Article

Barriers to entry: insider/outsider politics and the political determinants of job security regulations

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Summary Job security regulations, here understood as restrictions on hiring and firing, figure prominently in the policy recommendations of international organizations or national reform programmes. However, in contrast to the prominence of job security regulations in the current reform discourse, hardly any attention is paid to their determinants. In this article, the insider/outsider theory of employment and unemployment is examined. Advocates of this approach argue that job security regulations mainly benefit the labour market insiders. As a consequence, insiders will fight all reforms that aim to dismantle these regulations. The insiders are supported by Social Democratic parties, which only represent the interests of the insiders. In this article it is maintained that this simple argument is wrong. Labour market outsiders can be expected to be equally supportive of job security regulations and Social Democratic parties as labour market insiders. This claim is supported by the empirical analysis using survey data.

Key words insider/outsider theory, job security regulations, labour market politics, public opinion, social democracy

Introduction

There is an astonishing discrepancy between the importance of job security regulations, defined in this article as restrictions on hiring and firing, for employees, their prominence in explanations of unsatisfying labour market outcomes, and the amount of research on its determinants. In surveys, job security always comes out as one of the most important characteristics of the respondents' employment. Judged on the basis of International Social Survey Programme 1997 data, most people place greater value on job security than a high income or a friendly work environment. Job security, however, is not a popular topic in contemporary scholarly research. Here, job security regulations are often treated as one of the most important impediments to job creation (OECD, 1994; Siebert, 1997; Blanchard and Wolfers, 2000; Garibaldi and Mauro,

2002; IMF, 2003; Lindert, 2004; Di Tella and MacCulloch, 2005). In contrast to other usual suspects like unemployment benefits or collective bargaining, job security is often seen by social scientists to be of minor importance for an individual's position in the labour market (Kenworthy, 2003: 1200–1; 2004: 90; Pontusson, 2005: 214). This is due to distributional effects of job security regulations. It is argued that these regulations benefit labour market insiders, but hurt the weakest in the labour market, such as outsiders (Lindbeck and Snower, 1988; Saint-Paul, 2002; Rueda, 2005), long-term unemployed people (Esping-Andersen, 2000; Blanchard and Portugal, 2001) or women (Taylor-Gooby, 1991; Esping-Andersen, 1996; Estevez-Abe, 2005). Consequently, 'flexicurity', the combination of security through the welfare state and a flexible, unregulated labour market, has become the 'magic formula' (Sarfati, 2003: 278) in social policy.

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In contrast to the prominence of job security regulations in scholarly work on (excessively) rigid labour markets and (necessary) social policy reforms, little is known about the determinants of job security regulations. It is this gap in the literature that I wish to address. While there are three different groups of arguments, I will focus in this article on the insider/outsider theory, which has recently gained prominence in political science thanks to the seminal work of David Rueda (2005; 2006).[1] In a nutshell, this theory argues that social democracy and trade unions only represent the interests of labour market insiders. Insiders are best served by minimizing labour turnover, which can be best done by job security regulations. As a consequence, labour market insiders support job security regulations, while outsiders (e.g. unemployed or part-time workers) and 'capitalists' oppose them. Hence, insiders disproportionally vote for Social Democratic parties, which, in collaboration with trade unions, push for more regulations. This macro-level relationship has found empirical support in several studies (Botero et al., 2004; Rueda, 2005; Saint-Paul, 1996; 2002; Siegel, 2007).

In this article, I argue that the insider/outsider theory of employment and unemployment is of no use in explaining differences in preferences for job security regulations. Apart from the rather obvious distinction between 'capitalists', the upper management and the self-employed, and dependent employees, the theory does not add much to our understanding of preference formation. Especially with regard to differences between labour market insiders and outsiders, the theory does not offer any analytical leverage. I argue that there are three reasons for this failure, which are introduced stepwise. The first critique argues that the insider/outsider theory of employment and unemployment suffers from too demanding rationality assumptions. Ignoring the political nature of preference formation and party preferences, the theory relies on a homo economicus as opposed to a 'political man' (Albrekt Larsen, 2006: 4–5). As a consequence, the insider/outsider theory overestimates the differences between insiders and outsiders. The second critique argues that the theory misconceptualizes electoral politics and the role of policy packages offered by parties in election campaigns. The number of different policy packages a voter can choose from is restricted by the number of parties participating in the elections. Consequently, the issue of job security regulations cannot easily be separated from the other issues in a policy package. As a result, labour market outsiders may not have any choice but to vote for Social Democratic parties, although they do not approve of parts of the offered policy package. Finally, and most importantly, the theory disregards the numerous reasons why labour market outsiders could be just as supportive of job security regulations as labour market insiders. These reasons include long-term expectations, household relationships and the power balance between capital and labour. In fact, there are more reasons to expect outsiders to support job security regulations than otherwise. As a consequence, no differences with regard to preferences for job security regulations can be expected.

This raises the question of why explanations based on insider/outsider politics are so popular in contemporary discussions on labour market problems and reforms. The reasons for this are manifold, though its simplicity and parsimony definitely underpin its popular appeal. However, a misconceptualization of the popular support of job security regulations and the possible alliances that would back labour market reforms might undermine employment strategies, which seek to dismantle job security regulations altogether (IMF, 2003; OECD, 2004; World Bank, 2004) or introduce 'flexicurity' such as the EU's European Employment Strategy or the ILO (Auer, 2006). As a consequence, it is very important to know who is supporting job security regulations. Only in this way can reforms be designed that may be successful.

To proceed, I will discuss the insider/outsider theory of employment and unemployment and my critique in greater detail. Subsequently, I will present the data sources, the operationalizations and the statistical procedure before I discuss the empirical evidence. A concluding section briefly summarizes the major arguments and findings.

Insider/outsider politics and job security regulations

The insider/outsider theory of employment and unemployment has been developed by Assar Lindbeck and Dennis J. Snower (1988) to answer an economic mystery of the 1980s. While the sharp rise in unemployment in the aftermath of the first oil shock had been credited to 'stagflation', the combination of economic stagnation and high inflation, the persistence of high unemployment confronted economists with a puzzle. A decline in productivity growth due to the rapid de-industrialization had been observed, but, surprisingly, wage setters did

not seem to adjust to the new reality of lower productivity growth (Blanchard, 2006: 19).

