less puzzling.

The third chapter examines the epistemological foundations of Qualitative Comparative Analysis (QCA). The main objective of this chapter is to explain why QCA is used in the scope of this study and to describe its main features. This chapter begins by laying out the differences between the qualitative and quantitative traditions. To clarify the origins of each tradition, a discussion on John Stuart Mill's canons of experimental inquiry is presented. The third section addresses the main features of QCA. The remaining part of the chapter explains why the method is used in the scope of our study.

The fourth chapter applies fsQCA to examine the determinants of outsidership among young people in Europe, a method that has been gaining in popularity and application. The results of the fsQCA analysis presented in this chapter show that a small proportion primary sector jobs and the combination of a poor coordination in the industrial relations system and liberalization are necessary conditions for the outcome high levels of outsidership among young people. Furthermore, we find no evidence that high employment protection is a necessary condition for the outcome. As concerns the analysis of sufficient conditions, two possible paths for the outcome are identified: the first combines a small proportion primary sector jobs, high

employment protection, and poor coordination in the industrial relations system; the second combines a small proportion of primary sector jobs, the absence of high employment protection, and liberalization. The chapter is divided into four parts. The first presents the raw data and the calibration of the outcome and conditions. The second part discusses the results of the empirical analysis, namely through the analysis of necessary and sufficient conditions. With regard to the analysis of sufficient conditions, besides discussing the solution term and the parameters of fit, a qualitative discussion of the different solution terms is also made. Namely, three cases are discussed: Portugal, United Kingdom and Denmark. The third part presents the robustness tests. The final section summarizes and concludes the chapter.

The fifth chapter contrasts two case studies – the telecommunications sector and the vehicle manufacturing sector – to illustrate why dualization as generational layering captures the process of change in Southern European labour markets. The starting point of this analysis is the results of the fsQCA analysis, namely the fact that a small proportion of primary sector jobs is a necessary condition for high levels of outsidership among young people. Based on this finding, the main objective of the fifth chapter is to deepen the analysis carried out before, namely to discuss how the reduction of the primary sector and the concomitant expansion of the secondary sector brought about a generational divide in Southern European labour markets, one in which young people face a much higher risk of unemployment and atypical employment than the older generations. The central thesis of Chapter 5 is that the gradual erosion of the traditional internal labour market model (ILM) in the telecoms sector led to the expansion of non-standard employment and consequently to increase the risk of unemployment. It is argued that older generations were able to maintain a better position in the labour market because, when liberalization and privatization started, both union membership and bargaining coverage were very high and trade unions resisted against this process. This prevented therefore a large number of redundancies in the former public company. On the other hand, it is argued that, in the vehicle manufacturing industry, the traditional ILM model was maintained. Although some changes were implemented, the ‘traditional’ pillars of the ILM model were safeguarded. Therefore, no substantial generational differences exist. It is however stressed that the vehicle manufacturing sector represents a low share of jobs in the Portuguese labour market and that it has not increased throughout the past decades. Taken as a whole, it is argued that liberalization led to a radical transformation in

telecoms but not in vehicle manufacturing. The fifth chapter is organized in the following way. The first section makes a brief presentation of the data and reasons underlying the comparison between these two cases. Thereafter, each one is analysed separately, scrutinizing in detail two different periods: before (2004-08) and after the global economic downturn (2008-13). The third section outlines the main differences between sectors and discusses the main findings.

The final chapter summarizes the empirical findings of the thesis and relates our findings with the broader theoretical debate on dualization. The chapter is divided in three parts: the empirical findings, the theoretical implications, and the policy implications.

2 Dualization as generational layering – an analytical framework

On the following pages an analytical framework will be provided to address the puzzle presented in the introduction. Drawing on the debate over the different variants of institutionalism (rational choice institutionalism, sociological institutionalism, historical institutionalism, and evolutionary and institutional economics), we begin by discussing the role of institutions. We argue that seeing institutions simply as drivers of efficiency (and therefore stability) contains several pitfalls that may undermine a thorough analysis of the changes taking place in European labour markets. Thereafter, we analyze the existing theories that give a pivotal role to institutional change, namely the historical institutionalist theory concerning the problem of change. The third section reviews the literature on labour market segmentation. Dual labour market (DLM) theory, economic insider-outsider theory, and the dualization literature are reviewed. It then goes on to discuss the existing links between these three strands of literature as well as the strengths and weakness of each. Finally, it is argued that the literature on dualization has to overcome its efficiency bias. Towards that end, it is argued that dualization and liberalization literatures must be combined. By doing so the growing labour market inequalities based on age will become less puzzling.

2.1 Efficiency versus conflict and asymmetric power

Following the insights of classical political economists such as Polanyi (1944, 1957), and Veblen (1904), the re-emergence of institutionalism in the 1980s demonstrated a common view about the role of institutions in shaping human behaviour, economic rules and the functioning of organizations.¹ This re-emergence, coincident with

¹ For the intellectual foundations of institutionalism see: Djelic (2010, pp. 17-24) and Hodgson (2001, 2004). We prefer the term 're-emergence' to the term 'new' (the literature in comparative political economy coined the term 'new institutionalism' to characterise the re-emergence of institutionalism in

March and Olsen's (1984) seminal article, was a reaction against the 'behaviourist revolution' of the 1950s and 1960s (DiMaggio and Powell 1991, p. 2), namely because of its rejections of the 'old' institutionalism (Djelic 2010, pp. 19-22) and, consequently, the role of institutions in structuring different socioeconomic models (Thelen and Steinmo 1992, p. 1). However, controversies exist between the different variants of institutionalism. Some result from disciplinary divides, but others have more substantive grounds. Among the key debates, the concept of institutions is a topical one and it has played a major role in mapping the frontiers between types of institutionalism (Powell and DiMaggio 1991, p. 7). One can distinguish at least four different variants of institutionalism: rational choice institutionalism, historical institutionalism, sociological institutionalism and evolutionary and institutional economics (Koelble 1995; Hall and Taylor 1996).²

Even though its roots are in neoclassical microeconomics, *rational choice institutionalism* rejects orthodox neoclassical assumptions and highlights the role of institutions (Cook and Levi 1990).³ Indeed, this approach played an important role in strengthening the field of comparative political economy (Levi 2000). Furthermore, one of its more recognized members, Douglass C. North, won the Nobel prize for economics in 1993, which helped bring institutions back into economics. The four notable features of rational choice institutionalism pointed out by Hall and Taylor (1996, pp. 944-945) illustrate these two assumptions, i.e. the role given to institutions and its microeconomic roots. Hall and Taylor argue that (i) rational choice institutionalism employs a characteristic set of behavioural assumptions; (ii) tends to see politics as a series of collective action dilemmas; (iii) emphasizes the role of strategic interaction in determining political outcomes (Scharpf 1997); and (iv) sees the process of institutional creation as a consequence of voluntary agreement. The concept of strategic interaction indeed plays a crucial role and illustrates quite well how rational choice institutionalism combined its microeconomic foundations with the role of institutions, especially if we take into account the further influence of this

the 1980s). Indeed, the dichotomy between 'new' and 'old' institutionalism contributed (perhaps unintentionally) to support for orthodox assumptions in economics. The rejection of the 'old' institutionalism in economics (allegedly for being 'atheoretical') supported the assumption that rational choice constitutes the cornerstone of economics (Hodgson 2004).

² For discussion around the different variants of institutionalism also see: Campbell (2004, pp. i-xxx), DiMaggio (1998), and Kato (1996).

³ Although this variant has proclaimed itself as 'new institutional economics' (Williamson 1975), we follow here the definition proposed by Hall and Taylor (1996) – rational choice institutionalism.

concept on the Varieties of Capitalism (VoC) literature (Hall and Soskice 2001). The concept, which draws on game-theoretical assumptions, points to the fact that ‘actors are aware of their interdependence and (...) in arriving at their own choices each will try to anticipate the choices of the others, knowing that they in turn will do the same’ (Scharpf 1997, p. 10). Institutions ‘allow’ this interaction because they ‘structure the courses of actions that a set of actors may choose’ (Scharpf 1997, p. 38) and, by doing this, create the conditions for the strategic interactions between actors to take place. Finally, as regards the definition of institutions, as North (1990, p. 4) pointed out: ‘institutions include any form of constraint that human beings devise to shape human interaction. (...) They can be either (...) formal constraints – such as rules that human beings devise – and informal constraints – such as conventions and codes of behaviour’.

Sociological institutionalism borrows from both organizational institutionalism (DiMaggio and Powell 1991) and new economic sociology (Swedberg and Granovetter 1992). Having its roots in sociological theory – drawing especially on phenomenology, ethnomethodology, and cognitive psychology (DiMaggio and Powell 1991, pp. 15-27) – this approach defines institutions in a more encompassing way, ‘sociological institutionalists tend to define institutions much more broadly than political scientists do to include, not just formal rules, procedures or norms, but the symbol systems, cognitive scripts, and moral templates that provide the “frames of meaning” guiding human action’ (Hall and Taylor 1996, p. 947). Furthermore, in contrast with the rational choice variant, rather than being a source of efficiency, institutions provide information on what is appropriate or legitimate in a given context (Campbell 2004, p. xviii). Consequently, institutions result not from an attempt to enhance efficiency (i.e. they do not emerge to solve problems of collective action, to reduce transaction costs or to structure strategic interaction) but to enhance the social legitimacy of an organization or its participants (Hall and Taylor 1996, p. 949).

Group theories and structural-functionalism left their imprint on the third variant of institutionalism. From group theories (Hall 1986, pp. 13-15) *historical institutionalism* took the fact that group conflict lies at the centre of politics. From structural functionalism they emphasized structuralism, but rejected the functionalist argument that political outcomes are a consequence of the needs of the system (Hall and Taylor 1996). Furthermore, historical institutionalists criticized both variants of

group theories – pluralist and neo-Marxist theories – the first for its emphasis on stability (the main argument of pluralist analyses was that the constitutional arrangements of democracies contributed to the existence of many competing groups and these groups offered access to everyone to political power and consequently to stability) and the second for ignoring the role of institutions in defining class interest and class power on the one hand, and neglecting the relationships between society and the state on the other. Indeed, for neo-Marxist scholars, the state was seen as a reproducer of the capitalist economic system and they were particularly interested in the commonalities (of ‘the capitalist state’) between countries rather than in its differences (Hall 1986, p. 18).

Historical institutionalists define institutions in a similar vein to rational choice institutionalists, i.e. they include both formal organizations and informal rules and procedures (Thelen and Steinmo 1992). Four main contributions of historical institutionalism should be underlined: the conceptualization of state-society relationships; the relational character of institutions and the asymmetries of power associated with this process; the role of path-dependency; and the contribution of ideas to explain political outcomes. Going beyond group theories (pluralist and neo-Marxist theories) and society centred approaches (Skocpol 1985, pp. 4-7), as well as state-centric theories (Hall 1986, pp. 15-17), historical institutionalists ‘brought the state back in’, arguing that ‘a complete analysis (...) requires examination of the organization and interests of the state, specification of the organization and interests of socioeconomic groups, and inquiries into the complementary as well as conflicting relationships of state and societal actors’ (Skocpol 1985, p. 20). Second, historical institutionalism argues that institutions are not neutral and the distributional effects of institutions need to be taken into account, ‘historical institutionalism represents an attempt to illuminate how political struggles “are mediated by the institutional setting in which they take place”’ (Thelen and Steinmo 1992, p. 2). Furthermore, institutions distribute power unevenly between different groups and, by doing this, benefit some groups while others become marginalized (Thelen 1999, p. 394). Third, this variant of institutionalism underlined the role of path-dependence (Hall and Taylor 1996, p. 941; Thelen 1999, pp. 387-399; Pierson 2000; Mahoney 2000), rejecting the view that similar challenges will drive all countries to the same path. Fourth, historical institutionalism made a great contribution by incorporating the diffusion of ideas as an important variable in explaining political outcomes, i.e. institutions play an

important role but should not be seen as the only causal force (Hall 1989; Fleckenstein 2011).

Evolutionary and institutional economics has been very much inspired by Richard Nelson and Sydney Winter's seminal book – *An Evolutionary Theory of Economic Change* (1982). Against rational choice institutionalists, evolutionary and institutional economists argue that 'the idea of tracing how institutions emerge from an imaginary world with individuals but without institutions is misconceived. What is required is a theory of process, development and learning' (Hodgson 2009, p. 10).⁴ Thus, both neo-Schumpeterian (Nelson and Winter 1982, pp. 39-40; Magnusson 1994, pp. 1-9; Nelson 1995, pp. 68-72; Nelson and Winter 2002; Freeman 2007) and Veblenian (Hodgson 2001, pp. 137-151; 2004, pp. 123-248) branches of evolutionary and institutional economics converge in the idea that 'in contrast to the traditional equilibrium and steady-state orientation of much economic theory, institutional and evolutionary economists place much greater emphasis on processes, changes and structural transformations. The recognition of the historical specificity of socio-economic systems itself points to the processes of evolution and system change through time' (Hodgson 2002, p. xix). Finally, as regards the definition of institutions, they share with sociological institutionalism (and the 'old' institutionalism!) a broader definition, i.e. they 'define institutions as systems of established and prevalent social rules that structure social interactions. Language, money, law, systems of weight and measures, table manners, and firms (and other organizations) are thus all institutions' (Hodgson 2006, p. 2).

⁴ Although evolutionary scholars have criticised the rational choice variant of institutionalism, the other two variants (historical and sociological) did not give much echo to evolutionary arguments. Two reasons contributed to this fact. First, evolutionary theorists tend to disagree with the 'old' versus 'new' institutionalism dichotomy. Indeed, they contest the assumption that the 'old' institutionalism was 'atheoretical' and see the attack against 'old' institutionalism as a tentative attempt to impose orthodoxy on economics (Hodgson 2004, pp. 3-5). Second, the use of Darwinism (already present in Veblen's work) led to misunderstandings. Contrary to some misconceptions, evolutionist approaches do not fall into the trap of biologicistic reductionism. See Pierson (2000), footnote 5, for an interesting example of this problem.

Table 2.1 – Variants of institutionalism

	Intellectual roots	Definition of institutions	Role of institutions
Rational choice institutionalism	Neoclassical microeconomics	Strict	To allow strategic interaction
Sociological institutionalism	Organizational institutionalism and new economic sociology	Broad	To provide information on what is appropriate in a given context
Historical institutionalism	Group theories and structural-functionalism	Strict	To distribute power
Evolutionary and institutional economics	‘Old’ institutionalism	Broad	To mould individual preferences and drive change

At first sight, rational choice institutionalism and historical institutionalism share more similarities than dissimilarities: both strands of literature use a strict definition of institutions – formal organizations and informal rules and procedures. Sociological institutionalism and evolutionary and institutional economics point to a broader definition of institutions, including symbol systems, cognitive scripts, moral templates, language and table manners. Looking, however, at how each variant manage the problem of change we arrive at a quite different landscape. Sociological institutionalism and rational choice institutionalism emphasize stability. On the other hand, historical institutionalism and evolutionary and institutional economics are more prone to accommodating change in their frameworks. The next section discusses why each approach deals differently with the problem of change.

2.2 ‘From conflict to change’ versus ‘from efficiency to stability and equilibrium’

This section argues that while evolutionary and institutional economics and historical institutionalism are more prone to accommodate change in their frameworks, sociological and rational choice institutionalisms tend to be better placed to explain

stability and path-dependence. Below it is explained how each variant deals with the issue of institutional change.⁵

Rational choice institutionalism emphasizes stability because of its efficiency bias; as Streeck (2010, pp. 22-23) points out ‘in the rationalist-functionalist model (...) economic institutions have only one function, to increase efficiency’. The way the VoC theory deals with the problem of change is a good illustration of this. The VoC school is an actor-centred approach and advocates that individuals pursue their interests in a rational way in strategic interaction with others (Hall and Soskice 2001, p. 7). Concerning the problem of change, VoC scholars argue that change is shaped by the historical trajectory of each model: when a country faces challenges, the way it reacts is constrained by an attempt to maintain a set of comparative institutional advantages (Hall and Soskice 2001, pp. 36-44; Hall 2007). Therefore, to conceptualize change, the VoC approach relies on a type of path dependence that suffers from an efficiency/deterministic bias (and consequently emphasizes equilibrium rather than change). Consequently, as Chris Howell (2003, p. 110) points out, ‘the theoretical framework of Varieties of Capitalism offers an extremely thin notion of politics and state action. (...) This approach betrays a latent functionalism in which capitalist political economies and the social relations that undergird them are fundamentally nonconflictual’. As well as having some problems in explaining change in its two exemplary case studies – Germany and United States (US) (Crouch 2005; Streeck 2009) – the VoC’s efficiency bias is particularly problematic in countries where the political foundations and conflict play a pivotal role. Indeed, the VoC approach has faced, since its outset (Hall and Soskice 2001, p. 21), problems in integrating the Mediterranean countries (Portugal, Spain, Italy and Greece) into its framework, as well as taking account of the differences between Nordic and Continental Europe.⁶ In the next section it will be argued that the influence of the VoC approach over the dualization literature lead to an efficiency bias, especially with regard to the causes of the process of dualization.

⁵ Except for evolutionary and institutional economics because we have already explained in the previous section that this variant emerged in opposition to traditional equilibrium and steady-state orientation of much economic theory. Indeed, these scholars’ main contribution is precisely the emphasis on the evolutionary logic of the capitalist system.

⁶ Recently, Iversen and Stephens (2008), Thelen (2012), and Emmenegger et al., (2012a, p. 14) have tried to overcome this problem by combining the VoC and power-resource theory.

Sociological institutionalism criticizes the rational choice institutionalism view of institutions as efficiency ‘guardians’. Although avoiding the pitfall of efficiency it suffers from a ‘consensus’ bias. As seen previously, sociological institutionalists argue that institutions provide information about what is appropriate or legitimate in a given context. This way of seeing institutions ignores their mediating role in the distribution of power in society, and therefore provides little room for conflict and change. DiMaggio and Powell (1991, p. 14) recognize this and point out that ‘not only does neoinstitutionalism emphasize the homogeneity of organizations; it also tends to stress the stability of institutional components’. Sociological institutionalism has tried to overcome this limitation (DiMaggio and Powell 1991, pp. 27-33) by emphasizing the role of ‘institutional contradiction’ as a source of institutional change. However, they recognize that ‘power and interests have been slighted topics in institutional analysis’ (DiMaggio and Powell 1991, p. 30), and therefore a crucial source of institutional change is left behind. While trying to overcome this problem, they argue that ‘the acquisition and maintenance of power within organizational fields requires that dominant organizations continually enact strategies of control, most notably through either socialization of newcomers into a shared world view or via the support of the state and its judicial arm’ (DiMaggio and Powell 1991, p. 31). This solution is symptomatic of this variant bias, i.e. even when recognizing that power plays a crucial role, they neglect conflict by either assuming that individuals voluntarily accept the process of socialization enacted by the dominant organizations or that the state and the judicial arm are immutable and immune to society’s pressure.

Historical institutionalists have over the last decade built a powerful theory of institutional change. However, this was not a haphazard development. Compared with rational choice and sociological institutionalists, historical institutionalists were much better equipped to tackle the problem of change because they had never seen institutions as efficiency or information providers, but as mediators of political struggles; ‘the emphasis on the power-political underpinnings of institutions has always distinguished this version of institutionalism from alternative accounts, both sociological perspectives on institutions as shared understandings or cognitive scripts and rationalist (...) approaches to institutions as voluntary resting points held together

by shared interests and mutual benefit' (Thelen 2010b, p. 54).⁷ Kathleen Thelen has played a prominent role in developing the historical institutionalist approach to the problem of institutional evolution. The theory has been developed in three steps: first, by criticizing the existing theories (technological models of path dependency from economics and path dependency from institutional sociology) (Thelen 1999, pp. 384-387); second, by proposing an alternative theory of institutional change and pinpointing five different modes of institutional evolution (Thelen 2004; Streeck and Thelen 2005); and finally, by setting out the context in which each mode of change tends to emerge (Mahoney and Thelen 2010).⁸

First, drawing on historical institutional analyses of critical junctures and the work on policy feedbacks, Thelen (1999, p. 369) proposed 'a way of thinking about institutional evolution and path dependency that provides an alternative to equilibrium and other approaches that separate the analysis of institutional stability from that of institutional change'. Thelen argued that stability and change are inseparable and change is not only triggered by exogenous factors. To understand change, she argues, one has to look at the foundations of political stability, i.e. 'the key to understanding institutional evolution and change lies in specifying more precisely the reproduction and feedback mechanisms on which particular institutions rest'. In a second step, Streeck and Thelen (2005, p. 9) argued that rather than looking at big changes (in response to big shocks), the focus should be put on looking for incremental change with transformative results (therefore linking stability and change). Streeck and Thelen (2005, pp. 18-30) therefore identified five broad modes of gradual but nevertheless transformative change: displacement, layering, drift, conversion, and exhaustion (see Table 2.2). In a third step, Mahoney and Thelen (2010) elaborated a model to explain which institutional contexts (with strong veto possibilities versus with weak veto possibilities) and which proprieties of institutions (with low level of discretion in interpretation/enforcement versus with high level of discretion in interpretation/enforcement) are associated with each kind of change (see Figure 2.1).

In section four it will be argued that change through layering describes well the process of change in Southern European labour markets.⁹ It is argued that separating stability and change does not capture the reasons behind the high levels of

⁷ On the other hand, there are signs that an approximation of evolutionary institutional economics and historical institutionalism is underway (Lewis and Steinmo 2009; Steinmo 2010; Blyth et al. 2011).

⁸ See Thelen (2010a) for a survey of this literature.

⁹ In the same section it is explained in detail the meaning of layering.

unemployment among the youth in Southern Europe, i.e. seeing youth unemployment only as a consequence of external shocks (e.g. due to the global economic crisis) does not tackle the root cause of the problem: the deterioration of its labour market position over the past decades. However, before going more deeply into that issue, the literature about labour market segmentation will be reviewed in order to explain why youth has been more affected in post-industrial labour markets and why this process is more problematic in Southern Europe.

Table 2.2 – Institutional change: five types of gradual transformation

	Displacement	Layering	Drift	Conversion	Exhaustion
Definition	Slowly rising salience of subordinate relative to dominant institutions	New elements attached to existing institutions gradually change their status and structure	Neglect of institutional maintenance in spite of external change resulting in slippage in institutional practice on the ground	Redeployment of old institutions to new purposes; new purposes attached to old structures	Gradual breakdown (withering away) of institutions over time
Mechanism	Defection	Differential growth	Deliberate neglect	Redirection, reinterpretation	Depletion
Elaboration	Institutional incoherence opening space for deviant behavior Active cultivation of a new 'logic' of action inside an existing institutional setting Rediscovery and activation of dormant or latent institutional resources 'Invasion' and assimilation of foreign practices	Faster growth of new institutions created on the edges of old ones New fringe eats into old core New institutional layer siphons off support for old layer Presumed 'fix' destabilizing existing institutions Compromise between old and new slowly turning into defeat of the old	Change in institutional outcomes effected by (strategically) neglecting adaptation to changing circumstances Enactment of institution changed, not by reform of rules, but by rules remaining unchanged in the face of evolving external conditions	Gaps between rules and enactment due to: (1) Lack of foresight: limits to (unintended consequences of) institutional design (2) Intended ambiguity of institutional rules: institutions are compromises 3) Subversion: rules reinterpreted from below (4) Time: changing contextual conditions and coalitions open up space for redeployment	Self-consumption: the normal working of an institution undermines its external preconditions Decreasing returns: generalization changes cost-benefit relations Overextension: limits to growth

Source: Streeck and Thelen (2005, p. 31)

Figure 2.1 – Contextual and institutional sources of institutional change

		Characteristics of the Targeted Institution	
		Low Level of Discretion in Interpretation/ Enforcement	High Level of Discretion in Interpretation/ Enforcement
Characteristics of the Political Context	Strong Veto Possibilities	Layering	Drift
	Weak Veto Possibilities	Displacement	Conversion

Source: Mahoney and Thelen (2010, p. 19)

Table 2.3 – Variants of institutionalism and institutional change

	Driving force of institutional change
Rational choice institutionalism	To increase efficiency
Sociological institutionalism	To reinforce shared understandings or the power of dominant organizations
Historical institutionalism	Distributional conflicts
Evolutionary and institutional economics	Change is seen as an intrinsic feature of capitalism

2.3 Varieties of labour market segmentation in post-industrial societies

Considerable attention has been given in the literature to the existing divides in the labour market. DLM theories (Doeringer and Piore 1971) and economic insider-outsider theories (Lindbeck and Snower 1988a) are often cited as the most relevant literature in this area.¹⁰ More recently, a new approach – the dualization literature –

¹⁰ As well as these two approaches, we could also add the sociological literature on the rise of precariousness and atypical employment (Kalleberg 2000, 2009; Barbier 2011; Price et al. 2011), and radical theory (Reich, Gordon and Edwards 1973). Although providing interesting insights regarding the existence of different types of non-standard work (Kalleberg 2000) and consequently stressing the inconsistencies of the available indicators to measure precariousness (Barbier 2011), sociological studies are mainly focused on defining precariousness rather than identifying its causes. Radical

has gained importance within the field of comparative political economy (Rueda 2007; Palier and Thelen 2010; Emmenegger et al. 2012a; Rueda 2014). As can be seen below, each of these three strands of literature has different analytical roots and addresses different socio-political challenges. We will begin by identifying the key features of each approach before describing the main differences between them. Finally, we identify the weaknesses of the literature on dualization.

DLM theories have their roots in the American Institutional School (Doeringer and Piore 1975, p. 70; Cain 1976, pp. 1226-1228; Bosworth et al. 1996, p. 335; Leontaridi 1998, pp. 68-69; Barbier 2011, pp. 7-9), particularly in the contribution of Kerr (1954) and Dunlop (1957).¹¹ There are at least two reasons for this relationship. First, together with institutional economics, DLM scholars challenged classical and neo-classical explanations about the workings of the labour market. Indeed, in contrast to human capital theories, they argued that the labour market is not a single competitive market. The DLM scholars believe there are several non-competing segments, as well as institutional barriers between them. These scholars indicate the existence of two sectors: a primary and secondary. The primary sector is characterized by having well developed internal labour markets (ILMs) (a concept first developed by Kerr (1954, p. 102)) in which (formal and informal) institutional rules substitute market mechanisms. It is argued that firms in the primary sector depend more on their employees' specific skills (acquired through on-the-job training and experience) and therefore develop strategies to protect their labour force from the risk of poaching (Rubery 1978, p. 19).¹² Furthermore, it should be noted that

scholars share with DLM theories the emphasis on institutions, but stress a different point. They point to a 'divide and conquer' strategy (Reich, Gordon and Edwards 1973, p. 361; Rubery 1978, p. 18; Bosworth et al. 1996, p. 337) pursued by the capitalist class. Regardless of the analytical focus, several authors have surveyed this literature. See for instance: Cain (1976); Rubery (1978); Piore (1980, pp. 379-384); Ball (1990); Bosworth et al. (1996); Leontaridi (1998); Kalleberg (2000, 2009); Lindbeck and Snower (2001); Blanchard (2006); Suleman (2007, pp. 121-127); Davidsson and Naczyk (2009); Suleman and Sgobbi (2010, pp. 97-99); Barbier (2011); Emmenegger et al. (2012a).

¹¹ John Dunlop was teacher of Doeringer and Piore at Harvard (Cain 1976, p. 1222). It is no coincidence that Doeringer and Piore's seminal book (1971) was dedicated to him.

¹² Notwithstanding, DLM scholars later distinguished between an upper and a lower tier within the primary sector. Piore (1972, p. 3) argued that upper tier jobs are different 'from those in the lower tier by the higher pay and status, and the greater promotion opportunities which they afford. They are also distinguished by the mobility and turnover patterns, which tend to more closely resemble those of the secondary sector except, in contrast to the patterns of that sector, mobility and turnover tend to be associated with advancement'. While workers in the upper tier make use of general skills, the lower tier is mainly characterized by the use of specific skills. In their view, 'it is for this reason that lower tier jobs place a premium upon stability and routine' (Piore 1972, p. 14). By clarifying the differences within the primary sector, DLM scholars recognized that not all jobs in the primary sector are characterized by employment stability. This clarification is crucial because the objective of the present

only firms faced with stable product demand are able to make this type of long-term investment in their labour force and therefore create ILMs. This is why DLM theories argue that the focus should be made on the industrial structure of the economy and on the demand side, rather than the supply side focus of neo-classical economics on worker characteristics (Leontaridi 1998, pp. 71-72). The secondary sector covers workers outside ILMs, their tasks depending less on specific skills. Supply and demand play a pivotal role in this sector, there are more entry ports and workers are therefore more vulnerable to pressure from outside. While the primary sector is characterized by ‘relatively high wages, good working conditions, chances of advancement, (...) and above all employment stability’ (Piore 1975, p. 126), the secondary sector is characterized by relying mainly on poor jobs (low wages, few promotion possibilities, poor working conditions and high labour turnover). Due to these differences, the mobility of employees between sectors is restricted.

Second, the analytic focus on institutions also implied the use of different methodologies. Both institutional economics and DLM theories have challenged the practice of econometric estimation of deductive neoclassical models, and have emphasized the potential of unorthodox research practices, such as open-ended, unstructured interviews with economic actors (Cain 1976, pp. 1226-1227; Piore 1983, p. 250). In summary, there exists a clear link between DLM and institutional economics. Both approaches challenge the classical and neo-classical perspective and stress the role of institutions to explain the workings of the labour market. Furthermore, DLM scholars have borrowed important insights from institutional economics to build their theory. Given their analytical focus, both approaches tend to reject orthodox methodologies.

Finally, the socio-political context has also exerted great influence over DLM scholars. As Piore (1983, p. 250) recognized ‘the notion of labor market stratification emerged through “participant observation”’. The ideas were originally put forward by a group of us who encountered the labor market through participation in the civil rights movement and as advocates for the community based groups which grew up around that movement and President Johnson’s War on Poverty. The ideas were an attempt to make sense out of the labor market problems as the people in these communities experienced them (or at least described their experiences) and to

study is to explain the rise of atypical employment and/or unemployment. Therefore, it is expected that only lower tier jobs are characterized by stable contractual arrangements.

describe the labor market as these people saw it'. Indeed, this approach has tried to provide an answer for the political concerns of the 1960s: structural unemployment, technological change and racial discrimination. Contrary to human capital theories (which argued that education and training programs could fight poverty), DLM stressed that poverty could only be tackled by providing access to primary employment to those excluded from it (Piore 1970, p. 55).

