

‘Dualisation as Generational Layering – An Analytical Framework’

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Abstract

Youth unemployment has been on the rise across Europe since the onset of the global economic crisis. The situation is particularly problematic in southern Europe, where the youth unemployment rate exceeded 50 per cent in Spain and Greece during 2012. Throughout this paper it is argued, however, that youth unemployment is only the tip of the iceberg, and that to successfully tackle this problem it is crucial to identify its causes. The paper provides a conceptual framework for shedding new light on the process that has led to a deterioration in the position of young people in the labour market. After reviewing the literature on institutional change and labour market segmentation (labour market segmentation theory, economic insider-outsider, and the dualisation literature), it is argued that the process of change in southern European labour markets can be seen through the concept of dualisation as generational layering. This concept highlights the differences between southern and Continental Europe as regards the system of industrial relations and the characteristics of the production regime. It is also argued that the current changes will lead southern Europe to the unsustainability of the welfare state.

## 1. Introduction

As a direct consequence of the global economic crisis, millions of jobs have been lost and the unemployment rate has soared in many European countries. In the EU-27, from 2008 to 2012, the unemployment rate increased by 3.5 percentage points (Table 1). However, national labour markets reacted in different ways (Lallement, 2011): whereas the unemployment rate increased by 13.8 percentage points in Spain and 4.2 percentage points in Denmark; in Germany it has decreased 2.0 percentage points and in Belgium it has only increased 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, 2010:23). Moreover, unemployment among young people grew faster than that of adults (OECD, 2010:14; Liddle and Diamond, 2010:76-77; Scarpetta et al., 2010:11; Chung et al., 2012).

With the economic crisis and an increase in unemployment rates in several countries, youth unemployment has reached unsustainable 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). 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 does not is not seen only in the transition from school-to-work. Finally, the active population (among those aged 15-24) (Table 2) were already lower in southern Europe before the crisis, and have decreased since 2008. Therefore, with higher activity rates the unemployment rate would be even greater.

Given this fact, unemployment among young people has gained attention in public debate<sup>1</sup> as well at a European level (Commission, 2010). However, as it will be

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<sup>1</sup> For example, the British newspaper ‘The Observer’ on Sunday 29<sup>th</sup> January 2012 had the following headline: ‘Despair of “lost generation” sparks EU leaders to action’. More recently, on early May 2013,

argued throughout this paper, youth unemployment is only one part of the story. The spread of flexible contract arrangements, the mismatch between qualifications and jobs, 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 explain why youth have seen such deterioration in their labour market position over the past two decades, especially in southern Europe.

Table 1: Unemployment rate by age group

	15-24		25-29		25-54		15-64	
	2008	2012	2008	2012	2008	2012	2008	2012
<b>EU-27</b>	15.6	22.8	8.6	13.8	6.1	9.5	7.1	10.6
<b>Greece</b>	22.1	55.3	13.1	37.5	7.2	23.6	7.8	24.5
<b>Spain</b>	24.6	53.2	13.6	32.2	10.2	23.6	11.4	25.2
<b>Italy</b>	21.3	35.3	9.2	12.9	6.3	8.6	7.4	9.9
<b>Portugal</b>	16.4	37.7	11.0	17.9	6.0	9.6	6.8	10.8
<b>Belgium</b>	18.0	19.8	9.0	11.1	6.1	6.7	7.0	7.6
<b>Bulgaria</b>	12.7	28.1	6.4	15.9	4.9	11.3	5.7	12.4
<b>Czech Republic</b>	9.9	19.5	4.1	8.9	4.0	6.1	4.4	7.0
<b>Denmark</b>	8.0	14.1	3.4	11.0	2.6	6.7	3.5	7.7
<b>Germany</b>	10.6	8.1	8.4	6.5	7.0	5.1	7.6	5.6
<b>Estonia</b>	12.0	20.9	5.2	10.8	4.9	9.6	5.6	10.4
<b>Ireland</b>	12.7	30.4	6.8	17.3	5.3	13.5	6.1	15.0
<b>France</b>	18.6	23.8	9.2	12.9	6.3	8.6	7.4	9.9
<b>Cyprus</b>	9.0	27.8	4.8	15.8	3.2	10.5	3.8	12.1
<b>Latvia</b>	13.1	28.4	8.3	14.6	7.1	13.6	7.7	15.2
<b>Lithuania</b>	13.4	26.4	6.1	14.3	5.1	12.4	5.9	13.5
<b>Luxembourg</b>	17.9	18.8	10.8	6.7	4.2	4.5	5.1	5.2
<b>Hungary</b>	19.9	28.1	9.1	14.0	7.1	10.0	7.9	11.0
<b>Malta</b>	12.2	14.2	4.6	5.3	4.9	5.2	6.1	6.5
<b>Netherlands</b>	5.3	9.5	2.2	5.5	2.0	4.4	2.7	5.3
<b>Austria</b>	8.0	8.7	4.8	5.8	3.3	3.8	3.9	4.4
<b>Poland</b>	17.3	26.5	8.2	13.1	6.1	8.8	7.2	10.2
<b>Romania</b>	18.6	22.7	10.8	20.1	5.0	6.2	6.1	7.3
<b>Slovenia</b>	10.4	20.6	6.7	10.7	3.7	8.3	4.5	9.0
<b>Slovakia</b>	19.0	34.0	6.5	15.0	8.7	12.4	9.5	14.0
<b>Finland</b>	16.5	19.0	10.5	17.9	4.9	6.1	6.4	7.8
<b>Sweden</b>	20.2	23.6	6.7	8.9	4.3	5.9	6.3	8.1
<b>United Kingdom</b>	15.0	21.0	6.7	9.5	4.1	6.0	5.7	8.0

