INSTITUTIONAL CHANGE AND THE POLITICS OF SOCIAL SOLIDARITY

IN ADVANCED CAPITALIST DEMOCRACIES

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Abstract

Following insights from Höpner, we argue that the advanced industrial countries may be usefully conceptualized as "coordinated" (or uncoordinated) across two analytically distinct dimensions: The first is economic cooperation by economic agents designed to overcome collective action problems. The second, the solidarity dimension, is the degree of cooperation among economic agents and the state to protect wages, employment, and an egalitarian distribution of market incomes. We seek to explain variations in solidarism generally, and to explain why solidarism has declined modestly in the typical coordinated market economy (CME) and significantly in some CME's. We argue that state capacity, especially the magnitude of public sector employees as leaders of pro-solidaristic coalitions, should be important. Economic coordination, inclusive electoral institutions as well as social and Christian democratic party governments should also bolster solidarism.. To assess our arguments, we estimate models of 1980s-2000s variation in solidarism in 18 nations. Our models also account for veto points, deindustrialization, globalization, and economic growth. We find strong support for a political interpretation of solidarism: public sector-led coalitions, coordination, social democratic and, with qualification, Christian democratic governments all promote solidarism. Deindustrialization (but not globalization) and veto points negatively affect solidarism.

Introduction

Life is uneasy for comparative political economists in the Twenty-First Century. Not so long ago, the field was comfortably ruled by universal truths about the benefits of a cooperative society and about the institutional arrangements enabling some countries to achieve high levels of economic coordination and social solidarity. Theoretically-diverse scholars converged on a surprisingly consensual picture of the core institutional arrangements that distinguish "coordinated" capitalist economies (e.g. Germany) and "liberal" market economies (e.g. the United States). This great divide – between countries utilizing non-market coordination and those relying on market exchange mechanisms – was apparent in distinctive patterns of economic practice, policy, and politics; and in nations' financial, industrial relations, vocational training and welfare institutions (Streeck 1992; Hall and Soskice 2001).

Yet by the 1980s, many core institutions anchoring coordination in organized market economies had come under indisputable strain and motivated contentious reform crusades; and the academic analysis of advanced industrial economies also reached a theoretical impasse. Scholars came to disagree about the ramifications of the new economic challenges and national policy responses for the future of the families of capitalism. Some observers interpreted the reforms – with their language of "flexibility" and "deregulation" – as a pervasive move by coordinated economies toward liberalization, and even called into question the continuing analytic utility of core theoretical distinctions between organized and liberal capitalism (Howell 2003; Glyn 2006; Streeck 2008). Others defended the core distinctions between liberal and coordinated market economies (hereafter, LMEs and CMEs), documenting both the wide gulf separating the two economic types and the tremendous stability of key dimensions of coordination: centralized collective bargaining, strong employment protections for full-time workers, and high debt/equity ratios (e.g., Hall and Gingerich 2004). These authors coded changes as minor adjustments in an otherwise stable framework that do not undermine CMEs but rather shore them up.

The theoretical impasse over the scope of contemporary change in advanced industrial economies, we argue, reflects a faulty *unidimensional* schema in the most prominent theoretical frameworks that offers too few analytic categories to capture the *multi-faceted* changes underway (see

also Höpner 2007). Because the current debate focuses on the single continuum of coordination (and how far "liberalization" has taken CMEs toward LME-type arrangements), it misses another form of change in many CMEs – the move from more solidaristic to distinctly less egalitarian forms of coordination (Thelen and Kume 2006; Martin and Thelen 2007; Palier and Thelen 2008). To the extent that the changes taking place in the advanced industrial countries today may involve some combination of relatively *stable* coordination and *declining* solidarism, we must confront the possibility that coordination – while perhaps a necessary condition for social solidarity within CMEs – may not be sufficient to guarantee its perpetuation. In this event, models of change built up around a one-dimensional continuum that runs from coordinated to liberal markets will not be able to capture declining egalitarianism.

This paper seeks to overcome the current theoretical impasse in two ways: first, we specify another dimension on which advanced industrial democracies can be classified, a *social solidarity dimension*; and, second, we investigate the causal determinants of the new dimension. With our initial task, we complement the continuum of coordination (between LMEs and CMEs) with a second (analytically distinct but related) dimension, running from "solidarism" to "segmentalism or dualism." Thus, the first dimension captures economic cooperation designed to overcome coordination and collective action problems, or as Hall (2007) as recently put it, to maximize total factor productivity. Our second solidarity dimension consists of the cooperation among economic agents and the state to sustain wages and employment, and to promote an egalitarian distribution of income; and countries can be positioned on this continuum from solidarism at one end to segmentalism at the other.