Economic insider-outsider theories, the second strand, emerged at the end of the 1980s. Rather than considering the rise of poverty and inequality, their interest relied on the intriguing high levels of structural unemployment in Europe, especially when compared with a much lower level in the US (Blanchard 2006, p. 19). In contrast to the prevalent natural rate explanations, they considered that short-term economic shocks were not the main reason behind unemployment. Moreover, economic insider-outsider theorists argued that market mechanisms were not able to explain the rise of structural unemployment. They noted the fact that a decline in productivity growth (due to rapid deindustrialization throughout the 1980s) did not lead to an adjustment in wages (Emmenegger 2009, p. 133). To explain this, they preferred to blame labour market institutions by arguing that some workers are trapped in involuntary unemployment because labour market institutions hinder competition between the unemployed – the outsiders – and those already in the labour market – the insiders (Lindbeck and Snower 1988a, p. 1). They claim that this results in conflicting interests between insiders and outsiders because the latter prefer to dismantle existing labour market institutions, while the former prefer the opposite.

When speaking of labour market institutions, economic insider-outsider theorists mean institutions that protect insiders from the competition of outsiders. The basic idea is that 'it may not be in the insiders' interests to permit outsider underbidding. Insiders may be able to impose their interests on their employers, since the insiders' positions are protected by labour turnover costs' (Lindbeck and Snower 2001, p. 166). Labour turnover costs mean both production-related turnover costs and rent-related labour turnover costs. Production-related 'include search, hiring, relocation and training costs, (...) [while rent-related] are (...) the outcome of insiders rent-seeking activities. These come in many forms, such as severance-pay, seniority rules, requirements that firms give insiders advance notice of dismissal, and other forms of legal protection against firing' (Lindbeck and Snower 2001, p. 167). As well as these two types, they have also pinpointed the existence of another kind of labour

turnover cost: the refusal to cooperate with outsiders who offer to work for less, i.e. especially on those jobs where work is performed in teams, refusing to cooperate with new entrants who have accepted work for lower wages may undermine an employer's intention to recruit new (outsider) workers (Lindbeck and Snower 1988b; Lindbeck and Snower 2001, p. 167). Notwithstanding this, job security regulations are indeed the main focus of economic insider-outsider theory (Emmenegger 2009, p. 133), and policies inspired by this theory (for instance those pursued by the IMF and OECD) have focused on the reduction of job security regulations ('labour market rigidities') to tackle structural unemployment, as well as reducing labour power in terms of collective bargaining.¹³ Finally, although economic insider-outsider theory challenges classical explanations, this approach is built on the assumptions of mainstream economics (Barbier 2011, p. 4), taking into account that, for them, institutions impede the optimal functioning of the market.

Two main differences between DLM theory and economic insider-outsider theory should be underlined: their theoretical roots and their socio-political motivations. First, the separation between these two strands of literature is rooted in a broader debate between institutional economics and mainstream economics. While institutional economics understand that social groups and institutions are crucial to the functioning of the labour market and are indeed inseparable from it, mainstream economics emphasizes the role of market mechanisms, arguing that institutions only disturb the functioning of the market. Piore (1983, p. 252) has summarized the institutionalist point of view by arguing that 'at the core of labour market segmentation are social groups and institutions. The process governing allocation and pricing within ILMs are *social*, opposed either to competitive processes or to instrumental calculations'. Second, each approach attempts to deal with different challenges: DLM scholars focus on the rising levels of poverty and inequality in the US, while the high level of structural unemployment in Europe is the conundrum behind the economic insider-outsider framework.

Therefore, although both theories attempt to deal with labour market segmentation, they support different solutions, either because they have different theoretical roots or because they attempt to tackle different socio-political issues (see Table 2.4). While economic insider-outsider theory emphasizes the role of 'power-

¹³ See, for instance, *The 1994 OECD Jobs Study* (OECD 1994).

reducing policies’, such as ‘restrictions on strikes and picking and relaxing job security and seniority legislation’ (Lindbeck and Snower 2001, p. 184), DLM points to an expansion of the primary sector, a sector mainly regulated by institutional rules. DLM theory supports the adoption of anti-discrimination policies for the expansion of the primary sector and, above all, the encouragement of full employment (Piore 1975, p. 79). As far as youth is regarded in the labour market, both economic insider-outsider theory (Lindbeck and Snower 2001, p. 182) and DLM theory (Piore 1975) agree that the younger generations are more vulnerable in the labour market than other age groups. Despite this, and taking into account what we have just mentioned, different causes as well as different solutions to the youth unemployment problem are identified. While insider-outsider theorists stress the need to reduce older generations protections (e.g., by relaxing seniority legislation), DLM scholars point to the need of providing access to the primary sector to young people (e.g., by implementing policies facilitating the school-to-work transition). In short, these two traditions rely in different assumptions and consequently provide different solutions to the youth unemployment problem.

The fact that each approach addresses different socio-political challenges is much more important than it seems. By arguing that the best solution to tackling labour market segmentation is to dismantle the existing institutional rules (which have historically protected workers’ interests), economic insider-outsider theorists are only fighting structural unemployment. Indeed, the US (the ‘good’ example for economic insider-outsider scholars) are historically characterized as having high levels of income inequality and high poverty rates. The main pitfall of this approach is that by arguing that insiders and outsiders have conflicting interests, economic insider-outsider scholars ‘forget’ that both insiders and outsiders are interested in improving their living conditions, and not only in obtaining a job. Indeed, making labour relations radically more flexible can provide access to the labour market for outsiders but does not guarantee access to good jobs. Therefore, more flexible labour relations may, against economic insider-outsider assumptions, face opposition from both insiders and outsiders (Emmenegger 2009), especially when more flexible labour relations means the spread of poverty and inequality.

Table 2.4 – Contrasting theories on labour market segmentation

	Dual Labour Market	Economic insider-outsider
Intellectual roots	Institutional economics	Mainstream economics
Divide	Primary and secondary sectors	Insiders and outsiders
Driver	Specific-skills; on-the-job training	Job security regulations
Socio-political motivations	Poverty and inequality	Structural unemployment

Until now the reviewed literature has been embedded in the industrial era's debates, i.e. when jobs in the industrial sector still represented a high proportion of the labour force, and so it does not reflect the changes undergone by the labour market throughout the past decades.¹⁴ The third strand, *dualization literature*, provides interesting insights into post-industrial labour markets. It has been inspired by the seminal work of Rueda (2005, 2006, 2007). However, recent contributions have challenged Rueda's initial framework: while Rueda has drawn on the economic insider-outsider theory, Palier and Thelen (2010, 2012) and Emmenegger et al. (2012a) have built their ideas mainly on DLM theory.

Following the insider-outsider framework, Rueda has argued that 'labor is divided into two segments: those with secure employment (insiders) and those without (outsiders) ... [and that] the interests of insiders and outsiders are fundamentally different and, in some circumstances, contradictory' (Rueda 2007, pp. 2-3). Rueda goes beyond the insider-outsider framework in at least two ways. First, he includes both the unemployed and those with temporary jobs in the group of outsiders. Second, he argues that in the presence of conflict between different groups within the labour force, social democratic governments often fail to promote the interests of the weakest members of society, and therefore exacerbate the gap between insiders and outsiders. In his view, this happens because insiders vote disproportionately for social democratic parties and are over-represented within trade unions. Rueda stresses that these parties (together with trade unions) contributed to an

¹⁴ Especially the DLM theory, given that economic insider-outsider emerged during the transition from industrial to post-industrial labour markets.

increase in the gap between insiders and outsiders for electoral reasons because they promoted job security for insiders instead of active labour market policies (ALMP) to support outsiders. By stressing this second point, and using Thelen's (2012, p. 149) words, Rueda 'flips the power-resource theory on its head' given that the power resource theory (Korpi 1983) argued that a link exists between high levels of equality and social solidarity and the strength of organized labour and labour's political allies, i.e. the social democratic parties (Rueda 2007, p. 4). The innovativeness of Rueda's argument is therefore the introduction of a political flavour into the economic insider-outsider theory (Emmenegger 2009, p. 133).

The negative role of social democratic parties has however been challenged by others (Emmenegger 2009, pp. 133-137; Palier and Thelen 2010, p. 121; Thelen 2012). They argue that where social democratic parties are stronger (e.g. in the Nordic countries), dualistic trends are less pronounced. Palier and Thelen put forward a different explanation for the growing levels of dualities, namely the attempt to save the core manufacturing economy in Continental Europe. They defend the view that reforms during the 1980s and 1990s shrank the industrial sector and therefore allowed the expansion of new types of jobs in the outside, giving rise to the emergence of a secondary labour market.¹⁵ To maintain a set of comparative institutional advantages, coordination between capital and labour was kept within the core manufacturing industry (thus preserving a number of stable and well remunerated jobs), but the expansion of the secondary sector contributed to the spread of poor jobs. Additionally, the welfare state has reinforced the problem in countries where the eligibility for benefits is historically based on past contributions (Palier and Martin 2007; Palier 2010; Emmenegger et al. 2012a; Arcanjo 2012). By emphasizing the role of social policies, Emmenegger et al. stress that dualization does not imply that all countries will necessarily experience high levels of insider-outsider divides. The existing differences illustrate how some policies may foster dualization while others (e.g. if outsider policies are relatively generous) may reduce it.

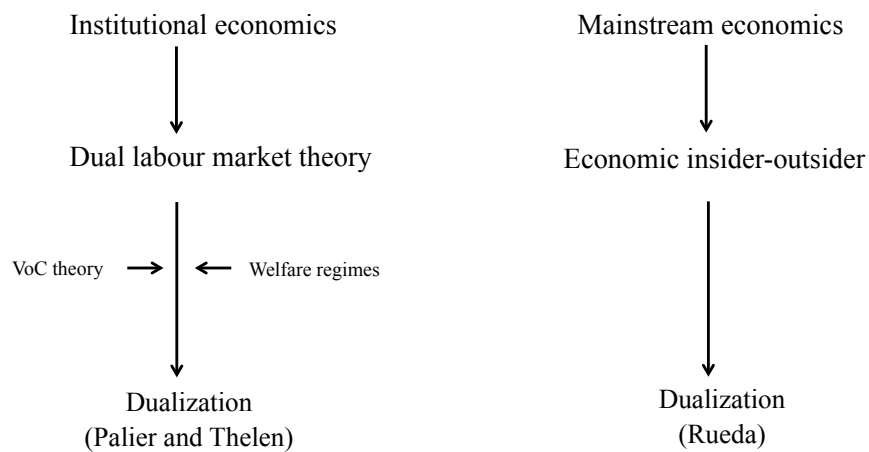
¹⁵ Palier and Thelen's argument points to the same type of institutions Doeringer and Piore (1971) identified in the 1970s to explain the existing dualities in US labour markets. Indeed, what Palier and Thelen call the 'core manufacturing economy' is similar to what Doeringer and Piore called, in the 1970s, the primary sector (characterised by well-developed ILMs). The main difference however is that an expansion of the primary sector is not expected in the near future. Furthermore, both the dualization literature (Emmenegger et al. 2012a, pp. 3-7) and DLM were concerned with the growing levels of inequality and poverty, rather than only focused on the problem of unemployment.

The innovativeness of the argument by Emmenegger et al. (2012a, pp. 16-17) relies on its emphasis on policies, namely the translation of the changes in the labour market into the social policy realm. Emmenegger et al. (2012a, pp. 10-16) argue that the process of dualization is a process ‘in which politically and economically stronger groups are using their power resources to insulate themselves from the negative effects of [the] structural pressures, and in which governments make deliberate choices in favour or against outsiders. Thereby, changes in the labour market are translated into the social policy realm, where new distinctions arise or old institutional distinctions are re-activated ... [D]ualization implies that policies increasingly differentiate rights, entitlements, and services provided to different categories of recipients. In this way, the position of insiders may remain more or less constant, while only the position of outsiders deteriorates.’

But even though social policies play a crucial role, they only become important because of previous changes occurred in the labour market; this explains the clear link between the arguments of Palier and Thelen and of Emmenegger et al. The same is not true of Rueda’s argument due to his emphasis on the negative role of social democratic parties and trade unions. Contrary to Rueda’s point of view, Emmenegger et al. argue that social policies carried out by the social democratic parties are indeed the cause of lower levels of dualization in some countries. Finally, while Rueda is focused on the high levels of unemployment, Emmenegger et al. (2012a, pp. 3-4) are concerned mainly with the increasing levels of poverty and inequality.

Although rooted in DLM theory, the perspective of Palier and Thelen (2010) goes beyond it in several ways. It adapts DLM theory to post-industrial labour markets, a period in which jobs in the manufacturing sector dropped dramatically. It successfully links DLM theory with the welfare state literature, and does this in a way that combines welfare regimes (Esping-Andersen 1990) with the VoC literature (Hall and Soskice 2001). Figure 2.2 illustrates the different foundations of each perspective.

Figure 2.2 – Foundations of each perspective



Comparing these two approaches (see Table 2.5), we consider Rueda's perspective excessively focused on job security. Indeed, due to its mainstream assumptions it does not pay enough attention to job quality. As Chapter 4 will show, less employment protection does not guarantee, *per se*, less age-based labour market segmentation. Although the approach put forward by Palier and Thelen is better placed to address the issue of job quality, it also has its limitations. Regardless of its merits, it is difficult to explain growing age-based labour market inequalities with this framework. In our view, this is related with the pitfalls of rational choice institutionalism (see section 2.1 above), namely its tendency to see institutions as 'guardians' of efficiency (Howell 2003, p. 110; Streeck 2009, Chapter 13). While this conceptual framework is well suited to explain Continental countries pattern of dualization, the same does not apply to Southern Europe. One could argue that the dualization literature departs from this when Emmenegger et al. (2012a) and Palier and Thelen (2010) emphasize the role of the welfare state and argue that in some regimes the strongest groups are using the welfare state to protect themselves and by doing so are excluding outsiders. Although the second part of the argument – about the role of the welfare state – is useful for the study of other socio-economic models, the first constitutes mainly a description of the Continental European case. Moreover, the dualization framework does not pay enough attention to change. Perhaps because of its emphasis on institutions as providers of efficiency this theory advocates that dualistic trends may last; theorists argue that the fringe is not eating the core because workers are not competing directly (Emmenegger et al. 2012b, pp. 315-318). Furthermore, they claim that employers are interested in maintaining this dualistic

trend because the ‘core manufacturing economy’ is the source of these countries’ comparative advantage. Below, we argue that the Southern European case exemplifies how problematic it is to see institutions only as a source of efficiency.

Table 2.5 – Summarizing controversies among dualization scholars

	Intellectual roots	Driver of dualization
Rueda’s perspective	Economic insider-outsider	Social democratic parties’ promotion of job security for insiders instead of ALMP for the outsiders.
Palier and Thelen’s perspective	Dual labour market	The attempt to save the ‘core manufacturing economy’ together with the existence of a conservative welfare regime.

Häusermann and Schwander (2012) have recently provided empirical evidence about the process of dualization across regimes and by doing so have, unintentionally, shown some of the strengths and weaknesses of this literature.¹⁶ In confirmation of previous studies, they point to the fact that young labour participants and women in the labour market are over-represented among outsiders in all regimes. Furthermore, regimes show different patterns of dualization: ‘in the Nordic and Continental countries, gender is the most important criteria, while in Southern European regimes, it is mostly young labour market participants who are potential outsiders, and in the Anglo-Saxon countries, outsiders are predominantly found among the low-skilled’ (2012, p. 34). As regards the role of social policies, the authors point to an interesting finding: while the effect of taxes and transfers tends to reduce inequality in the United Kingdom and the Nordic countries, the opposite occurs in Continental and Southern Europe (2012, pp. 40-42).

The existence of different patterns of dualization is a very interesting finding indeed. We have already pointed out (see section 1.1) that post-industrial labour markets have downplayed the position of young people. Furthermore, we have also

¹⁶ See also Häusermann and Schwander (2009), and Schwander and Häusermann (2013).

argued that while in some countries and regimes the labour market position of the young people is a transitory stage, in others it tends to become more persistent over time. As Häusermann and Schwander (2012) have argued, in Southern Europe it is mostly young labour market participants who are potential outsiders. However, the dualization literature does not provide a convincing explanation for this.

The conceptual framework of dualization literature is particularly well suited to explain Continental dualization: the gender divide reflects the split between jobs in industry (where males are over-represented) versus jobs in services (where females are the majority of the labour force). Lower levels of dualities in the Nordic countries show that social policies can successfully tackle the process of dualization. As regards the Anglo-Saxon case, the existing divides have their roots in differences within the service sector. Contrary to what has happened in Continental Europe, the ‘core manufacturing economy’ was not saved in the 1980s (Margaret Thatcher’s era). But, the logic of complementarities plays an important role here as well: the radical retrenchment of the industrial sector led to an exponential growth of the service sector (particularly the financial sector) and therefore to a much more unequal society. Finally, the liberal welfare state was not able to tackle the process of dualization. As for Southern Europe, the link between complementarities and social policies is less evident. Southern Europe lacks the logic of complementarities extant in Continental Europe (Molina and Rhodes 2007) or that which characterizes the liberal market economy model. As its industrial sector was much less competitive (relying mainly on low wages rather than on specific skills) than its counterparts in Continental Europe, reforms during the 1980s and 1990s did not save the ‘core manufacturing economy’ because there was no such ‘core manufacturing economy’ (Molina and Rhodes 2007). Indeed, only a small part of the manufacturing sector was characterized by having well developed ILMs (Suleman et al. 2013, pp. 239-241). That is why the existing divides are of a different nature: rather than skill-based they tend to be age-based. Having said this, we do not support the view that the second part of the argument (concerning the role of policies) is useless. What is needed is to pinpoint the existing divides (which may differ from regime to regime) and to shed light on their intersections with the welfare state.¹⁷

¹⁷ The main focus of the current study is to clarify the structural drivers of dualization in Southern Europe. Therefore, we will not explore the interactions between this and the welfare state. However, by shedding light on this process, we also pretend to open up new avenues of research on this topic. Future

We must therefore innovate conceptually in order to integrate the existing diversity into the dualization literature. Although the welfare state plays an important role in all regimes (reinforcing or tackling the process of dualization), the causes of dualization differ from country to country. The process of *dualization as generational layering* attempts to address the Southern European case and to explain why the pattern of dualization in Southern Europe is different.

2.4. Dualization as generational layering: connecting dualization with liberalization

The above-mentioned tendency to see institutions as ‘guardians’ of efficiency (and therefore of stability) has concealed crucial features of some countries and neglected the conflictual logic of the capitalist system. In our view, this has contributed to a lack of understanding of the growing age-based labour market inequalities. To overcome these problems, it is crucial to highlight the distinctive characteristics of the industrial relations system in some countries and to place greater emphasis on liberalization. Finally, it is also because some countries lack what Palier and Thelen (2010) have called the ‘core manufacturing economy’ that a growing number of outsiders among young people exist. It is the combination of these three factors that leads to the process of dualization as generational layering.

European countries diverge regarding the functioning of the industrial relations system: while more cooperative relations between social partners characterize Continental and Scandinavian countries, more conflictual relations historically characterize Southern Europe. Colin Crouch (1993, pp. 61–62) analyzed how the industrial relations system evolved in a large set of European countries between 1870 and 1990 and stressed the existence of three ideal types of interest intermediation: (i) contestative relations, (ii) pluralist collective bargaining, and (iii) neo-corporatism. As Crouch noted (1993, p. 56), the first type is inspired by ‘orthodox Marxists and pure syndicalists [approaches]. To them any institutionalization of the class conflict constitutes a weakening of the drive for revolutionary transformation. It will therefore be seen as a manipulation of class-consciousness, a corruption of working-class leaders, or something similar.’ As is

research might explore how changes in Southern European labour markets are translated into the social policy realm and the consequences of this process.

well documented, this is the case of Southern Europe (and France), where articulation between labour and capital has historically been lacking (Regini and Regalia 1997; Goetschy 1998; Ebbinghaus 2006b, p. 73; Molina and Rhodes 2007; Lima and Naumann 2011).¹⁸ Another contributing factor was the influence of strong communist parties on the largest trade union confederations, on the one hand, and the fascist regimes (of Salazar and Franco) in the Iberian Peninsula (although for a shorter period of time this was also the case of Italy), on the other hand, which prevented the development of free autonomous relations between capital and labour from the 1920s to the 1970s.

The conflictual logic of some industrial relations systems is problematic to the dualization framework given the emphasis that this literature places on cooperation.¹⁹ It is at the very minimum debatable to suggest that trade unions, which historically followed a class struggle approach, guide their behaviour on the basis of strategic coordination with the employers of the ‘core manufacturing economy’. In spite of this, in our opinion, a different point must be highlighted: in countries with poor coordination between labour and capital, the limited union density led unions to represent their members first and foremost and to neglect the remaining workers (i.e., to protect workers with more political power rather than those in a weaker position), through a process of confrontation rather than cooperation with employers. Since younger generations are less unionized and therefore have less political power, this process has affected them in particular (Lima and Artiles 2013, pp. 351-352).

Furthermore, social conflict can also result from market expansion, as liberalization scholars have emphasized. The liberalization literature, as an institutional theory of capitalism, emphasizes the communalities between countries rather than their distinctions and criticizes the functionalist’s assumptions on which the VoC relies (Streeck 2009). Drawing on Polanyi’s (1944) ‘double movement’ of market expansion and market containment thesis, Streeck argues that change in all capitalist economies is driven by a process of market expansion and by the social conflicts associated with it.²⁰ This emphasis on the conflictual logic of the capitalist

¹⁸ Visser (1992, 1996, 2004) and Ebbinghaus (1998) also point out that different types of interest intermediation exist.

¹⁹ ‘Dualization framework’ is used herein from the perspective of Palier and Thelen (2010).

²⁰ In our opinion, this emphasis on conflict is much more in line with the historical institutionalist tradition than the emphasis on institutions as guardians of efficiency. As Thelen (2010b, p. 43) noted, ‘considerations of power lie at the centre of historical-institutionalism as an approach to the study of politics, and power-distributional struggles define this approach’s distinctive perspective on

system (Streeck 2009, pp. 5–6), is very much in line with the point we stressed above: politics plays a crucial role in countries with more conflictual relations since insiders are the ones who are more organized (and hold more political power), rather than those with more specific skills. The social countermovements have protected these workers more, but this is neither an efficient nor a stable solution.²¹ The two factors – poor coordination in the industrial relations system and the liberalization process – can be synthesized under what we call *fertile breeding grounds for social conflict* because both market expansion and a conflictual industrial relations system are conducive to social conflict. Social conflict has a negative effect on young people because, as mentioned above, they hold less political power.

Besides its emphasis on social conflict, the literature on liberalization is crucial for an additional reason. Above, we argued that conflictual relations between social partners and market expansion are conducive to social conflict, but we did not explain why older people were able to obtain more stable jobs in the past. Before proceeding with this explanation, it will be necessary to venture further in the discussion about the compatibility of these two literatures (dualization and liberalization).²² Indeed, it can be argued that dualization and liberalization are incompatible since they rely on different traditions: rational choice institutionalism and historical institutionalism, respectively. In our view, that is not the case. Against some misconceptions, liberalization does not claim the end of strategic coordination between capital and labour in ‘coordinated market economies’ and does not argue that all capitalist economies are converging towards the ‘liberal market economy’ model.

As for the role of institutions, Streeck (2009, p. 158) clearly notes that ‘while liberalization sometimes does create atomistic markets, or aims to create them, it is not in principle hostile to institutions, provided their purpose is confined to making markets, or making them more efficient’. What Streeck does defend is that the German political economy underwent a process of liberalization that led to a shift from organized to disorganized capitalism (rather than from a coordinated to an

institutional evolution and change’. Furthermore, other institutionalist scholars stressed the same point. See, for instance, Rodrigues (2008, p. 330).

²¹ Note that contrary to economic insider-outsider scholars, the liberalization framework does not see conflict as a constraint that disturbs the functioning of the market, but as an intrinsic feature of capitalism. In their view it is market expansion that triggers social conflict and not the conflicting interests between insiders and outsiders.

²² Dualization scholars often contrast their perspective with the liberalization framework (Palier and Thelen 2010, p. 120; Emmenegger et al. 2012a, p. 10; Thelen 2012, pp. 138–139).

uncoordinated system – from Streeck’s point of view, coordination may go hand-in-hand with disorganization), the first being characterized by what he calls *Durkheimian* institutions and the latter by *Williamsonian* ones (Streeck 2009, Chapter 11) (see Table 2.6).²³ This fact is, in our opinion, very much in line with the dualization literature: as Streeck (2009, p. 151) notes, ‘liberalization, in other words, sets actors free from institutionalized obligations, allowing solidarism to be overruled by segmentalism (...), but does not preclude and is not incompatible with coordination in a “coordinated market economy”, provided such coordination comes about voluntarily and from below’.

Table 2.6 – Two types of political-economic institutions

Durkheimian	Williamsonian
Authoritative organization	Voluntary coordination
Creation of obligations	Reduction of transaction costs
Public order	Private ordering
Government	Governance
Obligational	Voluntaristic
Exogenously imposed	Endogenously contracted
Third party enforcement	Self-enforcement

Source: Streeck (2009, p. 155)

As regards the discussion on the convergence towards the ‘liberal market economy model’, Streeck likewise does not refer to a process of convergence but indeed to one of convergence and divergence at the same time: ‘by distinguishing between coordination and organization, we can allow for nonconvergence with respect to coordination to coexist with convergence in organization, or disorganization, in the course of a global process of capitalism becoming “unleashed” (Glyn), freeing itself from constraining social obligations’ (Streeck 2009, p. 168). In short, while dualization sees change exclusively driven by efficiency, liberalization sees change mainly driven by the conflictual logic of the capitalist system.

²³ According to Streeck (2009, pp. 154–155): ‘Durkheimian institutions authoritatively constitute an obligatory public order that in principle exists apart from and beyond the choosing of those subject to it. To them they are “social facts”: a constraining external reality that they are not in principle free to adopt, reject, or change [while] (...) Williamson institutions, by contrast, are devices for nonmarket though market-responsive and indeed market-driven coordination of economic behaviour. They are purposely and voluntarily constructed by market participants to increase the efficiency of their exchanges.’

Notwithstanding, liberalization scholars recognize that for various historically contingent reasons, some market-breaking institutions (such as those created in the ‘coordinated market economies’) are compatible with the process of market expansion.

By distinguishing organization and coordination, and arguing that liberalization is a process characterized by a shift from organized to disorganized capitalism (rather than a shift from a coordinated to an uncoordinated system), Streeck shows that coordination is compatible with market expansion, provided such coordination comes about voluntarily and from below. There are, however, countries (e.g., in Southern Europe) where such coordination is almost absent. As a consequence, the impact of the shift from an organized to a disorganized capitalism is stronger. In Southern Europe, a large part of stable jobs were created in the public sector (rather than in the ‘core manufacturing economy’), both due to the great expansion of the welfare state during the 1980s and the existence of a large number of state-owned enterprises (Chauvel 2010, p. 25). The privatizations of these enterprises and the cuts in public services have reduced the share of these jobs. This explains why older people were able to find more stable jobs in the past.

Finally, by arguing that the dualization framework is particularly well suited to explaining the situation in Continental European countries, we do not mean that the emphasis on differences between the primary and the secondary sector is useless for understanding the situation in Southern Europe. In our view, that emphasis is important, but for a different reason. We argue that it is also because some countries lack what Palier and Thelen (2010) have called the ‘core manufacturing economy’ that a growing number of outsiders among young people exist. Indeed, while in Continental Europe the manufacturing sector still provides access to a large number of stable jobs, the same does not apply to the Mediterranean regime.²⁴ The number of jobs in the core sectors of the public economy was already falling before the

²⁴ By saying this we are not arguing that in Continental Europe young people are immune to labour market problems. Compared with their parents, they indeed face more problems in finding stable jobs. However, we stress that in Southern Europe the situation is worse because the available jobs on the labour market are of lower quality. It is the quality of the available jobs that is the cause of the deterioration of the labour market position of young people. Furthermore, some policy-makers point to the German jobs miracle and argue that the main problem in Southern Europe is the transition from school to work. They defend the view that by spreading vocational education the younger generations would face fewer problems in finding a job. However, they do not take into consideration that vocational education is only one part of the German system; the other is the existence of a large manufacturing sector.

sovereign debt crisis, but the levels afterwards plummeted. Indeed, together with austerity policies in the public sector, the massive process of privatization of public enterprises that has taken place since the 1980s (coinciding with the accession to the European Economic Community) has also contributed to reducing the power of unions, as well as the share of workers covered by stable work arrangements. The new generations entering the labour market after/during this process have been severely affected. The deterioration of the position of young people on the labour market is therefore directly related to the spread of poor jobs.

Taking these two factors together – fertile breeding grounds for social conflict, and the absence of a ‘core manufacturing economy’ –, we argue that the process of change in Southern Europe is therefore best described as change through layering: while the core labour force has remained protected, the fringes have been affected the most. Given the characteristics of the industrial relations system, a radical and abrupt change towards liberalization is difficult to implement in Southern Europe, as contestative relations block labour market reforms. However, as we have discussed throughout this chapter (see section 2.2), transformation can occur without disruption (Thelen 1999). Streeck and Thelen (2005) built a powerful theory to explain institutional change and stressed the importance of incremental change with transformative results. They highlighted the existence of at least five broad modes of gradual but nevertheless transformative change (displacement, layering, drift, conversion, and exhaustion). We believe that change through layering is the most accurate way to classify the process of labour market adjustment in Southern Europe. For Streeck and Thelen (2005, pp. 23–24), ‘change through layering can set in motion path-altering dynamics through a mechanism of what we might think of as *differential growth*. (...) Layering involves active sponsorship of amendments, additions, or revisions to an existing set of institutions.’ Later, Mahoney and Thelen (2010) identified which types of strategies flourish in which kinds of institutional environments. They (2010, p. 20) argued that ‘with layering institutional change grows out of the attachment of new institutions or rules onto or alongside existing ones. While powerful veto players can protect the old institutions, they cannot necessarily prevent the addition of new elements.’ Put simply, when strong veto possibilities exist and, at the same time, it is not possible to ‘ignore’ the existing institutions, layering is the most common mode of institutional change. This was precisely what happened in Southern Europe. Although no structural changes took

place regarding employees with permanent contracts and covered by collective agreements, massive changes were implemented outside this core. By resisting policies aiming to make the labour market more flexible, unions have been able to protect their core constituencies (in contrast to Continental Europe, protected workers are found not in the ‘core manufacturing economy’, but where the strength of trade unions is higher, i.e. in the core sectors of the public economy). As a consequence, gradually, from the 1990s onwards, a new labour market was created, characterized by the expansion of a secondary labour market, where fixed-term contracts, low paid-jobs, and low union density are its main features.²⁵

In Chapter 4, we will apply Fuzzy Set Qualitative Comparative analysis to examine the determinants of outsidership among young people. We expect that countries combining the above-mentioned factors have more outsiders among their young people than countries that do not combine these factors. Besides Southern Europe, other European countries will be included in the analysis, namely those that have been studied within the scope of the dualization literature. By doing so, we expect to find a path covering Southern Europe and combining the factors mentioned above. Notwithstanding, by including other countries in the analysis, we will also attempt to find other paths leading to high numbers of outsiders among young people and to clarify which dimensions are more important to explaining this outcome. Before proceeding to the fuzzy set analysis, an introduction to Qualitative Comparative Analysis (QCA) is provided. Chapter 3 explains why QCA is used in the scope of this study and describes its main features.