Source: Eurostat, Labour Force Survey

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‘The Economist’ dedicated its first page to this issue: ‘Generation jobless: The global rise of youth unemployment’. Interestingly, both articles pay particular attention to the Southern European case.

Table 2: Active population by age group

	15-24		25-54		15-64	
	2008	2012	2008	2012	2008	2012
<b>EU-27</b>	44.3	42.6	84.6	85.3	70.8	71.8
<b>Greece</b>	30.2	29.2	82.0	83.9	67.1	67.9
<b>Spain</b>	47.7	38.8	83.8	86.7	72.6	74.1
<b>Italy</b>	30.9	28.7	78.1	77.9	63.0	63.7
<b>Portugal</b>	41.6	37.9	88.0	88.6	74.2	73.9
<b>Belgium</b>	33.4	31.5	85.7	85.0	67.1	66.9
<b>Bulgaria</b>	30.1	30.4	85.5	82.3	67.8	67.1
<b>Czech Republic</b>	31.1	31.3	87.3	88.4	69.7	71.6
<b>Denmark</b>	72.2	64.1	89.9	87.8	80.7	78.6
<b>Germany</b>	52.2	50.7	87.0	87.7	75.9	77.1
<b>Estonia</b>	41.4	41.7	88.1	87.6	74.0	74.9
<b>Ireland</b>	52.5	40.5	81.6	80.4	72.0	69.2
<b>France</b>	38.4	37.8	88.6	88.5	70.0	71.0
<b>Cyprus</b>	41.7	39.0	86.5	87.6	73.6	73.5
<b>Latvia</b>	42.9	40.1	88.9	88.4	74.4	74.4
<b>Lithuania</b>	30.8	29.3	85.5	89.8	68.4	71.9
<b>Luxembourg</b>	29.0	26.8	83.4	87.0	66.8	69.4
<b>Hungary</b>	25.0	25.9	80.1	82.9	61.5	64.3
<b>Malta</b>	52.2	51.1	70.8	76.7	58.9	63.1
<b>Netherlands</b>	73.2	69.9	88.5	87.7	79.3	79.3
<b>Austria</b>	60.8	59.9	87.3	88.7	75.0	75.9
<b>Poland</b>	33.1	33.6	82.5	84.6	63.8	66.5
<b>Romania</b>	30.4	30.9	88.0	88.6	62.9	64.2
<b>Slovenia</b>	42.9	34.4	78.3	79.8	71.8	70.4
<b>Slovakia</b>	32.4	30.5	90.1	90.8	68.8	69.4
<b>Finland</b>	53.5	51.6	87.8	87.1	76.0	75.2
<b>Sweden</b>	52.8	52.6	88.6	87.3	79.3	80.3
<b>United Kingdom</b>	61.7	59.2	90.4	90.6	75.8	76.2

Source: Eurostat, Labour Force Survey

### 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 liberalisation (e.g. Streeck, 2009), others have pinpointed the process of dualisation as the main driver of change (Emmenegger et. al., 2012). Inspired by the seminal work of David Rueda (2005, 2006, 2007), the second approach (Emmenegger et al., 2012: 10-16) recognise that the structural pressures (globalisation, deindustrialisation and the feminisation of employment) triggered by the twilight of the industrial era in the early 1980s have jeopardised the former mechanisms of redistribution; however, 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. (2012:10-16) advocate that dualisation 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 ... [D]ualization 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 emphasising the role of policies, this theory stresses that the dualisation process does not imply that all countries will necessarily experience high levels of insider-outsider divides. They argue that the existing differences between regimes illustrate how dualisation is reinforced by some policies whereas others may tackle it (e.g. when outsider policies are relatively generous). To explain the causes of this process, the dualisation 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 dualisation in Continental Europe. They defend the view that the adjustment process in the 1970s and 1980s 'robbed the core industry of its ability to serve as lead for the rest of the economy' (2012: 203). Reforms have shrunk the industrial sector's size and therefore allowed the expansion of new types of jobs in the outside, giving rise to the emergence of a secondary labour market. Additionally, the welfare state has reinforced the problem as the eligibility for benefits in Continental Europe is historically based on past contributions; 'the growth of the secondary labour market (...) generated financial and political pressure for the expansion of a secondary type of welfare protection' (2012:203).