Seeking a solution to this puzzle, Lindbeck and Snower look at the behaviour of labour market insiders, since collective bargaining typically takes place between a union representing the employed workers (i.e. insiders) and firms. Unemployed people, however, lack representation in such negotiations, hence their labelling as outsiders. Assuming rational behaviour, Lindbeck and Snower (1988) suggest that the insiders focus only on their own employment and demand wage increases that are beyond the interests of outsiders, thereby keeping unemployment above the natural rate.

Firms still have the option of replacing their employees with unemployed workers, or using the threat of hiring currently unemployed workers to negotiate lower wages with trade unions. But the credibility of this threat is a function of labour turnover costs, the cost of replacing employed workers. These costs can rise due to the harassment of underbidding new recruits. But the most important sources of labour turnover costs are job security regulations:[2]

> [d]ue to labor turnover costs, outsiders face labor market discrimination in the sense that they do not receive equal reward for equal productivity. As a result, outsiders may be involuntarily unemployed or confined to dead-end jobs – that is, they may be unable to work their way into insiders' jobs even though they are willing to work for less than insider wages (Lindbeck and Snower, 2001: 167, see also Lindbeck and Snower, 1988: 3).

Thus, labour market insiders gain from low labour turnover and high labour turnover costs respectively. It is crucial that both are functions of job security regulations; that is, labour turnover is low and the cost of labour turnover is high when job security regulations are very strict. As a consequence, a distinction between insiders and outsiders is necessary since these two groups have opposing preferences with regard to job security regulations. While job security regulations increase the insiders' market power vis-a-vis their firm, they also constitute an entry barrier for outsiders (Saint-Paul, 2002).

It is important to note that the group of insiders does not include all those currently working. There are also other groups such as self-employed people and the so-called 'upscales' (employees who are in a privileged position in the labour market). The former are not subject to collective bargaining, while the 'upscales' occasionally are. However, due to their human and social capital the 'upscales' do not need to be afraid of unemployment. Consequently, they cannot be expected to support social policy interventions. Quite the contrary, due to their privileged position in the labour market, they have to expect to carry a disproportionate part of the financial costs of social policy interventions. As far as self-employed people are concerned, protection against dismissals is useless since they can only be fired by themselves.

Building on the insider/outsider theory of employment and unemployment, Rueda (2005) introduces a political flavour into the argument. He argues that Social Democratic parties have an interest in supporting policies that are tailor-made for labour market insiders (Rueda, 2005: 62). This is due to electoral politics and the commitment parties have to important groups of voters. Indeed, '[t]he presence of strong, continuing expectations about parties and the interests of social groups not only creates easily identifiable choices for citizens, it also makes it easier for parties to seek out their probable supporters and mobilize them at election time' (Powell, 1982: 116; see also Dalton, 2006: 148–76). Due to ideological reasons, Social Democratic parties can be expected to support the interests of the working class (Hibbs, 1977), which in this model are represented by insiders and outsiders (as compared to self-employed people and the 'upscales'). Being confronted with the policy issue 'job security regulations', Social Democratic parties will side with the insiders, since they tend to be politically more active and outnumber the outsiders (Rueda, 2005: 62; see also Saint-Paul, 1996: 266).

To briefly summarize, the insider/outsider theory of employment and unemployment has three interesting implications. First, the theory expects insiders to emphasize job security regulations to a greater extent than any other group in the labour market. Second, insiders vote disproportionately for Social Democratic parties compared to labour market outsiders. Third, Social Democratic parties will represent the interests of their core constituency (insiders) and promote policies that increase the level of job security.

Theoretical critique

Despite its prominence in the economic literature, the insider/outsider theory of employment and

unemployment has been heavily criticized (Blanch-flower, 1990; Bean, 1994: 604–8; Blanchard, 2006: 24–35). In this article, I would like to focus on three main points: (a) the assumptions concerning rationality; (b) the alternatives to Social Democracy; and (c) possible reasons for similar preferences among insiders *and* outsiders.

According to the theory, insiders target the highest possible wage levels. Their demands, however, are subject to absolute and relative profitability constraints (Lindbeck and Snower, 1988: 5). The former argues that an insider has to be profitable to a firm. The latter argues that insiders 'must remain at least as profitable to the firm as the marginal entrant' (Lindbeck and Snower, 1988: 5). While this may be a useful assumption in a formal model, it is not clear how an insider should recognize the turning point.[3]

The assumption of rationality can be a tough one and there are many calls for a more conservative usage of the concept (Simon, 1985: 297; Hernes, 1992: 427–8; Goldthorpe, 2000: 106; Albrekt Larsen, 2006: 4–5). I argue that in the case of the insider/outsider theory of employment and unemployment the rationality expectations are too demanding. As the following discussion of the literature shows, there are good reasons to question the insider/outsider theory. But if there are good reasons to differ, how can one then expect labour market insiders to be so 'cynical' (Bertola, 1996: 305) as to exploit the unfavourable situation of labour market outsiders, as claimed by the insider/outsider theory?

Indeed, there are signs that the insider/outsider theory of employment and unemployment clouds more than it reveals. Somewhat ironically, Saint-Paul (2004: 59–60), one of the strongest advocates of the theory, argues that due to a lack of knowledge about the 'actual' working of the labour market, voters can be manipulated by rent-seeking groups to antagonize labour market reforms, although they would benefit from them. To prove his claim, Saint-Paul cites a study by Postel-Vinay and Saint-Martin (2003), which shows that workers' subjective assessment of job security is more negative in those countries where job security regulations are stricter (see also Anderson and Pontusson, 2007: 224). But this finding is at odds with the rationality assumptions of the insider/outsider theory of employment and unemployment.