²⁵ Although beyond this thesis, an interesting question is whether dualization will last in Southern Europe. Research into the Continental case (Emmenegger et al. 2012b, pp. 315–318) supports the view that insider–outsider divides may last, given that outsiders are not competing directly with insiders. However, it is our conviction that the situation in Southern European is different. Age dualities have contributed (especially during the crisis) to a dramatic increase in youth unemployment. This situation has short- and medium-term consequences for the sustainability of the welfare state, to the extent that it has an impact on contributions to social security, given that an increase in unemployment both raises social protection expenditure and diminishes contributions. Delaying the entrance of young people into the labour market and the type of contract they are given when employed (precarious work) both have a negative effect on fertility rates, which worsens the population ageing problem. If we take into account that young people are comparatively more educated, the situation becomes even more dramatic, due to the waste of productive potential. The above-mentioned constraints, together with the fact that a huge proportion of young people have inadequate jobs for their level of education, are jeopardizing the future of these countries. Therefore, the process of change in Southern European labour markets seems to contain the seeds of its own destruction. Future research must address this issue.

3 Epistemological foundations of Qualitative Comparative Analysis

Methodological procedures reflect theoretical interests and commitments, commitments that are epistemological in nature (Ragin and Zaret 1983, p. 748). In our view, it is not insignificant to explain why a certain methodological strategy is chosen in the scope of a specific investigation. Indeed, as Hall (2003) argued, the choice of the method must be aligned with the theoretical position of the investigator. The main objective of the present chapter is to explain the reasons for using Qualitative Comparative Analysis (QCA). Moreover, by explaining the epistemological foundations of QCA, we also enlighten why Chapter 5 compares two case studies to deepen the analysis carried out in Chapter 4.¹ This chapter begins by laying out the differences between the qualitative and quantitative traditions. To clarify the origins of each tradition, a discussion is presented on John Stuart Mill's canons of experimental inquiry. The third section presents the main features of QCA, focusing on two key themes. First, the similarities between QCA, Mill's first three methods and the qualitative tradition are outlined. Second, the differences between them are clarified. The remaining part of the chapter explains why the method is used in the scope of our study.

3.1. Qualitative and quantitative traditions: a different logic of inference

Several authors point out that two different traditions exist in the social sciences: the quantitative and qualitative traditions (Ragin 1987; Goertz and Mahoney 2012). At first sight, this statement is not controversial since it is usual to recognize its existence. However, the reasons put forward by Goertz and Mahoney (2012) to

¹ For details regarding this analysis, see Chapter 5.

explain qualitative–quantitative distinction, depart from standard explanations (see, for instance, King et al. 1994).

In their view, it is not the size of the N or the type of data used that explains the split between qualitative and quantitative methods. Goertz and Mahoney (2012, pp. 10-11) argue that it is not because qualitative scholars often carry out studies with a relatively small N while quantitative scholars conduct studies with a relatively large N, on the one hand, or qualitative scholars frequently use ‘qualitative’ data in their analysis while quantitative researchers use ‘quantitative’ data, on the other. According to them, the split results from the logic of inference that is predominant in each tradition (Goertz and Mahoney 2012, pp. 9-12). The core of their argument is the rejection of the assumption that a single logic of inference founded on statistical norms guides both the qualitative and the quantitative tradition. They put forward two interconnected differences between the traditions (see Table 3.1).

First, there is the contrast between within-case analysis and cross-case analysis. It is argued that qualitative scholars look at cases as wholes and compare whole cases with each other. As a consequence, cases are viewed as configurations, as combinations of characteristics (Ragin 1987, p. 3). In contrast, quantitative scholars make inferences about populations. As Ragin (1987, p. 17) has argued, ‘the usual goal of variable-oriented investigations is to produce generalizations about relationships among variables, not to understand or to interpret specific historical outcomes in a small number of cases or in an empirically defined set of cases’.² Quantitative scholars do not perform within-case analysis because they analyze relationships between variables. By way of illustration, suppose that the objective of a certain research project is to explain the rise of income inequality in a set of European countries. While quantitative scholars will typically analyze how the variation of each independent variable (e.g., the level of collective bargaining coverage, the level of

² A renowned economist as Schumpeter earlier stressed the importance of these contextual and historical factors, which in his view play a crucial role to explain the workings of the economic system. Indeed, Schumpeter argued that, regardless of its limitations, one of the most important contributions of Marx was precisely the introduction of these factors at the centre of the analysis. As Schumpeter (1943, p. 37) argued ‘there is however one thing of fundamental importance for the methodology of economics which he [Karl Marx] actually achieved. Economists always have either themselves done work in economic history or else used the historical work of others. But the facts of economic history were assigned to a separate compartment. They entered theory, if at all, merely in the role of illustrations, or possibly of verifications of results. (...) Now Marx’s mixture is a chemical one; that is to say, he introduced them into the very argument that produces the results. He was the first economist of top rank to see and to teach systematically how economic theory may be turned into *histoire raisonnée*.’

union density, the level of deindustrialization, the weight of the financial sector, the level of centralization of collective bargaining, and the level of employers' organization density) is correlated with the variation of the dependent variable (the variation of income inequality), qualitative scholars will follow a different research strategy. The latter do not isolate each independent variable from its context, they will typically analyze each case on its own and look at how different configurations of characteristics lead to the rise of income inequality (the outcome of the analysis). As for the results, quantitative researchers may conclude that the rise of income inequality is explained by two independent variables – the level of collective bargaining coverage and the level of union density – because on average the variation of these two variables is correlated with the variation of the dependent variable. However, qualitative scholars may point to a different conclusion, namely that, for example, only when collective bargaining coverage and union density are combined with rapid deindustrialization or with the rise of the financial sector the outcome occurs (because they may find that when collective bargaining and union density are combined with other factors the outcome does not occur). Therefore, while qualitative scholars identify two different configurations leading to the rise of income inequality (the first combining the absence of high collective bargaining coverage, the absence of high union density, and high deindustrialization; the second combining the absence of high collective bargaining, the absence of high union density, and the rise of the financial sector), quantitative scholars point to the importance of two independent variables to explain the variation in the dependent variable. It is for this reason that when quantitative scholars present their results, the cases 'disappear' from the analysis. Usually, a summary table is presented with information regarding the model and if a statistically significant relationship between each independent variable and the dependent variable exists. In contrast, when qualitative scholars present their results, cases remain present because they are the 'main character', the example used to illustrate how a certain configuration produces a certain outcome. All in all, the contrast between within-case and cross-case analysis plays a crucial role to explain the differences between the qualitative and the quantitative traditions.

Second, there is the contrast between inferential statistics, on the one hand, and logic and set theory, on the other. Quantitative research is based on inferential statistics (probability and statistical theory). The rationale is the following: the greater the number of entities the better, in order to establish control for contextual factors.

As Ragin and Zaret (1983, p. 738) have argued, ‘the logic of analysis used in comparative study of permanent causes minimizes the role of non-systemic causes associated with historical contexts and contingencies’. On the contrary, qualitative scholars tend to emphasize particularities of the single case because each case is seen as a whole. The objective is often to contrast different cases (each one with its different configuration of characteristics) and to clarify which specific characteristic explains a certain outcome (or its absence). Therefore, these methods are logical rather than statistical because they pretend to identify invariant relationships, not statistical relationships. As a consequence, the identification of necessary and sufficient conditions is the cornerstone of qualitative research practices (Goertz and Mahoney 2012, p. 11). In these studies, a condition is considered to be necessary if the outcome cannot occur in its absence, while a condition is sufficient if the outcome always occurs when the condition is present.

Before presenting QCA’s main features and its relation with the qualitative tradition, an introduction to John Stuart Mill’s canons of experimental inquiry is made. By carrying out this discussion, we pretend to clarify the historical foundations of each tradition.

Table 3.1 Qualitative and quantitative traditions

	Quantitative tradition	Qualitative tradition
Type of analysis	Cross-case	Within-case
Logic of inference	Probabilistic	Logic and set theory

3.2 John Stuart Mill’s canons of experimental inquiry

In this section it is argued that three of Mill’s methods are of particular interest to case-oriented investigations, while one of Mill’s methods forms the core of the variable-oriented strategy (Ragin 1987, pp. 36-42; Rihoux and Ragin 2009, pp. 1-3; Caramani 2009).

The method of agreement, the method of difference, and the joint method of agreement and difference constitute the intellectual roots of case-oriented investigations. The *method of agreement* states that ‘if two or more instances of the phenomenon under investigation have only one circumstance in common, the

circumstance in which alone all the instances agree is the cause (or effect) of the given phenomenon' (Mill 1843, p. 280). By way of illustration, suppose that the objective of a certain research project is to identify the cause of the sovereign debt crisis in Europe (the outcome). By using the method of agreement, one can, for example, argue that a deep crisis in the financial system is the cause of the outcome if in the set of European countries in which the outcome is present, they only have one characteristic in common, that characteristic being a deep crisis in the financial system.

The *method of difference* states that 'if an instance in which the phenomenon under investigation occurs, and an instance in which it does not occur, have every circumstance in common save one, that one occurring only in the former; the circumstance in which alone the two instances differ, is the effect, or the cause, or an indispensable part of the cause, of the phenomenon' (Mill 1843, pp. 280-281). Suppose that, again, the objective is to identify the cause of the sovereign debt crisis in Europe. By using the method of difference, one could argue that a deep crisis in the financial system is the cause of the outcome if two sets of European countries (in which the outcome is present *versus* in which the outcome is absent) have every circumstance in common save one, that circumstance being a deep crisis in the financial system (which occurs only in the first group of countries).

The *joint method of agreement and difference* argues that 'if two or more instances in which the phenomenon occurs have only one circumstance in common, while two or more instances in which it does not occur have nothing in common save the absence of that circumstance, the circumstance in which alone the two sets of instances differ, is the effect, or the cause, or an indispensable part of the cause, of the phenomenon' (Mill 1843, p. 284). Using the same example mentioned earlier, the use of the joint method requires two distinct analyses. First, one has to undertake the same analysis performed in the scope of the method of agreement (see above). Second, if the set of European countries in which the outcome is absent has any circumstance in common except the absence of a deep crisis in the financial system, one can argue that this is the cause of the outcome (the sovereign debt crisis in Europe).

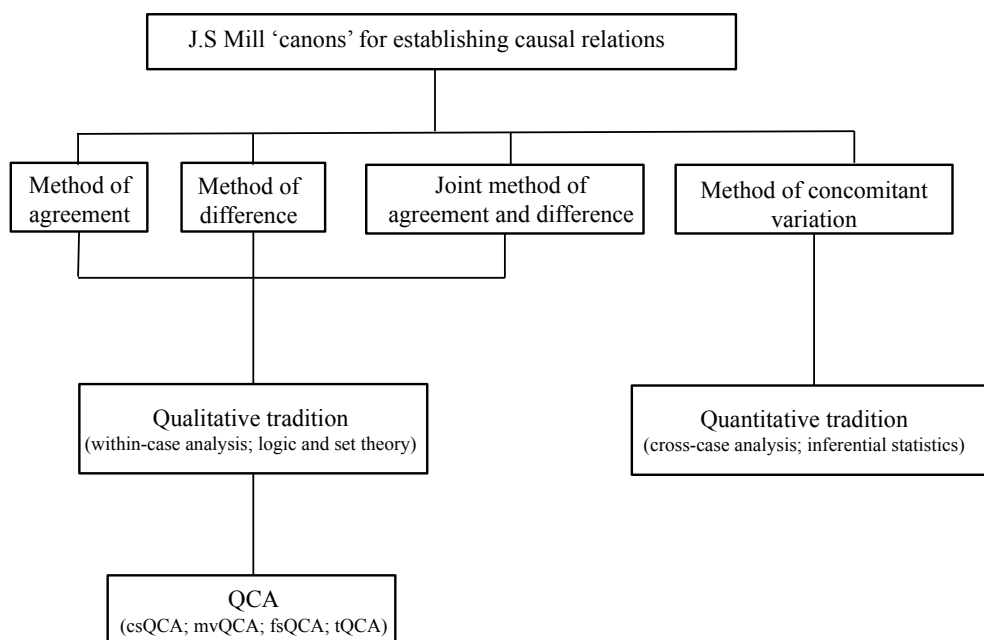
Finally, the *method of concomitant variation* constitutes the intellectual roots of the variable-oriented strategy. This method states that 'whatever phenomenon varies in any manner whenever another phenomenon varies in some particular manner, is either a cause or an effect of that phenomenon, or is connected with it

through some fact of causation’ (Mill 1843, pp. 287-288). This method inspires contemporary standard statistical methods. Statistical methods aim to identify the (independent) variables that are correlated with a certain (dependent) variable. These scholars usually use large data sets to perform their analysis. Using the same example mentioned before, to test if the variation in the level of sovereign debt crisis is correlated with the variation in the level of the crisis in the financial system, one has to analyze if the two variables vary in the same manner. Notwithstanding, contrarily to the other three methods, no single cause has to be identified; several variables can be correlated with the level of the sovereign debt crisis.

Taken as a whole, Mill’s methods form the historical epistemological foundations of both qualitative and quantitative traditions. While the first three methods constitute a search for patterns of invariance and, therefore, inspire much of contemporary qualitative methods, the method of concomitant variation pretends to establish relationships between variables, inspiring the statistical method. QCA draws mainly on the first three methods, but it departs from them in a number of points. The following section outlines the main features of QCA.

3.3 Qualitative Comparative Analysis as a synthetic strategy

Figure 3.1 – Historical foundations of QCA



QCA is a qualitative method because it aims to identify invariant relationships, not statistical relationships. Furthermore, together with the qualitative tradition, the identification of necessary and sufficient conditions is also the main objective of QCA. Therefore, it draws on three of Mill's methods (see Figure 3.1). Notwithstanding, QCA departs from Mill's methods and the qualitative tradition in a number of points. Below we discuss those differences and outline the unique features of QCA.

Contrarily to Mill's methods, QCA allows the analysis of conjunctural (or configurational) causation and multiple conjunctural causation. As for conjunctural causation, Ragin (1987, p. 25) suggests that 'whenever social scientists examine large-scale change (...) they find that it is usually combinations of conditions that produce change. (...) When a causal argument cites a combination of conditions, it is concerned with their intersection. It is the intersection of a set of conditions in time and in space that produces many of the large-scale qualitative changes, (...) not the separate or independent effects of these conditions. (...) In the absence of any of the essential ingredients, the phenomenon – or the change – does not emerge' (Ragin 1987, p. 25). Using again the same example mentioned above about the sovereign debt crisis in Europe, the conjunctural logic means that the single cause suggested above (a deep crisis in the financial system) may not be sufficient to produce the outcome. One can argue that only when combined with a huge state intervention in the financial system, does the financial crisis lead to the outcome. The method of agreement and the joint method are incapable of handling conjunctural causation, because they aim to identify single causes and not combinations of conditions.

Regarding multiple conjunctural causation, it contains the notion of *equifinality*, which means that different combinations of conditions (paths) can lead to the same outcome (Ragin 1987, p. 25; Rihoux and Ragin 2009, p. 8). Mill's first three methods are incapacitated by multiple causation (i.e. they do not allow multiple causation). For instance, when multiple combinations of conditions lead to a certain outcome, the application of the method of agreement would lead to the incorrect conclusion that neither of these factors causes the outcome (Ragin 1987, p. 38). Using the same example again, multiple conjunctural causation means that different paths may lead to the sovereign debt crisis. For example, while the financial crisis combined with the need for direct public intervention in large scale in the financial

system may lead to the outcome (i.e., the sovereign debt crisis in Europe) in a set of European countries, the financial crisis combined political instability may lead to the same outcome in a different set of European countries.

Besides departing from Mill's first three methods, QCA also differs from the qualitative tradition in some respects. Although Ragin emphasizes the strengths of case-oriented investigations, the author also outlines the strengths of variable-oriented research. Ragin (1987, pp. 57-58) argues that standard statistical methods *(i)* allows the study of more than a limited number of cases; *(ii)* contributes to the existence of reliable quantitative cross-national data; *(iii)* socializes comparative social science because cross-national data banks are easily accessible to all investigators; *(iv)* and counteracts the tendency among qualitative scholars to favour particularistic explanations. As a consequence, QCA also aims to overcome some of the limitations of the qualitative tradition, but it attempts to do so in a way compatible with its logic of inference.

Ragin (1987, p. 68) argues that a trade-off exists between complexity and generality. The case-oriented strategy, because it is holistic, becomes more difficult to use as the number of cases increases. Regarding the variable-oriented approach, as the complexity of the causal argument to be tested increases, intractable methodological problems are introduced. QCA is a synthetic strategy because it tries to better combine complexity with generality. By synthetic, Ragin means to combine certain features of the two traditions in a selective way. From qualitative methodologies, QCA draws the same logic of inference, and particularly its allowance for complex, conjunctural causation (Ragin 1987, pp. 82-83). From the quantitative tradition, QCA draws the possibility to address a large number of cases and the possibility to formulate parsimonious explanations. Furthermore, considering that one of the weaknesses of case-oriented studies is the fact they are very private products (i.e., because qualitative scholars often collect their own data, they do not share their databases with other researchers), QCA also draws from the quantitative tradition the possibility to allow consideration of alternative explanations, namely by using data that is also available to other researchers (Ragin 1987, p. 84).

Before proceeding to examine why this method is used in this study, the four different techniques available in the scope of QCA are summarized. Furthermore, Table 3.2 presents the terminology used in QCA (in contrast to the one used in standard statistical techniques).

Four different techniques are available in the scope of QCA: crisp-set QCA (csQCA), multi-value QCA (mvQCA), fuzzy-set QCA (fsQCA), and temporal QCA (TQCA). csQCA was the first QCA technique developed in the 1980s. This technique was based on Boolean algebra, using only binary data ([0] or [1]) (Rihoux and Ragin 2009, pp. 33-67). To overcome the limitations of dichotomous variables, mvQCA extends csQCA by allowing multi-value variables, namely through the use of multi-categorical nominal, ordinal scale, or by the use of multiple thresholds for interval data (Rihoux and Ragin 2009, pp. 69-86). The third technique is the most sophisticated. It has been developed in Ragin's 2008 book *Redesigning Social Inquiry: Fuzzy Sets and Beyond* (Ragin 2008). Contrarily to csQCA and mvQCA, fsQCA permits membership scores in the interval between [0] and [1]. As Ragin has argued, 'the basic idea behind fuzzy sets is to permit the scaling of membership scores and thus allow partial membership' (Rihoux and Ragin 2009, p. 89).³ Furthermore, within the scope of this new technique, two key innovations were introduced: consistency and coverage. These two measures were introduced to aid the interpretation of the results of QCA applications (Ragin 2006; Ragin 2008; Marx, Rihoux and Ragin 2013). Even though fsQCA has been developed later, its introduction has boosted the use of QCA (Rihoux and Ragin 2009, pp. 86-121). The last technique (TQCA), developed by Caren and Panofsky (2005), attempts to better account for time and sequence.

³ For example, to measure 'the level of wealth' in a set of countries, the available variable values depend on the technique that is being used. For csQCA, only two values are available: a country may only be considered as being rich (presence of the condition) or not rich (the absence of the condition). This is so because this technique is based on dichotomous variables. For mvQCA, more than two values are available. For instance, the following can be used: very rich (presence of the condition), rich, poor, and very poor (absence of the condition). This is so because this technique allows multi-value variables. Finally, for fsQCA, variable values vary in the interval between 0.00 and 1.00. Therefore, partial membership is allowed: while a certain case may have a membership score of say 0.17, a different case may have a membership score of 0.79 (and so on).

Table 3.2 – Terminology of QCA

Standard statistical techniques	Qualitative Comparative Analysis
Values on variables	Set membership scores
Correlations	Set relations
Linear	Boolean/fuzzy algebra
Independent variables	Condition
Dependent variable	Outcome
Equation	Solution formula/solution term

(Schneider and Wagemann 2010, p. 8).

Chapter 4 applies fsQCA to examine the determinants of outsidership among young people. There are four main reasons for the choice of this method. First and foremost, to test the theoretical argument put forward in Chapter 2 we need a data analysis technique able to analyze the existence of a complex causal explanation for high levels of outsidership among young people. As argued before, fsQCA places great emphasis on complex causal explanations. Contrary to standard statistical methods, which focus mainly on the statistical significance level of each independent variable, fsQCA focuses on how causal conditions combine to generate outcomes. Second, in Chapter 2 it has been argued that dualization in some countries is very age-based. To test if our theoretical argument explains the outcome in Southern Europe, we need a data analysis technique that permits within-case analysis, i.e. the use of empirical information to make inferences about the individual case (Goertz and Mahoney 2012, p. 10). Third, we opt for fsQCA because this method addresses the ‘few cases, many variables’ problem. Besides the above-mentioned problems with statistical analyses, regression analysis is not particularly useful here because the relatively small number of cases would produce unreliable results. Finally, fsQCA is used (instead of csQCA and mvQCA) because the data used in Chapter 4 allows the use of this technique, which, as explained earlier, is more sophisticated.

4 Young people and dualization in Europe: A fuzzy set analysis

In Chapter 2 it was argued that the explanation of growing age-based labour market inequalities requires a different analytic focus which borrows important insights from the recent literature on dualization, but departs from it in three ways. First, it must highlight differences between the industrial relations systems. Rather than cross-class coalitions between trade unions and employer associations of the ‘core manufacturing economy’, it is the highly conflictual relations between labour and capital that characterize some countries. Second, we suggest placing more emphasis on the process of liberalization. Indeed, liberalization scholars have made a powerful critique of the rationalist-functionalist assumptions on which the Varieties of Capitalism (VoC) approach relies and they argue that change in all capitalist economies is driven by a process of market expansion and social conflicts. The two factors – poor coordination in the industrial relations system and the liberalization process – can be synthesized under what we call *fertile breeding grounds for social conflict* because both market expansion and a conflictual industrial relations system are conducive to social conflict. Social conflict has a negative effect on young people because they hold less political power. Finally, although these two factors play a crucial role in explaining age-based inequalities, they are not the only drivers of the process. In our view, the growing number of outsiders among young people is also due to a smaller proportion of certain kinds of primary sector jobs in some countries.

This chapter applies Fuzzy Set Qualitative Comparative Analysis (fsQCA) to examine the determinants of outsidership among young people in Europe (Ragin 2008; Schneider and Wagemann 2012),¹ a method that has been gaining in popularity and application.² Based on our theoretical argument, we hypothesize that fertile

¹ This analysis is based on 14 cases (Ireland, United Kingdom, Denmark, Finland, Sweden, Austria, Belgium, France, Germany, Netherlands, Spain, Greece, Italy and Portugal).

² For a list of publications using fsQCA in economics, see: <http://www.compass.org/bibliography/busEco.htm>.

breeding grounds for social conflict (due to either the poor coordination in the industrial relations system *or* liberalization) and a small proportion of primary sector jobs are necessary conditions for high levels of outsidership among young people. Moreover, although we criticize the emphasis placed by the economic insider-outsider framework on the role of employment protection, it seems plausible to hypothesize that employment protection may play a non-redundant role (Schneider and Wagemann 2012, p. 79). Indeed, it is plausible that employment protection in combination with an uncoordinated industrial relations system and a small proportion of primary sector jobs constitute one path toward high levels of outsidership among young people. However, this condition alone is neither necessary nor sufficient.

The results of the fsQCA analysis presented in this chapter show that a small proportion primary sector jobs and the combination of a poor coordination in the industrial relations system and liberalization are necessary conditions for the outcome high levels of outsidership among young people. Furthermore, we find no evidence that high employment protection is a necessary condition for the outcome. As concerns the analysis of sufficient conditions, two possible paths for the outcome are identified: the first combines a small proportion primary sector jobs, high employment protection, and poor coordination in the industrial relations system; the second combines a small proportion of primary sector jobs, the absence of high employment protection, and liberalization.

This chapter has been divided into four parts. The first will present the raw data and the calibration of the outcome and conditions. The second part will then proceed to discuss the results of the empirical analysis, namely through the analysis of necessary conditions and sufficient conditions. The third part presents the robustness tests. The final section will summarize and conclude the chapter.

4.1 Data and calibration

Following Marx (2006), who argued that a moderate ratio of conditions to cases is required to ensure the validity of results, this analysis has four conditions: a small proportion of primary sector jobs (PS), high levels of employment protection (EP), poor coordination in the industrial relations system (PCO), and high levels of

liberalization (L).³ This section first presents the outcome high levels of outsidersness among young people (YO) and thereafter presents each condition. The calibration of fuzzy set scores is discussed in detail, following the instructions of Ragin and Sonnet (2005, p. 193), who argued that the calibration must be presented as transparently as possible.

4.1.1. Outcome: high levels of outsidersness among young people (YO)

The outcome under study is the high levels of outsidersness among young people (YO), which is calculated as the percentage point difference between the proportion of outsiders among young people (< 40 years old) and the proportion of outsiders among older age groups (\geq 40 years old). The question, however, is how to define outsiders. This section will explain how outsiders have been defined in the scope of the dualization literature, and discuss the definition followed here. This section concludes by explaining the calibration of fuzzy set scores.

Two different strategies have been used within the scope of the dualization literature. The first, used by Rueda (2005, p. 63; 2006, p. 395; 2007, pp. 14-15), Emmenegger (2009, p. 137), Lindvall and Rueda (2012, pp. 296-297), and Davidsson and Emmenegger (2013, p. 360) defines outsiders as those who are unemployed or holding part-time jobs, fixed-term contracts, or temporary jobs.⁴ The second, used by Häusermann and Schwander (2012; Schwander and Häusermann 2013, pp. 252-254), is more sophisticated: rather than relying on a ‘snapshot’ categorization, outsiders are defined as those belonging to occupational groups that are ‘typically’ affected by atypical work and unemployment. Drawing on the class scheme proposed by Oesch (2006) and Kitschelt and Rehm (2005), Schwander and Häusermann (2013, pp. 252-253) identify five broad classes (capital accumulators, socio-cultural professionals, blue-collar workers, low-service functionaries, and mixed-service functionaries), then divide each class (except for capital accumulators, which they define as insiders) by

³ A condition is a ‘factor which is used to explain the outcome’ (Schneider and Wagemann 2012, p. 323). An outcome is a ‘phenomenon to be studied in an analysis’ (Schneider and Wagemann 2012, p. 330).

⁴ However, some differences exist within this group: while some authors define as outsiders those who work part-time, the fixed-term employed, and the part-time employed (e.g. Emmenegger 2009), others (e.g. Rueda 2006) only include these categories if these workers want a permanent job or a full-time job, otherwise they exclude them from the group of outsiders.

sex and two age groups (< 40 years old and ≥ 40 years old), ending up with 17 occupational groups. Häusermann and Schwander define outsiders as those belonging to occupational groups that incur a particularly high probability (i.e., statistically significant) of atypical employment and/or unemployment. Furthermore, they analyze separately each regime (Esping-Andersen 1990), and consequently occupational groups characterized by atypical employment/unemployment differ in each regime (Table 4.1). By assigning to each occupational group a different probability of being in atypical employment and/or unemployment, this definition addresses the issue that people do not form identities on the basis of momentary labour market status and that outsiders are not a homogeneous group, as suggested by a conceptualization based on current labour market status (Schwander and Häusermann 2013, pp. 251-252). Though Schwander and Häusermann’s definition tackles some of the problems inherent to a ‘snapshot’ classification of outsiders, it still relies on the same logic as Rueda and Emmenegger: outsiders are those who are unemployed or holding atypical jobs. Therefore, regardless of their differences, both definitions contribute to the same strand of literature.

Table 4.1 – Occupational groups with a statistical significant probability of being in atypical employment and/or unemployment

Regimes	Young people	Older generations
Southern	LSF women	LSF women
	LSF men	
	SCP women	
	BC women	
	MSF women	
Anglo-Saxon	LSF women	LSF woman
	LSF men	
	SCP women	
	BC young women	
	MSF young women	
Nordic	LSF women	LSF women
	LSF men	SCP women
	SCP women	BC women
	BC women	
	MSF women	

	LSF women	LSF Women
Continental	SCP women	SCP Women
	BC women	MSF Women
	MSF women	

Note: LSF, low service functionaries; SCP, socio-cultural professionals; BC, blue-collar workers; MSF, mixed service functionaries. As for the operationalization of each occupational group see Schwander and Häusermann (2013, p. 266). The authors recode ISCO88 in order to calculate each occupational group.

Source: Schwander and Häusermann (2013, p. 255).

In this study we follow Häusermann and Schwander’s definition of outsiders. As mentioned earlier, the outcome is calculated as the percentage point difference between the proportion of outsiders among young people (< 40 years old) and the proportion of outsiders among older age groups (≥ 40 years old).⁵ To compute the proportion of outsiders among young people, the following procedures were performed. First, for each country, the number of young individuals who belong to occupational groups that incur a particularly high probability of being in atypical employment and/or unemployment was computed. Second, it was established that insiders are considered as those who belong to occupational groups that do not face a high probability of being in atypical employment. Finally, the proportion of outsiders among young people was calculated. The same procedure was followed to calculate the proportion of outsiders between the older generations. In short, Schwander and Häusermann’s procedure is replicated, except for using different databases and calculating the difference between outsiders among young people and outsiders in older age groups.