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, 1999:306; Bonoli, 2006:3; Emmenegger et al. 2012:6-7; Tremmel, 2010; Oliveira, Carvalho and Veloso, 2011:163; Häusermann and Schwander, 2012:29). 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' (2011:4). 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 penalised. On the other hand, by comparing two different historical époques (deruralisation and deindustrialisation), Esping-Andersen (1999a: 298-299) highlights an interesting fact: even though factory and construction job growth were very high during the process of deruralisation (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 deindustrialisation, labour supply growth was lower during deruralisation. 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, deindustrialisation 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 (1999a: 294), drawing on Schumpeter's omnibus metaphor, 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<sup>2</sup> 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 (Häusermann and Schwander, 2012; Chauvel, 2010; Lodovici, 2000; Blanchard, 2006:12; Ebbinghaus, 2006a:125). Häusermann and Schwander (2012:34) identify different patterns of dualisation, 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

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<sup>2</sup> 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 (1999a: 304).

arguing that differences between age groups are higher in southern and Continental Europe. 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, Italy, the United States and Italy, Chauvel (2010:32-33) 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 (Continental and Nordic countries), nor divides within the service sector between high-skilled versus low-skilled jobs (Anglo-Saxon countries) that mainly characterises unemployment in southern European regimes.

Our puzzle relies precisely on this paradox. Given its emphasis on efficiency (inspired by the varieties of capitalism approach), the dualisation literature (Emmenegger et al., 2012) does not consider explanations based on age. Indeed, by arguing that the process of dualisation 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, given that comparative advantages would otherwise be undermined<sup>3</sup>. 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, 2010:26), 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., 2012:315). If we take into account the fact that the younger generations are comparatively more educated, the situation becomes even

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

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.

## *2. Dualisation as generational layering*

On the following pages an analytical framework will be provided to address the puzzle presented above. Drawing on the debate over the different variants of institutionalism (rational choice institutionalism, sociological institutionalism, historical institutionalism, and evolutionary and institutional economics), I begin by discussing the role of institutions. I 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. I begin by analysing 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. Segmented labour market theory (with its two branches: dual labour market theory and radical theory), economic insider-outsider theory, and the dualisation literature are reviewed. There is then discussion of the existing links between these three strands of literature as well as the strengths and weakness of each.

The core argument of this paper is that the literature on dualisation can be extended to the southern European case. It is therefore crucial to define dualisation as *generational layering*. This type of dualisation requires a different analytic focus; one that, even though it borrows important insights from the recent literature on dualisation<sup>4</sup> (Emmeneger et al., 2012; Palier and Thelen, 2010), departs from it in three ways. First, differences between the *industrial relations systems* must be highlighted. South European industrial relation systems lack the mechanisms of coordination that characterize other models (e.g. Nordic and Continental Europe). Therefore, rather than cross-class coalitions between trade unions and employer's associations of the core manufacturing economy, what characterises southern Europe is the conflict between the different actors. It is argued that change through layering (Streeck and Thelen, 2005) describes the process of change in Southern Europe well: while the core labour force has remained protected (the most unionized and with more

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<sup>4</sup> I borrow its emphasis on the role of the welfare state from this literature, and the point they made about the importance of the production regime to explain the process of labour market segmentation.



political power), the fringes have been affected the most. However, in comparison to the Continental case, the core labour force in southern Europe is found in the core sectors of the public economy and in large companies such as banks and insurance. Secondly, it is argued that *the secondary labour market is mainly composed of the younger generations*. As a consequence of the characteristics of the production regime, it is argued that job quality has dramatically decreased over the past decades and this has especially affected new entrants. Even though this is also true for other countries, the non-existence of a core manufacturing economy (together with the incapacity of the public sector to create more jobs) makes this problem particularly striking. Finally, it is argued that the above-mentioned changes seem to contain the seeds of their own destruction, given that this process is jeopardizing the *sustainability of the welfare state*.

### *2.1 Efficiency versus conflict and asymmetric power*

Following the insights of classical political economists such as Polanyi (1944, 1957), and Veblen (1904)<sup>5</sup>, the re-emergence<sup>6</sup> of institutionalism in the 1980s demonstrated a common view about the role of institutions in shaping human behaviour, economic rules and the functioning of organisations. This re-emergence, coincident with March and Olsen's (1984) seminal article, was a reaction against the 'behaviourist revolution' of the 1950s and 1960s (Powell and DiMaggio, 1991:2), namely because of its rejections of the 'old' institutionalism (Djelic, 2010:19-22) and, consequently, the role of institutions in structuring different socioeconomic models (Thelen and Steinmo, 1992:1). 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, 1991:7). One can distinguish at least four different variants of institutionalism: rational choice institutionalism, historical

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<sup>5</sup> For the intellectual foundations of institutionalism see: Djelic, 2010:17-24 and Hodgson, 2001, 2004.