Note that I am not arguing that objective individual-level attributes do not influence a person's preferences

for job security regulations. There is no reason to abandon the assumption of rationality altogether as '[e]ven if people are mostly irrational and idiosyncratic, there may be a component of rationality in their behavior' (Hernes, 1992: 427). This component may be small, but if it is common to all respondents, it can explain more of the variation in values than the larger idiosyncratic component. Furthermore, if there is a critical minority in each group of respondents with similar attributes, which has a clear understanding of the effects of job security regulations on their respective utility, one should be able to find systematic statistical relationships between aggregate group characteristics and policy preferences (Kitschelt and Rehm, 2006: 54). This is the case even though the large majority of respondents may have a poor understanding of the effects of job security regulations. As long as these 'irrational' or 'ill-informed' respondents voice their preferences in a randomized fashion, the population aggregates will look like rational relations (Erikson et al., 2002: xxi). As a consequence, no strong assumptions of rationality are needed. The 'law of large numbers' will ensure that the rational tendency will dominate (Goldthorpe, 2000: 165). However, the crucial point is that our expectations regarding rationality have to take these limitations into account.

Thus, what can 'reasonably' be expected? If one has a job and is worried about losing it, one will value job security highly. If one does not have a job, one may believe that job security regulations decrease one's chance of becoming employed. But being unemployed may also make one realize the value of job security. Or, if a person is forward-looking, he or she might realize that once in a new job, regulations will be beneficial for him or her too. Thus, while the benefit of job security regulations is rather obvious for labour market insiders, there are also good reasons for labour market outsiders to value job security regulations highly.

A second criticism centres on the alternatives to Social Democracy. Looking at the social bases of party support, it is normally assumed that Left-wing parties represent the working class. Indeed, a disproportionate share of working-class votes goes to Left-wing parties (Dalton, 2006: 151–2). Rueda challenges this understanding by pointing to the division of the working class into two segments: those with secure employment and those with no or insecure employment (Rueda, 2005: 61). Social Democratic parties do not always represent the latter. As a result, outsiders may vote

disproportionately for other parties. Right-wing parties may try to attract some outsiders by proposing to reduce insider job protection (Rueda, 2005: 62).

I argue that this line of reasoning is very problematic. First, if labour market outsiders are not voting for Social Democratic parties, whom are they supporting? They could abstain from participating, but that cannot be considered rational from the perspective of the insider/outsider theory. Outsiders would have to vote for Right-wing parties that are expected to deregulate the labour market. But these parties are *normally* also expected to decrease unemployment benefits or raise the retirement age. In reality, voters have to choose among the packages of policies which are offered by parties. Consequently, they may experience ambivalence (Steenbergen, 2006). Interestingly, this is acknowledged by Rueda. He argues that there is a coincidence of insider and outsider goals in some areas such as health care or education (2005: 62). As a consequence, his argument has to imply that the insider/outsider cleavage is of utmost importance. If this were not the case, the policy package offered by Social Democratic parties would still be much more interesting for labour market outsiders than the ones offered by other parties (and consequently, there would be no electoral dilemma for the Social Democratic parties).

Thus, how important are job security regulations for the voting decision? This question lies outside the scope of the present analysis but a short discussion may be helpful all the same. To my knowledge, the issue 'job security regulations' has not been included in any election study so far. While I do not want to argue that job security regulations are of marginal importance when it comes to the functioning of the labour market, I think that job security regulations are not as prominent as unemployment benefits or the welfare state in general when it comes to voting decisions. Further evidence is provided by survey data. In Eurobarometer 44.3 (1996) the following question was included: 'What do you think should be the first priority for combating unemployment? Should we …?' The respondents could choose among eleven suggested answers. A potential answer 'reducing job security regulations' was not included. The authors of the questionnaire did not seem to consider it to be of particular importance. How can this issue then be expected to dominate the voting decision?[4]

In this discussion so far, I have argued that the differences between insiders and outsider with regard to preferences for job security regulations may not be particularly big and that there is no reason to believe that labour market outsiders vote less for Social Democratic parties than do labour market insiders. Now, I would like to go one step further and argue that there are very good reasons to expect labour market outsiders to be at least as supportive of job security regulations as labour market insiders.

The insider/outsider theory of employment and unemployment suffers from three crucial problems. First, the classification of labour market participants into insiders, outsiders, self-employed people and 'upscales' is rather crude and static. The insider/outsider theory of employment and unemployment is all about economic power. If one has economic power and a job, one is not particularly interested in (or better, in need of) job security regulations. Even in the unlikely event of dismissal, new employment will be found easily. However, in the opposite situation, one is looking for regulations to support one's position in the labour market. By assuming that the wage corresponds to the marginal product of labour, income can be understood as the market value and, consequently, the economic power of a worker. Therefore, the higher the income of a worker, the higher his or her market value, and, as a consequence, the lower his or her support for job security regulations.[5]

Moreover, the worker's classification of the insider/outsider theory of employment and unemployment is also very static. However, people's economic fortunes are much more volatile than the theory implies:

> The stability of the overall cross-sectional aggregates tricks us into supposing that there is an underclass of citizens, economically deprived and socially excluded, which is stable over time. Probing beneath those cross-sectional aggregates through panel data, we now know that this is largely untrue. (Goodin et al., 1999: 7)

As a consequence, the boundaries between insiders and outsiders may be rather blurry.