With regard to databases, with the exception of Austria and Italy, the European Social Survey 2010 Round 5 is used (ESS 2010). This is first and foremost because this database uses the International Standard Classification of Occupations (ISCO), therefore allowing the replication of the procedure followed by Schwander and Häusermann (see discussion above). Second, the data was collected in 2010 (i.e., after the global economic downturn), reflecting the changes that have occurred in the labour market since then. Finally, it provides large samples for each country (see appendix, Table A4.1). Since Austria did not participate in the ESS 2010 Round 5, the

⁵ These two age groups (more and less than 40 years old) are used because, as Häusermann and Schwander (2013, p. 253) have remarked before, ‘most European countries have still a considerable number of young adults in education at the age of 30 years (...). Considering that acquiring a firm position in the labour market requires another couple of years, a substantial share of people in their 30s must still be counted as labour market entrants’.

ESS Round 4 – 2008 database is used for the Austrian case (ESS, 2008). As Italy has not participated in ESS since 2004, the International Social Survey Programme 2009 ‘Social Inequality IV’ database is used (ISSP 2012). The ISSP 2009 database also uses the ISCO classification and provides data for 2009.

Before proceeding to present the first condition, it will be necessary to explain the calibration of the fuzzy set score for the outcome. As mentioned in Chapter 3, qualitative research and quantitative research are each based on a separate tradition: case-oriented versus variable-oriented, respectively. While in the first tradition measures are usually calibrated (i.e., the focus is on the degree to which cases satisfy membership criteria), in the second, usually no attempt is made to look at cases or to interpret if a certain difference is relevant or meaningful – all variation is considered relevant. For instance, to classify the level of development across countries, the dominant quantitative approach normally uses indicators (e.g., the national income per capita) and considers a country as being highly developed (or vice versa) depending on whether its score is above (or below) the sample’s central tendency (usually the mean). On the contrary, qualitative researchers usually use external information (e.g., what is necessary to consider a country developed) to distinguish most- and least-developed countries. However, from the perspective of conventional quantitative research, qualitative researchers skew their measurements to fit their preconceptions, and therefore quantitative researchers see qualitative approaches as less precise. Ragin argues, however, that ‘with fuzzy sets, it is possible to have the best of both worlds, namely the precision that is prized by quantitative researchers and the use of substantive knowledge to calibrate measures that is central to qualitative research’ (2008, p. 82). Following the procedures put forward by Ragin (2008), to calibrate raw data it is necessary to decide where the point of maximum indifference regarding membership versus non-membership is located (0.5), to define the point of full membership (1.0) and the point of non-membership (0.0). Furthermore, this decision must be based on the theoretical knowledge as well as on the empirical evidence (Schneider and Wagemann 2012, p. 32). Since the external criteria used to calibrate sets must be transparent and stated explicitly (Ragin 2008, p. 82; Schneider and Wagemann 2012, p. 32), this chapter explains in great detail the calibration of the outcome and conditions.

Three different methods of calibration are available in the scope of fsQCA: the direct method, the indirect method, and theory based, or qualitative, calibration

strategies (Schneider and Wagemann 2012, pp. 32-41).⁶ The direct method of calibration is used to calibrate the fuzzy set score for the outcome.⁷ The raw data and the fuzzy set scores are displayed in Table 4.2. The fact that, in comparison with older age groups, young people are more affected by atypical work and unemployment is not surprising: several authors have pointed out that post-industrial labour markets have downplayed the position of young people (Esping-Andersen 1999, p. 306; Bonoli 2006, p. 3; Tremmel 2010; Oliveira et al. 2011, p. 163; Price et al. 2011, p. 4; Emmenegger et al. 2012a, pp. 6-7; Häusermann and Schwander 2012, p. 29). Therefore, it is not the difference between age groups but rather the *degree* of that difference that is important. Corroborating this, raw data in Table 4.2 shows that in all countries the proportion of outsiders among young people is higher than that among older age groups. Thus, we consider that at least 45 on the indicator is required for full membership, at least 17 to be more in than out of the set, and 8 (or less) for full non-membership.⁸ Italy, Greece, Spain, Portugal, Ireland, United Kingdom, Denmark, and Sweden are considered more in than out of the set. We consider the Danish and Swedish cases as more in than out of the set because a huge gap exists between these two countries and the countries considered more out than in the set. Furthermore, the overall number of outsiders (second column), that is, regardless of the difference between age groups, shows that these two countries are closer to the Southern and Anglo-Saxon countries than to the Continental countries or Finland. Finally, Figure 4.1 provides a graphic representation of fuzzy set scores.

⁶ Note also that calibration in the scope of fsQCA has a different meaning from the one usually used in economics (Ragin 2008, p. 72).

⁷ As Thiem and Dusa (2013, p. 55) have explained ‘in fsQCA, continuous base variables need not be categorized by the researcher, but they can also be transformed into fuzzy-set membership scores with the help of continuous functions. Ragin (2008), for example, calls this procedure the direct method, which makes use of a piecewise logistic function’. For technical details on this see: Thiem and Dusa (2013, pp. 55-62).

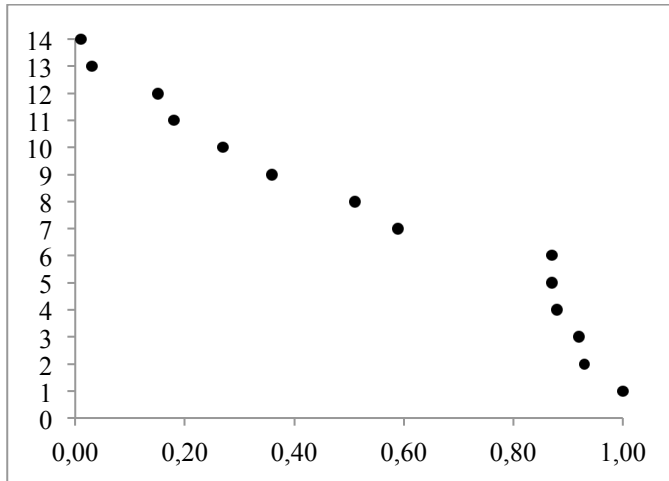
⁸ Besides relying on theoretical knowledge, we used obvious value breaks among the cases to set three qualitative anchors, and we have made sure that no cases are classified on the crossover point. This same procedure is followed in all four conditions.

Table 4.2 – Calibration of the outcome ‘high levels of outsidership among young people’

Country	% Outsiders (<40 years old)	% Outsiders (≥40 years old)	Difference between young and old outsiders	Fuzzy set score
Austria	54.0	42.8	11.2	0.18
Belgium	49.7	39.0	10.7	0.15
Denmark	60.5	38.6	21.9	0.59
Finland	55.5	41.1	14.4	0.36
France	52.5	39.7	12.8	0.27
Germany	44.9	36.4	8.5	0.03
Greece	58.4	12.7	45.7	1.00
Ireland	56.6	18.2	38.4	0.88
Italy	50.5	9.7	40.8	0.92
Netherlands	50.1	42.0	8.1	0.01
Portugal	65.5	27.6	37.9	0.87
Spain	56.6	18.9	37.7	0.87
Sweden	60.0	42.4	17.6	0.51
United Kingdom	60.0	18.7	41.3	0.93

Source: Authors’ own calculations based on ESS (2010); ESS (2008); and ISSP (2012).

Figure 4.1 – Graphic representation of fuzzy set scores (high levels of outsidership among young people)



4.1.2. Condition I: a small proportion of primary sector jobs (PS)

The dual labour market (DLM) theory speaks of the existence of a primary and a secondary labour market. While the first depends on the employee’s specific skills (acquired through on-the-job training and experience), the second lacks that logic: it is

supply and demand forces that play the pivotal role. Later, DLM scholars distinguished between an upper and a lower tier within the primary sector. By doing this, they recognized that not all jobs in the primary sector are characterized by the use of specific skills and employment stability. Piore (1972, p. 3) argued that upper tier jobs are different ‘from those in the lower tier by the higher pay and status, and the greater promotion opportunities which they afford. They are also distinguished by the mobility and turnover patterns, which tend to more closely resemble those of the secondary sector except, in contrast to the patterns of that sector, mobility and turnover tend to be associated with advancement’. To explain this, they argued that while in the upper tier workers make use of general skills, the lower tier is mainly characterized by the use of specific skills. In their view, ‘it is for this reason that lower tier jobs place a premium upon stability and routine’ (Piore 1972, p. 14). Since the aim of this study is to explain the rise of atypical employment and/or unemployment among young people, our interest is on employment stability rather than on higher pay or status. Therefore, this condition is calculated as the percentage point difference between the proportion of workers in the lower tier of the primary sector among young people (< 40 years old) and the same proportion among older age groups (\geq 40 years old).

To measure the weight of primary sector jobs, conceptualizations based on the dichotomy between outsiders and insiders are useless. Indeed, the operationalization of outsiders and insiders used by dualization scholars was taken directly from the economic insider-outsider theory (due to Rueda’s bias towards this strand of literature on the detriment of DLM theory). To measure the weight of primary sector jobs it is therefore necessary to use an indicator that gives a pivotal role to specific skills rather than to the type of contracts. Absolute skill specificity (Iversen and Soskice 2001; Cusack et al. 2006) is an indicator that assigns a different degree of skill specificity to different occupations.⁹ The logic is as follows: absolute skill specificity of an occupation is the higher (i) where it has the higher number of sub-occupations and (ii) where it has the lower share in the labour force in empirical terms. This indicator is calculated using the ISCO (the same classification scheme for occupations used to calculate the outcome), a classification scheme that identifies nine occupational groups and a different number of sub-occupations attached to each occupational group

⁹ See the Excel spreadsheet showing the calculation of the specificity measure, available at: <http://www.people.fas.harvard.edu/~iversen/SkillSpecificity.htm>

(see Table 4.3). As this classification is used in several surveys (namely in the ESS and ISSP), it is possible to replicate the procedure first put forward by Iversen and Soskice (2001). Having explained why absolute skill specificity captures better the logic of the primary sector than does a measure based on the type of contracts, let us now explain how this indicator is calculated.

Using the ESS 2010 (see abovementioned exceptions), one can calculate the degree of absolute skill specificity attached to each occupational group, and to compute the proportion of workers holding jobs that require high levels of skill specificity. Using data for all cases (i.e., all countries) under analysis (see Table 4.3), the level of absolute skill specificity attached to each occupational group is calculated. The last column in Table 4.3 is the following ratio:

$$\frac{\textit{sub - occupations, \% of total}}{\% \textit{ in the labour force}}$$

Table 4.3 shows that two different groups exist within the results: three occupational groups with a much lower level of skill specificity ('clerks', 'service workers and shop and market sales workers', and 'elementary occupations'); and three occupational groups¹⁰ where the level of skill specificity is higher ('craft and related trades workers', 'plant and machine operators and assemblers', and 'technicians and associate professionals').¹¹ Thereafter, workers in the occupational groups with high levels of skill specificity (identified in the first step) are considered as belonging to the primary sector. Finally, the proportion of workers in the primary sector for each age group is calculated and its difference is computed. Table 4.4 summarizes that information.

¹⁰ One might also have included workers from the first occupational group in the lower tier of the primary sector. Indeed, its level of absolute skill specificity is similar to the third occupational group. We decided not to do so because this literature clearly states that the first two occupational groups belong to the upper tier of the primary sector (Piore 1972, p. 3).

¹¹ For a definition of each occupational group see ILO's webpage: <http://www.ilo.org/public/english/bureau/stat/isco/isco88/major.htm>

Table 4.3 – Absolute skill specificity: all countries

ISCO88 1 digit	Description of occupational group	Number of sub- occupations	Sub- occupations, % of total	% in the labour force	Absolute skill specificity
1	Legislators, senior officials and managers	33	8.5	6.4	1.33
2	Professionals	55	14.2	14.4	0.99
3	Technicians and associate professionals	73	18.8	15.1	1.25
4	Clerks	23	5.9	11.5	0.51
5	Service workers and shop and market sales workers	23	5.9	23.6	0.25
6	Skilled agricultural and fishery workers	16	4.1	1.5	2.73
7	Craft and related trades workers	70	18.0	10.8	1.67
8	Plant and machine operators and assemblers	70	18.0	5.8	3.10
9	Elementary occupations	25	6.4	10.9	0.59
	Sum	388	100	100	

Source: Authors' own calculations based on ESS (2010); ESS (2008); and ISSP (2012).

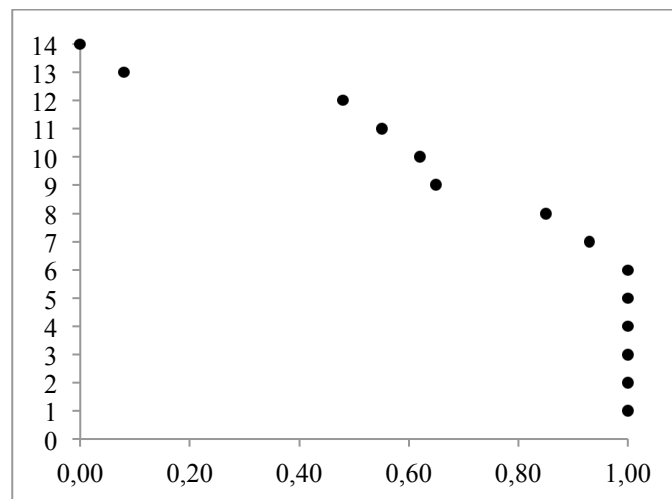
The direct method of calibration is used to transform the resulting indicator into a fuzzy set. The raw data and the fuzzy set score are displayed in Table 4.4. For this condition, at least -3 is required for full membership; values above 3 reflect full non-membership; and 0 is a crossover point. These qualitative anchors were chosen because what is relevant is the difference between generations rather than if the degree of that difference is very high. Interestingly, Table 4.4 shows that in France and Germany – the two case studies analyzed by Palier and Thelen (2010) – the primary sector is larger among young people than between older age groups. Furthermore, Finland is also considered to be more in than out of the set. However, in the remaining countries the opposite is the case. Finally, Figure 4.2 provides a graphic representation of fuzzy set scores.

Table 4.4 – Calibration of the condition ‘a small proportion of primary sector jobs’

	% Primary sector jobs (<40 years old)	% Primary sector jobs (≥40 years old)	Difference between age groups	Fuzzy set score
Austria	29.9	29.8	0.1	0.48
Belgium	31.0	31.7	-0.7	0.62
Denmark	29.2	38.5	-9.3	1.00
Finland	33.5	34.4	-0.9	0.65
France	41.7	36.2	5.5	0.00
Germany	44.1	41.6	2.5	0.08
Greece	26.6	29.7	-3.1	1.00
Ireland	25.2	25.5	-0.3	0.55
Italy	35.7	39.0	-3.3	1.00
Netherlands	32.3	29.7	-2.6	0.93
Portugal	34.9	40.9	-6.0	1.00
Spain	29.9	32.0	-2.1	0.85
Sweden	35.7	40.2	-4.5	1.00
United Kingdom	24.2	28.1	-3.9	1.00

Source: Authors’ own calculations based on ESS (2010); ESS (2008); and ISSP (2012).

Figure 4.2 – Graphic representation of fuzzy set scores (a small proportion of primary sector jobs)



4.1.3. Condition II – high levels of employment protection (EP)

The economic insider-outsider theory (Lindbeck and Snower 1988a; Blanchard 2006) is one of the leading strands of literature regarding labour market segmentation.

Scholars within this perspective argue that structural unemployment results from the existence of certain labour market institutions. Some workers, they argue, are trapped in involuntary unemployment because labour market institutions impede competition between the unemployed and those already in the labour market. When speaking of labour market institutions, economic insider-outsider scholars specifically mean institutions that protect insiders from the competition of outsiders, namely through rent-related labour turnover costs such as severance pay, seniority rules, requirements to give advance notice of dismissal, and other forms of legal protection. Furthermore, these scholars point to ‘restrictions on strikes and picking and relaxing job security and seniority legislation’ (Lindbeck and Snower 2001, p. 184) as the best solution to overcome the existing labour market divides. As discussed in detail below, two sub-indicators are used to measure employment protection: the ‘employment protection index’, and ‘collective bargaining coverage’. The first is taken from the ‘OECD Indicators of Employment Protection’ (OECD 2013a), while the second is taken from the ‘Data Base on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, 1960-2011 (ICTWSS)’ (Visser 2013). This section concludes by explaining the calibration of raw data.

Even though the OECD indicators of employment protection have been criticized by several authors (Crouch et al. 1999; Addison and Teixeira 2003; Venn 2009, pp. 12-15; Barbier 2011, pp. 5-6), they have nevertheless been widely used to measure the level of strictness of employment protection (e.g., Emmenegger 2009; Venn 2009, p. 12; Emmenegger 2011). They are compiled from 21 items (see Table 4.6) covering two broad aspects of employment protection regulations: ‘protection for regular contracts’ (including additional provision for collective dismissals) and ‘protection for temporary contracts’ (all indicators are expressed in a scale of 0-6). These items are very much in line with the discussion made in the scope of the economic insider-outsider literature. However, with regard to the weights given to each item, following the suggestions made by Emmenegger (2011, online appendix), three changes to the original weights of the employment protection index were performed.¹² First, instead of using equal weights for the two level 2 indicators for temporary contracts (‘fixed-term contracts’ and ‘temporary work agency employment’), the minimum of the two is used. This is done because the original

¹² As for the original weights of the ‘employment protection index’, see: Venn (2009, p. 43).

coding does not take into account that the two are substitutable (i.e., for employers it does not matter whether a worker has a fixed-term contract or is contracted from temporary work agencies). Second, instead of using equal weights for the three indicators for the regulation of regular contracts, the weight of the indicator ‘difficulty of dismissal’ is increased (from 1/3 to 1/2), while those of the other two indicators (‘procedural inconveniences’, and ‘notice period and severance pay for non-fault dismissals’) are decreased (both from 1/3 to 1/4). This is done because the OECD does not provide any reason to give equal weights to the three indicators. Emmenegger (2011, online appendix) provides evidence that ‘difficulty of dismissal’ is the only indicator (among these three) significantly related to the percentage of currently unemployed people who left their job due to a layoff. Third, instead of using equal weights for the different aspects of employment protection regulations, the regulation of regular contracts (including additional provision for collective dismissals) is weighted at 3/4 and the regulation of temporary work at 1/4. This is done because temporary workers have always been a minority and therefore it does not make sense to give an equal weight to each. The weights used are based on the contributions of each type to total employment growth (Emmenegger 2011, online appendix).

Even though the ‘employment protection index’ is the crucial sub-indicator in this condition, an additional sub-indicator is taken into account. As is well documented, legislation is not the only source of regulation. In many European countries, collective agreements or individual contracts may include provisions more generous than those within legislation (Venn 2009, p. 16; Emmenegger 2011). Therefore, besides the ‘employment protection index’, ‘collective bargaining coverage’ is also used. Data for this sub-indicator is taken from the ICTWSS database, which calculates the level of coverage as the number of employees covered by collective (wage) bargaining agreements as a proportion of all wage and salary earners in employment with the right to bargaining, expressed as percentage, adjusted for the possibility that some sectors or occupations are excluded from the right to bargain.

The direct method of calibration is used to calibrate the fuzzy set scores for this condition. The raw data, the additive indicator, and the fuzzy set score are presented in Table 4.5. Our calibration of high levels of employment protection combines two indicators: ‘employment protection index (2008-10)’ and ‘collective

bargaining coverage (2010)’. Furthermore, we have standardized the two indicators to range between 0 and 4. Since the ‘employment protection index’ is the crucial sub-indicator in this condition, the two indicators are added using different weights: 4/5 and 1/5 respectively. Data for the employment protection index refers to the average between 2008 and 2010, while data for collective bargaining coverage refers to 2010 only (due to data availability). As for the qualitative anchors, at least 3 is required for full membership; 1.5 is a crossover point, and values equal to 0 reflect full non-membership. Thus, Southern European countries, Continental European countries, Sweden, and Finland are more in than out of the set, while Anglo-Saxon countries and Denmark are more out of than in the set. Finally, Figure 4.3 provides a graphic representation of fuzzy set scores.

Table 4.5 – Calibration of the condition ‘high levels of employment protection’ (EP)

	Employment protection index (2008-10)	Collective bargaining coverage (2010)	Additive indicator	Fuzzy set score
Austria	2.5	99.00	2.3	0.77
Belgium	2.4	96.00	2.1	0.70
Denmark	1.8	85.00	1.1	0.37
Finland	2.3	89.50	1.9	0.63
France	3.2	92.00	3.3	1.00
Germany	2.5	61.00	1.9	0.63
Greece	2.9	65.00	2.5	0.83
Ireland	1.8	42.00	0.7	0.23
Italy	3.0	85.00	2.9	0.97
Netherlands	2.4	84.30	2.0	0.67
Portugal	3.1	90.00	3.1	1.00
Spain	2.8	73.20	2.5	0.83
Sweden	2.2	91.00	1.8	0.60
United Kingdom	1.3	30.80	-0.1	0.00

Source: Authors’ own calculations based on OECD Indicators of Employment Protection (OECD 2013a); and ICTWSS (Visser 2013).

Note: As for collective bargaining coverage (third column), in Denmark data refer to 2007, in Finland to 2009, and in France, Greece and Portugal to 2008. Regarding union density, in Greece data refer to 2008.

Figure 4.3 – Graphic representation of fuzzy set scores (high levels of employment protection)

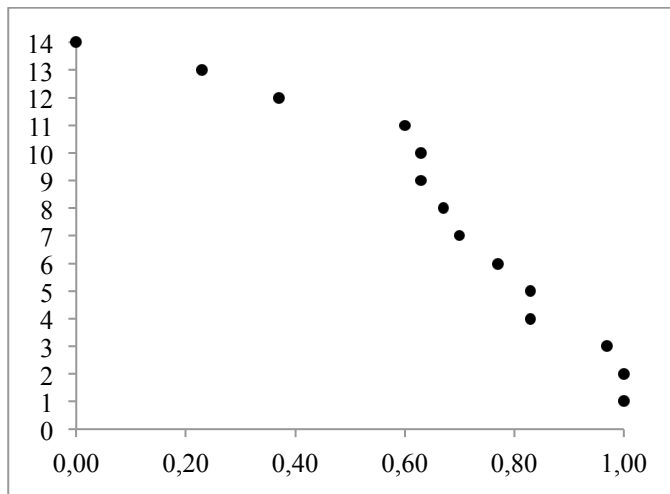


Table 4.6 – OECD Indicators of Employment Protection

Level 1	Level 2	Item	Level 3	
Employment protection for regular contracts	Procedural inconvenience	1	Notification procedures	
		2	Delay involved before notice can start	
	Notice and severance pay for no-fault individual dismissal	3		Length of the notice period at 9 months tenure
				Length of the notice period at 4 years tenure
		4		Length of the notice period at 20 years tenure
				Severance pay at 9 months tenure
	Difficulty of dismissal	4		Severance pay at 4 years tenure
				Severance pay at 20 years tenure
		5	Definition of justified or unfair dismissal	
		6	Length of trial period	
		7		Compensation following unfair dismissal
			8	Possibility of reinstatement following unfair dismissal
9	Maximum time to make claim of unfair dismissal			
Employment protection for temporary contracts	Fixed-term contracts	10	Valid cases for use of fixed-term contracts	
		11	Maximum number of successive fixed-term contracts	
		12	Maximum cumulated duration of successive fixed-term contracts	

		13	Types of work for which temporary work agency (TWA) employment is legal
Temporary work agency employment		14	Restrictions on the number of renewals of TWA assignments
		15	Maximum cumulated duration of TWA assignments
		16	TWA: authorisation or reporting obligations
		17	Equal treatment of regular and agency workers at the user firm
Collective dismissals protection		18	Definition of collective dismissal
		19	Additional notification requirements in case of collective dismissals
	–	20	Additional delays involved in case of collective dismissals
		21	Other special costs to employers in case of collective dismissals

4.1.4 Condition III – poor coordination in the industrial relations system (PCO)

The following dimensions are used to measure the coordination in the industrial relations system: wage coordination and the level of organization of labour and capital. It is explained below how each dimension is computed, and how we have turned raw data into set-membership scores.

All the indicators in this condition were taken from the ICTWSS database (Visser 2013). Regarding the first dimension (wage coordination), we have used the indicator ‘coordination of wage-setting’, which is based on Kenworthy (2001) and ranges between 1 and 5. Countries with corporatist arrangements (centralized bargaining by peak associations) are ranked in the first two levels (4-5); those without corporatist arrangements but with a certain level of coordination (e.g., coordination only with some unions, and irregular industry-level bargaining with irregular and uncertain pattern setting) are ranked in the third level; finally, those with little pattern of bargaining or fragmented wage bargaining are ranked in the last two levels (1-2). To complement the information gathered in the first indicator, information on the level of organization of labour and capital are also provided (Ebbinghaus 2006b, p. 74), namely ‘employers’ organization density’ (as a proportion of employees in

employment) and ‘union density’ (net union membership as a proportion of wage and salary earners in employment).

The fuzzy set is calibrated using the direct method of calibration. The raw data, the additive indicator and the fuzzy set score are presented in Table 4.7. Our calibration of the set poor coordination in the industrial relations system combines therefore three indicators: ‘coordination of wage-setting’, ‘employers’ organization density’, and ‘union density’. To calculate the additive indicator, we first standardized the three indicators to range between 0 and 4. Instead of using equal weights for the three different sub-indicators, we assigned greater weight to the first sub-indicator: wage coordination is weighted at $3/4$, while employers’ organization density and union density are weighted at $1/8$ each. As for the qualitative anchors, full membership in this set is reached when the level of coordination in the industrial relations system does not exceed 1.5, full non-membership is assigned when the level of coordination is above 3, and the crossover point is 2.1. The average for the period 1980-2011 is calculated because the objective is to capture the structural pattern of coordination in these countries, rather than the coordination in a specific period. Given that this database provides data for the entire period, we have decided to compute the average of each sub-indicator. In line with Crouch (1993), poor coordination in the industrial relations system is observed in France, in Southern Europe, and in Anglo-Saxon countries. Finally, Figure 4.4 provides a graphic representation of fuzzy set scores.

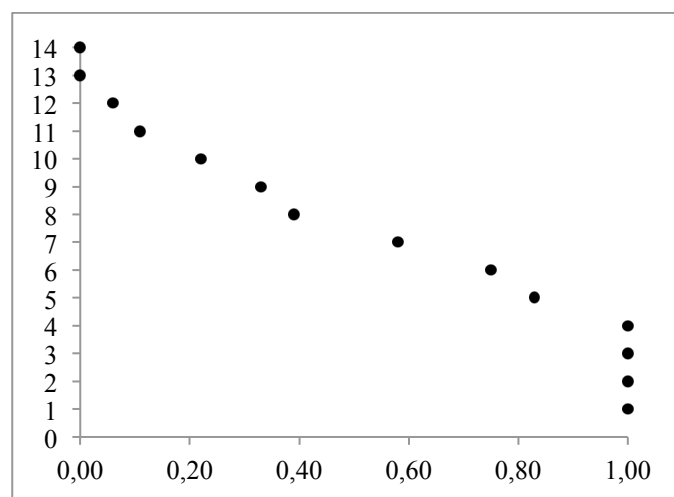
Table 4.7 – Calibration of the condition ‘poor coordination in the industrial relations system’

	Wage coordination (1980-2011)	Employers’ organization density (1980-2011)	Union density (1980-2011)	Additive indicator	Fuzzy set score
Austria	4.1	100.0	41.3	2.9	0.06
Belgium	4.6	82.0	52.7	3.2	0.00
Denmark	3.8	65.0	72.5	2.6	0.22
Finland	4.3	72.7	73.1	3.0	0.00
France	2.0	75.0	10.0	0.9	1.00
Germany	3.9	60.0	28.0	2.3	0.39
Greece	2.2	43.7	31.6	1.0	1.00
Ireland	3.3	60.0	45.2	2.0	0.58
Italy	3.0	58.0	38.2	1.7	0.83
Netherlands	3.7	85.0	24.5	2.4	0.33
Portugal	2.6	65.0	30.0	1.4	1.00
Spain	3.2	75.0	14.2	1.8	0.75
Sweden	3.9	83.0	79.5	2.8	0.11
United Kingdom	1.0	35.0	36.8	0.0	1.00

Source: Authors’ own calculations based on ICTWSS (Visser 2013).

Note: Regarding employers’ organization density, in Belgium and Sweden data refer to 2009, in Denmark, France, Germany, Greece, Italy, Netherlands, Portugal, Spain, and United Kingdom data refer to 2008, in Finland to 2006, and in Ireland to 2002.

Figure 4.4 – Graphic representation of fuzzy set scores (poor coordination in the industrial relations system)



4.1.5. Condition IV – high levels of liberalization (L)

As an institutional theory of capitalism, the liberalization literature emphasizes the communalities rather than the varieties between capitalist economies, and criticizes the functionalist's assumptions upon which the VoC approach is based. Drawing on Polanyi's 'double movement' of market expansion and market containment thesis (1944), it argues that change in all capitalist economies is driven by a process of market expansion, and highlights the social conflicts related to it. Furthermore, drawing on the historical institutionalist theory on institutional change (Streeck and Thelen 2005) it argues that in all capitalist economies the direction of change points towards liberalization (Streeck 2009, Chapter 17). Also relevant is the contribution of Glyn (2006), which points to two main characteristics of liberalization: the reduction of intervention in industry through the privatization of state-owned enterprises (2006, pp. 37-42), and the rise of the financial sector (2006, p. 51).¹³ To calculate this condition, two sub-indicators are used: the 'index of product market regulation', and the 'weight of the financial sector'. The first is taken from the 'OECD Product Market Regulation Database' (OECD 2013b), while the second is taken from the 'Eurostat National Accounts Database' (Eurostat 2008).

First, the OECD 'index of product market regulation' is used to measure the process of market expansion and privatization. This index is constructed from 18 low-level indicators (see appendix, Table A4.2) and covers three general regulatory issues on fields such as: state control of business enterprises, legal and administrative barriers to entry (regulatory and administrative opacity; administrative burdens on start-ups, and barriers to competition), and barriers to international trade and investment (Wolfl et al. 2009).¹⁴ This index ranges between 0 and 6, reflecting increasing restrictiveness of regulatory provisions for competition. Since the index only covers the period between 1998 and 2008, the difference between these two years is calculated. Second, with regard to the rise of the financial sector, we calculate the weight of financial activities and insurance activities on the Gross Value Added, in 2008.¹⁵ This indicator is taken from the 'Eurostat National Accounts Database' (Eurostat 2008).

¹³ Glyn's book is mentioned several times in Streeck's book. Indeed, these two books are often seen as the main contributions to this literature (Palier and Thelen 2010, p. 120; Thelen 2012, pp. 138-139).