Our solidarity index (and its component parts) is meant to tap precisely those changes – both between and within the broad families of LMEs and CMEs – that current frameworks miss. The solidarity index concerns the extent to which countries (whether LMEs or CMEs) exhibit high levels of (a) coverage of various kinds of risks to income, (b) "good" (i.e. regular, benefit-covered, training-supported) employment, and (c) an equitable distribution of economic product. Thus, we seek to identify whether coverage of risks, "good" jobs, and wages are equitably distributed across the population (solidarism) or accrue more to labor market "insiders," leaving high risks, "bad" jobs, and low wages for

labor market "outsiders" (segmentalism/dualism).

The essential question, of course, is how societies manage to sustain solidarism in the face of the disaggregating forces arising after the Golden Age; thus, our second major task is to identify the causal determinants of variation in solidarism across the advanced industrial democracies. State entrepreneurs' capacities to form coalitions for solidarity is essential to this political project; therefore, we hypothesize that the size and capacity of the state (and the predominance of public sector employees) is a key to sustaining solidarism. We also investigate the causal roles of government control by social and Christian democratic parties, inclusive electoral institutions, and economic coordination, itself. While we account for the potential importance of deindustrialization and globalization, we stress political explanations.

We test our hypotheses about the causal determinants of social solidarism with data from 13-18 countries (depending on the dimension of solidarism) over a period from the early 1980s to the early 2000s. To preview our core results, we find strong support for a political interpretation of solidarism: public sector employee-led coalitions, institutions for economic coordination, social democratic governments, and, with qualification, Christian democratic governments all promote solidarism. We find that deindustrialization (but not globalization) exerts significant downward pressure on solidarism.

The paper proceeds as follows: First, we assess the contemporary literature that seeks to understand the nature, scope and direction of change in advanced capitalist democracies. Second, we develop our solidarity index and propose that our differentiated framework provides a more powerful analytical model for tracking change among CMEs and LMEs. Third, we offer hypotheses about the variation in solidarism, paying particular attention to political coalitions, political institutions and state structure in our analysis. Fourth, we empirically assess the explanatory power of each of these hypotheses and we elaborate on the forces that lie behind the strong relationships we observe between politics and solidarism. Finally, we discuss the broader significance of our findings for the literature on the political economy of advanced capitalism and on institutional change more broadly.

Beyond the LME-CME dichotomy

Why do scholars disagree about the trajectory of change, given their fundamental agreement

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about distinctive models of capitalism and, perhaps more importantly, how can we capture the transformations at play in our post-industrial world? Drawing inspiration from Martin Höpner's two-dimensional conception of non-liberal capitalism, we suggest that in many cases different scholars are tracking change on wholly different dimensions. We follow his lead in breaking out a second key dimension of variation among advanced capitalist countries, though we define and measure this second dimension differently.[1] Figure 1 presents the two-dimensional space that guides our analysis.

[Figure 1 about here]

This framework allows us to overcome the theoretical impasse described above by drawing attention to developments that the usual unidimensional framework (running from "liberal" to "coordinated") systematically overlooks. For example, the emphasis in the literature on coordination leads to a focus on the actions of the core labor market participants that obscures *non-action*, especially with respect to the economic realities of other actors such as the long-term unemployed. Recent investigations of varieties of capitalism distinguish market economies according to employers' capacity for coordination, and highlight the strategic nature of economic choices. In CMEs, various institutions expand employers' capacity to coordinate – among themselves and in relations with organized labor — to achieve joint gains (Hall and Soskice 2001, 8). Recent work on economic change has evaluated how well employers' coordinating capacities are holding up (Hall and Gingerich, 2004).

Were coordination and solidarism perfectly correlated, the condition of workers generally could be captured by the categorical primacy given to the strategies of core organized interests; yet the cooperating capacities for the inner circle do not necessarily extend to marginal workers. A pervasive growth of various types of "atypical labor" has shrunk the relative proportion of regular or permanent employees covered by protections achieved through coordination, making the disconnect between labor

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[1] Höpner's second dimension runs from "organized" to "disorganized capitalism," and evaluates differences in the status of firms in society based on structural features such as supervisory board codetermination and firm ownership structures (Höpner 2007, 6-7). Our analysis, by contrast, is based on a distinction between segmentalism and solidarism and taps features of labor market dualism.

market "haves" and "have-nots" particularly alarming (King and Rueda 2008). In Germany and Japan, for example, the percentage of employment consisting of temporary contract and part-time work increased from 22 to 33 and 27 to 39 percent, respectively, between the late 1980s and early 2000s (see Table 2 below). Thus, change analysis centering on whether *coordination* is breaking down may miss significant shifts on this alternative dimension of *solidarity*. Our solidarity dimension seeks to reconcile insights of the varieties of capitalism scholars (about the resiliency of employer coordination) and of labor market segmentation theorists (about levels of solidarity across the working class).