Second, the exclusive focus on the labour market neglects household relationships. Pierson (2001: 448) argues that a simple political economy approach is misleading if the cleavage runs right through the middle of households. Outsiders are often either female or young men, who are frequently economically dependent on
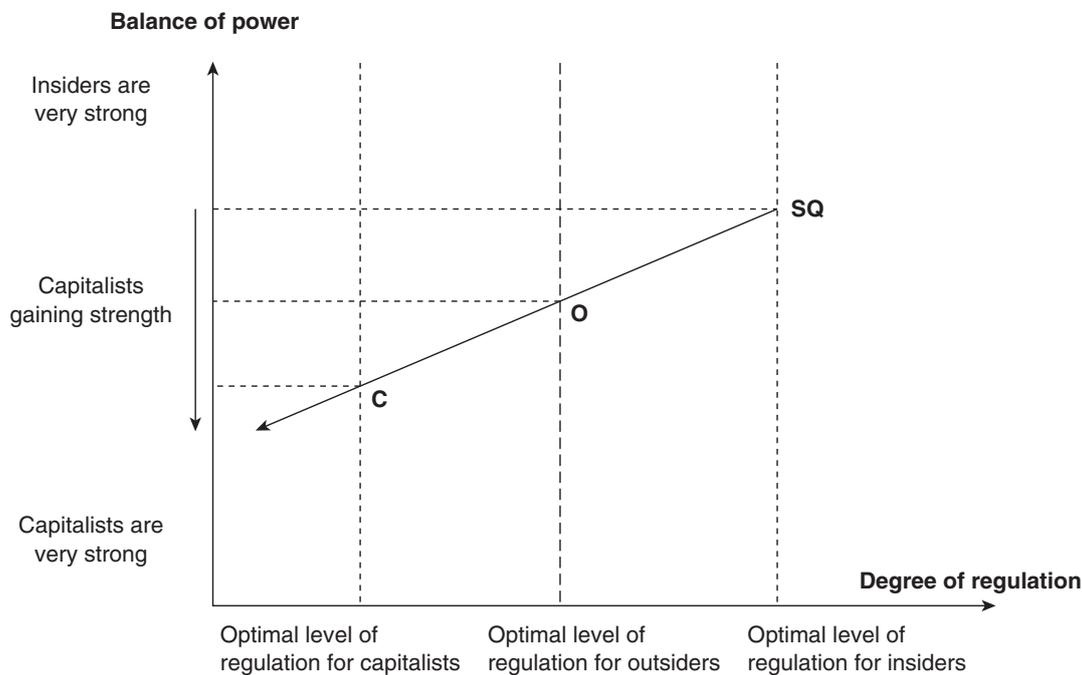
Figure 1 Interaction between degree of labour market regulation and balance of power
Source: Tsakalotos (2004: 419) with modifications.

male insiders.[6] As a result, they tend to share the policy preferences of their husbands/fathers (Iversen, 2005: 105). Indeed, Neugart (2008) shows that support for job security regulations increases when many voters who are out of the labour force are covered by intra-household transfers.

Third, Euclid Tsakalotos (2004) offers a compelling argument for why it might be rational for both insiders *and* outsiders to resist deregulatory reforms.[7] He argues that the economic power of different social groups is a function of the regulation of the labour market. Deregulation increases the power resources of 'upscales' and self-employed people (whom he refers to as capitalists), as opposed to labour market insiders and outsiders. While an initial deregulatory reform may be beneficial for labour market outsiders, the shift in the balance of power in favour of capitalists enables them to push through even more deregulatory reforms. These reforms, however, are neither beneficial for the insiders *nor* for the outsiders. As a consequence, labour market outsiders have an incentive to resist initial deregulatory reforms, even though their labour market effects would be beneficial.

Figure 1 illustrates this relationship graphically. Let us assume a labour market with a high level of job security regulations (point *SQ*). In this labour market, the level of regulations is optimal for labour market insiders but too high for labour market outsiders and definitely too high for 'upscales' and self-employed people (i.e. capitalists). An alliance of capitalists and outsiders may try to reduce the level of job security regulations to O, which is the optimal level of regulation for the labour market outsiders but still higher than capitalists would prefer. Tsakalotos's argument, however, implies that this new equilibrium is not stable. The deregulation increases the power resources of capitalists. Consequently, capitalists will push for reforms that will get them to C, which is their optimal level of regulation. This level, however, is clearly lower than what the labour market outsiders would prefer.

As a consequence, both labour market insiders *and* outsiders have an incentive to resist deregulatory reforms. Labour market outsiders would not only end up with a level of regulation that is lower than they prefer, but the reduction in the number of relatively secure jobs would also remove any opportunity

of exiting from the status as an outsider (Tsakalotos, 2004: 422).

To sum up, the insider/outsider theory of employment and unemployment offers persuasive arguments why 'upscales' and self-employed people should prefer less job security regulations than labour market insiders. However, it is less clear why this should also be the case for labour market outsiders. They face several incentives to support job security regulations, such as household relationships, power resources considerations or the prospect of an insider job in the future.

Data sources and variable operationalization

The present analysis relies on two surveys of the International Social Survey Programme (ISSP). No survey so far has included questions which directly address respondents' support for regulatory protection against dismissals. However, ISSP 1996 and ISSP 1997 both contain questions which capture information on important facets of job security regulations.[8] For ISSP 1996, respondents were asked whether they supported governmental action for declining industries to protect jobs. Respondents were offered five possible answers from 1 ('strongly against') to 5 ('strongly in favour of'). This question is very specific (Kangas, 1997), but it has the drawback of including aspects of industrial policy, which may not necessarily be supported by the respondents. For ISSP 1997, respondents were asked the following question: 'How important do you personally think each item is in a job: job security?' Respondents were offered five possible answers from 1 ('not important at all') to 5 ('very important'). This question is more general, but does not make any references to other policy fields. In the subsequent parts, statistical models will be presented for both questions. If the results are the same for both dependent variables, it is reasonably safe to assume that the independent variable in question has the estimated effect on preferences for job security regulations.

In a second step, I examine the relationship between labour market status and voting decision. Party affiliation has been constructed using the nation-specific party affiliation data. The classification into 'far Left', 'Left', 'Centrist', 'Right' and 'far Right' is based on Cusack et al. (2006).[9] I use two dependent variables. The first differentiates between those voting for 'Left' parties and those voting for other parties. The second differentiates between those voting for 'Left' and 'far Left' parties and those voting for other parties.

To evaluate the insider/outsider theory of employment and unemployment, respondents have to be classified into one of the following five groups: labour market insiders, labour market outsiders, 'upscales', self-employed people and non-employed respondents. These groups are exclusive. Thus, no respondent can be a member of two groups. Insiders are full-time employees under permanent contract who do not occupy a higher-grade professional, administrative or managerial position. The latter have been coded as 'upscales', using the European Socio-economic Classification of Occupations (Harrison and Rose, 2006). Outsiders are employees who are working part time (or less than part time), under a temporary contract or are currently unemployed.[10] Students, housewives and househusbands, respondents who are retired, help family members, are permanently disabled/sick or out of the labour force for other reasons have been coded as non-employed. Self-employed people form the last group.

In all models, I include a number of control variables. These are trade union membership, church attendance, education, income, gender and age. Furthermore, I test for an interaction effect between age and gender. Finally, following Kitschelt and Rehm (2006: 69), I incorporate dummy variables for two new social risk groups: young, less-educated men and young, highly educated women. See Tables A1 and A2 in the Appendix for a detailed documentation of the operationalization and a summary of the statistics.