¹⁴ For the weights given to each indicator, see Wolfl et al. (2009).

¹⁵ At basic values, millions of euro, chain-linked volumes, reference year 2005.

The direct method of calibration is used to calibrate the fuzzy set score for this condition. The raw data, the additive indicator, and the fuzzy set score are presented in Table 4.8. Our calibration of high levels of liberalization combines two indicators: ‘index product market regulation (1998-2008)’ and ‘weight of the financial sector (2008)’. Furthermore, we have standardized the two indicators to range between 0 and 4, and have calculated the average score for every country. With regard to the qualitative anchors, at least 3 is required for full membership; 1.5 is a crossover point, and values equal to 0.9 reflect full non-membership. As can be seen in Table 4.8, the majority of countries have high levels of liberalization, since only Belgium and Greece are more out than in the set.¹⁶ Finally, Figure 4.5 provides a graphic representation of fuzzy set scores.

Table 4.8 – Calibration of the condition ‘high levels of liberalization’

Countries	Index product market regulation (1998-2008)	Weight of the financial sector (2008)	Additive indicator	Fuzzy set score
Austria	-38.7	5.9	2.0	0.67
Belgium	-10.0	6.0	0.9	0.00
Denmark	-34.8	7.3	2.0	0.67
Finland	-44.5	2.6	1.7	0.57
France	-43.3	4.2	1.9	0.63
Germany	-36.5	5.2	1.8	0.60
Greece	-21.0	4.3	1.0	0.08
Ireland	-45.9	15.8	3.8	1.00
Italy	-47.8	5.5	2.3	0.77
Netherlands	-43.1	8.2	2.5	0.83
Portugal	-37.8	7.7	2.2	0.73
Spain	-61.1	5.6	2.8	0.93
Sweden	-33.5	4.7	1.6	0.53
United Kingdom	-22.2	8.5	1.7	0.57

Source: Authors’ own calculations based on OECD Indicators of Product Market Regulation (OECD 2013b); and Eurostat National accounts (Eurostat 2008).

¹⁶ Note that Table 4.9 summarizes the fuzzy set scores for the outcome and all conditions, Table 4.10 summarizes the qualitative anchor points for the calibration of fuzzy sets, and Table 4.11 all indicators used in this analysis.

Figure 4.5 – Graphic representation of fuzzy set scores (high levels of liberalization)

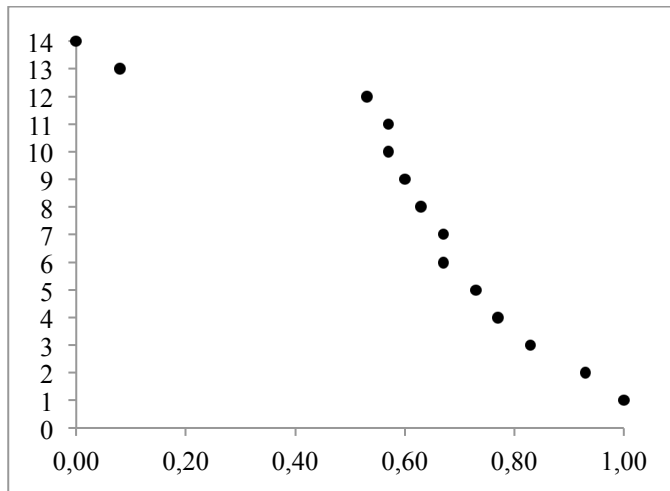


Table 4.9 – Summary table of all fuzzy set scores

Countries	YO	PS	EP	PCO	L
Austria	0.18	0.48	0.77	0.06	0.67
Belgium	0.15	0.62	0.70	0.00	0.00
Denmark	0.59	1.00	0.37	0.22	0.67
Finland	0.36	0.65	0.63	0.00	0.57
France	0.27	0.00	1.00	1.00	0.63
Germany	0.03	0.08	0.63	0.39	0.60
Greece	1.00	1.00	0.83	1.00	0.08
Ireland	0.88	0.55	0.23	0.58	1.00
Italy	0.92	1.00	0.97	0.83	0.77
Netherlands	0.01	0.93	0.67	0.33	0.83
Portugal	0.87	1.00	1.00	1.00	0.73
Spain	0.87	0.85	0.83	0.75	0.93
Sweden	0.51	1.00	0.60	0.11	0.53
United Kingdom	0.93	1.00	0.00	1.00	0.57

Table 4.10 – Qualitative anchor points for the calibration of fuzzy sets

Outcome/condition	Fully out	Crossover point	Fully in
High levels of outsidership among young people (YO)	8.0	17.0	45.0
A small proportion of primary sector jobs (PS)	3.0	0.0	-3.0
High levels of employment protection (EP)	0.0	1.5	3.0
Poor coordination in the industrial relations system (PCO)	3.0	2.1	1.5
High levels of liberalization (L)	0.9	1.5	3.0

Table 4.11 – Summary table of all indicators

Outcome/conditions	Name	Indicators
Outcome	High levels of outsidership among young people	(1) Percentage point difference between the proportion of outsiders among young people and the proportion of outsiders among older age groups
	A small proportion of primary sector jobs	(2) Percentage point difference between the proportion of workers in the lower tier of the primary sector among young people and the same proportion among older age groups.
Conditions	High levels of employment protection	(3) Employment protection index (4) Collective bargaining coverage
	Poor coordination in the industrial relations system	(5) Wage coordination (6) Employers organization density (7) Union density
	High levels of liberalization	(8) Index of product market regulation (9) Weight of the financial activities and insurance activities on the Gross Value Added

4.2. Analysis of necessary and sufficient conditions

Following Schneider and Wagemann (2010), necessary and sufficient conditions are analyzed in separate analytical steps, starting with the analysis of the former. Generally speaking, a condition (or a combination of conditions) is considered to be necessary (even if not sufficient) if the outcome cannot occur in its absence, while a condition is sufficient if the outcome always occurs when the condition is present. In the scope of fsQCA, a condition might be interpreted as necessary if, across all cases, set membership in it is larger than or equal to each case's membership in the outcome. Also in the scope of fsQCA, a condition can be interpreted as sufficient if, across all cases, set membership in it is smaller than or equal to each case's membership in the outcome (Schneider and Wagemann 2012, pp. 56-76).

4.2.1. Necessary conditions for the outcome ‘high levels of outsidership among young people’

Table 4.12 displays the results of the analysis of the necessary conditions for the outcome high levels of outsidership among young people, namely the consistency and coverage measures for necessary conditions. The *consistency* measure expresses the percentage of cases’ set-membership scores in two sets that is in line with the statement that one of the two sets is a subset of the other. It thus indicates to what degree the empirical data are in line with a postulated subset relation. The *coverage* measure assesses the relation in size between the condition set and the outcome set. Coverage necessity is better understood in terms of the relevance and trivialness of a necessary condition. High values indicate relevance, whereas low values indicate trivialness (Schneider and Wagemann 2012, pp. 139-147).

Since a consistency threshold of at least 0.90 is required for necessary conditions (Schneider and Wagemann 2012, p. 143), Table 4.12 shows that a small proportion of primary sector jobs is a necessary condition for the outcome, which supports the second part of the main hypothesis. On the other hand, an analysis of necessary conditions can also be performed by combining conditions via logical ‘OR’. However, this strategy ‘only makes sense if there are strong and plausible theoretical or substantive arguments to support the claim that the conditions combined by logical OR operate as *functional equivalents*’ (Schneider and Wagemann 2012, p. 74). This is the case for both the lack of coordination in the industrial relations system and liberalization. As the first part of the main hypothesis states, fertile breeding grounds for social conflict play a crucial role in explaining age-based divides. As can be seen in Table 4.12, this is the case. The consistency value in the combination of conditions PCO+L is very high (0.968); therefore, this combination is a necessary condition for the outcome. Finally, the analysis of necessary conditions is graphically presented through XY plots. These plots show whether a specific condition is necessary. They offer graphical insights on whether a necessary condition might be trivial empirically. For a condition to be necessary, all cases should be located around or below the bisecting line (Ragin 2000, p. 215; Schneider and Wagemann 2012, p. 76). Figure 4.6 shows that for the small proportion of primary sector jobs, only three cases are clearly located above the diagonal, and only two cases are located above the diagonal for PCO+L. However, other cases are clearly below the diagonal in both graphs. This

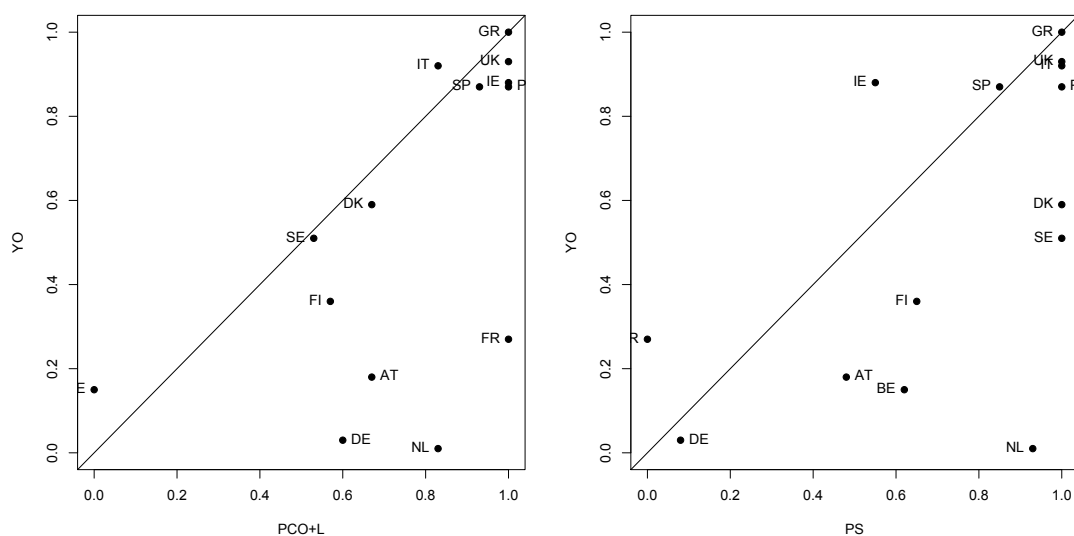
means that while poor coordination in the industrial relations system, or liberalization are necessary for the outcome, their presence is not sufficient (e.g., see the French case). The same applies to the other necessary condition: it is necessary for the outcome but it is not sufficient on its own (e.g., see the Dutch case).

In short, the analysis of necessary conditions supports the main hypothesis. First, a small proportion of primary sector jobs is a relevant (coverage 0.684) and consistently (0.918) necessary condition for the outcome. Second, the combination of conditions PCO+L is a relevant (0.690) and consistently (0.968) necessary condition for the outcome.

Table 4.12 – Analysis of necessary conditions for the outcome ‘high levels of outsidership among young people’

Condition	Consistency	Coverage
PS	0.918	0.684
L	0.773	0.682
PCO	0.748	0.779
EP	0.734	0.602
PCO+L	0.968	0.690

Figure 4.6 – Necessary conditions for the outcome ‘high levels of outsidership among young people’



4.2.2. Sufficient conditions for the outcome ‘high levels of outsidersness among young people’

With regard to the analysis of sufficient conditions, this section begins by displaying the truth table and explaining the process of Boolean minimization. Thereafter, the solution term and parameters of fit are discussed. Finally, a qualitative discussion of the different solution terms is made.

Table 4.13 displays the truth table.¹⁷ For the analysis of sufficient conditions of the outcome high levels of outsidersness among young people, we used a consistency threshold for sufficient rows of 0.82. There are three principal reasons for this: following Schneider and Wagemann (2012, p. 127), values below 0.75 are considered problematic as they have consequences for the subsequent analysis; no true logically contradictory cases exist (Schneider and Wagemann 2012, pp. 182-186), and the threshold is also justified by a large gap below the consistency value of 0.82. Finally, the software minimizes the truth table using Boolean algebra and identifies the combinations of conditions that are sufficient to produce the outcome.¹⁸

Table 4.13 – Truth table for the analysis of sufficient conditions for the outcome ‘high levels of outsidersness among young people’

PS	EP	PCO	L	Cases	Consistency
1	1	1	0	Greece	0.897
1	1	1	1	Italy, Portugal and Spain	0.890
1	0	1	1	Ireland and United Kingdom	0.832
1	0	0	1	Denmark	0.823
1	1	0	0	Belgium	0.663
1	1	0	1	Finland, Netherlands and Sweden	0.630
0	1	0	1	Austria and Germany	0.495
0	1	1	1	France	0.490

¹⁷ Besides presenting the truth table rows, the table also reveals the existence of eight configurations with no empirical observations (logical remainders). To overcome the problem of limited diversity (i.e., the presence of logical remainders), we draw on the strategy suggested by Ragin (2008): the ‘Standard Analysis procedure’. It consists of producing the complex solution (without assumptions about logical remainders), the most parsimonious solution (all simplifying assumptions), and the intermediate solution (only easy counterfactuals). In this study, only those counterfactuals that correspond to the theoretical expectations (easy counterfactuals) are incorporated. Therefore, the results presented in this section refer to the intermediate solution.

¹⁸ In this analysis we use the R Package ‘QCA’, version 1.1-2 (Dusa and Thiem 2012).

The solution term and the parameters of fit are presented in Table 4.14. *Raw coverage* indicates how much of the membership in the outcome is covered by the membership in a single path. The *unique coverage* indicates how much a single path uniquely covers. *Consistency* indicates how well a given solution set explains the outcome in question. The *solution coverage* expresses how much is covered by the entire solution term (Schneider and Wagemann 2012, p. 139). In Boolean logic, logical AND (*) refers to the intersection of sets and logical OR (+) to the union of sets. Furthermore, capitals indicate the presence of a condition, and lower cases its absence.

The solution shows satisfactory consistency (0.909) and coverage (0.789). The analysis of the sufficient conditions shows two possible paths for the outcome (Figure 4.7). The first path combines a small proportion of primary sector jobs, high employment protection, and poor coordination in the industrial relations system, while the second path combines a small proportion of primary sector jobs, the absence of high employment protection, and liberalization. This solution explains high levels of outsidership among young people in Portugal, Spain, Italy, Greece, Ireland, United Kingdom, and Denmark. Therefore, the solution term can explain all cases except the Swedish one. Note however that Sweden has the smallest fuzzy set score (0.51) when compared with the countries that belong to the set of countries with high levels of outsidership among young people. Finally, Figure 4.8 presents the results graphically. This figure shows whether the combinations of conditions PS*EP*PCO and PS*ep*L are sufficient. For a condition to be sufficient, all cases should be located around or above the bisecting line (Ragin 2000, p. 236; Schneider and Wagemann 2012, p. 69).

Table 4.14 – Analysis of sufficient conditions for the outcome ‘high levels of outsidership among young people’

Solution term	PS*EP*PCO +	PS*ep*L → YO
Raw coverage	0.520	0.392
Unique coverage	0.396	0.268
Consistency	0.887	0.863
Covered cases*	Italy, Portugal, Spain, and Greece	Ireland, United Kingdom, and Denmark
Solution consistency	0.909	
Solution coverage	0.789	
Uncovered cases**	Sweden	

Note: Consistency threshold 0.82. The complex and intermediate solutions are identical. The parsimonious solution is $ep + PS*PCO \rightarrow YO$ (coverage: 0.908, consistency: 0.861).

* Cases with membership in path > 0.5

** Cases with membership in solution < 0.5 and outcome > 0.5

Figure 4.7 – Paths for the outcome ‘high levels of outsidership among young people’

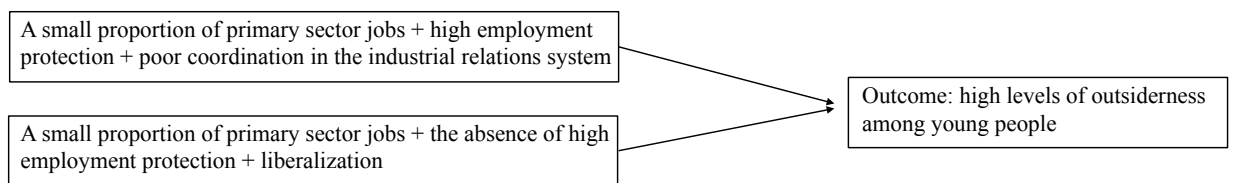
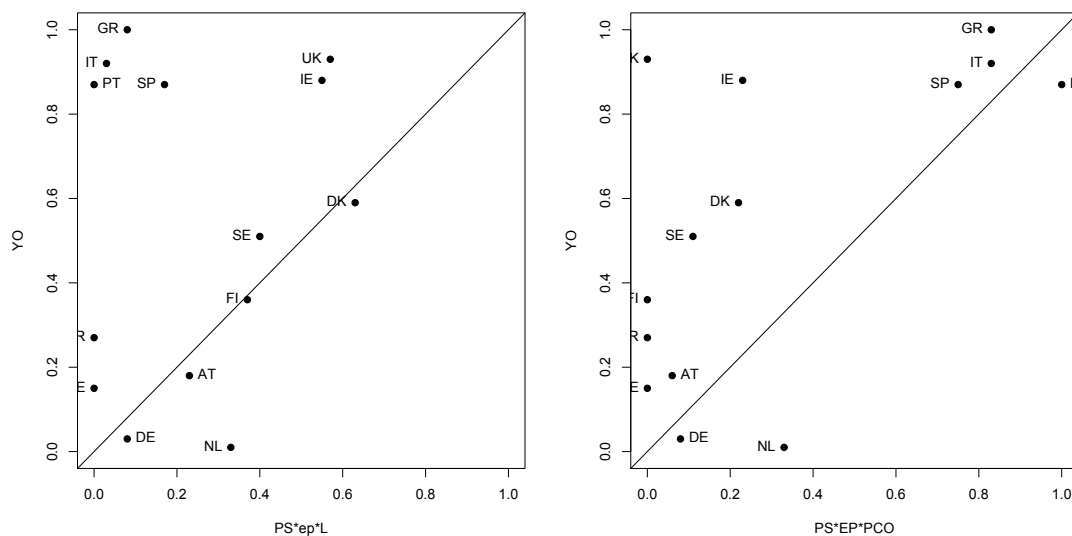


Figure 4.8 – Sufficient conditions for the outcome ‘high levels of outsidership among young people’



The previously identified necessary conditions (PS, and PCO+L) can also be found in the analysis of sufficient conditions. All countries with high levels of outsidership among young people exhibit the two identified necessary conditions. However, a small proportion of primary sector jobs, liberalization, and poor coordination in the industrial relations system are not sufficient conditions alone: Finland, the Netherlands, and Belgium exhibit a small proportion of primary sector jobs but no high levels of outsidership are observed; Austria, Finland, the Netherlands, France and Germany exhibit liberalization but no high levels of outsidership among young people; France has poor coordination in the industrial relations system, and high liberalization, but no high levels of outsidership among young people. France is indeed a very interesting case; it combines several characteristics of the Southern European case but it displays a large proportion of primary sector jobs.

Taking into account the combination of conditions in the first path, the analysis of sufficient conditions supports the second hypothesis – that employment protection is an INUS condition, i.e. an insufficient but non-redundant part of an unnecessary but sufficient (combination of) condition(s) (Schneider and Wagemann 2012, p. 79). However, these results contain an unexpected and interesting result: when combined with a small proportion of primary sector jobs and liberalization, the absence of employment protection is also an INUS condition. This illustrates the naivety of focusing the analysis on single variables rather than on complex causal explanations, and of seeing the reduction of employment protection as the best solution to tackle labour market segmentation. Finally, it is relevant that 39.6 per cent of the total solution's coverage of 78.9 per cent (based on the so-called unique coverage of the paths), is due solely to the first path (PS*EP*PCO), while the second path (PS*ep*L) uniquely covers 26.8 per cent.

As pointed out by Emmenegger et al. (2013, p. 189), the results of the fsQCA 'need to be complemented by a qualitative discussion of the different solution terms'. Below, three cases are discussed: Portugal, UK, and Denmark. The first two cases are chosen because they illustrate quite well the dynamics that are in place in each configuration, while the Danish case is used to explain why, despite its singularities, it makes sense to include Denmark within the second configuration.

Blocked flexibilization. The revolutionary events of 1974-1975 had a great impact in the Portuguese industrial relations system (Naumann and Stoleroff 2000, p.

545; Lima and Naumann 2011, p. 147). First, the democratic revolution constituted a reaction against the longest lasting authoritarian corporatist regime in Europe. Therefore, corporatist arrangements were by trade unionists seen as a tool created by the authoritarian regime to overcome the class struggle and control unions. As a consequence, the trade union movement grew up in the 1970s against this logic. Second, the communist party-linked General Confederation of Portuguese Workers (CGTP) gained a prominent role in the Portuguese industrial relations system after 1974. Indeed, while the General Union of Workers (UGT) was only founded in 1978 (with the support of the two main parties: the Socialist Party and the Social Democratic Party), CGTP was a prominent actor during the revolutionary years. During this period, major political, economic and social changes took place and CGTP actively supported them, namely the nationalization of the largest national industrial and financial groups, as well as the approval of the new constitution and several legislative measures regarding the labour market (Stoleroff 1990, p. 135; Barreto 1992, p. 445). Since the early 1970s up until today, CGTP is by far the largest trade union confederation, representing about two-thirds of the unionized labour force (Lima and Artiles 2011, p. 390; Visser 2013). Even though since the early 1990s several changes to the Portuguese economy were implemented, namely because the Portuguese government privatized several nationalized banks, insurance banks and large public enterprises (Naumann and Stoleroff 2000, p. 547), changes to labour market legislation did not follow the same pattern. As explained by Barreto (1992, pp. 468-469), because unions were unable to ‘prevent the rise in unemployment or the fall in real wages between 1976 and 1985, the unions directed their energies to preventing the watering down of the labour legislation passed after the revolution (...). The unions have been only partially successful in their aim, but they used political action, including a successful general strike in 1988, to secure what may well be their major achievement in the 1980s: the maintenance of union rights and the protection of the main legal provisions on job security’. Consequently, up until the current economic crisis Portugal remained as one of the OECD countries with the highest level of permanent employment protection (Cerdeira 2014, p. 454). Notwithstanding, changes to labour market legislation have been implemented regarding temporary employment, fostering therefore the systematic use of fixed-term contracts and temporary agency work. This gave rise to a growing segmentation in the Portuguese labour market (Barreto 1992, p. 477; Dornelas et al. 2010; Centeno and Novo 2012, p.

321; Silva and Pereira 2012, p. 136; Carneiro et al. 2014, pp. 453-453; Cerdeira 2014, p. 455), a process that has affected disproportionately young people. Indeed, while a large part of the older people was able to safeguard their position because they had permanent contracts when changes were implemented and they were more unionized (e.g., in the public sector or in former public enterprises), a huge part of young people entered the labour market through the rise of temporary employment and through the expansion of the individual employment contract (Reis 2010, p. 7). Finally, contrarily to other European countries (namely in Continental Europe), in which the manufacturing sector still provides access to a large number of stable jobs, in Portugal – as in other Southern European countries – the manufacturing sector has undergone a great reduction of its size since the early 1980s. Indeed, its industrial sector was much less competitive (relying mainly on low wages rather than on specific skills) than its counterparts in Continental Europe. Therefore, reforms during the 1980s and 1990s did not save the ‘core manufacturing economy’ because there was no such ‘core manufacturing economy’.¹⁹ Only a small part of the manufacturing sector was characterized by having well developed internal labour markets (Suleman et al. 2013, pp. 239-241). Furthermore, the penetration of Chinese exports and the eastward enlargement of the European Union had a detrimental effect on the Portuguese economy (Rodrigues and Reis 2012, pp. 197-198). To sum up, age-based dualization in the Portuguese labour market is directly related with the highly conflictual industrial relations system, together with a dual pattern of job security regulations and an accelerated deindustrialization process.

Disembedded flexibilization. The election of the Conservative government under Margaret Thatcher in the 1979 general election is widely seen as marking a turning point in the British political economy (Crouch 2005, pp. 143-150). Since the early 1980s a massive privatization programme and several measures to flexibilize the labour market were implemented. Furthermore, a great reduction in the weight of the manufacturing sector took place. Throughout the 1980s, the Conservatives’ privatization programme reduced the public sector to about one third of its former size: British Telecom was privatized in 1984, British Gas in 1986, British Airways in 1987, British Steel in 1988, the water industry in 1989, electricity distribution in 1990, and electricity generation in 1991 (Ferner and Colling 1991, p. 391). As for

¹⁹ In line with Palier and Thelen (2010), the ‘core manufacturing economy’ is understood here as a highly competitive industrial core.

deindustrialization, between 1980 and 1984, 1.6 million manufacturing jobs were wiped out. This figure is particularly striking, especially if one compares with the period between 1984 and 2004, when 1.8 million manufacturing jobs were lost (Rubery et al. 2009, p. 70). Finally, as for the legislative programme, several measures were taken to deregulate labour markets (e.g., individual rights to protection from unfair dismissal have been restricted) (Longstreth 1988, pp. 416-419; Edwards et al. 1992, pp. 13-15). Each of these changes led to a growing segmentation in the British labour market. First, after privatizations, the former government companies started to outsource parts of their operation and expanded their activities in new areas, creating new subsidiaries. As a consequence, a dual pattern of industrial relations emerged in the privatized utilities. As explained by Ferner and Colling (1991, p. 405), ‘in the core business, the traditional industrial relations ethos of public enterprises on the whole persists, (...) but in the new areas of business, a new and changing ‘culture’ of industrial relations was seen as both more likely and more desirable by management’. Unions played a crucial role in this process because they used their strength to resist against flexibilization. For instance, the level of union density in utilities (gas, water and electricity) was, in 1995, 66.1%. Even though this figure dropped to 41.7% in 2008, it is well above the national average, which is set at 27.2% (Visser 2013). Second, even though deindustrialization led to a great reduction in the number of manufacturing jobs, it has not led to its disappearance. Consequently, the basic institutional features of collective bargaining were safeguarded in some companies. This is so because a large number of employers preferred to maintain bargaining relationships with unions, adopting what Longstreth (1988) called a ‘pragmatic adaptation’ strategy. In face of severe commercial pressures, employers preferred to maintain some degree of cooperation or at least of compliance with the workforce. As argued by the same author (1988, p. 427) this led to ‘a new division (...) in the workforce between core and peripheral sectors’, because the expansion of jobs in services did not require the existence of such cooperation and the degree of union membership was lower (Visser 2013). Third, labour market deregulation contributed to a rapid expansion of jobs in services. Indeed, deindustrialization took place simultaneously with a great expansion of the service sector (Edwards et al. 1992, p. 60; Rubery et al. 2009, p. 71). Notwithstanding, this was not a haphazard event, without labour market deregulation it would have been much more difficult to see such an increase in the service sector, namely because a large number of low paid

and atypical jobs were created in this period (Goos and Manning 2003; Rubery et al. 2009, p. 58). Furthermore, although labour market deregulation played a central role, other legislative measures were also important. The abolition of the Fair Wages Resolution (FWR) and the cuts on social welfare benefits also fuelled the rapid expansion of lower tier jobs. Through the abolition of the FWR government contractors were no longer required to adhere to minimum rates of pay or working conditions, and with lower welfare generosity people became more prone to accept worse paid jobs (Goldthorpe 1984, p. 338; Longstreth 1988, p. 416). The rise of atypical and low-paid jobs contributed to a growing segmentation in the labour market because huge institutional differences exist between peripheral jobs and those in the public (or in the core labour force of the former public companies) and manufacturing sectors (the major union strongholds). Finally, this affected disproportionately young people because the radical transformation undertaken by the Conservative government was implemented from 1979 onwards, affecting more those entering the labour market after this turning point. As argued by Longstreth (1988, p. 422) ‘in particular, the young, the low paid and manual workers have experienced a relative decline in their position, compared to gradual improvements made in the course of the 1970s’. All in all, age-based dualization in the UK is directly linked with the neo-liberal agenda carried out by the Conservative government in the early 1980s, an agenda that was characterized by an ambitious privatization programme, the deregulation of the labour market and a rapid deindustrialization process.

*Embedded flexibilization.*²⁰ Comparing with the British case, Denmark is different in a number of aspects. However, a combination of liberalization, low job security and deindustrialization characterizes both cases. In our view, this explains why young people in Denmark are also experiencing growing problems in the labour market. Below we begin by explaining the similarities between the British and the Danish cases, and thereafter we highlight the existing differences. We conclude by arguing that the existence of a well-organized labour movement together with a generous welfare state have prevented greater segmentation (similar to the British and Portuguese cases), but have not avoided this process completely. As for similarities, there are three main features on which these countries converge. First, the turn to liberalization also took place in Denmark in the early 1980s. Indeed, under the

²⁰ We take this expression from Kathleen Thelen’s recent book on the different varieties of liberalization (2014, pp. 14-15).

leadership of Poul Schluter, who served as Prime Minister of Denmark from 1982 to 1993, several aspects of economic and labour market policy were liberalized (Thelen 2014, p. 145). Furthermore, as in the UK, there was an attempt to diminish union influence and membership (Scheuer 1992, p. 188). These changes were quite impressive in historical terms, especially considering this was the first Conservative Prime Minister since 1901. Second, historically the level of employment protection is much lower than in other Scandinavian and Continental countries. Regardless of the type of arguments used to explain this fact, the existing literature on the Danish labour market agrees in this regard (Scheuer 1992, p. 170; Estevez-Abe et al. 2001; Emmenegger 2010; Madsen 2013, p. 3; Thelen 2014, p. 142). Third, from the 1980s onwards the Danish political economy underwent a rapid deindustrialization process. While in the early 1960s services accounted for only 46% of the total labour force, in the late 1980s they reached 67%, and in 2013 they accounted for 79% (Scheuer 1992, pp. 170-171; Madsen 2013, p. 16). There are however a number of issues where the Danish case is different. First, union density was higher in Denmark than in the UK. Furthermore, white-collar and unskilled workers were better organized and their influence within the peak trade union confederation was very high (Ebbinghaus 2000, p. 169). As a consequence, liberalization faced the fierce unions' opposition, being the 1980s characterized by intense conflicts (Thelen 2014, pp. 59-62). Due to the decentralization of wage bargaining, unions have not been able to prevent the breakdown of solidaristic wage bargaining but they resisted liberalization and corporatist bargaining has been safeguarded. As explained by Thelen, this was achieved through the 'functional conversion of traditional arrangements to new goals and purposes. This shift was based on a political exchange in which decentralization in wage formation was traded against progress on a range of non-wage issues' (2014, p. 59). These non-wage issues include the investment in training, which has become a crucial issue for unions. This is related with the second major difference between Denmark and the UK: the combination of low levels of employment protection with the social safety net of the traditional Scandinavian welfare state. Indeed, the Danish system provides measures to facilitate the re-integration of workers in the labour market and generous unemployment benefits, a system which is commonly called the Danish model of flexicurity (Madsen 2013, p. 31). Third, while the expansion of services in the UK was mainly achieved through the growth of the private sector, in Denmark a large share of jobs were created in the public sector. For example, while in

Denmark the share of public sector jobs increased from 17.2% in 1970, to 30.1% in 1989, in the UK it has only increased from 18.1% in 1970, to 19.6% in 1989 (Ferner 1994, p. 57; Salavisa 2006, p. 188). Currently, the share of public employment jobs remains very high in Denmark, accounting for about 33% of total employment (Madsen 2013, p. 16). Since public sector jobs are characterized by greater union membership and by more stable jobs, this also contributed to prevent greater segmentation in the labour market. Taken together, the above-mentioned similarities between Denmark and the UK unravel the process that led to a growing age-based dualization in the Danish labour market. As recent studies have shown, young persons have a much higher probability of being in a temporary job or working part-time than the older age groups (Madsen 2013, pp. 21-26). The existing differences between countries explain why in Denmark this process is less marked than in the UK.