Related to this, many studies overemphasize formal institutional stability and overlook common, more subtle processes of informal institutional change such as erosion or drift (Streeck and Thelen, 2005). Thus, while scholars have made a major contribution in defining a set of institutional arrangements crucial to the different varieties of capitalism (collective bargaining, vocational training, corporate governance, etc), the focus on formal institutions may miss processes of change in the performance and outcomes associated with the goals of the institutions. For instance, formal institutional features of collective bargaining have demonstrated remarkable stability in the levels at which negotiations are conducted in most countries over time, and one might assume from this evidence an impressive institutional resilience in the area of industrial relations (e.g., Wallerstein and Golden 1997). Yet in many coordinated countries with robust centralized bargaining, the bargains negotiated by employer associations and unions at the national or multi-industrial level do *not* set uniform standards but rather delegate more and more issues to local actors. In addition, an increasingly smaller percentage of the labor force is being covered by these bargains, even while coordination across sectors remains stable. While the level of bargaining (and degree of coordination) in Germany and Japan remained essentially constant between the early 1980s and 2000s, the rate of bargaining coverage fell from 82 to 68 percent of the workforce in Germany, and from 27 to 17 percent in Japan. (See Appendix.) Thus, the stability of formal arrangements may lead to over-optimistic assessments of the resiliency of solidarism.

Denmark and Germany illustrate these different trajectories among CMEs. While Denmark has experienced significant change on some formal-institutional dimensions (e.g., bargaining decentralization

in the 1980s), policy entrepreneurs have also enlisted social partners in reforms to support social

solidarity – e.g., seeking to fill projected labor shortages through training and employment for the long-

term unemployed. By comparison, Germany exhibits a high degree of formal institutional stability in key

realms such as industrial relations even as developments within these institutions tend toward greater

labor market segmentation and declining solidarism. Because coordination may persist even as solidarity

is sacrificed, one needs to assess consequential shifts within CMEs toward less egalitarian forms of

coordination (Martin and Thelen 2007).

We emphasize that solidarism is analytically distinct from coordination, even while empirically

related (as is revealed below). Solidarism – with its stress on egalitarian income and employment –

highlights the material outcomes of the operation of institutions. Coordination involves the extent to

which business and labor depend on non-market coordination to pursue economic and political goals.

With our solidarity dimension, we seek to maintain the focus on actors – as solidarity-building is, indeed,

a political project – yet hope to capture movement under the surface of formal institutional continuity. As

Goldthorpe (1984, 329-39) noted a quarter century ago, unions in some highly-coordinated countries have

struggled to extend benefits of labor market cooperation to all workers (largely through legislation), while

labor organizations in other countries have sought to restrain capitalist excesses with organizational

arrangements that would primarily benefit their own workers. We embrace Goldthorpe's distinction

between solidaristic (what he calls "corporatist") and segmentalist ("dualist") trajectories, but view

outcomes as rooted in political institutions and cross-class coalitions, rather than as flowing from union

structure and strategies (Martin and Swank 2004, Thelen and Kume 2006; Swenson 2002).

Solidarism versus Segmentalism in the Advanced Industrial Countries

To provide a more complete picture of developments in advanced industrial societies, we devise a new

solidarity index that captures significant changes (especially but not exclusively within CMEs) on a

dimension ranging from "solidarism" to "segmentalism" or dualism. Our solidarity index involves a

clustering of outcomes on three broad dimensions: (1) inclusive coverage of various risks to income loss

(including universal coverage through health, sickness, unemployment, and pension programs as well as

encompassing collective bargaining coverage) (2) access to "quality employment" (practices that promote the creation of full-time, well-paying, training-supported and stable jobs) and (3) an overall "fair" distribution of household market income.[2] In contrast, segmentalism involves (1) uneven coverage of the risks to income loss listed above (which can be high for labor market insiders, but unevenly distributed across the working population), (2) higher levels of "cheap labor," namely, full-time or irregular employment lacking good wages, benefits, protections, and training (King and Rueda 2008), and (3) higher levels of inequality in the distribution of household market income.