<sup>6</sup> I 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 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).

institutionalism, sociological institutionalism and evolutionary and institutional economics (Hall and Taylor, 1996; Koelble, 1995)<sup>7</sup>.

Even though its roots are in neoclassical microeconomics, *rational choice institutionalism*<sup>8</sup> rejects orthodox neoclassical assumptions and highlights the role of institutions (Cook and Levi, 1990). Indeed, this approach played an important role in strengthening the field of comparative political economy (Levi, 2000). Furthermore, one of its more recognised 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 (1996:944-945) 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) emphasises 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 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, 1997:10). Institutions ‘allow’ this interaction because they ‘structure the courses of actions that a set of actors may choose’ (Scharpf, 1997:38) 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 (1990:4) 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’.

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<sup>7</sup> For discussion around the different variants of institutionalism also see: Campbell, 2004:i-xxx; DiMaggio, 1998; Kato, 1996.

<sup>8</sup> Although this variant has proclaimed itself as ‘new institutional economics’ (Williamson, 1975), I follow here the definition proposed by Hall and Taylor (1996) – rational choice institutionalism.

*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, 1991:15-27) – 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, 1996:947). 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: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, 1996:949).

Group theories and structural-functionalism left their imprint on the third variant of institutionalism. From group theories (Hall, 1986:13-15) *historical institutionalism* took the fact that group conflict lies at the centre of politics. From structural functionalism they emphasised 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 criticised 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, 1986:18).

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 conceptualisation 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, 1985:4-7), as well as state-centric theories (Hall, 1986:15-17), 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, 1985:20). Secondly, 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, 1992:2). Furthermore, institutions distribute power unevenly between different groups and, by doing this, benefit some groups while others became marginalised (Thelen, 1999:394). Thirdly, this variant of institutionalism underlined the role of path-dependence (Thelen, 1999:387-399; Hall and Taylor, 1996:941; Pierson, 2000; Mahoney, 2000), rejecting the view that similar challenges will drive all countries to the same path. Fourthly, 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). Even though this variant of institutionalism has emerged within the scope of economics, it has criticised the rational choice variant of institutionalism (Hodgson, 2009:6-11; Hodgson, 2004:248-282). Evolutionary scholars pointed to the fact that, in contrast with the ‘old’ institutionalism – which argued that institutions mould individual preferences – rational choice institutionalism does not involve the reconstruction of individual preferences by the institutional circumstances (Hodgson, 2004:257). 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, 2009:10)<sup>9</sup>. Thus, both neo-Schumpeterian (Nelson and Winter, 1982:39-40; Magnusson, 1994:1-9; Freeman, 2007; Nelson, 1995:68-72; Nelson and Winter, 2002) and Veblenian (Hodgson, 2004:123-248; 2001:137-151) 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: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, 2006:2).

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 emphasise 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.

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<sup>9</sup> 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. Firstly, 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, 2004:3-5). Secondly, 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.

## 2.2 *'From conflict to change' versus 'from efficiency to stability and equilibrium'*

Rational choice institutionalism emphasises stability because of its efficiency bias; as Streeck (2010:22-23) 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, 2001:7). 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, 2001:36-44; Hall, 2007). Therefore, to conceptualise change, the VoC approach relies on a type of path dependence that suffers from an efficiency/deterministic bias (and consequently emphasises equilibrium rather than change). Consequently, as Chris Howell (2003:110) 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 (Streeck, 2009; Crouch, 2005) – 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, 2001:21), 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<sup>10</sup>. In the next section it will be argued that the influence of the VoC approach over the dualisation literature lead to an efficiency bias, especially with regard to the causes of the process of dualisation.

Sociological institutionalism criticises 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

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<sup>10</sup> Recently, Iversen and Stephens (2008), Thelen (2012), and Emmenegger et al, (2012:14) have tried to overcome this problem by combining the VoC and power-resource theory.

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 (1991:14) recognise this and point out that ‘not only does neoinstitutionalism emphasise the homogeneity of organisations; it also tends to stress the stability of institutional components’. Sociological institutionalism has tried to overcome this limitation (DiMaggio and Powell, 1991:27-33) by emphasising the role of ‘institutional contradiction’ as a source of institutional change. However, they recognise that ‘power and interests have been slighted topics in institutional analysis’ (DiMaggio and Powell, 1991:30), 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, 1991:31). This solution is symptomatic of this variant bias, i.e. even when recognising that power plays a crucial role, they neglect conflict by either assuming that individuals voluntarily accept the process of socialisation enacted by the dominant organisations 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, 2010a:54)<sup>11</sup>. 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<sup>12</sup>: firstly, by criticising the existing theories (technological models of path dependency

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<sup>11</sup> 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).