4.3. Robustness tests

Following Schneider and Wagemann (2012, pp. 284-294), a series of tests to assess the robustness of the analysis are carried out. First, we have changed the score of the case just above the crossover point to 0.49, and the case just below the crossover point to 0.51.²¹ Table 4.15 shows that the solution term is robust to revisions of the calibration: in eight cases the solution term is identical. As for the case (fifth row) in which the second path is different (PS*PCO*L), the unique coverage for this path decreases to 0.118. Regarding the case where the first path is different (ninth row), this is because the revision of this fuzzy set score requires a huge change in the calibration. Generally speaking, Table 4.15 shows that the solution term is robust.

Second, we change the consistency levels for truth table rows. With a consistency threshold of 0.885 (instead of 0.82), the solution turns into PS*EP*PCO (coverage: 0.520, consistency: 0.887). Note, however, that in comparison with the solution displayed in Table 4.14, the number of uncovered cases increases to four and the solution coverage decreases sharply. We prefer the solution displayed in Table 4.14 because more cases are covered by the solution term, and because the existing differences between Southern Europe and the Anglo-Saxon countries (together with Denmark) are clarified.

²¹ We take this from Davidsson and Emmenegger (2013).

Finally, to assess the robustness of the analysis, we tested a different solution including five conditions instead of four. This new condition (DR) is based on the aggregate index of dualization (Rueda 2014, pp. 390-391). The objective is to test if the introduction of the new condition changes the main results of the analysis. The aggregate index of dualization is the ratio of employment protection for standard employment over active labour market policies (ALMP) generosity. To measure employment protection for standard employment we use data from ‘OECD Indicators of Employment Protection’ (OECD 2013a). ALMP generosity is measured as the ratio of ALMP to GDP over the ratio of the unemployed to the labour force.²² The first indicator is taken from Armingeon et al. (2012), while the second is taken from OECD.Stat (unemployment is the harmonized rate, measured as a percentage of the civilian labour force). Data for the aggregate index of dualization refers to 2010. As for the calibration of this condition, we consider that at least 2.5 on the indicator is required for full membership, at least 0.95 to be more in than out of the set, and 0 for full non-membership. The fuzzy set scores and raw data for this condition are displayed in Table 4.16. With five conditions the solution term (complex solution) consists of two conjunctions: $PS*DR*EP*PCO + PS*dr*ep*L$ (coverage: 0.908, consistency: 0.782). The first covers Italy, Portugal, Spain, and Greece, while the second covers Ireland, United Kingdom, and Denmark. Comparing with the solution term displayed in Table 4.14, the major difference is the presence of DR in the first conjunction and its absence in the second. Thus, DR follows a similar pattern to the condition high employment protection. Furthermore, the analysis of necessary conditions shows that DR is not a necessary condition for the outcome. Overall, the introduction of DR does not change the main results of the analysis.²³

²² For a definition of active labour market policies see Marques et al. (2015, p. 222).

²³ Additionally, also to check for the robustness of the analysis, we tested a different solution with modifications in the indicators used for calculating three conditions. First, we changed the first condition by using a simple indicator of deindustrialization (the rate of change in the number of employees working in industry excluding construction, between 2000 and 2014). Second, we changed the second condition by using only one indicator to measure high levels of employment protection (the employment protection index). Third, we made more complex the content of the liberalization condition. We used six indicators instead of two (collective bargaining coverage; employers’ organization density; union density; the unemployment generosity index; the state control index; and market capitalization of listed companies). These modifications did not change the main results of the analysis, i.e. the analysis of necessary and sufficient conditions point to the same conclusions. These results are available from the author upon request.

Table 4.15 – Robustness of solution term

	Recalibration	Solution term	Comment
1	YO: Finland from 0.36 to 0.51	PS*EP*PCO + PS*ep*L	Identical to solution term.
2	YO: Sweden from 0.51 to 0.49	PS*EP*PCO + PS*ep*L	Identical to solution term.
3	PS: Ireland from 0.45 to 0.51	PS*EP*PCO + PS*ep*L	Identical to solution term.
4	PS: Austria from 0.52 to 0.49	PS*EP*PCO + PS*ep*L	Identical to solution term.
5	EP: Denmark from 0.37 to 0.51	PS*EP*PCO + PS*PCO*L	Unique coverage of both terms drops to 0.125 and 0.118, respectively. The solution coverage drops to 0.638. Denmark becomes an uncovered case.
6	EP: Sweden from 0.60 to 0.49	PS*EP*PCO + PS*ep*L	Identical to solution term. Sweden becomes a covered case.
7	PCO: Germany from 0.39 to 0.51	PS*EP*PCO + PS*ep*L	Identical to solution term.
8	PCO: Ireland from 0.58 to 0.49	PS*EP*PCO + PS*ep*L	Identical to solution term.
9	L: Greece from 0.08 to 0.51	PS*PCO*L + PS*ep*L	This new calibration implies a huge change in the fuzzy set score for Greece.
10	L: Sweden from 0.53 to 0.49	PS*EP*PCO + PS*ep*L	Identical to solution term.

Table 4.16 – Calibration of the condition ‘high levels of dualization’ (DR)

Countries	Aggregate index of dualization	Fuzzy set score
Austria	0.60	0.32
Belgium	0.61	0.32
Denmark	0.41	0.22
Finland	1.05	0.53
France	1.12	0.55
Germany	1.10	0.55
Greece	3.01	1.00
Ireland	0.38	0.20
Italy	1.98	0.83
Netherlands	0.63	0.33
Portugal	3.55	1.00
Spain	1.58	0.70
Sweden	1.01	0.52
United Kingdom	0.36	0.19

Source: Authors’ own calculations based on OECD Indicators of Employment Protection (OECD 2013a); Comparative Political Data Set I 1960-2011 (Armingeon et al. 2012); and OECD.Stat.

4.4. Conclusion

This chapter applied fsQCA to examine the determinants of outsidership among young people. As mentioned in Chapter 2, the dualization literature argues that the attempt to save the ‘core manufacturing economy’ has been the structural driver of change and emphasizes the role of different welfare regimes to explain different degrees of dualization. Although these scholars speak of the existence of different patterns of dualization, they do not explain why it is mostly young labour market participants who are the outsiders in some countries.

This chapter identifies the conditions contributing to high levels of outsidership among young people. The analysis of necessary conditions reveals the existence of two necessary conditions for the outcome of high levels of outsidership among young people: a small proportion of primary sector jobs (PS) and the combination of (i) poor coordination in the industrial relations system and (ii) liberalization (PCO+L). This supports our main hypothesis. The analysis of sufficient conditions indicates two possible paths for the outcome: the first combines a small proportion of jobs in the primary sector, high employment protection, and poor coordination in the industrial relations system, while the second combines a small proportion of jobs in the primary sector, the absence of high employment protection, and liberalization. The first path covers Portugal, Spain, Italy, and Greece, and the second path covers the United Kingdom, Ireland, and Denmark. The combination of conditions in the first path supports the second hypothesis – that employment protection is an INUS condition. However, the second path shows that when combined with a small proportion of primary sector jobs and liberalization, the absence of high employment protection is also an INUS condition.

Furthermore, three additional conclusions can be drawn from this analysis. First, it illustrates the pitfalls of seeing institutions solely as guardians of efficiency and the only source of institutional change. On the contrary, we show how other institutional factors are crucial to explain the high levels of outsidership among young people. Second, our analysis also illustrates the benefits of using fsQCA: in line with the hypotheses of this study, we show that no single condition is sufficient to explain the outcome. Third, this chapter shows that high levels of outsidership among young people exist in Southern European countries, as hypothesized in Chapter 2. However,

people exist in Southern European countries, as hypothesized in Chapter 2. However, this chapter also shows that in the United Kingdom, Ireland, Denmark and Sweden, young people are also facing increasing problems in the labour market.

Although this chapter has identified the conditions contributing to high levels of outsidership among young people, it has not provided empirical evidence on the process of dualization as generational layering. Indeed, the main strength of fsQCA is the possibility to test theoretical arguments that combine several conditions to explain a certain outcome. Notwithstanding, fsQCA is less appropriate to shed light on how change takes place over time. It is precisely for this reason that Chapter 5 will contrast two case studies: the telecommunications sector and the vehicle manufacturing industry in Portugal. By studying these sectors, we pretend to illustrate why dualization as generational layering captures well the process of change in Southern European labour markets.

Appendix

Table A4.1 – Databases and samples size for each country

Country	Sample size	Database
Austria	2250	ESS2008
Belgium	1704	ESS2009
Denmark	1576	ESS2009
Finland	1878	ESS2009
France	1728	ESS2009
Germany	3031	ESS2009
Greece	2715	ESS2009
Ireland	2576	ESS2009
Italy	1084	ISSP2009
Netherlands	1829	ESS2009
Portugal	2150	ESS2009
Spain	1885	ESS2009
Sweden	1497	ESS2009
United Kingdom	2422	ESS2009
Total	29831	

Table A4.2 – OECD Indicators of Product Market Regulation

Dimensions	Item	Definition
State control	Scope of public enterprises	Measures the pervasiveness of state ownership across business sectors as the proportion of sectors in which the state controls at least one firm (based on 24 business sectors).
	Government involvement in network sectors	Measures the extent of public ownership in the energy, communications and transport sectors (based on detailed data for seven network industries)
	Direct control over business enterprises	Measures the existence of government special voting rights in privately-owned firms, constraints on the sale of state-owned equity stakes, and the extent to which legislative bodies control the strategic choices of public enterprises (based on 24 business sectors).
	Price controls	Reflects the extent of price controls in competitive sectors, such as air travel, retail trade, road freight, professional services, and mobile communications.
	Use of command and control regulation	Indicates the extent to which government uses coercive (as opposed to incentive-based) regulation in general and in specific services sectors (road freight, retail trade, air transport, railways, professional services).
Legal and administrative barriers to entry	Licences and permits systems	Reflects the use of ‘one-stop shops’ and ‘silence is consent’ rules for getting information on and issuing licenses and permits.
	Communication and simplification of rules and procedures	Reflects aspects of government’s communication strategy and efforts to reduce and simplify the administrative burden of interacting with government.
	Administrative burdens for corporations	Measures the extent of administrative burdens on the creation of corporations.

	Administrative burdens for sole proprietors	Measures the extent of administrative burdens on the creation of sole proprietor firms.
	Sector-specific administrative burdens	Reflects administrative burdens in the road transport and retail distribution sectors.
	Legal barriers	Measures the pervasiveness of barriers to entry across business sectors as the proportion of sectors in which there are explicit legal limitations on the number of competitors (based on 24 business sectors).
	Antitrust exemptions	Measures the scope of exemptions from competition law for public enterprises.
	Barriers to entry in network sectors	Measures various kinds of entry barriers in network sectors, as well as the degree of vertical integration in energy, rail transport and telecommunication sector (based on detailed data for seven network sectors).
	Barriers to entry in services	Measures barriers to entry in retail trade and professional services.
Barriers to trade and investment	Barriers to foreign direct investment	Measures general and sector-specific restrictions on foreign acquisition of equity in public and private firms, obligatory screening procedures and operational controls for affiliates of foreign firms (e.g. nationality requirement for key personnel). This indicator covers manufacturing, construction, electricity and 9 services sectors.
	Tariffs	Reflects the average of most-favored-nation tariffs, computed from detailed product data on tariffs.
	Discriminatory procedures	Reflects the extent of discrimination against foreign firms at the procedural level.
	Regulatory barriers	Reflects other non-tariff barriers to trade, such as lack of mutual recognition agreements or international harmonization of standards.

Source: Wolfl et al. (2009, pp. 10-11).

5 Explaining age-based dualization: a study of telecommunications and vehicle manufacturing industries

This chapter contrasts two case studies – the telecommunications sector and the vehicle manufacturing sector – to illustrate why dualization as generational layering captures the process of change in Southern European labour markets. As presented in Chapter 4, the results of the fsQCA analysis show that a small proportion of primary sector jobs is a necessary condition for high levels of outsidership among young people. Based on this finding, our objective is to shed light on the causal mechanism that links these two processes, i.e. how the reduction of the primary sector and the concomitant expansion of the secondary sector brought about a generational divide in Southern European labour markets, one in which young people face a much higher risk of unemployment and atypical employment than the older generations.

The central thesis of this chapter is that the gradual erosion of the traditional internal labour market (ILM) model in the telecoms sector led to the expansion of non-standard employment and consequently to increase the risk of unemployment. It is argued that older generations were able to maintain a better position in the labour market because, when liberalization and privatization started, both union membership and bargaining coverage were very high and trade unions resisted against this process. This prevented therefore a large number of redundancies in the public company. On the other hand, it is argued that, in the vehicle manufacturing industry, the traditional ILM model has been maintained. Although some changes were implemented, the ‘traditional’ pillars of the ILM model have been safeguarded. Therefore, no substantial generational differences exist. It is however stressed that the vehicle manufacturing sector represents a low share of jobs in the Portuguese labour market and that it has not increased throughout the past decades. Taken as a whole, it is argued that liberalization led to a radical transformation in telecoms but not in vehicle manufacturing. Considering that a reduction in the share of primary sector jobs has taken place in Portugal (see Chapter 4), this comparison exemplifies the

transformations in the labour market. Finally, it highlights the importance of both liberalization and social conflict to explain the increasing levels of labour market segmentation.

This chapter has been organized in the following way. The first section makes a brief presentation of the data and reasons underlying the comparison between these two cases. Thereafter, each one is analysed separately, scrutinizing in detail two different periods: before (2004-08) and after the global economic downturn (2008-13). The third section outlines the main differences between sectors and discusses the main findings.

5.1 Data and case selection

This investigation analyses two sectors of the Portuguese Economy: vehicle manufacturing and telecoms. These two sectors differ in several aspects, namely regarding its size, interest representation and how its weight in the Portuguese economy has evolved throughout the recent past. Considering the main objective of the present chapter – to explain how a decreasing number of jobs in the primary sector and the concomitant expansion of the secondary sector have led to high levels of outsidership among young people – the selection of these two cases follows the subsequent rationale.

First, the automotive sector is a relatively small sector of the Portuguese economy and its size has not increased during the past decade. However, it represents a much larger proportion of jobs in a set of other European countries, namely France and Germany (Doellgast and Greer 2007; Eurofound 2010, p. 25; Holst 2014).¹ As shown in Chapter 4, these two were precisely the countries with the larger proportion of jobs in the primary sector. On the other hand, while in Germany and France the majority of jobs in the automotive sector are in the subsector of vehicle manufacturing (34.10 ‘Manufacture of motor vehicles’, NACE rev. 1.1), the opposite is the case in Portugal (Eurofound 2010; Banco de Portugal 2013a, p. 6). In Portugal, the majority of jobs are in the components subsector (34.20 ‘Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers’; and 34.30 ‘Manufacture

¹ Doellgast and Greer (2007, p. 65) pointed out that German automotive firms have seen an increase in the number of employees between 1994 and 2004 (from 657,000 to 773,000).

of parts and accessories for motor vehicles and their engines', NACE rev. 1.1). Indeed, data from the ILO shows that regarding the total employment in the automotive sector in Europe, Portugal accounts for only 1.4%, while Germany and France account for 40.7% and 13.1%, respectively. Furthermore, it also shows that the components industry accounts for 86% of the total employment in this sector, while in Germany and France the share of jobs in the components subsector is 44% and 38%, respectively.² Thus, the Portuguese case is characterised by having a low share of jobs in the automotive industry, and an even lower share in the subsector of vehicle manufacturing. This subsector is therefore chosen because it represents a low share of jobs in the Portuguese economy, but it represents a large share of jobs in countries identified in Chapter 4 as having the absence of high levels of outsidership among young people.³

Second, the telecoms industry (64.20 'Telecommunications' NACE Rev 1.1) is a growing sector in the Portuguese economy, with many young people and where atypical employment represents a large share of jobs (Kovács 2005, pp. 30-41). Furthermore, prior to liberalization in the 1990s, this sector was dominated by the public company, Portugal Telecom (PT). Therefore, besides being a growing sector and with many young people, it can also provide evidence on the impact of liberalization. Finally, in France and Germany, the share of jobs in telecommunications is lower than the proportion of jobs in the automotive industry (Holst 2014).

To conduct our study, five automotive plants and five telecom companies were analysed. Concerning data collection, two different sources were used: interviews and document analysis. In this research, the interviews were in-depth interviews based on a semi-structured questionnaire and lasted between 60 and 90 minutes. In total, 17 interviews were conducted (see appendix, list of interviewees). The analysis builds on interviews with managers, trade unionists, works councillors, civil society activists and, if such a department exists, the head of training. Four more people were invited to do an interview, however, in the end the invitation did not result in an interview. Most interviews were held with one interviewee but in a few cases more than one interviewee was present. One round of interviews was held, in

² On this see: <http://eurofound.europa.eu/observatories/eurwork/comparative-information/industrial-relations-in-the-automotive-sector>

³ Doellgast and Greer (2007) and Holst (2014) used a similar research strategy.

the fall of 2014. With the permission of the interviewee, each interview was recorded. All interviews were completely typed out in a transcript. These transcripts were used for the analysis of each interview and the comparison between interviews, and thus contributed to the thoroughness of the analysis.

The codification of interviews reflected the key categories of the analysis, which are the classical ILM principles: recruitment into a permanent job, steady career progression from low skilled to high skilled positions; protection against redundancies, and on-the-job training (Kerr 1954; Doeringer and Piore 1971; Grimshaw et al. 2001). As discussed in Chapter 2, the primary sector is characterized by having well-developed ILMs in which (formal and informal) institutional rules substitute market mechanisms. It is argued that firms in the primary sector depend more on their employees' specific skills (acquired through on-the-job training and experience) and therefore develop strategies to protect their labour force from the risk of poaching. While investment in on-the-job training and job security are quite obvious characteristics of the traditional ILM model (the first because employees need to acquire specific skills, the second to recoup the firm's costs of training), the other two characteristics are less intuitive. As for career progression from low skilled to high skilled positions, the logic is as follows: in a typical ILM a vertical line of career progression is established where work within one job provides the required experience and level of skill for the job at the next level. As Kerr (1954, p. 104) noted: 'the industrial worker [moves] vertically in the seniority area'. Regarding the predominance of permanent contracts, as Grimshaw et al. (2001, p. 32) explained 'in the ideal type model of the internal labour market, a stable employment relationship between employer and employee is a necessary partner to conditions of skill specificity, on-the-job training and custom in the workplace'.

A range of questions was asked in each interview. However, other questions, which were more specific to the particular organization, were included. The introductory questions addressed the current economic situation of each company/plant. Thereafter, questions about each firm's training policies were made. Next, several questions addressed the use of different types of non-standard employment (fixed-term work, part-time work, temporary agency workers, and outsourcing). Moreover, specific questions about the period between 2009 and 2013 were posed. Questions were made about workforce reductions, as well as other changes that have taken place to deal with the economic crisis. Finally, each

interviewee was asked to provide data on the company's workforce, namely regarding the number of employees, average seniority, average age, and level of education of the workforce. As for trade unionists, work councils, and civil society movements, the interview guide also covered questions on their level of organization in each company (union density and works council organization), as well as about activities carried out to tackle the rise of atypical employment.

To get additional information, secondary material provided useful information, namely Social and Environmental Responsibility Reports (2004-13), press releases, newspaper articles, union documents, and collective bargaining agreements. These documents played a crucial role in this research, particularly regarding the telecoms sector, in which it was difficult to obtain information directly from managers (although interviews were conducted with unionists, works councillors and activists, only one manager from these five companies accepted to be interviewed). Several studies investigating the rise of atypical employment in Portugal point to this fact, i.e. it is increasingly difficult to get interviews with managers from companies that have a large share of non-standard employment (Rosa 2000; Kovács 2005). Furthermore, by deriving data from various sources triangulation occurs. This allows for crosschecking data on the same dimension from various sources.

5.2 Vehicle manufacturing sector: the resilience of the ILM model

In Portugal there are five plants (Eurofound 2010, p. 43), all of them owned by large multinational companies, known as Original Equipment Manufacturers. One is dedicated to the production of passenger cars (Volkswagen Autoeuropa (VW-Autoeuropa)), three to the production of commercial vehicles (Mitsubishi Fuso, PSA Peugeot Citroen Mangualde, and Toyota Ovar) and one to the production of buses (CaetanoBus). It is a very small sector in the Portuguese economy, with about 6,000 employees (Table 5.1). As discussed above (see section 5.1), comparing with other European countries, the share of jobs in the automotive sector is very low and the vast majority of jobs are in the components industry rather than in the vehicle manufacturing subsector (Banco de Portugal 2013a). From 2004 to 2013, the major developments were the closure of a plant belonging to the multinational company OPEL, in 2006 (with about 1,200 employees), the recruitment of 600 employees in

VW-Autoeuropa, and a substantial reduction in the workforce of three plants.⁴ Table 5.1 shows that VW-Autoeuropa is the largest plant, accounting for more than half of the total employment in this sector, and three out of the five plants have a relatively small number of employees. Notwithstanding, Toyota Ovar and CaetanoBus are part of the same group and are located nearby. As for union density, it is above the Portuguese average, which is about 20% (Visser 2013). Collective bargaining is widespread due to extension ordinances. Finally, three out of the five plants possess a works council (VW-Autoeuropa, PSA Peugeot Citroen Mangualde and CaetanoBus). This section has been organized in the following way. The first part deals with the situation in the vehicle manufacturing industry before the economic downturn, while the second describes how companies reacted to changes in the economic conditions after 2009. This section concludes by highlighting how the economic crisis affected young people.

Table 5.1 – Employment, per plant

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
VW-Autoeuropa	2,955	2,790	2,857	2,990	3,028	2,992	3,207	3,603	3,626	3,606
Mitsubishi Fuso	450	450	450	460	358	333	322	324	315	311
PSA PC Mangualde	1,400	1,400	1,400	1,400	1,400	900	1,200	1,200	857	1130
Toyota Ovar	325	321	325	343	360	340	311	229	198	190
CaetanoBus	450	450	450	450	450	455	474	491	463	503

Source: As for Mitsubishi Fuso, PSA Peugeot Citroen Mangualde, Toyota Ovar and CaetanoBus, interviewees provided the data. As for VW-Autoeuropa, figures were taken from the company's website and *Relatórios de Sustentabilidade*.

Table 5.2: Vehicle production, per plant

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
VW-Autoeuropa	95,660	79,449	81,832	93,609	94,100	86,008	101,284	133,100	112,550	91,200
Mitsubishi Fuso	8,215	8,556	9,267	10,478	10,886	2,850	:	5,498	4,117	3,758
PSA PC Mangualde	53,432	53,426	57,208	64,064	61,360	34,520	47,369	50,290	43,940	56,717
Toyota Ovar	2,793	3,657	3,529	4,625	5,750	1,814	2,644	1,815	1,331	1,030
CaetanoBus	236	272	302	298	197	153	:	208	50	81

Source: ACAP – Portuguese Automobile Association.

⁴ On the closure of this plant see: <http://eurofound.europa.eu/observatories/eurwork/articles/conflict-over-terms-of-closure-of-opel-plant>.

5.2.1 Pre-crisis: a frozen landscape (2004-08)

Between 2004 and 2008, both the number of employees and the level of vehicle production remained stable (Table 5.1 and Table 5.2). Indeed, the majority of plants saw an increase in the level of production. Below, we discuss how the situation evolved in the sector regarding four dimensions, the traditional characteristics of an ILM (see Table 5.3). As will emerge from the discussion, these plants constitute well-developed ILMs.

Investment in training, namely *on-the-job training*, is impressive. Large plants have their own vocational training school (dual-teaching system), as well as a training centre inside the factory where workers regularly develop their skills (CaetanoBus's training centre is co-managed with an university).⁵ These schools provide courses in several areas and were established for a long time (the oldest has been in place since the 1980s). Furthermore, large plants share their vocational training schools with smaller plants (even when plants are owned by different groups), i.e. smaller plants are allowed to recruit new employees from these schools. On the other hand, all plants have their traineeship programmes. Finally, on-the-job training is not restricted to the training provided in the vocational school or in the training centre (Interview nos. 3, 5, 7, 8, 11). According to the Director of HR (Human Resources) of Mitsubishi Fuso, investment in training is a gradual process:

At least one month [of initial training] is needed for an operator. After being integrated, we have in the ground what we usually call 'rotation' (...). If, for instance, we want that an operator knows four or five workstations, we have to invest to develop their skills... on the ground. (...) This is done at the 'plant's floor'... as we usually call it. This is a gradual process (...). It is always taking place... the on-the-job training. (Director of HR, Mitsubishi Fuso)

In the automotive sector, sectoral collective bargaining agreements, which exist since the 1980s, ensure *career progression* based on seniority. These agreements provide three levels of progression for operators and also apply to the vehicle manufacturing subsector. Notwithstanding, in several plants, company-level bargaining supplements sectoral agreements, namely by providing additional levels of

⁵ The percentage of the Portuguese population whose highest level of education is vocational upper secondary is 14.2% (OECD 2012, p. 39). It is one of the lowest percentages among OECD countries. The investment made by these companies is therefore significant, given the situation in the country in this regard.

progression. VW-Autoeuropa and PSA Peugeot Citroen Mangualde are a good illustration of this point. Regarding the way progression is processed for operators, in the latter, there are 14 levels of progression and, in the former, 15 levels (for additional details on this see: Correia 2000, pp. 751-756). The average level of education also illustrates this point: in all plants the vast majority of the workforce does not have a university degree. For example, in CaetanoBus, only 12.5% of the employees have a university degree. Therefore, skills are mainly ‘technical’ rather than ‘generic’, and are acquired on-the-job. This is why the access to certain job levels is conditional to previous experience (Interview nos. 5, 11).

The majority of employees in these plants have a *permanent contract*. Fixed-term contracts are mainly used to screen workers and this is why the share of direct employees with fixed-contracts reaches about 20% in some plants. With respect to temporary agency workers, they are both used to face production peaks or to screen workers. Thus, atypical employment in this sector can also be a port of entry, i.e. a transitory stage. As for employees involved in activities that were outsourced, the situation is different because they remain ‘outside’. However, the number of employees working in outsourcing is relatively low in this sector. The exception is VW-Autoeuropa, where it accounts for about 35% of the entire labour force. At this plant outsourcing has increased for parts of production which is subcontracted to MNCs like Acciona that specialize in such functions as logistics, tooling, maintenance, cafeteria and cleaning services. Furthermore, at VW-Autoeuropa, 400 out of 1,900 indirect employees belong to Autovision Services, a company owned by the Volkswagen Group, and which specializes in supplying services to Volkswagen (namely those directly related with production). Finally, part-time is not commonly used (Interview nos. 1, 2, 3, 4, 5, 9, 10 12). As one trade unionist put it, fixed-term contracts are often used to screen workers:

We dispute the use of fixed-term contracts as a trial period, but we are aware that these employees are gradually integrated in the core labour force. (Unionist, VW-Autoeuropa).

In the same vein, as a works councillor explained, even temporary agency workers are often integrated in the core labour force:

At this moment, there are 80 [temporary agency workers] working in the factory (...). They all belong to a temporary employment agency owned by Volkswagen [Autovision People]. [When they are recruited], they make tests, fulfil several conditions and remain, up to one year, in that company... in trial. Notwithstanding, they progress in the same way as permanent workers. (Works councillor, VW-Autoeuropa)

Finally, *protection against redundancies* is very high. The great majority of employees are direct employees, and this number remained stable throughout this period. Average seniority in this sector corroborates this fact: in all plants seniority is very high.⁶ Notwithstanding, temporary workers and those working in outsourcing have a lower protection. Although agency temps can be used to screen workers, they are sometimes used to face production peaks. As for outsourcing, because subcontracting companies may change, these workers have less stable jobs (outsourcing was used in VW-Autoeuropa, while temporary agency work was used at Mitsubishi Fuso and PSA Peugeot Citroen Mangualde). These two groups represent however a low proportion of the workforce in all plants (see Table 5.3, last column). Finally, even though this period was relatively stable, some companies had to use 'hour banks' to cope with falling demand. Indeed, since 2003, production has been halted for several days at VW-Autoeuropa, using a tool negotiated with the works council. By using this solution, this plant avoided redundancies during this period. As will be explained in the next sub-section, this solution was used in all plants to cope with the global economic downturn (Interview nos. 1, 3, 5, 6, 10, 11, 12).

To sum up, this sector is constituted by well-developed ILMs. Specific skills play a crucial role and therefore these companies make a large investment in on-the-job training. This is the case before new employees join the company, because they usually attend the company's vocational school during several years,⁷ and after joining the company, because they continue to acquire specific skills through on-the-job training. Consequently, career progression is based on seniority (from low skilled to high skilled positions) and a large number of progression levels exist. Due to this investment, atypical employment represents a low share of jobs and it is mainly used

⁶ For instance, the average seniority is 17 years, 14 years, 19 years, and 18.5 years in Mitsubishi Fuso, PSA Peugeot Citroen Mangualde, Toyota Ovar and Caetano Bus, respectively.

⁷ As explained earlier, large plants have their own vocational training school (dual-teaching system), which usually receives financial support from the European Funds. Some courses last for 2-3 years because students need to acquire a large number of competences directly related with their profession and, because these schools are recognized by the Ministry of Education, a variety of other skills are also included (e.g., language skills).

to screen workers. Therefore, non-standard employment is, in many cases, a port of entry into the ILM rather than merely a way to face production peaks. Job security is therefore very high, as illustrated by the high average seniority.