[Table 1 about here]

Table 1 displays the temporal trends and cross-national variation on aggregate indices of economic coordination and solidarism. Our aggregate solidarity index is complete for only 13 of our 18 democratic capitalist nations, and from the mid- or late 1980s to the early 2000s; thus, we focus on that sample of nation years here. For analyses of sub-components of solidarism, we utilize a larger sample of nations and years. Our index of solidarism is constructed as follows. We initially explored (for 1980 to 2002 for 18 nations as data allowed) the interrelationships between factors associated with coverage of risks to income and between factors associated with quality employment. (The precise measures for these and all components discussed here are presented in Appendix 1 and 2 below.) First, with respect to coverage of risks, we explored interrelationships between the percent of the work force covered by collective wage bargains, unemployment compensation, pensions, and sickness insurance as well as the percent of population covered by public health care systems. Collective bargaining, sick days, and health insurance cohere around a factor for entire sample. Deletion of the United States, which has extremely low values for sick days and health insurance, produces a moderately altered dimension of "solidaristic coverage" consisting of sickness, unemployment and pension insurance (see Appendix); this dimension also has a modest association with collective bargaining coverage. For our aggregate index of solidarism,

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[2] In the present analysis, we stress general economic and market outcomes primarily for the working population (e.g., outcomes in labor markets); but we systematically consider inequality across all households and fiscal redistribution in our broader book project.

we use the full-sample measure of coverage, but we also supply below a separate analysis of the second dimension of coverage of risks (and its determinants).

A second set of factors combine to form a dimension of "solidaristic employment" – (the absence of) low-wage employment, employment protection, and active labor market policy. As illustrated in the factor analysis detailed in Appendix 1, irregular employment (temporary contract and part-time employment as a percent of the work force) is not related to this "quality employment" dimension. This is not surprising. As King and Rueda (2008) have noted, some nations – primarily CME's – have performed relatively well in preserving wage equality and employment protections for full-time workers while relying on the rise of irregular employment to meet demands for "cheap labor" and to absorb the costs of adjustments (labor shedding) in core sectors of the economy (also see Palier and Thelen 2008). To construct our aggregate measure of solidarism, we combine in a standard-score index solidaristic coverage of risks (through collective bargaining, sick days and health insurance) and solidaristic employment (the absence of low-wage jobs, employment protection, and training) with the GINI index of market income in working-age households. As the factor analysis demonstrates, these seven variables strongly cohere on one dimension. We offer below a separate overview (see Table 2) and analysis of determinants among CMEs of the eighth important factor, namely, irregular employment.

Our measurement of economic coordination consists of a standard score index of eight theoretically derived components of economic cooperation among and across firms and organizations of labor and capital. They are union organization (density and centralization), employer organization (the presence and centralization of a national peak association), the level of collective bargaining, bargaining coordination across sectoral associations of labor and of capital, investor-firm linkages, purchaser-supplier relationships, cooperation among competitive firms to supply collective goods, and labor-management cooperation within firms. As the factor analysis of Appendix 1 suggests, these eight factors strongly cohere on an economic coordination dimension; the first four factors also cohere around a national coordination dimensions and the second set of four factors tend to "load" on a enterprise coordination dimension (also see Martin and Swank 2004).

As Table 1 suggests, economic coordination in the typical CME is relatively stable from the mid-1980s to 2000s. On average, coordination declines modestly from .5069 to .4858 on our standard-score index. Solidarism also declines among the CMEs, but the change is larger than for coordination. In the typical CME, solidarism declines from .5898 to .5001 (a change of roughly 15 percent). For the LME's, there is a slight increase of coordination from the late 1980s to early 2000s, although it remains at very low levels. Solidarism in the typical LME is very low in the 1980s and declines even further by the early 2000s. As a result, the last 25 years have witnessed a reinforcement of pronounced "segmentalism/dualism" in coverage of risks, employment and income distribution in the typical LME.

– Figure 2 about here --

Figure 2 illustrates these relative positions of nations and trends across time graphically, and highlights variation in changes in coordination and solidarism across subsets of CMEs. As the figure suggests, most CME's begin and end in the upper right quadrant of our two dimensional mapping of coordination and solidarism (i.e., high coordination and solidarism). As discussed above, Japan is a notable exception of a CME that exhibits stability in (high levels of) coordination and maintains relatively low levels of solidarism. The Benelux countries become more coordinated and maintain (Belgium) or achieve (the Netherlands) a moderately high level of solidarism from the 1980s to 2000s. The highly coordinated and solidaristic Nordic political economies of Finland, Norway, and Sweden decline moderately on both coordination and solidarism but still register high levels of both in the early 2000s. Danish economic coordination is stable at moderately high levels, but solidarism increases; in Germany, both coordination and solidarism decline. These changes highlight our core puzzle.