<sup>12</sup> See Thelen (2010b) for a survey of this literature.

from economics and path dependency from institutional sociology) (Thelen, 1999:384-387); secondly, 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).

Firstly, drawing on historical institutional analyses of critical junctures and the work on policy feedbacks Thelen (1999:369) 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 (2005:9) 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 (2005:18-30) therefore identified five broad modes of gradual but nevertheless transformative change: displacement, layering, drift, conversion, and exhaustion. 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 (Table 3).

Table 3 – 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

(Mahoney and Thelen, 2010:19)



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

### *2.3 Varieties of labour market segmentation in post-industrial societies*

A considerable amount of literature has been published about the existing divides in the labour market. Segmented labour market theories (with their two branches: dual labour market and radical theory) (Doeringer and Piore, 1971; Reich, Gordon and Edwards, 1973) and economic insider-outsider theories (Lindbeck and Snower, 1988a)<sup>13</sup> are often cited as the most relevant literature in this area<sup>14</sup>. More recently, a new approach – the dualisation literature – has gained importance within the field of comparative political economy (Rueda, 2007; Emmenegger et al., 2012; Palier and Thelen, 2010). As can be seen below, each of these three strands of literature has different analytical roots and attempts to deal with different socio-political challenges. I will begin by pinpointing the main features of each approach and thereafter describe the main differences between them. Finally, building on the literature on institutional change and linking it with the literature reviewed in this section I put forward the concept of dualisation as generational layering.

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<sup>13</sup> As well as these two approaches, we could also add the sociological literature on the rise of precariousness and atypical employment (Barbier, 2011; Kalleberg, 2000, 2009; Price et al., 2011). 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.

<sup>14</sup> Independent of the analytical focus, several authors have surveyed this literature. See for instance: Leontaridi, 1998; Rubery, 1978; Cain, 1976; Bosworth et al., 1996; Lindbeck and Snower, 2001; Blanchard, 2006; Ball, 1990; Barbier, 2011; Kalleberg, 2000, 2009; Davidsson and Naczyk, 2009; Emmenegger et al., 2012 (Chapter 1).

*Segmented labour market theories* have their roots in the American Institutional School (Leontaridi, 1998:68-69; Bosworth et al., 1996:335; Barbier, 2011:7-9; Cain, 1976:1226-1228; Doeringer and Piore, 1975:70), particularly in the contribution of Kerr (1954) and Dunlop (1957)<sup>15</sup>. There are at least two reasons for this relationship. First, together with institutional economics, dual labour market (DLM) scholars challenged classical and neo-classical explanations about the workings of the labour market. Indeed, against human capital theories, they both argued that the labour market is not a single competitive market and that skills per se do not guarantee access to that labour market. For the DLM scholars several non-competing segments exist, as well as institutional barriers between them. They point to the existence of two sectors: a primary and secondary. The primary is characterised by having well developed internal labour markets (a concept first developed by Kerr [1954:102]) in which institutional rules (formal and informal) substitute for market mechanisms. To explain this, DLM theories argue 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, 1978:19)<sup>16</sup>. The secondary sector covers workers outside internal labour markets, i.e. where the tasks performed by the workers depend less on specific skills. In this sector, supply and demand forces play a pivotal role, there exist more entry ports and therefore workers are more vulnerable to pressure from outside. While the primary sector is characterised by 'relatively high wages, good working conditions, chances of advancement, (...) and above all employment stability' (Piore, 1975:126), the secondary sector is characterised by relying mainly on poor jobs (low wages, few promotion possibilities, poor working conditions and high labour turnover). As a consequence, the mobility of employees between segments is restricted and therefore excess demand pressures do not imply changes in the labour conditions in the primary sector. Secondly, the analytic focus on institutions also implied the use different methodologies. Both institutional economics and DLM theories have challenged the practice of econometric estimation of deductive

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<sup>15</sup> John Dunlop was teacher of Doeringer and Piore at Harvard (Cain, 1978:1222). It is no coincidence that Doeringer and Piore's seminal book (1971) was dedicated to him.

<sup>16</sup> Furthermore, it should be noted that only firms faced with stable product demand are able to make this type of long-term investment in their labour force and therefore create internal labour markets. This is why dual labour market 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, 1998:71-72).

neoclassical models, and have emphasised the potential of unorthodox research practices, such as open-ended, unstructured interviews with economic actors (Piore, 1983:250; Cain, 1976:1226-1227). 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. Finally, given their analytical focus, both approaches tend to reject orthodox methodologies.

The socio-political context has also exerted great influence over dual labour market scholars. As Piore (1983:250) 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 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), segmented labour market scholars stressed that poverty could only be tackled by providing access to primary employment to those excluded from it (Piore, 1970:55).