The models examining the preferences for job security regulations will be estimated using logit regressions with country dummies and country clusters to adjust the standard errors for intra-group correlations. The binary-dependent variables are coded as follows: (1) Importance of job security as a job characteristic (ISSP 1997): one if very important (N = 11,306), zero otherwise (N = 8,492); (2) Governmental interventions to protect jobs (ISSP 1996): one if in favour of (N = 12,609), zero otherwise (N = 8,046).[11] The models examining party affiliation will also be estimated using logit regression models with country dummies and country clusters. The binary dependent variables are coded as follows: (1) one if affiliated to 'left' parties (ISSP 1996: N = 5,886/ISSP 1997: N = 5,791), zero otherwise (ISSP 1996: N = 8,116/ISSP 1997: N = 7,547); (2) one if affiliated to 'Left' or 'far Left' parties (ISSP 1996: N = 6,497/ISSP 1997: N = 6,365), zero otherwise (ISSP 1996: N = 7,505/ISSP 1997: N = 6,973).

Table 1 Determinants of preferences for job security regulations

Dependent variable:	Protect jobs (1)	Job security (2)
Insider	0.027 (0.58)	0.285[a] (3.54)
Upscale	−0.501[a] (−7.45)	−0.143 (−1.20)
Self-employed	−0.367[a] (−7.69)	−0.292[a] (−3.25)
Temporarily employed (outsider)	–	0.001 (0.02)
Part-time employed (outsider)	0.011 (0.20)	−0.117 (−0.91)
Unemployed (outsider)	0.200[b] (2.92)	0.175[b] (2.95)
Non-employed	Reference category	
Union member	0.171[a] (3.55)	0.144[b] (2.75)
Church attendance	0.013 (1.18)	0.009 (0.71)
Education	−0.310[a] (−16.18)	−0.178[a] (−3.98)
Income	−0.196[a] (−5.84)	−0.051 (−1.86)
NSR – man	0.404[a] (3.75)	0.292[c] (2.05)
NSR – woman	0.099 (1.11)	−0.095 (−1.39)
Woman	0.935[a] (7.73)	0.539[a] (3.33)
Age	−0.005[b] (−2.77)	0.007[c] (2.05)
Woman x age	−0.008[b] (−2.87)	−0.009[b] (−2.77)
Country fixed effects	yes	yes
Pseudo R^2 (McFadden)	0.112	0.056
Adjusted Count R^2	0.216	0.122
No. of observations	14,860	13,156

Notes: Logit regressions with country dummies and robust standard errors. Country dummies not reported due to space restrictions. t-value in parentheses. [a] $p < 0.001$, [b] $p < 0.01$, [c] $p < 0.05$.

Empirical evidence

Table 1 displays the results of logit regressions on variables measuring the labour market status and controls. Two different dependent variables have been used. Model 1 examines attitudes towards governmental interventions for declining industries to protect jobs, while Model 2 examines attitudes concerning job security as a job characteristic. The non-employed respondents have been used as a reference category. Note that no dummy variable for temporarily employed people has been included in Model 1 due to data constraints in ISSP 1996.

On the basis of the insider/outsider theory of employment and unemployment, I expect self-employed people and 'upscale' respondents as well as labour market outsiders (part-time and temporarily employed people as well as unemployed respondents) to be rather critical of job security regulations. In contrast, labour market insiders are the main beneficiaries of job security regulations. As a consequence, they are expected to be very supportive.

Some important observations can be made. First, the self-employed respondents are clearly critical of

job security regulations. In both models, a robust negative effect can be observed. Second, there is a cleavage within the group of labour market outsiders. Part-time and temporarily employed respondents exhibit similar attitudes as non-employed respondents. In contrast, unemployed respondents are in both models significantly more supportive of job security regulations. In fact, in Model 1 a significant positive effect of the dummy variable for the unemployed respondents can be observed while the dummy variable for labour market insiders ceases to be significant. Finally, labour market insiders tend to be rather supportive while 'upscale' respondents are quite critical of job security regulations. Thus, the following pattern can be observed. Labour market insiders and unemployed people are very supportive of job security regulations. The remaining labour market outsiders (i.e. temporarily and part-time employed respondents) and non-employed people are more critical while 'upscales' and self-employed employed people are rather hostile towards job security regulations.

There are two open questions which need to be addressed. First, why do unemployed people show so much support for job security regulations? This

finding is totally at odds with the insider/outsider theory of employment and unemployment. However, this does not come as a surprise. As I argue above, the insider/outsider theory offers compelling arguments why labour market insiders should be very supportive and why 'upscales' and self-employed respondents should be very critical of job security regulations, but there are conflicting expectations as far as the labour market outsiders are concerned. As a consequence, the more appropriate question may be: Why is there a difference between unemployed people and the remaining labour outsiders?

This question cannot be fully answered with the data at hand. However, it could be argued that temporarily employed respondents do not benefit as much from job security regulations as employees on permanent contracts. They cannot expect to work for the same enterprise for the rest of their lives. They have a fixed-term contract and as soon as this contract expires they will either get a new contract or leave, independent of job security regulations. Although they may hope to get a permanent contract one day, the present value of job security regulations, at least in the short term, is rather low for them. This is different for unemployed respondents who are currently looking for a new job and hope to get a full-time, permanent job in the very near future. Moreover, temporarily employed people are comparatively young. The average age amounts to 36 years as opposed to an average age of 44.7 years in the entire sample.

Things look different for part-time employed respondents. The insider/outsider theory of employment and unemployment treats labour market outsiders as if they were in a position which they would like to leave. However, this may not be the case for all part-time workers. In Europe, part-time jobs can also be found in high-paid sectors (Lucifora et al., 2005: 268). Furthermore, part-time workers often prefer part-time over full-time employment (Nickell and van Ours, 2000: 174). However, if they choose part-time work voluntarily, they may also be aware of the fact that part-time jobs are often less protected by job security regulations than full-time jobs (Samek Lodovici, 2000: 38). Hakim (1995: 434–6) contends the notion that all part-time work is involuntary. She argues that *some* former full-time workers transfer quickly to undemanding part-time jobs as soon as intra-household relationships allow it. Thus, some part-time employed workers may be perfectly happy with their outsider status. As a consequence, they cannot be

expected to care too much about job security. Note that of all part-time employed respondents, 83.7 percent from ISSP 1996 and 84.3 percent from ISSP 1997 are female.