- Table 2 about here -

This puzzle is brought into even clearer relief by an examination of changes in irregular employment in the CME's. As Table 2 illustrates, the growth in the share of jobs accounted for by temporary contracts and part-time work has increased significantly in Austria, Belgium, France, Germany, Italy, Japan, and the Netherlands. While the coverage of collective bargaining and social insurance systems and training has increased significantly over the same period in the Netherlands (and to

a lessor extent Belgium and France), solidaristic coverage, training, or both have not appreciably expanded, have remained at relatively low levels, or have actually declined in the remaining cases. Again, Germany (as well as Japan) is an exemplary case although several continental countries seemed to be characterized by expansions of dualism. Alternatively, the Nordic countries have had stable or declining levels of irregular employment and have maintained at high levels or expanded solidaristic coverage and training. This seems to hold even with a notable decline in Sweden's dominant lead in ALMP spending per unemployed population. How do we account for these distinct trajectories – the maintenance or enhancement of solidarism versus the decline of solidarism – across the developed capitalist democracies?

Coalitional Alignments and the Politics of Change

We posit that countries' creation of political coalitions in support of social solidarity is highly influenced by the capacities of the state; and to this end, we investigate the political factors that sustain or expand solidarism within a country. An antecedent need, however, is to understand the coalitional underpinnings of distinct distributional outcomes; hence, we map the cleavages and preferences of distinct segments of labor and capital and consider possibilities for coalitions across sectors and classes.

In a context of the "permanent austerity" of the post-OPEC era, the question that political actors in capitalist democracies confront is not so much whether adjustments will be made but what form they will take (Pierson, 2001; Swank, 2002). Our framework assesses how these adjustments are made, i.e. whether protection from various social risks is broadly shared across the population (solidarism) or is relatively strong for privileged groups and weak for others (segmentation/dualism). Adjustments always have costs and even relatively solidaristic adjustments have clear losers: reforms to reduce dualism may erode the economic interests of the currently employed and affect different sectors in distinctive ways. Government policies to increase protections and benefits for the truly disadvantaged (e.g., extensions of collective bargaining coverage, unemployment compensation, training) increase levels of solidarism by bringing the economic standing of weaker groups into alignment with groups that enjoy a stronger market position. Yet these policies often involve higher levels of taxation or higher wages for low-skilled workers that threaten industries in exposed sectors. Solidarism can also, paradoxically, be achieved by

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reducing privileges for the stronger groups (e.g., eroding employment protections for "core" workers to stimulate job opportunities for "peripheral" groups), bringing core workers to resent the erosion of their economic interests by the leveling of the playing field. Two broad types of policies are relevant in our discussion of solidarism versus segmentalism – labor market regulations and social benefits – and different social actors might prefer one type of solidaristic intervention to the other. Core industrial workers might want to retain segmentalist employment protections but favor the expansion of solidaristic social benefits. Thus, the trade-offs embedded in adjustment reflect a politics that is far more complicated than simple left-right cleavages suggest (e.g. a choice between "more state" versus "more market" or even policies that favor "labor" versus "capital").

A first step in analyzing the politics of (and potential for solidaristic) adjustment involves mapping the interests of different segments of capital and labor. We assume that each segment has somewhat indeterminate interests; therefore, we need to specify how each group might be drawn to either solidaristic or segmentalist policies in order to understand how coalitions for these policies are formed.

Employers are separated by two types of cleavages. One separates employers relying on general versus more specific skills (Iversen and Soskice 2001). Firms utilizing workers with high general skills want competitive labor markets, because any labor market imperfections (e.g., compressed wages) can lead to skill shortages by dampening youth incentives to acquire skills (Becker 1993). Employers using low-end skills also want labor market flexibility but for different reasons, in order to hire and fire rapidly with changing demand. In contrast, employers who rely on specific skills invest significantly in worker training, wish to retain employees to realize this investment, and benefit less from labor market flexibility. These firms commit to long-term employment without legal mandates and accept employment protections for their workers. The other cleavage concerns employers' exposure to international markets and consequent vulnerability to market wage push under conditions of full employment. Exposed sectors are particularly susceptible to market wage push, because they cannot pass on rising wage costs to consumers, while protected sector employers, who can pass on cost increases, are less affected.