Finally, the explanation for the existing divides in the labour market is where segmented labour market theorists diverge. As we have seen above, DLM scholars argue that skill specificity has been the main driver towards labour market divides. Radical scholars share with DLM theories the emphasis on institutions, but stress a different point. Rather than specific skills, they point to a ‘divide and conquer’ strategy (Bosworth et al, 1996:337; Rubery, 1978:18; Reich, Gordon and Edwards, 1973:361) pursued by the capitalist class. They believe that with the development of factory production, the labour force has become more dangerous: as Reich, Gordon and Edward (1973:360) note: ‘the increasingly homogeneous and proletarian character of the work force generated tensions which were manifest in the tremendous upsurge in labour conflict’. The divisions created within the labour force, they say,

were indeed an attempt to jeopardize class-consciousness and to impede labour resistance.

*Economic insider-outsider theories* emerged at the end of the 1980s. Rather than considering the rise of poverty and inequality, their puzzle relied on the intriguing high levels of structural unemployment in Europe, especially compared with the situation in the US where it was much lower (Blanchard, 2006:19). Against prevalent explanations based on the natural rate framework, 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 pointed to the fact that a decline in productivity growth (due to rapid deindustrialization throughout the 1980s) did not lead to an adjustment in wages (Emmeneger, 2009:133). To explain this, they preferred to blame labour market institutions by arguing that some workers are trapped in involuntary unemployment because labour market institutions impede competition between the unemployed (or those working in the informal economy) – the outsiders – and those already in the labour market – the insiders (Lindbeck and Snower, 1988a:1). They point to the existence of conflicting interests between insiders and outsiders as a consequence, given that the latter prefer to dismantle existing labour market institutions (which impede their entrance into the labour market), while the former prefer the opposite, giving their intention as preserving their (good) jobs.

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, 2001:166). 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, 2001:167). 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, 2001:167; Lindbeck and Snower, 1988b). Notwithstanding this, job security regulations are indeed the main focus of economic insider-outsider theory (Emmenegger, 2009:133), and policies inspired by this theory (for instance those pursued by the IMF and OECD<sup>17</sup>) 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. Finally, although economic insider-outsider theory challenges classical explanations, this approach is built on the assumptions of mainstream economics (Barbier, 2011:4), taking into account that, for them, institutions impede the optimal functioning of the market.

Before turning to the last strand of literature, let us briefly summarise the differences between DLM theory and economic insider-outsider theory and how each one deals with the youth unemployment problem. We will then be in a better position to understand the existing controversies within the dualisation literature. Two main differences should be underlined: its theoretical roots and its 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 for institutional economics social groups and institutions are a crucial part of the functioning of the labour market and are indeed inseparable from it, mainstream economics emphasises the role of market mechanisms: for them institutions only disturb the function of the market. Piore (1983:252) has summarised the institutionalist point of view by arguing that 'at the core of labour market segmentation are social groups and institutions. The processes governing allocation and pricing within internal labour markets are *social*, opposed either to competitive processes or to instrumental calculations'. Secondly, each approach attempts to deal with different challenges: DLM scholars focused on the rising levels of poverty and inequality in the US, while the high level of structural unemployment in Europe was 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

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<sup>17</sup> See, for instance, *The 1994 OECD Jobs Study*.

theoretical roots or because they attempt to tackle different socio-political issues. While economic insider-outsider theory emphasises the role of ‘power-reducing policies’, such as ‘restrictions on strikes and picking and relaxing job security and seniority legislation’ (Lindbeck and Snower, 2001:184), 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, 1975:79). As far as youth in the labour market, both economic insider-outsider theory (Lindbeck and Snower, 2001:182) and segmented labour market theory (Reich, Gordon and Edwards, 1973:360; 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.

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 U.S. (the ‘good’ example for economic insider-outsider scholars) is historically characterised 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. We will return to this issue later, but would like to emphasise at this stage that the conflict between insiders and outsiders is questionable and that although having a job is an important asset, it is not the only preoccupation of insiders and outsiders.

Until now the reviewed literature has been embedded in the industrial era's debates<sup>18</sup>, 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 two decades. The *dualisation literature* examines this period specifically and provides interesting insights for understanding post-industrial labour markets. The dualisation literature has been inspired by the seminal work of David Rueda (2005; 2006; 2007). However, as we will argue below, 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. (2012) have mainly built their ideas on DLM theory.