However, it is equally conceivable that part-time and temporarily employed respondents are strong supporters of strict job security regulations. Temporary and part-time workers may also hope to get a full-time, permanent job in the very near future and better protection against dismissals in their current jobs. Therefore, the question of why temporarily and part-time employed respondents prefer less job security regulations cannot be fully answered with the data at hand.

Second, why are labour market insiders less supportive of governmental interventions for declining industries to protect jobs than for job security as a job characteristic? I argue that this could be due to distributional consequences. The first dependent variable concerning governmental interventions also refers to industrial policy. Such interventions *normally* target the manufacturing sector. As a consequence, not all labour market insiders can equally profit from these interventions. A saleswoman in retail business is as much an insider as a mason. However, only the latter can reasonably expect to benefit from governmental interventions for declining industries to protect jobs. In contrast, all insiders can expect to gain from job security *regulations*.

In summary, the empirical evidence for the insider/outsider theory of employment and unemployment is mixed. Compared to labour market insiders, temporarily, part-time employed, 'upscale' and, especially, self-employed respondents are rather critical of job security regulations. However, at odds with the theoretical expectations, unemployed respondents are very supportive of job security regulations. This is particularly important since the unemployed are the archetype of labour market outsiders. I argue that the insider/outsider theory of employment and unemployment is wrong in believing that labour market outsiders are predominantly hostile towards job security regulations. In contrast, there are good reasons to expect them to be very positive about them. However, there are also good reasons why part-time and temporarily employed persons may be less supportive of job security regulations. But this has less to do with labour market status than with intra-household relationships and work preferences.

Table 2 Party affiliation for Left parties (% of all affiliations of a group)

	Party affiliation			
	Left (Social Democratic) parties		Left or far Left parties	
	ISSP 1996	*ISSP 1997*	*ISSP 1996*	*ISSP 1997*
Self-employed	29.32%	32.23%	33.25%	33.67%
Upper management	39.31%	35.70%	41.85%	37.67%
Insider	44.38%	45.95%	50.03%	50.87%
Part-time employee	44.85%	46.36%	47.77%	53.91%
Temporary employee	–	45.50%	–	51.09%
Unemployed	51.72%	54.94%	61.88%	62.31%
Not employed	42.22%	43.26%	45.63%	46.76%

In a second step, I now turn to voting preferences. The insider/outsider theory of employment and unemployment expects labour market insiders to disproportionately support Leftist parties while labour market outsiders vote for other parties (or do not vote at all). In contrast, I argue, with an admittedly very simple voting model in mind, that labour market insiders and outsiders will disproportionately vote for Left parties as opposed to 'upscale' employees and self-employed people.

The voting preferences of the different labour market groups are shown in Table 2. As expected, labour market insiders are more often affiliated to Left parties than 'upscale', self-employed or non-employed respondents. However, in contrast to the insider/outsider theory of employment and unemployment and in accordance with my theoretical expectations, labour market outsiders, especially unemployed respondents, are equally or even more supportive of Left parties.

This result is also supported by logit regressions, as displayed in Table 3. Due to insufficient data I am not able to estimate a proper voting model, but Models 3 to 6 in Table 3 still include some key controls such as union membership, church attendance, age, gender, education and income. Two dependent variables have been used. Models 3 and 4 examine the support for Left parties while Models 5 and 6 examine the support for Left and far Left parties. Again, the non-employed respondents have been used as a reference category.

First and foremost, labour market status does not have a particularly strong effect on party affiliations. Only the self-employed respondents show a strong and robust negative effect. However, it is interesting to note that no clear differences can be detected between the labour market insiders and the labour market outsiders (i.e. temporarily and part-time employed as well as unemployed respondents). Arguably, unemployed people are particularly supportive of Left parties. In Model 6, the coefficient is significantly different from zero while in Models 3 to 5 the t-values vary between 1.49 and 1.94. This result, however, is not very conclusive since the presented model may be underspecified due to data constraints. Still, it is unlikely that the inclusion of further controls would change the relationships dramatically.

To sum up, the empirical evidence for the insider/outsider theory of employment and unemployment is again weak. Labour market insiders do not more often support Left parties than labour market outsiders. In contrast, unemployed people seem to be the most reliable supporters of Left parties.

Conclusions

Job security regulations, here understood as restrictions on hiring and firing, figure prominently in the policy recommendations of international organizations such as the International Labour Organization, the International Monetary Fund, the Organization for Economic Cooperation and Development, and the World Bank, in the reform programmes of countries like France, Spain or Sweden as well as the European Union's employment strategy. In the majority of these cases the discussions also refer to the resulting cleavage between labour market insiders and outsiders. However, in contrast to the prominence of job security regulations in the current reform discourse, hardly any attention is paid to their determinants.

Table 3   Determinants of party preferences

	Support for Left parties		Support for Left and far Left parties	
Dependent variable:	ISSP 1996 (3)	ISSP 1997 (4)	ISSP 1996 (5)	ISSP 1997 (6)
Insider	0.031 (0.50)	0.101 (1.39)	0.028 (0.48)	0.099 (1.45)
Upscale	−0.105 (−1.53)	−0.058 (−0.66)	−0.119[c] (−2.17)	−0.130 (−1.38)
Self-employed	−0.499[a] (−3.52)	−0.434[b] (−2.97)	−0.494[a] (−3.44)	−0.476[b] (−3.09)
Temporarily employed (outsider)	–	0.089 (1.58)	–	0.110 (1.84)
Part-time employed (outsider)	0.002 (0.02)	0.150 (0.92)	0.015 (0.11)	0.198 (1.18)
Unemployed (outsider)	0.205 (1.70)	0.233 (1.49)	0.266 (1.94)	0.316[c] (2.35)
Non-employed	Reference category		Reference category	
Union member	0.545[a] (7.57)	0.586[a] (9.97)	0.673[a] (8.97)	0.680[a] (10.69)
Church attendance	−0.132[b] (−3.11)	−0.194[a] (−3.35)	−0.168[a] (−3.24)	−0.229[a] (−3.49)
Education	−0.005 (−0.09)	−0.072 (−1.84)	0.003 (0.07)	−0.043 (−1.11)
Income	−0.186[a] (−4.00)	−0.199[a] (−4.26)	−0.208[a] (−4.30)	−0.245[a] (−4.95)
NSR – man	−0.133 (−0.49)	−0.214 (−1.35)	−0.073 (−0.31)	−0.093 (−0.69)
NSR – woman	−0.206[c] (−2.16)	−0.171 (−1.54)	−0.279[c] (−2.47)	−0.281 (−1.90)
Woman	0.666[a] (3.46)	0.515[c] (2.64)	0.776[a] (4.39)	0.654[a] (3.53)
Age	−0.003 (−0.60)	0.001 (0.19)	−0.003 (−0.59)	0.000 (0.004)
Woman x age	−0.011[b] (−3.13)	−0.005 (−1.45)	−0.013[a] (−3.86)	−0.007[c] (−2.02)
Country fixed effects	yes	yes	yes	yes
Pseudo R^2 (McFadden)	0.063	0.068	0.077	0.085
Adjusted Count R^2	0.119	0.162	0.204	0.247
No. of observations	10,353	9,089	10,353	9,089