The fault lines of skill types and market exposure produce four general subcategories of

employers, with each having potential interests in either segmentalist or solidaristic adjustment. First, public sector employers (specific skills/protected sectors) have a potential interest in solidaristic reforms (particularly in full employment and training policies), because these policies would improve the employability and skills of marginal workers, groups for which the public sector has responsibility. Yet, public sector employers might prefer to restrain benefits for low-skilled workers to preserve state fiscal solvency. Second, firms in core manufacturing industries (specific skills/exposed sectors) might be drawn to solidaristic policies to expand training for other labor pools when labor markets are tight; however, they are more likely to prefer segmentalist strategies that offer advantageous employment protections and high social benefits to their own workforce, but that reduce benefits for and wages of the marginal workers. Third, information technology or business services firms (general skills/exposed sectors) might support solidaristic benefits such as public health insurance and good general education, because the small firms that often populate these sectors lack the economies of scale to provide their own benefits. Yet relying on a white-collar workforce, they resist spending on, training of, or wage equality for the unemployed. Fourth, low-wage service companies (general skills/protected sectors) might be attracted to solidaristic policies that offer universal and heavily-subsidized training and social benefits; however, they resist state initiatives for solidaristic wage bargaining and tax increases.

- Figure 3 about here

Figure 3 presents the possible employers' coalitions along these different fault lines. A neo-liberal coalition unifies those in exposed sectors against those in protected sectors to avoid wage and tax pressures that disadvantage firms in international markets. A segmentalist coalition unifies employers who offer good benefits to their own workforce but wish to avoid the fiscal burdens or competitive disadvantages associated with extending such benefits more broadly. Finally a solidaristic coalition might be formed to generate human capital investment across classes: here public sector employers might reach out to private sector service firms with the offer of training, an expanded labor pool, and human capital productivity enhancements. In addition to these carrots of promised human capital improvements for low skill sectors, government bureaucrats can exercise their labor market clout to force core manufacturing

employers to share the burdens of adjustment, a topic to which we will return.

The working class is also divided by two important cleavages that allow for distinct coalitions. One cleavage concerns the extent to which workers enjoy strong job security, and employment protections vary both cross-nationally and sectorally. Public sector workers in most countries enjoy a very high level of job security and, within the private sector, jobs are more secure for workers (especially in core manufacturing) who are represented by unions or by works council with powers to control layoffs. Another cleavage involves the extent to which worker's benefits are delivered through markets or state policy. Higher skilled workers are often able to negotiate high levels of benefits in the marketplace, while lower skilled workers often rely more on the state to sustain their jobs and benefits.

These fault lines of labor market protections and sources of benefits produce four general subcategories of workers with interests in segmentalist and/or solidaristic policies. First, public sector workers (high employment protection, publicly-provided benefits) may express an interest in segmentalist employment protections in order to preserve their own labor market security, to the neglect of less protected workers. Alternatively, they may align with lower skill service sector workers in favoring universal social programs that bring other high-skilled employees into the public insurance pools (so as to protect public finances) and that extend coverage to female workers (an important constituency) who lose with dualist social benefits linked to employment status (Huber and Stephens 2001).

Second, core industrial workers (high employment protection, private benefits) are the winners of segmentalist strategies, as they enjoy the job security and generous benefits provided by unions or firms, work in exposed industries and fear wage push from protected sectors, and worry that solidaristic policies to render labor markets more accessible to the unemployed will reduce their own job protections. Deindustrialization, however, makes manufacturing workers anticipating possible lay-offs more interested in solidaristic policies that provide retraining for new skills. Third, information technology and business service workers (highly portable skills, private benefits) generally resist labor market protections because their ability to secure wages/salaries with the full skill premium hinges on labor mobility and is, therefore, compromised by impediments to such mobility. These workers may support some state services (general

education and social benefits that their small firms cannot provide); but given their high skills, they generally do not personally need the social safety net (Iversen and Soskice 2001). Finally, lower-skilled (generally service sector) workers (low employment protections, public benefits) benefit from solidaristic policies to halt their slide into unemployment and improve their skills. (See Figure 4).

– Figure 4 about here -

Coalitions may be formed to unify workers in support of either solidaristic or segmentalist policy outcomes. A segmentalist coalition would bring together public sector workers and manufacturing workers – both enjoying high employment protections – to favor policies that preserve their own status but that offload the costs of adjustment on the unemployed or low skill service sector workers. An alternative, solidaristic coalition might unite public sector workers with low skill service sector workers and even some core manufacturing workers around a program of social investment based on policies to expand the employability of and job opportunities for all workers.

The Determinants of Solidarism in Advanced Political Economies

Mapping the preferences of key actors demonstrates the potential for coalitions, both within and across classes, to support either solidaristic or segmentalist policies. What tips outcomes in one direction or the other? We suggest that the leadership, capacity and leverage potential of the state are vital to the formation of coalitions for, and general maintenance of, social solidarity. Hence, we investigate the political institutional determinants of solidarity, paying particular attention to the size of the public sector.