Table 5.3 – Characteristics of ILMs in the vehicle manufacturing sector, 2004-08

	On-the-job training		Career progression		Atypical employment			Protection against redundancies
	Fixed-term	Temporary work	Fixed-term	Temporary work	Outsourcing	Part-time		
VW	Large investment: vocational training school (dual-teaching system); training centre; traineeship program	Collective agreement (sectoral level) ensures career progression based on seniority. Company-level agreement provides additional levels of progression	To screen workers	To screen workers and/or to face production peaks	Used in some production areas	Not often	Stable for the core labour force; unstable for workers in outsourcing (35%); 'hour banks'; high average seniority	
MF	Substantial investment: employees are sent to external vocational training schools; traineeship program	Collective agreement (sectoral level) ensures career progression based on seniority.	To screen workers	To screen workers and/or to face production peaks	Not used in production.	Not often	Stable for the core labour force; unstable for agency temps (10%); high average seniority	
PSA	Substantial investment: training centre; traineeship program	Collective agreement (sectoral level) ensures career progression based on seniority. Internal rules provide additional levels of progression.	To screen workers	To screen workers and/or to face production peaks	Not used in production.	Not often	Stable for the core labour force; unstable for agency temps (14%); high average seniority	
TO	Large investment: vocational training school (dual-teaching system); traineeship program	Collective agreement (sectoral level) ensures career progression based on seniority.	To screen workers	Low use of temporary agency employment	Not used in production.	Not often	Stable for the entire labour force; high average seniority	
CB	Large investment: vocational training school (dual-teaching system); training centre; traineeship program	Collective agreement (sectoral level) ensures career progression based on seniority.	To screen workers	Low use of temporary agency employment	Not used in production.	Not often	Stable for the entire labour force; high average seniority	

5.2.2 Crisis: massive drop in production but a relatively stable workforce (2009-13)

In Europe, the vehicle manufacturing industry was hardly hit by the global economic downturn (Eurofound 2010, pp. 18-24). As can be seen in Table 5.4, Portugal was no exception. Although all plants decreased their production level, those producing commercial vehicles and buses were more affected. However, despite a significant fall in production, employment levels did not fall in the same proportion (Table 5.1). In the largest plant, employment levels increased during this period. This sub-section will contrast how the situation has evolved regarding the same four dimensions used before and will highlight the main differences between plants, namely regarding how each has coped with the economic recession (see Table 5.4).

Due to lower levels of production, investment in *on-the-job training* increased throughout these years because employees were involved in training during lower demand periods. In some plants, the Portuguese government, in the scope of a special initiative launched in 2009 – the ‘Plan to Support the Automotive Sector’ (‘Plano de Apoio ao Sector Automóvel’) – subsidized training and reskilling (Mitsubishi Fuso and Toyota Ovar). Furthermore, except in VW-Autoeuropa, in all plants this training also took place during temporary lay-offs (see discussion on this below). Although all plants organized courses, huge differences exist between them. Indeed, the number of days spent in each plant with training varies remarkably (see Table 5.4, first column) (Interview nos. 1, 2, 3, 5, 6, 10, 11, 12). Regarding *career progression*, no changes were made to the existing dispositions in collective agreements, i.e. they continue to ensure career progression based on seniority. As for the type of *employment contracts*, there has been a great reduction in the number of employees with fixed-term and temporary work, while the use of outsourcing has remained stable (at VW-Autoeuropa fixed-term contracts were converted into open-ended contracts). Finally, regarding part-time, the situation remained unchanged, despite the increase in the number of employees in this situation at PSA Peugeot Citroen Mangualde (Interview nos. 1, 2, 3, 4, 5, 6, 12, 13).

Besides the investment in training, other measures were taken *to protect the core labour force against the risk of redundancies*. All plants adapted their working hours, using tools negotiated with trade unions and works councils (‘hour banks’). Furthermore, in two plants staff had to be redeployed from one plant to another: in VW-Autoeuropa, 240 employees were sent abroad to work in the main factory

(Volkswagen Wolfsburg) during several years; while in Toyota Ovar, 40 employees were redeployed to a different plant, but located in Portugal. In four plants, a temporary lay-off was implemented (at CaetanoBus several temporary lay-offs took place).⁸ In three plants, these measures were not sufficient to tackle with the fall in production and a number of employees were dismissed. Temporary agency workers were made redundant in the first place, thereafter fixed-term employees, and finally, early retirement agreements were reached with a set of workers (no collective dismissals took place). In PSA Peugeot Citroen Mungalde, where the largest reduction took place, there was anticipation of holidays in 2009.⁹ In Mitsubishi Fuso there was a reduction of working hours (10%) with a decrease in pay (10%) (Interview nos. 1, 2, 3, 4, 5, 6, 9, 11, 12).

Taken together, the global economic crisis hit the vehicle manufacturing industry hard and all plants had to find solutions to adjust their labour force to the declining levels of production. However, employment levels have been cushioned against the effects of the economic recession by a combination of measures such as temporary lay-offs, full-time training, redeployment of workers, and short-time working ('hour banks'). In our view, the way this sector coped with the economic crisis in almost all plants illustrates quite well the functioning of a sector constituted by well-developed ILMs. As Doeringer and Piore (1971, p. 15) argued: 'the utility of the ILM as an analytical construct does not hinge upon the existence of administrative rules. It depends rather upon the rigidity of the rules which define the boundaries of

⁸ Temporary lay-offs were widely used. The lay-off regime (*Regime de Lay-off*) is a procedure provided by the Portuguese legislation and can be used when companies are hit by temporary decreases in demand. It must begin with consultation with the works council and allows the company to reduce the labour force temporarily. This ensures that workers laid off entirely (those who are on 100% short-time work) receive an allowance of 66% of their normal gross pay. From this amount, the Portuguese Social Security System supports 70%. Short-time working can last up to 6 months. All plants (excluding VW-Autoeuropa) used this regime.

⁹ In terms of job losses, PSA Peugeot Citroen Mungalde was the most affected. In our view, two main reasons explain this. First, several plants from the same Group were closed during this period, being therefore difficult to use the same strategy followed in VW-Autoeuropa (i.e., to send employees to work abroad), and the pressure to contain and reduce costs was much greater (*Público*, 12 July 2012). Second, since 2010, this plant's production became dependent on the level of production in another Spanish plant. It is so because, in contrast with the other plants analysed in our study, the two models produced in Mungalde are not exclusively produced there. They are also fabricated in a Spanish plant located nearby. The number of vehicles produced in Mungalde depends on the number of vehicles that the Spanish plant is unable to fabricate due to higher levels of demand. Since the Spanish plant is much larger (with about 6,000 employees), there are more firms supplying components nearby (reducing therefore transport costs). Furthermore, the degree of automation is much higher in the Spanish plant and thus the Group prioritizes this plant. As a consequence, due to changes in the level of production in the Spanish plant, the night shift in Mungalde was closed and reopened several times and this explains the fluctuations in the number of workers in this plant. Finally, when the night shift has reopened, new employees work part-time and have temporary contracts (Interview nos. 5, 6).

internal markets and govern pricing and allocation within them. If these rules are not rigid, and respond freely to variations in economic conditions, their independent economic role will be minimal'. Our study shows that, although differences exist between plants (see footnote seven regarding PSA Peugeot Citroen Mangualde), the pattern has been the attempt to maintain the core labour force, as well as the institutions supporting the ILM, namely the large investment in on-the-job training and career progression based on seniority. As the Head of Group HR (plants Toyota Ovar and CaetanoBus) told us, even when maintaining employees meant a high cost, companies made a great effort to maintain their core labour force:

We went through deeply troubled times, we made a great effort to keep these employees... only with this group's philosophy... and I can tell you that we had... we lost money and in many realities this company would have been closed. (Head of Group HR, Toyota Ovar and CaetanoBus)

In the same vein, the works councillor at VW-Autoeuropa also explained how the situation evolved during this period, stressing the effort made to keep the same number of employees:

Considering that we had about 3,600 employees to produce 130,000 cars, and we continue, at this moment, with 3,600 employees... There has been a considerable effort, a permanent negotiation between the works council and the company's board, but so far we have succeeded! (Works councillor, VW-Autoeuropa)

Box 1

How the global economic downturn affected young people?

The vehicle manufacturing industry has been badly hit by the economic recession. However, a similar proportion of job losses did not match the loss in production. Furthermore, workforce reduction in this sector was mainly achieved through the reduction of temporary agency workers, the decrease in the number of employees with fixed-term contracts, and by reaching early retirement agreements with older workers. The latter measure affected older people, while the first two young people. Therefore, a balance was reached between different age groups. Furthermore, considering that fixed-term contracts are also used in this sector to screen workers and that a large investment in these workers' skills is made (both before and after joining the company), a large number of redundancies is avoided. The example of VW-Autoeuropa, which despite a great reduction on its production level decided to convert a large number of fixed-term contracts into open-ended contracts during this period, is illustrative of this fact. All in all, because atypical employment is mainly a transitory stage in this sector, young people were not disproportionately affected by the global economic downturn.

Table 5.4 – Characteristics of ILMs in the vehicle manufacturing sector, 2009-13

	On-the-job training		Career progression		Atypical employment			Protection against redundancies	
					Fixed-term	Temporary work	Outsourcing	Part-time	
VW	A group of employees in full-time training (18 months)	Situation unchanged	Reduction due to contract conversion and recruitment freeze	Reduction due to workforce reduction and recruitment freeze	Reduction due to workforce reduction and recruitment freeze	Reduction due to recruitment freeze	Situation unchanged	Situation unchanged	'Hour banks'; 100 employees in full-time training; 240 employees were redeployed
MF	Full-time training (8 months) during shutdowns of production.	Situation unchanged	Reduction due to workforce reduction and recruitment freeze	Reduction due to workforce reduction and recruitment freeze	Reduction due to workforce reduction and recruitment freeze	Reduction due to recruitment freeze	Situation unchanged	Situation unchanged	Workforce reduction through early retirement and the reduction in fixed-term and temporary agency employment; 'hour banks'; employees in full-time training; temporary lay-off; reduction of working hours with a decrease in pay
PSA	Full-time training (6 days) during shutdowns of production.	Situation unchanged	Reduction due to workforce reduction and recruitment freeze; increase when night shift has reopened	Reduction due to workforce reduction and recruitment freeze; increase when night shift has reopened	Reduction due to workforce reduction and recruitment freeze; increase when night shift has reopened	Reduction due to recruitment freeze	Situation unchanged	Increase when night shift has reopened	Workforce reduction through early retirement and the reduction in fixed-term and temporary agency employment; 'hour banks'; employees in full-time training; temporary lay-off; anticipation of holidays
TO	Full-time training (11 months) during shutdowns of production.	Situation unchanged	Reduction due to workforce reduction and recruitment freeze	Reduction due to workforce reduction and recruitment freeze	Situation unchanged	Situation unchanged	Situation unchanged	Situation unchanged	Workforce reduction through early retirement and the reduction in fixed-term employment; 'hour banks'; employees in full-time training; 40 employees were redeployed; temporary lay-off
CB	Full-time training (3 months) during shutdowns of production	Situation unchanged	Reduction due to recruitment freeze	Reduction due to recruitment freeze	Situation unchanged	Situation unchanged	Situation unchanged	Situation unchanged	'Hour banks'; employees in full-time training; temporary lay-off

5.3 Telecommunications sector: the gradual erosion of the ILM model

The markets for telecommunications in almost all EU (European Union) countries were liberalized in the 1990s (Ferner and Colling 1991; Batt and Darbishire 1997; Doellgast and Greer 2007; Eurofound 2009, pp. 40-41; Holst 2014). Furthermore, the EU has strongly promoted the privatization of formerly state-owned telecoms companies (Doellgast et al. 2009, p. 352). Portugal was no exception and the public company began to be privatized in 1995. The privatization was only finalized in 2011, when the Portuguese government gave up on the 500 golden shares pack that it owned on the company and that enabled special veto powers to the government on vital issues. Notwithstanding, up until 2006 this company continued to hold a dominant position in the liberalized Portuguese market. In 2007 the former state company spun off its media assets, which included a cable TV operator, and this led to the creation of an independent brand (NOS). Currently, as shown in Table 5.5, these two companies (PT and NOS) have the overwhelming majority of the market share in telecoms in Portugal (Banco de Portugal 2013b, pp. 16-17).¹⁰ Furthermore, one company has a large market share in mobile telephone but a low market share in the other services (Vodafone), and two companies (ONI and Cabovisão), which currently belong to the same group (Altice), have a relatively small market share.¹¹ In terms of employment, this is a fast growing sector in the Portuguese economy. Currently, including employees in outsourcing, these five companies account for around 45,000 employees. In the 1990s (prior to liberalization) the sector had about 22,000 employees. Union membership is below the Portuguese average in all companies except for PT, where it is well above. Indeed, while union density is about 40% in PT, it is below 30% in Cabovisão, and below 5% in the remaining three companies.¹² Furthermore, only PT has a works council and collective bargaining is confined to the former public company.

This section has been divided into two parts. It begins by discussing how the situation evolved from 2004 to 2008, namely how this sector's liberalization contributed to the gradual erosion of the classical ILM model. It will then go on to

¹⁰ Note that this company's original name was ZON. Notwithstanding, in 2013 took place a merger between ZON and another telecommunications company (Optimus). This led to the creation of a new brand called 'NOS'. For reasons of clarity, throughout this chapter this company is always called NOS.

¹¹ Recently, in 2015, Altice also bought PT.

¹² Interestingly, in Europe only in Portugal and Finland union membership in the telecoms sector is higher than in other sectors (Eurofound 2009, p. 30).

analyse how the global economic downturn affected the telecommunications industry, namely its workforce. This section concludes by highlighting how the overall transformation in this sector affected young people.

Table 5.5 – Market shares, by type of service (2007-13)

Service	Companies	2007	2008	2009	2010	2011	2012	2013
TV subscribers	PT	1.0	13.7	23	30.4	35.5	39.2	41.5
	NOS	78.4	71.8	63.8	57.3	53.3	50.3	47.8
	Vodafone	:	:	0.3	0.7	1.2	1.4	3.5
	ONI	:	:	:	:	:	:	:
	Cabovisão	14.9	12.4	10.2	9.5	8.7	7.8	7.1
	Others	5.7	2.1	2.7	2.1	1.3	1.3	0.1
	Total	100	100	100	100	100	100	100
Fixed telephony	PT	:	68.5	63.6	60.2	58.4	57.2	56.4
	NOS	:	4.3	10.6	14.8	17.4	19.7	31.2
	Vodafone	:	2.9	3.8	4.2	4.4	4.7	6.4
	ONI	:	1.2	1.0	1.0	0.8	0.7	0.6
	Cabovisão	:	6.4	5.7	5.8	5.7	5.4	5.6
	Others	:	16.7	15.3	14	13.3	12.3	0.0
	Total	:	100	100	100	100	100	100
Fixed broadband	PT	:	42.1	44.5	46.9	49.3	51.3	50.5
	NOS	:	30.7	31.9	32.5	33.0	33.0	36.2
	Vodafone	:	3.1	4.2	4.2	4.2	3.9	6.5
	ONI	:	0.4	0.3	0.3	0.3	0.3	:
	Cabovisão	:	9	7.8	7.9	7.2	:	:
	Others	:	14.7	11.3	8.2	6	11.5	6.8
	Total	:	100	100	100	100	100	100
Mobile telephone	PT	:	:	:	43.9	43.1	43.1	45.0
	NOS	:	:	:	0.7	0.8	0.9	14.8
	Vodafone	:	:	:	39.3	40.5	40.7	38.3
	ONI	:	:	:	:	:	:	:
	Cabovisão	:	:	:	:	:	:	:
	Others	:	:	:	16.1	15.6	15.3	1.9
	Total	:	:	:	100	100	100	100

Source: ANACOM (2013) and ANACOM (2008).

Table 5.6 – Total revenues, by type of service (2004-13) (Unit: 10³ Euros)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TV subscribers	320 732	344 055	366 616	382 701	605 950	778 429	883 083	1 124 138	1 189 485	1 229 084
Fixed telephony	1 392 410	1 286 059	1 133 736	1 025 110	918 469	819 853	742 555	1 484 883	1 480 524	1 495 571
Fixed broadband	367 365	420 748	454 605	483 622	530 342	562 861	605 643	970 487	986 822	1 041 322
Mobile telephone	3 118 871	3 106 262	3 120 841	3 244 036	3 287 044	3 094 148	2 906 381	2 713 478	2 446 440	2 147 764

Source: ANACOM (2013).

Note: As for the first three rows, note that, in 2011, ICP-ANACOM changed the retail revenues accounting. Thus, if the service is offered in a bundle the revenue is considered as bundle revenue and not as revenue of the service itself.

Table 5.7 – Direct employment, per company (2004-13)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
PT	15,107	13,886	12,666	10,338	10,440	10,978	10,985	11,180	11,359	11,074
NOS	:	:	:	700	706	824	861	894	873	1,896
Vodafone	1,790	1,777	1,725	1,713	1,658	1,641	1,570	1,536	1,496	1,447
ONI	:	:	:	:	264	271	280	297	280	240
Cabovisão	:	:	:	:	:	:	390	370	370	260

Source: PT: Relatórios de Sustentabilidade (2004-13). NOS: Relatório e Contas (2007-13). Vodafone: Relatórios de Responsabilidade Social (2004-13). ONI: Relatórios de Responsabilidade e Transparência (2009-11) and interview. Cabovisão: interviews.

Note: In 2013 took place a merger with another telecommunications company (Optimus). See footnote 10 for further details on this.

5.3.1 A flourishing but increasingly segmented sector (2004-08)

From 2004 to 2008, revenues increased substantially (Table 5.6). However, regarding the number of direct employees, it decreased massively throughout this period (Table 5.7). To explain this, it is necessary to consider the rise of outsourcing. Indeed, as it is explained below, the sector's liberalization and the former public company's privatization led to a great expansion of activities in outsourcing, contributing therefore to the gradual erosion of the ILM model. The discussion will proceed by analysing the same four characteristics used in section 5.2, namely: on-the-job training; career progression; use of atypical employment; and protection against redundancies (see Table 5.8).

Regarding *training*, none of these companies had their own vocational school or their own training centre. Notwithstanding, two companies have one or more traineeship programs (PT and ONI). PT created the most ambitious, in 2007. It consists of two different programs: the first for young graduates and the second for students from vocational training schools. For instance, in 2008, 586 young people were selected in the scope of these programs. Furthermore, regarding the total expenditure on training, the majority of the companies spent a low amount of resources on these policies, and those expending more – PT and Vodafone – gradually reduced their investment throughout these years.¹³ Furthermore, in contrast with the vehicle manufacturing sector, the majority of the core labour force has a university degree (in all companies). For instance, 74% of the NOS's labour force has a university degree. Therefore, these workers' skills are generic and were acquired before joining the company (Interview nos. 16, 17). All in all, investment in on-the-job training is not especially high.

As for *career progression*, great changes took place during these years. While in NOS, Vodafone, ONI and Cabovisão the situation remained stable, because collective agreements or progression based on seniority have never existed (progression is exclusively based on merit), the situation in PT has radically changed because job ladders were 'delayed' for direct employees, and indirect employees are not covered by collective bargaining. Since the 1980s, career progression in this company was based on seniority. For example, in the collective agreement concluded in 2001, there were 34 professional groups, each one with several progression levels

¹³ For instance, Portugal Telecom decreased its investment from €4.8 million in 2004, to €3.1 million in 2008. Vodafone decreased its investment from €2.2 million in 2004, to €1.5 million in 2008.

(some groups had 15 levels of progression). In 2006, a new collective agreement (company-level) was reached between trade unions and the company's board.¹⁴ This agreement no longer provides career progression based on seniority and the number of professional groups has been reduced. In the new agreement there are only four levels of employee, each one with five levels of progression. Furthermore, regarding the new progression requirements, seniority accounts for only 10% of each employee's grade. Considering its large market share, its number of employees, and the proportion of direct employees which were covered by collective bargaining in 2006 (71.5%), the changes regarding career progression at PT had a great impact in the sector (Interview nos. 14, 17). As one trade unionist put it, this was the major change since privatization:

The most serious setback was on careers. We had one career to each professional group... we had around 30 professional groups, all of them with progression based on seniority. This ended in 2006. (...) In 2006, the other unions concluded an agreement in which automatic progression based on seniority is no longer provided. The new model of careers is based on each employee's performance. (Unionist, telecoms sector)

Furthermore, because progression now depends from availability of funding, young people are particularly affected by this change. As explained by a works councillor:

It is the difference between a worker like me, which has been with the company for 28 years, that receives €1,500; and another worker, which is much more skilled... because today this profession requires more qualifications... but he earns €750, and might no longer progress. He may even have a very good assessment, but there may be no available funding. (Works councillor, PT)

These years were also characterized by a great expansion of outsourcing, increasing therefore the weight of *non-standard employment*. Indeed, while outsourcing was absent throughout most of the 1990s, it increased dramatically since then. Crucial activities such as call centres, door-to-door selling, stores, installation and network maintenance services, were outsourced. As a consequence, a great

¹⁴ It should be noted that this agreement was concluded without the participation of SINTTAV-CGTP, the most representative trade union.

number of jobs, which historically were in the core labour force, were transferred to independent subcontractors. Although differences exist between companies, in all of them the number of indirect employees exceeded the number of direct employees. For instance, during this period, PT had about 16,000 indirect employees, and NOS 7,000. To a large extent, this explains why the number of direct employees did not increase during these years. This led to an increase in the number of atypical jobs because fixed-term contracts and part-time jobs are often used in activities that were outsourced. This is evident in the case of call centres (Doellgast et al. 2009, p. 353; Holst 2014, p. 11). For example, PT had about 8,000 employees working in call centres during this period, i.e. half of its workforce. Finally, these workers are not covered by collective agreements and union membership is very low (below 5%) (Interview nos. 14, 15, 16 17). In some companies, outsourcing is so widespread that even employees carrying out their activities at these companies' headquarters are subcontracted. A manager from Cabovisão and ONI explains this fact:

In some areas we have what we usually call, for instance, 'the operational centre'. Even though we coordinate this service... in the past this was totally externalized... in order to better supervise this service, these activities are now carried out in our headquarters but these employees belong to a subcontractor (Director of HR, ONI and Cabovisão).

One activist from a civil society movement told us about her experience at a subcontractor:

The company for which we have more information is Portugal Telecom, (...) I worked there as a call centre operator [through a temporary employment agency]. Fixed-term contracts were the norm. We had a six-months contract, renewed up to three times, and then... what they used to do was... through temporary employment agencies... when the maximum number of legal renewals was reached, they exchange workers between agencies and they recruit again... generally with worse conditions and a lower salary. (Activist, civil society movement)

Finally, as far as *job security* is concerned, the situation remained stable for direct employees, but the expansion of outsourcing led to an increase of atypical employment. Considering that the majority of employees were transferred to the external market, job protection declined massively throughout this period. Finally, regarding PT, this period was also characterized by a great reduction in the number of

direct employees (see Table 5.6). This is related with the process of privatization. When privatization began, in 1995, this company had about 22,000 employees. Since then, the company's board has tried to reduce the number of direct employees, because this process faced the fierce opposition of trade unions, no collective dismissal was undertaken (in 1995, union density was above 90%). To implement its strategy, the company's board negotiated with trade unions a reduction of the workforce through a pre-retirement programme. Since then, this plan has been used. For instance, in the scope of this program, 614, 1004 and 344 employees left the company in 2006, 2007 and 2008, respectively (Interview no. 14). As one trade unionist put it, this process began in 1995:

In 1995 we had 22,000 direct employees and today we have around 10,000. Only yesterday the President announced that the company has too much managers. (...) At that time [of privatization], [the former president] wanted to dismiss 3,000 employees. Because we carried out a massive war against this, only 200 were made redundant, and they left the company because they decided to do so. (Unionist, telecoms sector)

As explained by a works councillor, the other companies did not reduce their core labour force because they did not inherit such a heavy structure:

In the other companies, as they did not inherit such a cumbersome structure, the proportion is different. They have few internal people, and many external. NOS, for example, has 1,000 employees... but if they... if we have 12,000 [direct employees] for 16,000 [external employees]... they have 1,000 for 7,000. NOS, broadly speaking, does not have what we usually call 'operational direction', it does not have operational workers. All these activities are outsourced. (Works councillor, PT)

Overall, this sector went through a great transformation during these years. Although this process began earlier – when liberalization and privatization started in the 1990s – three main changes took place between 2004 and 2008. First, due to favourable economic conditions, the sector grew very fast. However, because companies opted to externalize staff through outsourcing this has given rise to the increase of indirect employment. As explained before, this took place simultaneously with the reduction of direct employment. Consequently, this contributed to the expansion of non-standard employment and to the reduction of employees covered by collective agreements. Second, in 2007, the former public company spun off its media

assets, which included a cable TV operator. This led to the creation of an independent brand with a large market share. Consequently, PT faced increased competition, rising therefore the pressure to dismantle the traditional ILM model in the former state company. Third, in PT, a new collective agreement was reached in 2006. This agreement changed substantially the situation for direct employees because career progression is no longer based on seniority and both the number of professional categories and progression levels were remarkably reduced. Taking these three changes together, atypical employment became dominant and the situation for direct employees in the former public company was considerably changed.

Table 5.8 – Characteristics of ILMs in the telecoms sector, 2004-08

	Career progression			Atypical employment			Protection against redundancies
	On-the-job training	Fixed-term	Temporary work	Outsourcing	Part-time		
PT	Traineeship programs; large expenditure on training (but decreasing)	Collective agreement (company-level) ensured career progression based on seniority until 2006	To screen workers (traineeship programs)	No use (direct employees)	High use	Low use (direct employees)	Workforce reduction through early retirement; unstable for indirect employees; high average seniority
NOS	Low expenditure on training	No collective agreement neither progression based on seniority	Low use (direct employees)	No use (direct employees)	High use	Low use (direct employees)	Stable for direct employees; unstable for indirect employees; low average seniority
Vodafone	Large expenditure on training (but decreasing)	No collective agreement neither progression based on seniority	Low use (direct employees)	No use (direct employees)	High use	Low use (direct employees)	Stable for direct employees; unstable for indirect employees; low average seniority
ONI	Traineeship programs; low expenditure on training	No collective agreement neither progression based on seniority	Low use (direct employees)	No use (direct employees)	High use	Low use (direct employees)	Stable for direct employees; unstable for indirect employees; low average seniority
Cabovisão	Low expenditure on training	No collective agreement neither progression based on seniority	Low use (direct employees)	No use (direct employees)	High use	Low use (direct employees)	Stable for direct employees; unstable for indirect employees; low average seniority

5.3.2 The telecommunications sector during the economic crisis (2009-13)

The telecoms industry was not hit by the economic crisis as other sectors. Notwithstanding, since 2011, total revenues stagnated (see Table 5.6). Indeed, while other sectors were affected since 2009 (due to the global economic downturn), the telecoms were more affected by the retraction in the domestic market due to Portugal's three-year bailout programme (2011-14). As for employment, since 2011 all companies reduced their workforce, except NOS which merged with another telecommunications company (Optimus) (Table 5.7). The discussion below will analyse how the situation evolved regarding the four dimensions examined in the previous section (Table 5.9).

No structural changes took place regarding investment in training, career progression, and the use of non-standard employment (fixed-term contracts, temporary work, and part-time). Investment in *training* remained low in the majority of companies. Furthermore, those expending more (PT and Vodafone) decreased their investment.¹⁵ *Atypical employment* continued to represent a large share of jobs in this sector, and some companies continued to expand the number of indirect employees. For example, in 2013 Vodafone inaugurated a new call centre with 200 employees (*Jornal de Negócios*, 6 December 2013), and PT inaugurated, in 2009, a new call centre with 630 employees (Press release, 31 August 2009). As for *career progression*, no structural changes took place during these years, but modifications to collective agreements implemented in 2006 (see section 5.3.1) led to the freezing of progressions since 2012 (Interview nos. 14, 15). According to one trade unionist, in 2013 and 2014 no progressions took place:

The main problem is that career progression depends on the availability of budget. Two years ago, around 450 employees progressed. They [the administration] gave an assurance that in the last year [2013] 400 more would progress... but no one did due to lack of budget... and this year the situation is the same. (Unionist, telecoms sector)

Turning now to the level of *job security* during this period, in a number of companies there was a reduction in both the number of indirect and direct employees. NOS, ONI and Cabovisão reduced substantially the number of indirect employees due

¹⁵ For instance, Portugal Telecom decreased its investment from €3.1 million in 2008, to €1.5 million in 2013. Vodafone decreased its investment from €1.5 million in 2004, to €660 thousand in 2013.

to a drop in their market shares (Table 5.5). For instance, from 2012 to 2013 NOS announced the axing of 1,000 indirect employees and, in 2012, Cabovisão dismissed all their indirect employees (to renegotiate contracts and save costs). Changes were also felt in the number of direct employees. ONI and Cabovisão reduced their number due to lower market shares and Vodafone due to a substantial reduction on its revenues (*Público*, 14 May 2012).¹⁶ Finally, PT continued its plan to reduce the number of direct employees. However, recruitment in the scope of traineeship programs stabilized the number of direct employees (Interview nos. 14, 16, 17). As one trade unionist said, those companies facing a great reduction in their market shares reduced substantially both the number of direct and indirect employees:

When Cabovisão was sold [to Altice, in 2012], one third of the employees were dismissed. More recently, another collective dismissal took place, and 10 employees left the company. (...) A number of measures have been taken... the first was the suspension of all outsourcing contracts. Shortly thereafter, they renegotiated contracts for lower prices. (Unionist, telecoms sector)

Taken as a whole, no structural change took place in this sector throughout this period, the gradual erosion of the traditional ILM model continued its path. Notwithstanding, since 2011, adjustments in both the number of direct and indirect employees were implemented. This period illustrates quite well how companies in this sector react to changes in economic conditions: when they face a decrease in their market share (and/or a drop in their total revenues), they reduce *quasi* automatically their labour force. In this regard, indirect employees are the most affected. Given the weight of indirect employment, short-term variations in economic conditions lead to high numbers of redundancies. This is completely at odds with the logic of the classical ILM model, which, as has already been said, is characterized by its rigidity, i.e. by not responding freely to variations in economic conditions (Doeringer and Piore 1971, p. 15).