Notes: Logit regressions with country dummies and robust standard errors. Country dummies not reported due to space restrictions. t-value in parentheses. [a] $p < 0.001$, [b] $p < 0.01$, [c] $p < 0.05$.

In this article, I examine the insider/outsider theory of employment and unemployment, which is arguably the most prominent approach in economics to explain differences in the level of job security regulations. This theory has been recently popularized in political science by the seminal work of Rueda (2005; 2006). Advocates of this approach argue that job security regulations mainly benefit labour market insiders. As a consequence, insiders will fight all reforms that aim to dismantle these regulations. Labour market insiders are supported by Social Democratic parties, which represent the interests of the working class. However, Social Democracy is confronted with an electoral dilemma, since part of its constituency, the labour market outsiders (unemployed, part-time and temporarily employed people), would gain from deregulatory reforms. Social Democratic parties will side with the labour market insiders because they tend to be politically more active and outnumber the outsiders. This reasoning implies that labour market insiders are the main obstacle to deregulatory reforms of dismissal restrictions.

In this article I maintain that this simple argument is wrong. Three reasons are discussed. First, the insider/outsider theory of employment and unemployment has too demanding rationality assumptions. It ignores long-term perspectives and draws a cynical picture of labour market insiders. Second, the theory ignores electoral politics and does not acknowledge the fact that parties offer policy packages. Third, there are numerous reasons why labour market insiders and outsiders share similar interests with regard to job security regulations, be it household relationships, the power balance between capital and labour or the volatility of one's own position in the labour market. As a consequence, I argue that labour market outsiders can be expected to be as supportive of job security regulations and of Social Democratic parties as labour market insiders. These claims are indeed confirmed by the findings. Labour market outsiders were found to be a rather heterogeneous group. Most notably, unemployed people proved to be as supportive of job security regulations as the labour market insiders. Moreover,

labour market insiders were not found to be more sympathetic towards Social Democratic parties than labour market outsiders.

These results have a major implication for the current reform debate. Explanations based on insider/outsider politics are very prominent in contemporary discussions on labour market problems and popular resistance to deregulatory reforms. Their central point is the assumption of a gap between insiders and outsiders. However, as the preceding analysis has shown, there is no irreconcilable cleavage between labour market insiders and labour market outsiders. Many labour market outsiders, most notably unemployed people, consider job security regulations to be very important. Therefore, deregulatory reforms should not be designed with the idea in mind that job security regulations are supported by labour market insiders while they are rejected by labour market outsiders.

This analysis highlights that the simplicity of the insider/outsider theory of employment and unemployment is simultaneously its biggest strength and its biggest weakness. This simplicity makes the insider/outsider theory very comprehensible and, consequently, a powerful argument in the current reform debate. However, I argue that the simple distinction between insiders and outsiders is too crude to capture important facets of popular support for job security regulations. This analysis has shown that the labour market outsiders are far from being a homogeneous group. Differences have been observed between unemployed people, on the one hand, and part-time and temporarily employed people on the other hand. This raises the question of whether similar differences can be observed within the large group of labour market insiders.

Finally, the results presented in this article should be interpreted in consideration of the 'datedness' of the employed surveys. The two ISSP data sets are from the mid-1990s. Many things may have changed in the meantime. There is reason to believe that the 'dualisation' of labour markets has intensified (Häusermann and Palier, 2008). A replication using more recent data sources may be a worthwhile endeavour.

Notes

1 The two other important arguments are based on Catholic social policy (Esping-Andersen, 1996; 1999) and asset specificity (Estevez-Abe et al., 2001; Iversen and Soskice, 2001).

2 Note that job security regulations are not the only source of insider/outsider cleavages (see Ferrera et al., 2001: 178).

3 As argued by Sturzenegger and Tommasi (1998: 8): '[i]f highly trained intelligent people who spend their lives thinking about these problems often disagree, imagine what the situation is like for the average citizen, who only gets to sparse (and often biased) information from the mass media, after-dinner conversations and during political rallies'.

4 Furthermore, it is not clear whether the insider/outsider theory of employment and unemployment centres on Social Democratic parties or trade unions. Awkwardly, the leading authors themselves are not particularly consistent in this regard (see Rueda [2005] as opposed to Rueda [2006: 390] and Saint-Paul [1996] as opposed to Saint-Paul [2002]).

5 In empirical analyses of social policy preferences, income is normally included as an indicator for redistributive (Romer, 1975; Meltzer and Richard, 1981) or income effects (Sinn, 1995; Moene and Wallerstein, 2001). The former argues that in unequal societies the median voter's income tends to be small. As a consequence, the median voter will demand more redistribution. The latter argues that 'the demand for insurance declines with income, assuming that insurance is a normal good' (Moene and Wallerstein, 2001: 860). Both arguments do not offer clear predictions for regulatory social policies.

6 Taylor-Gooby (1991), for example, even argues that the insider/outsider cleavage emerges in Conservative welfare regimes as a gender conflict.