Following the economic insider-outsider framework, David 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: 2-3). Rueda goes beyond the economic insider-outsider framework in at least two ways. Firstly, as well as the unemployed, he includes those with temporary jobs in the group of outsiders. Secondly, he argues that in the presence of conflict between different groups within the labour force, social democratic governments often do not promote the interests of the weakest members of society, and therefore exacerbate the gap between insiders and outsiders. This happens, Rueda argues, because insiders disproportionately vote for social democratic parties (being indeed its main constituency) and are over-represented within trade unions. The innovativeness of Rueda's argument is therefore the introduction of a political flavour into the economic insider-outsider theory (Emmenegger et al., 2012:133). Rueda stresses that for electoral reasons social democratic parties (together with trade unions) contributed to an increase in the gap between insiders and outsiders. By stressing this second point, and using Thelen's (2012:149) 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 organised labour and labour's political allies, i.e. the social democratic parties (Rueda, 2007:4).

The negative role of social democratic parties has however been challenged by others (Palier and Thelen 2010:121; Thelen 2012; Emmenegger 2009:133-137). They

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<sup>18</sup> Especially the dual labour market theory, given that economic insider-outsider emerged during the transition from industrial to post-industrial labour markets.

argue that where social democratic parties are stronger (e.g. in the Nordic countries), dualistic trends are less pronounced (Palier and Thelen, 2010:121). Second, Palier and Thelen put forward a different explanation for the growing levels of dualities by arguing that the attempt to save the core manufacturing economy has been the main driver of change towards dualisation in Continental Europe. Their argument has its roots in the concept of complementarities (see also Iversen and Soskice, 2009). Although VoC scholars have used the concept to explain the stability and persistence over time of different institutional comparative advantages (Hall and Soskice, 2001), Palier and Thelen use it to explain change. They point to the fact that changes in one sphere of the political economy have contributed to changes in others as well. They defend the view that the adjustment process followed during the 1970s and 1980s ‘robbed the core industry of its ability to serve as lead for the rest of the economy’ (Palier and Thelen 2010: 122). Reforms have shrunk the industrial sector’s size and therefore allowed the expansion of new types of jobs on the outside, giving rise to the emergence of a secondary labour market<sup>19</sup>. Additionally, the welfare state has reinforced the problem in countries where the eligibility for benefits is historically based on past contributions (e.g. in Continental Europe).

The role of the welfare state has been stressed by another group of researchers (Emmenegger et al., 2012; Palier, 2010). To explain the existing differences between regimes, several authors have argued that the welfare state plays a crucial role. The innovativeness of the argument by Emmenegger et al. (2012:16-17) relies on its emphasis on policies, namely the translation of the changes in the labour market into the social policy realm. Emmenegger et al. (2012:10-16) argue that the process of dualisation 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-

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<sup>19</sup> 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 U.S. 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 internal labour markets). The main difference however is that an expansion of the primary sector is not expected in the near future. Furthermore, both the dualisation literature (Emmenegger et al., 2012:3-7) and DLM were concerned with the growing levels of inequality and poverty, rather than only focused on the problem of unemployment.



activated ... [D]ualisation 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.' By emphasising the role of policies, they stress that dualisation does not imply that all countries will necessarily experience high levels of insider-outsider divides. The existing differences between regimes (Esping-Andersen, 1990; 1999b; Hall and Soskice, 2001) illustrate how some policies may reinforce dualisation while others (if, for instance, outsider policies are relatively generous) may reduce it.

But, even though policies are the main cause of the existing dualities; they only become important because of previous changes that have taken place in the labour market, which is why there exists a clear link between the argument of Palier and Thelen (2010) and that of Emmenegger et al. (2012). The same is not true of Rueda's argument, considering 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 in the Nordic countries are indeed the cause of lower levels of dualisation in those countries.

Although rooted in DLM theory, the dualisation literature 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).

We should, however, identify the weakness of this literature. It is too focused on Continental European cases. As we will argue below, it is difficult to fit the southern European situation into this framework. This is related to our earlier discussion (Section 2.1) of the pitfalls of rational choice institutionalism, namely its tendency to see institutions as 'guardians' of efficiency. One could argue that the dualisation literature departs from this when Emmenegger et al., (2012) and Palier (2010) emphasise 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. The dualisation 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 (Emmeneger et al., 2012:315-318). Furthermore, they claim that employers are interested on maintaining this dualistic trend because the core manufacturing economy is the source of these countries' comparative advantage. Below, we will argue that the southern European case exemplifies how problematic it is to institutions only as a source of efficiency. The combination of economic insider-outsider and DLM theory is also problematic. As previously mentioned these two strands of literature rely on completely different assumptions and, in our view, are incompatible. Indeed, dualities (or segmentation) occur not because the market is constrained by institutions (as the economic insider-outsider framework is hypothesised), but because each welfare regime may reinforce or tackle the process of dualisation.

Häusermann and Schwander (2012)<sup>20</sup> have recently provided empirical evidence about the process of dualisation across regimes and by doing so have shown some of the strengths and weakness of this literature. 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. While the Nordic and southern European regimes are the least dualised, the Anglo-Saxon regime is the most. Regimes show different patterns of dualisation: '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' (2012:34). 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 (2012:40-42).