¹⁶ Vodafone's revenues are concentrated in the mobile telephone, which, as shown in Table 5.6, dropped significantly since 2009

Box 2

How the erosion of traditional ILM model affected young people?

Until the 1990s a publicly owned company monopolized the telecommunications sector, where atypical employment was very low. The spread of non-standard employment took place throughout the 2000s due to the company's privatization and the liberalization of this sector. This process affected disproportionately young people because while older generations maintained their position at the core labour force (due to high union density and high bargaining coverage at the former public company), a large share of young people entered the labour market through the expansion of outsourcing. As a consequence, because in this sector workers may remain precarious for a long period of time, atypical employment affects more young people. On the other hand, they also face a greater risk of being laid off because variations in the number of indirect employment affect disproportionately young people. Considering that short-term variations in economic conditions lead to high numbers of redundancies, precisely in the number of indirect employees, this affects young people disproportionately.

Table 5.9 – Characteristics of ILMs in the telecoms sector, 2009-13

	Career progression			Atypical employment			Protection against redundancies	
	On-the-job training	Fixed-term	Temporary work	Outsourcing	Part-time			
PT	Situation unchanged	Situation unchanged	Situation unchanged	Situation unchanged	Situation unchanged	Workforce reduction through early retirement; unstable for indirect employees; high average seniority		
NOS	Situation unchanged	Situation unchanged	Situation unchanged	High use, but diminution due to workforce reduction	Situation unchanged	Situation unchanged		
Vodafone	Situation unchanged	Situation unchanged	Situation unchanged	Increase in the number of indirect employees	Situation unchanged	Workforce reduction (direct employees); unstable for indirect employees; low average seniority		
ONI	No traineeship programs	Situation unchanged	Situation unchanged	High use, but diminution due to workforce reduction	Situation unchanged	Workforce reduction (direct employees); unstable for indirect employees; low average seniority		
Cabovisão	Situation unchanged	Situation unchanged	Situation unchanged	High use, but diminution due to workforce reduction	Situation unchanged	Workforce reduction (direct employees); unstable for indirect employees; low average seniority		

Note: Situation unchanged means that comparing with the information displayed in Table 5.8 no changes took place.

5.4 Discussion

Based on the analysis carried out in the previous two sections, three main differences between the vehicle manufacturing and the telecoms sectors are highlighted in this section: its structure, the way each one reacts to variations in economic conditions, and how each one was affected by liberalization. By highlighting these dissimilarities, our objective is to shed light on the process that has led to a growing generational divide in the Portuguese labour market. Below it is argued that liberalization and social conflict have played a crucial role in bringing about a growing segmentation in the Portuguese labour market.

Each sector's structure is different. First, as shown in Figure 5.1, while in the vehicle manufacturing industry the majority of employees are direct workers, the opposite occurs in telecoms. Recent literature suggested that over the past decades a similar process of vertical disintegration took place in both telecoms and auto industries (Holst 2014).¹⁷ This however does not appear to be the case. Our results clearly show that, although both outsourcing and temporary agency employment are used in the auto industries (namely at the VW's plant), in telecoms the share of indirect jobs is much higher. This is so because throughout the 2000s telecommunications companies opted to massively externalize staff through outsourcing, while in the vehicle manufacturing sector a comparable process did not take place. Besides the above-mentioned discussion about the role of specific skills in the latter sector, in telecommunications, as Doellgast et al. (2009, pp. 352-353) pointed out 'the nature of the work and technology allows tasks to be easily separated into discrete groupings that may be allocated to different jobs, employee groups, or organizational units (...) Call centre managers can allocate work to subsidiaries or subcontractors without incurring the transportation or inventory costs found in manufacturing'. Second, while atypical employment represents a relatively small proportion of jobs in the vehicle manufacturing sector, the opposite is the case in telecommunications. Besides counting for a low proportion of the labour force, in the former sector atypical employment is used to both screen workers and face production peaks. Therefore, atypical employment may constitute a port of entry, an opportunity to enter into an ILM. In telecommunications, an employee may remain in a precarious

¹⁷ Vertical disintegration is defined as 'the creation of new intermediate markets in a previously integrated production process' (Doellgast and Greer 2007, p. 56).

situation throughout his entire working life, and a large proportion of employees work part-time, a finding which is in line with investigations on the Portuguese labour market, which claim that a growing number of workers are trapped in precarious jobs (Kovács 2005, pp. 42-51; Alves et al. 2011, p. 37). Third, while the expansion of indirect employment in telecoms has been made at the expense of reductions in the number of direct employees, in the vehicle manufacturing industry the number of direct employees remained stable.

Each sector responds differently to variations in economic conditions. In the scope of a massive reduction of production, the vehicle manufacturing industry increased its investment in training, used 'hour banks' and temporary lay-offs to cope with falling demand, and no collective dismissals were undertaken. Employees more affected were those with fixed-term contracts and temporary agency workers. Early-retirement agreements were also reached with older workers. In the telecoms industry, adjustments were undertaken in the number of indirect employment and, in companies facing more problems, a large reduction of the core workforce was carried out through collective dismissals. No alternative measures were used to prevent the dismissal of a large number of indirect employees. To summarise, while the vehicle manufacturing industry is composed by well-developed ILMs and therefore job security is higher, in telecoms, the majority of the labour force has a much lower protection.

Liberalization affects differently each sector. The vehicle manufacturing sector is still characterized by well-developed ILMs. There are differences between plants, but the 'traditional' pillars of the classical ILM model have been safeguarded. It is interesting to note that a large investment in on-the-job training, high bargaining coverage, and cooperative relations between labour and capital at the plant level characterize this sector (Lima et al. 2012). As explained in Chapter 2, the Southern European countries lack much of the characteristics of the coordinated market economies (Hall and Soskice 2001; Molina and Rhodes 2007). Notwithstanding, our study shows that several institutions that characterize coordinated market economies exist at the company-level in these plants, illustrating how coordination can exist if their purpose is confined to making markets more efficient (Streeck 2009, p. 158). In telecoms, there was a gradual erosion of the traditional ILM model at the former public company. The company's privatization and the sector's liberalization led to a great transformation. New challenger firms never had the characteristics of the ILM

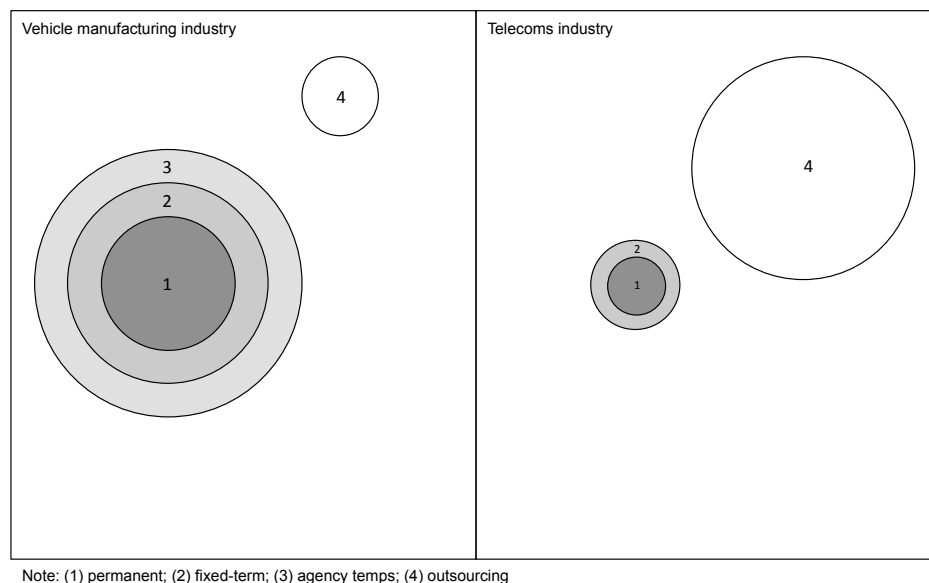
model and the former state company has been gradually transformed. At this company, the core labour force has shrunk since the 1990s, and, simultaneously, a growing number of indirect employees were recruited. Furthermore, since 2006, due to changes in the existing collective agreements, several characteristics were modified, namely progression based on seniority and the existence of a large number of professional groups and a large number of progression levels. Interestingly, only after 2006 this company began to integrate a large number of new employees (in the scope of a traineeship programme). To sum up, while liberalization did not lead to transformations in the ILM structure in the vehicle manufacturing sector, the opposite happened in the telecommunications sector. This shows that the ILM structure existed not only to meet the internal productive requirements of the organization (as hypothesized by Doeringer and Piore (1971)), but also due to other external conditions, such as strong trade unions (as hypothesized by Grimshaw et al. (2001, p. 26)).

Age-based dualization. The contrast between sectors illustrates why dualization as generational layering captures well the process of change in Southern European labour markets. The vehicle manufacturing sector accounts for a low share of jobs in the Portuguese labour market, but it represents a much larger proportion of jobs in countries characterized by lower levels of outsidership among young people (see Chapter 4). The proportion of workers in telecoms is much higher in the Portuguese labour market, and it has grown throughout the past years. As explained above (see Boxes 1 and 2), the public company's privatization together with the sector's liberalization led to a gradual deterioration of job quality. This process affected young people disproportionately because while the core labour force in the former state company – by large still the largest company in this sector – was protected due to unions' power and resistance, the number of indirect employees expanded very fast and young people entered into the labour market through these jobs, which are characterized by being more precarious. Furthermore, in the telecommunications sector, workers may remain in a precarious situation for a long period because atypical employment is not used to screen workers. The way the situation evolved in the vehicle manufacturing sector during the crisis illustrates quite well why young people are less affected in countries where the traditional ILM structure is present in a large number of companies. In this industry, to cope with the global economic downturn, a balance has been reached between different age groups.

This was so because atypical employment is also used to screen workers. Consequently, when companies need to adjust their labour force, a high number of redundancies are avoided because a large investment in these workers' skills had been made before.

Further studies might explore how the situation evolved in a different set of companies that until the 1990s were public-owned (e.g. electricity operators and postal services operators), but it is our conviction that these companies' privatization and sector's liberalization led to a deterioration of job quality and this affected disproportionately young people in Portugal. In our view, liberalization and social conflict are the drivers of labour market segmentation in the Portuguese labour market. Against some misconceptions, it is not labour market legislation, which supposedly protects insiders against the interest of outsiders, but indeed the erosion of the traditional ILM model that has led to the existing inequalities in the labour market. Social conflict played a crucial role in this process, because social groups resisted liberalization policies and in some sectors were able to protect their constituencies against the risk of dismissal or lower working conditions. In the Polanyian sense, it is market expansion that brings about social countermovements and not the other way around. The transformations in the Portuguese labour market illustrate this fact.

Figure 5.1 Labour market structure of each sector



Appendix: List of Interviewees

Note: This is an alphabetical list of interviewees. The interview numbers in the text are the author's own reference, and are not a direct cross-reference, in order to protect the interviewees' anonymity.

Anabela Guerra, interviewed 26 November 2014
Head of Training of PSA Peugeot Citroen Mangualde

António Chora, interviewed 19 November 2014
Works councillor – VW-Autoeuropa

Fernanda Aparício, interviewed 17 December 2014
Head of Human Resources of Mitsubishi Fuso Tramagal

Francisco Gonçalves, interviewed 18 December 2014
Works councillor – PT

Idalécio Filipe, interviewed 26 November 2014
Head of Human Resources of PSA Peugeot Citroen Mangualde

Jorge Abreu, interviewed 26 November 2014
Works councillor – PSA Peugeot Citroen Mangualde
Trade unionist – Sindicato dos Trabalhadores das Indústrias Transformadoras,
Energia e Atividades do Ambiente do Centro-Norte (CGTP)

Jorge Magalhães, interviewed 27 November 2014
Head of Human Resources of CaetanoBUS Vila Nova de Gaia

José Silva, interviewed 17 January 2015
Trade unionist – Sindicato dos Trabalhadores das Indústrias Transformadoras,
Energia e Atividades do Ambiente do Sul (CGTP)

Justino Pereira, interviewed 25 November 2014

Trade unionist - Sindicato dos Trabalhadores das Indústrias Transformadoras, Energia e Atividades do Ambiente do Centro-Norte (CGTP)

Luís Caseiro, interviewed 27 November 2014

Head of Training of Grupo Salvador Caetano

Luís Duarte, interviewed 28 November 2014

Trade unionist – Sindicato dos Trabalhadores das Indústrias Transformadoras, Energia e Atividades do Ambiente do Centro-Sul e Regiões Autónomas (CGTP)

Worker at Mitsubishi Fuso Tramagal

Manuel Gonçalves, interviewed 5 December 2014

Trade unionist – Sindicato Nacional dos Trabalhadores das Telecomunicações e Audiovisual (CGTP)

Marina Pereira, interviewed 26 November 2014

Manager at the Training Department at PSA Peugeot Citroen Mangualde

Nuno Mourão, interviewed 12 November 2014

Head of Human Resources of ONI and Cabovisão

Paula Arriscado, interviewed 27 November 2014

Head of Group Human Resources – Grupo Salvador Caetano

Sara Simões, interviewed 5 December 2014

Civil Society Movement activist – Associação de Combate à Precariedade: Precários Inflexíveis

Susana Alves, interviewed 27 November 2014

Head of Human Resources of Toyota Caetano – Fábrica de Ovar

6 Conclusions, empirical and theoretical

This chapter summarizes the empirical findings of this thesis (both the Fuzzy Set Qualitative Comparative Analysis (fsQCA) analysis and the case studies) and relates our findings with the broader theoretical debate on dualization. The chapter is divided in three parts. It begins by the empirical findings. Regarding the fsQCA analysis, besides synthesizing the analysis of necessary and sufficient conditions, it explains why our results go beyond other statistical analyses or single country case studies. As for the two case studies analysed in the last chapter (telecommunications and vehicle manufacturing industries), the main results are summarized and it is explained how they complement the fsQCA analysis. The second part deals with the theoretical implications of our study. It is argued that to shed light on the age-based dualization process it is crucial to bring social conflict back in and consequentially to overcome both the rationalist bias on which the Varieties of Capitalism (VoC) approach relies and the mainstream assumptions in which the economic insider-outsider theory is rooted. Furthermore, it is also argued that liberalization and dualization literatures must be combined to successfully respond to the research puzzle presented in the introduction. Finally, the last part discusses the policy implications of our thesis.

6.1 Empirical findings

A variety of methods were used to assess age-based dualization in Europe. First, fsQCA was used in Chapter 4 to analyse 14 cases and therefore identify which countries were more affected by this process and to shed light on the causal mechanisms behind age-based dualization. On the other hand, different combinations of conditions (paths) leading to high levels of outsidership among young people were also identified. Second, based on the fsQCA findings, two case studies were analysed in Chapter 5, namely the Portuguese telecommunications and vehicle manufacturing industries. By characterizing how each sector has evolved throughout the past decade,

Chapter 5 clarifies why young people were more affected by the transformations taking place in the Portuguese labour market. The following two sub-sections describe how each methodology has contributed to enhance our understanding regarding the age-based dualization process.

6.1.1 Different paths to age-based dualization

Chapter 4 identified the conditions contributing to high levels of outsidership among young people. The analysis of necessary conditions revealed the existence of two necessary conditions for the outcome: a small proportion of primary sector jobs (PS) and the combination of (i) poor coordination in the industrial relations system and (ii) liberalization (PCO+L). The analysis of sufficient conditions indicated two possible paths for the outcome: the first path combines a small proportion of primary sector jobs, high employment protection, and poor coordination in the industrial relations system, while the second one combines a small proportion of primary sector jobs, the absence of high employment protection, and liberalization. The first path covers Portugal, Spain, Italy, and Greece, and the second path covers the United Kingdom (UK), Ireland, and Denmark. Based on these results, we will outline why the fsQCA analysis provides a more consistent story than existing single country case studies or other statistical analyses.

In our view, the fsQCA analysis provides a more consistent story than existing single country case studies (e.g., Palier and Thelen 2010) or other statistical analyses (e.g., Rueda 2014). Regarding the latter, because these analyses do not allow the identification of multiple paths to the same outcome (i.e., they do not allow multiple conjunctural causation), statistical analyses are focused on single explanations, namely those that are more representative. Furthermore, they do not allow combinatorial explanations (i.e., they do not allow conjunctural causation). Therefore, they are focused on the impact of each independent variable on the dependent variable. Taking these two characteristics together, this might lead to erroneous conclusions. As our results have shown, no single condition is sufficient to produce the outcome and two different combinations of conditions lead to the outcome. As a consequence, it is quite simplistic to claim that lower job security will necessarily decrease segmentation (as many studies actually do). First, high levels of job security

alone do not lead to high levels of outsidership among young people. Second, both the presence and absence of high levels of job security can lead to high levels of outsidership among young people, depending on the different combinations of conditions. Our results show that in addition to the always-present small proportion of primary sector jobs, one of the configurations contains the absence of high employment protection combined with liberalization, while the other one includes high employment protection combined with poor coordination in the industrial relations system. Therefore, for the outcome to take place each pair of conditions needs to occur together and in the context of a small proportion of primary sector jobs. In our view, fsQCA provides a more consistent explanation, as it shows that different stories can be told about this process and that the emphasis on labour market legislation made by mainstream scholars may be misleading. On the other hand, comparing with single case studies, the main strength of fsQCA is its capacity to analyse a higher number of cases. Indeed, studies on dualization using qualitative methodologies have been able to provide more complex explanations than studies using statistical methods, but because they were focused on two or three cases, it has been difficult to capture other patterns of dualization. In our view, our study overcomes this problem because it extends the analysis to countries that have up until now deserved scant attention. All in all, by allowing the analysis of (multiple) conjunctural causation and the study of a relatively higher number of cases (at least, comparing with traditional qualitative studies), the fsQCA analysis provides, in our view, a more consistent story than existing single country case studies or other statistical analyses.

6.1.2 Case studies: dualization as generational layering in action

Three main conclusions can be drawn from the case studies analysed in Chapter 5. They confirm the fsQCA's main findings, clarify the role of labour market legislation and, finally, show how different sequences of events lead to different outcomes.

The case studies (the Portuguese telecommunications and vehicle manufacturing industries) corroborate the analysis carried out with the fsQCA, namely the analysis of necessary conditions, which, as explained earlier, are the small proportion of primary sector jobs and the combination of (i) poor coordination in the

industrial relations system and (ii) liberalization. As for a small proportion of primary sector jobs, the analysis of the vehicle manufacturing industries (a sector in which a large investment in on-the-job training is made) reveals that although this sector underwent a massive crisis since 2009, an attempt has been made to avoid job losses. As discussed in Chapter 5, and regarding the Portuguese case, in some plants this has been quite impressive. For example, at VW-Autoeuropa, despite a massive drop in production, a large number of workers have seen their contracts converted into open-ended contracts and no workforce reduction took place. This situation contrasts sharply with telecommunications (a sector characterized by a low and declining investment in training) where after 2011 several companies reduced substantially their workforce. As for poor coordination in the industrial relations system, in the telecommunications an uneven union membership led to greater segmentation. While in the former public company collective bargaining and job stability was maintained, atypical employment grew very fast in the new firms and subcontractors because collective bargaining is non-existent there and union density is very low. The situation in the vehicle manufacturing industry is completely different. Collective bargaining covers the whole sector and union density is not unevenly distributed. Finally, as for liberalization, the analysis carried out in Chapter 5 regarding telecoms also illustrates why liberalization brings about social conflict and greater segmentation.¹ Indeed, it is only after this sector's liberalization and the former public company's privatization that segmentation rose in this sector. As explained in Chapter 5, after privatization, unions resisted liberalization and workers were able to maintain their rights due to a very high union membership and generous collective agreements. Notwithstanding, segmentation rose because liberalization also led to the creation of new firms and the rise of outsourcing, which together contribute to the spread of atypical employment. In the vehicle manufacturing industry the situation is different because coordination between labour and capital was maintained and, therefore, no substantial changes took place regarding job stability.

On the other hand, the case studies clarify the role of labour market legislation in Portugal. Our findings suggest that labour market legislation should be analysed in relation with other factors. First, in telecommunications unions used job

¹ Contrarily to other sectors in the Portuguese economy (such as the water industry, electricity distribution or air transport), liberalization in telecommunications started 1990s. To a large extent, this is explained by a more active role played by the European Union regarding this sector's liberalization.

security as a critical asset in their fight against liberalization and therefore it amplified their power and contributed to greater segmentation. Labour market protection remained very high for permanent workers because they were better organized and resisted more. The same did not happen for temporary employees, because union membership and collective bargaining were absent in the new firms and subcontractors. A dual pattern of job security regulations therefore emerged in this sector because market forces faced a fierce opposition in some firms and not in others. This dual pattern is an outcome of a dynamic process that opposes those trying to expand market forces, and those trying to constrain them. Second, in the vehicle manufacturing industries, the story is completely different because employers were not interested in flexibilization, at least in a radical way (although outsourcing has also risen, the share of atypical employment is much lower). Due to a large investment in workers' specific skills and the need to guarantee a certain level of cooperation from workers, the great majority of employees in this sector still have permanent contracts and atypical employment is also used to screen workers. In the vehicle manufacturing industries, segmentation is much lower because market forces were less interested in flexibilization. The comparative analysis of these two sectors shows that, per se, high job security does not lead to higher segmentation. To conclude, labour market legislation must be analysed in a broader context, one in which market expansion and social countermovements play a crucial role.

Finally, taking the two conclusions together, the analysis conducted in Chapter 5 also shows why different sequences of events lead to different outcomes. It is the move towards labour market flexibilization in telecommunications that brought about social conflict and, thereafter, greater segmentation, while in the vehicle manufacturing industry it is precisely the opposite because employers followed a different strategy. By avoiding a move towards flexibilization, employers in the vehicle manufacturing sector prevented the rise of social conflict and, consequently, of segmentation. The contrast between sectors provides support for the hypothesis that age-based dualization is caused by a move towards liberalization which took place since the 1990s and has affected particularly those entering the labour market since then.

6.2 Theoretical implications: bringing social conflict back in

Several theoretical conclusions can be drawn from our study. First and foremost, it seems to corroborate that the arguments inspired both by the economic insider-outsider framework and the VoC approach neglect the role of social conflict and consequently do not offer a convincing explanation for growing age-based dualization in Europe. Second, our study supports the need to combine liberalization and dualization frameworks to overcome these limitations.

David Rueda's argument that social democratic parties (together with trade unions) contributed to an increase in the gap between insiders and outsiders for electoral reasons because they promoted job security for insiders instead of active labour market policies to support outsiders, gives a prominent role to job security to explain labour market segmentation. As explained in Chapter 2 (section 2.3), his argument relies mainly in the economic insider-outsider framework, a strand of literature developed in (mainstream) economics, which stresses the need to reduce both job security and union power to overcome labour market segmentation and structural unemployment. This way of conceptualizing the workings of the labour market sees market mechanisms as a superior way of organizing societies. It is completely absent from these scholars' frameworks the limits of market expansion, namely the vulnerability individuals face when they are completely dependent on market mechanisms to satisfy their social needs. Furthermore, they also neglect the fact that job security and the rise of union power after the Second World War has been indeed an attempt to reconcile markets with the basic requirements of social life. In our view, the main theoretical limitation of this framework is therefore its incapacity to understand labour market institutions (as labour market legislation or union organization), as a result of the individuals' need for protection from market forces. Although job security has reinforced the power of the more organized and increased differences between individuals in the labour market, this occurred because change towards liberalization has been taking place since the 1990s and consequently those lacking political power have seen their position deteriorated. Job security regulations are therefore only part of the story. Indeed, our study has shown that even in countries where job security has been reduced (e.g., the UK under the leadership of the Conservative governments), individuals also developed strategies to protect themselves from market forces. Therefore, it is the incapacity to understand social

conflict as an intrinsic feature of capitalism that impedes these scholars to understand growing age-based dualization in Europe.

Palier and Thelen's argument is more prone to accommodate the role of institutions in their framework, but it tends to do so in a quite rationalist way. Their argument is based on a different explanation for segmentation, namely the attempt to save the 'core manufacturing economy' in Continental Europe. They argue that reforms during the 1980s and 1990s shrank the industrial sector and therefore allowed the expansion of new types of jobs in the outside, giving rise to the emergence of a secondary labour market. In their view, to maintain a set of institutional comparative advantages, coordination between labour and capital was kept within the 'core manufacturing industry', but not in the secondary sector, where the spread of atypical employment took place. Additionally, they claim that the welfare state has reinforced the problem in countries where the eligibility for benefits is historically based on past contributions. In our view, their argument also neglects the role of social conflict. For them, institutional change is driven by an attempt to maintain a set of institutional comparative advantages, very much in line with the way the VoC approach conceptualizes change (Hall and Soskice 2001; Hall 2007). The pursuit of greater efficiency is the driver of institutional change for these scholars. They however neglect that some countries lack such institutional complementarities. As a consequence, when coordination is absent, conflict rather than cooperation tends to become more important to explain institutional change towards dualization. To conclude, there are countries where institutional change towards dualization has been driven by social conflict rather than by the attempt to increase efficiency. By neglecting this, rationalist scholars are unable to understand age-based dualization.

The main theoretical implication of this study is that the literatures on dualization and liberalization must be combined in order to explain the growing levels of outsidership among young people in Europe and therefore respond to the research puzzle presented in the introduction. As explained in Chapter 2 (section 2.4), the liberalization literature, as an institutional theory of capitalism, argues that change in all capitalist economies is driven by a process of market expansion and by the social conflicts associated with it. This literature distinguishes between organization and coordination, and argues that liberalization is a process characterized by a shift from organized to disorganized capitalism (rather than a shift from a coordinated to an uncoordinated system). As explained earlier, in Streeck's point of view, coordination

is compatible with market expansion, provided such coordination comes about voluntarily and from below. In line with this perspective, different patterns of dualization can exist, depending on whether the shift from organization to disorganization co-exists with the maintenance of coordination. When, as in Continental Europe, coordination is safeguarded in the manufacturing sector, dualization results from a divide between the industrial core and the expanding fringes (as hypothesized by Palier and Thelen (2010)). When, as in Southern Europe and Anglo-Saxon countries, such coordination is almost absent, the impact of the shift from organized to disorganized capitalism leads to a different pattern of dualization, one in which age plays a crucial role. As argued earlier (see Chapter 2), for example in Southern Europe a large part of stable jobs were created in the public sector (rather than in the ‘core manufacturing economy’), both due to the great expansion of the welfare state during the 1980s and the existence of a large number of state-owned companies (Ferner 1994, p. 57; Chauvel 2010, p. 25). The privatization of these firms and the cuts in public services have reduced the share of these jobs and consequently both union membership and collective bargaining coverage declined. The transformations in these countries contributed to greater social conflict because for many employees (from the core labour market), market expansion could potentially mean greater precariousness (the opposite occurs in Continental Europe, where employees from the primary labour market do not face the same risk). Furthermore, in these countries industrial relations are historically characterized by a higher level of conflict because labour and capital do not cooperate as in Continental and Scandinavian countries (Crouch, 1993). Taken these two factors together (the absence of coordination and a conflictual industrial relations system), age plays a crucial role because while older generations have been able to safeguard their labour market position due to their ability to have more political power, those entering the labour market after privatizations and liberalization are entitled with less political power. Job security amplified the power of unions and older workers but was not the driving force of labour market segmentation. In our view, social conflict plays a crucial role to explain age-based dualization. Theories neglecting this factor will necessarily provide an incomplete picture of this process.

6.3 Policy implications

Based on the main results of our thesis, three interrelated issues are of paramount importance to successfully fight age-based dualization. On the one hand, public policies should focus primarily on fighting precariousness by expanding the primary sector. Below it is explained that this focus will contribute both to reduce unemployment and fight labour market segmentation. On the other, regarding job security, priority should be given to revise labour market legislation in order to find a balance between social groups and generations. Finally, it is also argued that the promotion of social dialogue and collective bargaining is crucial to fight segmentation.

Public policies should not focus exclusively on reducing youth unemployment. As recognized in the introduction of this thesis, youth unemployment is a dramatic problem in a number of European countries and should be addressed urgently. Notwithstanding, the rise of youth unemployment is a direct consequence of a deeper problem that was already in place before 2008: the rise of precariousness in the labour market. Indeed, youth unemployment rose very rapidly in some countries because young people were in a weaker labour market position due to the expansion of the secondary labour market. If the focus is exclusively on fighting unemployment, three problems will necessarily emerge. First, this will only defer the problem because countries where young people hold a more precarious situation will remain highly segmented and, therefore, young people will continue to face a higher risk of unemployment. Second, the problem of labour market segmentation will be neglected. As explained earlier in our study (see Chapter 2, section 2.3), labour market segmentation is not only a result of the divide between employed and unemployed workers (this is what mainstream scholars have called the divide between insiders and outsiders). There are other types of segmentation. Indeed, while a group of individuals have employment stability, are relatively well paid and have chances of advancement, there is another group that is characterized by low wages, few promotion possibilities, poor working conditions and a high labour turnover (this is what institutionalist scholars have called the divide between the primary and the secondary labour market). As a consequence, if the latter type of segmentation is to be tackled, it is crucial to expand the primary sector, rather than focusing the attention only on unemployment. Finally, because in the short-term labour market deregulation may

contribute to fight youth unemployment (through the creation of unsecure and low paid jobs), measures to relax job security or minimum standards may be adopted. Notwithstanding, this will also contribute to increase labour market segmentation. As explained earlier, this is problematic because age-based segmentation contributed to the rise of youth unemployment since 2008.

As for job security, in Southern Europe, it is necessary to relax labour market protection for those highly protected, namely those working in the public sector, and to restrict the use of fixed-term contracts. This modification, could contribute to achieve a better balance between generations. As for the Anglo-Saxon countries, to prevent the expansion of unstable and badly paid jobs, it is urgent to increase job protection. This modification could also contribute to improve the labour market situation of young people. Therefore, changes to labour market legislation should take into consideration the situation in each country.

Finally, it is also necessary to promote social dialogue and collective bargaining. This could contribute to decrease labour market segmentation in two ways. If a larger part of employees were covered by collective agreements, differences between individuals (and generations) would be lower. On the other hand, in our view, social partners must voluntarily accept modifications to labour market legislation. This is crucial because without this agreement it will be difficult to apply these changes in the future, since employers would try to evade labour market legislation (e.g., by using outsourcing or similar solutions) and unions would resist labour market flexibilization in their strongholds (e.g., in the public sector). Although these suggestions will not do away with all problems, they could contribute to reduce labour market segmentation in the near future.

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