The Public Sector: Size and Capacity. A large public sector should expand the capacities of state actors to construct solidaristic coalitions by increasing the leverage of public sector players in collective bargaining channels and by establishing an advantageous economic environment (see also Martin and Thelen, 2007). Also, a high level of state spending has multiplier effects that sustain employment and consumption in the face of external shocks (Carlin and Soskice, 2006); full-employment policies ease the task of finding jobs for marginal workers; and supply-side policies encourage skill development that is particularly important in the transition to a postindustrial economy (Garrett, 1998; Iversen 2005).

These economic and political ramifications of a large public sector influence the strategic

calculations of key labor market groups. First, a large public sector expands the interest of government employers in enhancing the skills of marginal workers, because these workers are more likely to be employed by the state and because – as producers of services – these employers worry about productivity (especially after neoliberal reforms in the 1980s and 1990s) (Spicker, 1997). Second, a large state attracts public sector workers to solidaristic policies, because under conditions of full employment, they are more likely to have to work with low-skilled workers, which expands their commitment to general upskilling. Third, a large public sector also brings key private sectors actors' to view their own strategic interests as consistent with solidarity policies. Core industrial employers, a pivotal group, during a period of significant deindustrialization may favor state-provided training policies as an avenue for retraining unneeded workers; alternatively, employers in industries with tighter labor pools (under conditions of full employment) might seek new sources of labor and ask the state to help provide these skills. Because a large public sector expands the power of government bureaucrats (and workers) in collective bargaining forums, private employers (and workers) have less power to resist politicians' demands. This may give government bureaucrats the leverage to push social partners into assuming greater responsibility for marginal workers and into committing to address social exclusion (Martin 2004). Finally, core industrial workers may view solidarity policies as a protection against deindustrialization. A large public sector serves as a counterweight to the loss of manufacturing jobs, enabling high levels of employment that reduce the zero-sum distributional game between employed labor market insiders (who pay for the welfare state) and labor market outsiders (who are supported by it). As a result of these considerations, we expect the size the public sector, especially the relative numbers of public sector employees as pro-solidaristic coalition makers, to be a crucial determinant of solidarism in the contemporary era.

Political Institutions. Our second set of hypothesized determinants of solidarism consists of political institutions. We expect *inclusive electoral institutions* (high proportionality in elections and multipartism) to facilitate more equitable adaptation to post-industrial pressures, because all interests are accorded consideration in national policy making (Crepaz and Birchfield 2000; Swank, 2002). In multiparty systems, programmatic parties with close ties to specific interests also tend to hold

governments accountable to past promises; therefore, citizens are more willing to make current investments in expansive government interventions with delayed benefits in these systems than in two-party systems, where parties seek the allegiance of the median voter (Cusack, Iversen and Soskice 2007).

Also, a larger number of *institutional veto points* may diminish the level of solidarism within a country, because these enable powerful insider groups to veto policies that do not directly serve their interests.[3] In systems with multiple veto points (separation of powers or federalism), private interests can try to influence policy until they find a sympathetic hearing; but when access to government deliberations is limited, these interests must work with other actors to shape policy (Huber, Ragin, and Stephens 1993; Tsebelis 1999). On the other hand, veto points potentially retard change in nations with high levels of solidarism. Neoliberal reforms that potentially lead to greater dualism in labor markets may be slowed by pro-redistributive actors in the context of multiple veto points. Thus, we assess the impacts of institutional veto points, below, without strong expectations on the direction of their effects.

Partisan Government. We suggest that partisan effects may be important to the level of solidarism, and two types of distinctions are important: (1) social and Christian democracy versus liberal parties, and (2) social democratic versus Christian democratic parties.   For an initial analysis of partisan dynamics, we hypothesize simply that social and Christian democratic parties should preserve solidarism more than liberal party governments. Both social and Christian democratic parties traditionally have supported strong welfare states and solidaristic institutions more than market-oriented parties of the Right. In addition, social democratic and Christian democratic parties cultivate working class constituencies and maintain ties to unions. Thus we expect higher levels of solidarism in countries where social and Christian democratic party governance is high compared to more liberal/rightist governments.

But we might also expect to see some important differences between strongly social democratic and more Christian democratic countries/periods. As a large literature has made clear, the logics

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[3] In the context of institutional hypotheses, we also examined the impacts of partisan veto points, or multiparty governments of substantial ideological spread between parties. This factor was consistently insignificant in models presented below.

underlying social democracy and Christian democracy are very distinct, and manifest themselves in ways that should be reflected in differences in levels of solidarism and segmentalism over party governments. In particular, we know that Christian democratic welfare and labor market regimes are governed by the principle of status maintenance (associated also with a male breadwinner model). The structure of welfare state financing very much promotes such an orientation, since expenditures based on social insurance contributions rather than general taxation basically amount to deferred wages that are politically difficult to cut. We therefore expect that policies in the Christian democratic-dominated governments would be more organized around protecting the employment and benefits of insiders even if this came at the expense of outsider groups such as young workers and women (Palier and Thelen 2008).