The existence of different patterns of dualisation 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 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

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<sup>20</sup> See also Häusermann and Schwander (2009).

time. As Häusermann and Schwander (2012) have argued, the southern European case is characterised by its negative affect on the younger generations. However, the dualisation literature does not provide a convincing explanation for this.

The conceptual framework of dualisation literature is particularly well suited to explain Continental and Nordic dualisation: 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 dualisation. 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 dualisation. 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 characterises 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. However, contrary to what has happened in the Anglo-Saxon countries, a radical liberalisation of the economy has not taken place. 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.

We must therefore innovate conceptually in order to integrate the existing diversity into the dualisation literature. Although the welfare state plays an important role in all regimes (reinforcing or tackling the process of dualisation), the causes of dualisation differ from country to country. The concept of *dualisation as generational layering* attempts to address the southern European case and to explain why the pattern of dualisation in southern Europe is different (Table 4).

**Table 4 – Dualisation regimes**

Regimes	Driver	Welfare State	Divides (level)	Persistence
Continental	Institutional (Efficiency)	Dual	Gender (high)	Medium-term
Nordic	Institutional (Efficiency)	Universalistic	Gender (low)	Long-term
Southern	Institutional (Conflict)	Dual	Generational (high)	Short-term
Liberal	Market	Liberal	Skills (high)	Long-term

Coordination between labour and capital has been difficult to achieve in the Southern European industrial relations system (Molina and Rhodes, 2007; Ebbinghaus, 2006b, Chapter 3). There are two interrelated reasons for this: the strategy of employers and the strategy/power of unions. In contrast with the Continental European example, employers were not interested in establishing strong ties with trade unions and supporting generous job security and seniority legislation. Indeed, the comparative advantage of these countries (especially Portugal, Spain and Greece) is that they relied historically on low wages (rather than on specific-skills) and therefore globalisation has put strong pressure on the manufacturing sector. The low levels of union density (especially compared with the Nordic countries) lead unions to represent their members first and foremost and to neglect the remaining workers. Furthermore, a high proportion of workers (in some countries still the majority) are represented by trade unions controlled by the extreme left: both the Communist party and the radical left (Lima and Naumann, 2011). Those unions follow a class struggle approach rather than a cross class strategy.

A radical and abrupt change is therefore difficult to implement, strong veto players block labour market reforms. However, as we have discussed throughout this paper (see Section 2.2) transformation can occur without disruption (Thelen, 1999). Streeck and Thelen (2005) have built a powerful theory to explain institutional change and have 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 (2005:23-24) ‘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 (2010:20) argue 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. By resisting to policies to make the labour market more flexible, unions have been able protect their core constituencies. However, contrary 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 and large companies such as banks, insurance, etc. (Chauvel, 2010:25).

As well as the industrial relations system, two additional reasons explain why youth has been particularly affected in Southern Europe. While in Continental Europe the manufacturing sector<sup>21</sup> still provides access to good jobs, the same does not occur under the Mediterranean regime<sup>22</sup>. Numbers of jobs in the core sectors of the public economy were already falling before the sovereign debt crisis, but levels after that plummeted. The deterioration of the position of young people in the labour market is therefore directly related to the spread of poor jobs. As explained in the dualisation literature, southern Europe, like Continental Europe, has a dual welfare state system, i.e. it does not compensate for labour market segmentation. Because the younger generations are over-represented among the outsiders, the welfare state reinforces the problem.

Before moving on to the last part of our paper, let us briefly recapitulate. There are different patterns of dualisation and, in southern Europe, it is mostly young

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<sup>21</sup> By saying this I am not arguing that in Continental Europe younger generations are immune to labour market problems. Comparing with their parents they indeed face more problems in finding good jobs. However, we stress that in Southern Europe the situation is worse because the available jobs in the labour market are of lower quality. It is the quality of the available jobs that is the cause behind the deterioration of the labour market position of young people.

<sup>22</sup> 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 on 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.

labour market participants who are outsiders. To understand this pattern we have to look at the system of industrial relations. The southern European industrial relations system lacks the mechanisms of coordination that characterise Nordic and Continental European models. I suggest that the reasons for this are twofold: the strategy of employers and the strategy/power of unions. Labour market reforms are difficult to implement: trade unions have resisted policies for a more flexible labour market but by doing so have only protected their core constituents. 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. Finally, I have pinpointed two explanations for the labour market position of young people. An important question must be addressed at this point: will dualisation last in southern Europe?

Research into the Continental case (Emmenegger et al., 2012:315-318; Palier and Thelen, 2010) supports the view that insider-outsider divides may last, given that outsiders are not competing directly with insiders. However, I argue that the situation in southern European is different. As we have argued on the research puzzle, 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, 2010:26), 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 (Chung et al., 2012:315). If we take into account that the younger generations 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 Europe labour markets seems to contain the seeds of its own destruction.

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