7 See Wright (2004) for a similar argumentation.

8 ISSP 1996 (Role of Government III) incorporates 12 countries of interest (Australia, Canada, France, Germany, Great Britain, Ireland, Italy, New Zealand, Norway, Sweden, Switzerland, and the USA). ISSP 1997 (Work Orientations II) covers 14 countries of interest (Canada, Denmark, France, Germany, Great Britain, Italy, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, and the USA).

9 As compared to Cusack et al. (2006) one minor change has been introduced. The Christian Social Party (CSP) in Switzerland has been classified as 'Left'. Cusack et al. (2006) described this party as 'conservative' and classified

it as 'Right'. However, this classification ignores that this party is a splinter group to the Left of the Christian Democratic Party (CVP), which Cusack et al. (2006) classify as Centrist.

10 Note that ISSP 1996 does not include a question about whether respondents are working under a permanent or a temporary contract. As a consequence, respondents have been coded as outsiders in ISSP 1996 when they are working part time or are currently unemployed.

11 The usage of logit regressions leads to a loss of information since the dependent variable is collapsed into a binary variable. Note that the usage of ordered logit regressions produces similar results (estimations not reported). However, I refrain from using ordered logit regressions since a likelihood ratio test shows that the parallel regression assumption is violated for some countries.

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Table A1 Description of variables (ISSP 1996)

Short name	Operationalization	N	Mean	Std. Dev.	Min.	Max.
Protect jobs	Government action for economy: Support declining industries to protect jobs (from strongly against to strongly in favour of)? (v23)	20,655	3.613	1.143	1	5
Left party affiliation	Left party affiliation, coded on the basis of Cusack et al. (2006). (v224)	14,002	0.420	0.494	0	1
Left or far Left party affiliation	Left or far left party affiliation, coded on the basis of Cusack et al. (2006). (v224)	14,002	0.464	0.499	0	1
Insider	Full-time employee on permanent contract, no upscale. (v206, v213, ESeC 1-10)	20,927	0.335	0.472	0	1
Outsider	Employee working part time, under temporary contract or currently unemployed. (v206, v213, ESeC 1-10)	20,958	0.154	0.361	0	1
Upscale	Full-time employee on permanent contract and ESeC = 1. (v206, v213, ESeC 1-10). Data missing for ITA and ESP.	20,927	0.059	0.236	0	1
Self-employed	In your main job are you an employee or self-employed? (v213).	21,326	0.112	0.315	0	1
Non-employed	Current employment status (helping family member, student, retired, permanently disabled/sick, housewife/husband, not in labour force). (v206)	20,958	0.338	0.473	0	1
Unemployed	Current employment status (unemployed). (v206)	20,958	0.051	0.220	0	1
Part-time employed	Current employment status (part-time main job, less than part time). (v206)	20,958	0.103	0.305	0	1
Union member	Are you member in a trade union at present? (v222)	21,326	0.173	0.379	0	1
Church attendance	How often do you attend religious services? (v220) Data missing for ESP.	17,900	2.729	1.769	1	6
Woman	Dummy = 1 for female respondent. (v200)	21,244	0.511	0.500	0	1
Age	Respondent's age. (v201)	21,176	45.644	16.457	16	97
Woman x age	Interaction woman and age.	21,153	23.486	25.915	0	97
NSR – man	Male respondent younger than 31, education degree less than 5.	20,900	0.035	0.183	0	1
NSR – woman	Female respondent younger than 31, education degree of 7.	20,900	0.075	0.263	0	1
Education	Highest education degree (from low to high). (v205)	21,059	4.618	1.429	1	7
Income	Household income, z-standardized per country. Subsequently pooled.	18,203	0.000	1.000	–2.05	13.1

Table A2   Description of variables (ISSP 1997)

Short name	Operationalization	N	Mean	Std. Dev.	Min.	Max.
Job security	How important do you personally think each item is in a job: job security (from not important at all to very important)? (v13)	19,798	4.474	0.715	1	5
Left party affiliation	Left party affiliation, coded on the basis of Cusack et al. (2006). (v224)	13,338	0.434	0.496	0	1
Left or far left party affiliation	Left or far Left party affiliation, coded on the basis of Cusack et al. (2006). (nation specific party variables)	13,338	0.477	0.499	0	1
Insider	Full-time employee on permanent contract, no upscale. (wrkst, v48, selfemp, wrkgovt, ESeC 1-10)	19,326	0.305	0.460	0	1
Outsider	Employee working part time, under temporary contract or currently unemployed. (wrkst, v48, selfemp, wrkgovt, ESeC 1-10)	19,505	0.226	0.418	0	1
Upscale	Full-time employee on permanent contract and ESeC = 1. (wrkst, v48, selfemp, wrkgovt, ESeC 1-10). Data missing for NET.	18,760	0.048	0.214	0	1
Self-employed	In your main job are you an employee or self-employed? (selfemp). For NET and ESP: Respondent working for private or public sector? (wrkgovt)	19,375	0.090	0.287	0	1
Non-employed	Current employment status (helping family member, student, retired, permanently disabled/sick, housewife/husband, not in labour force). (wrkst)	20,066	0.341	0.474	0	1
Unemployed	Current employment status (unemployed). (wrkst)	20,066	0.048	0.214	0	1
Temporarily employed	Which of the following describes your job situation (fixed-term job lasting more or less than 12 months)? (v48)	19,689	0.075	0.264	0	1
Part-time employed	Current employment status (part-time main job, less than part time). (wrkst)	20,066	0.117	0.322	0	1
Union member	Are you member in a trade union at present? (union)	20,019	0.321	0.467	0	1
Church attendance	How often do you attend religious services? (attend)	19,640	2.660	1.726	1	6
Woman	Dummy = 1 for female respondent. (sex)	20,363	0.534	0.499	0	1
Age	Respondent's age. (age)	20,324	44.666	16.371	16	97
Woman x age	Interaction woman and age.	20,322	23.880	25.353	0	97
NSR – man	Male respondent younger than 31, education degree less than 5.	19,651	0.039	0.194	0	1
NSR – woman	Female respondent younger than 31, education degree of 7.	19,651	0.083	0.276	0	1
Education	Highest education degree (from low to high). (degree and s_degr for SWE)	19,701	4.637	1.452	1	7
Income	Household income, z-standardized per country. Subsequently pooled.	17,321	0.000	1.000	−2.66	19.1