By contrast, social democratic welfare states are financed in ways that do not create and feed the same kinds of political cleavages between insiders and outsiders. Related to this, and as has long been recognized (e.g., Katzenstein 1985), Scandinavian CMEs were always organized around activation/active labor market policies that specifically *did not seek* to ensure against labor market risk by supporting stability and the enhancement of productivity of workers within the same firm or industry, *but rather* sought to accomplish these same goals by moving resources (including labor) to their most productive uses. This was precisely the point of the famous Rehn-Meidner model in Sweden and one sees the same logic in the current Danish flexicurity policies. Thus, we might offer an alternative set of hypotheses to the one above: one might expect relatively high and stable solidarism under social democratic-dominated governments, but no partisan difference from secular center-right party governments, or even some evidence of rising dualism, under Christian democratic-dominated governments.

Finally, one addition qualification about partisan effects might be offered. David Rueda (2005; 2007) has actually suggested that social democratic parties may face strong political incentives to defend the interests of labor market insiders that comprise the traditional core constituencies of Left parties (i.e., industrial sector workers). As such, Rueda predicts that social democratic parties will typically maintain high levels of employment protection policies but will not support expansions of active labor market and related policies that benefit labor market outsiders as they impose costs (e.g., taxes) on insiders. While

some factors might weaken the divide between labor market insiders and outsiders (rising unemployment vulnerability of all), Rueda's theory and analyses call into question a strong positive impact of social democratic governments on solidarism. In sum, while our core hypotheses predict positive systematic effects of social and Christian Democratic party governments (versus secular center-right governments), there are theoretical reasons to raise the alternative prospect of weak or null effects of partisanship.

Economic Coordination. We have emphasized that the degree of economic coordination and solidarism in political economies can be analytically separated and the two dimensions can change at different rates and in different directions. Yet, as much of our discussion suggests, the two are structurally related. Many of the highlighted features of labor market dualism are associated with dynamics of liberal market economies, and many of the central elements of solidarism are directly or indirectly associated with economic coordination. For instance, as recent work on varieties of capitalism makes clear (e.g., Estevez-Abe, Iversen, and Soskice 2001; Pontusson, 2005), both universalistic coverage of risks through social protection, employment protection regulations, and public active labor market policies – configurations of policies emphasized here as crucial for the prevention of dualism – are also fundamentally important to CMEs as they foster worker commitments to specific skills (and otherwise facilitate cooperation). Skill-specificity, of course, is central to the operation of CMEs (e.g., Hall and Soskice 2001). Similarly, high collective bargaining coverage and wage convergence are associated with centralized collective bargaining between highly organized employers and labor organizations.

We also expect patterns of solidarism may well be causally influenced by economic coordination. With regard to national coordination (see above on national versus enterprise coordination), we have argued that drift, erosion and redirection of the formal institutions of coordination have occurred; yet, the maintenance of these institutions still offers opportunities for negotiations among the social partners, and between the social partners and the state, to mitigate the forces leading to dualism. Where institutions of national coordination have declined, or traditionally are relatively underdeveloped, mitigation of dualism may be more difficult. Indeed, Martin and Thelen (2007) have illustrated these dynamics in comparative case analyses of Denmark and Germany. With respect to enterprise coordination, where enterprise-driven

cooperation for addressing collective goods problems remains strong (e.g., firm cooperation in training, firm-level labor relations and so forth), the growth of features of dualism in labor markets may be retarded relative to political economies with declining or low levels of enterprise coordination. Thus, in addition to our polity-centered arguments, we hypothesize that, net of other forces, higher levels of economic coordination will be positively associated with the maintenance of solidarism.

Post-Industrial Pressures. In addition, we also test for the effects of forces associated with post-industrialization that, arguably, may play important roles in shaping a country's ability to sustain solidarism. First, *deindustrialization* and the rise of the service economy in all likelihood fosters dualism directly through the displacement of semi- and unskilled workers from stable, well-paying employment in the core sectors of the economy, and through the consequent strain on training systems that facilitate workers' transition across the skills barrier (Iversen and Cusack 2000). Increased service sector employment is also associated with lower productivity growth (i.e., Baumol's disease), making it more difficult for actors to fiscally maintain policies and practices to support income and employment equity.

Second, *trade openness* should have significant (albeit complex) impacts on solidarism. On the one hand, trade openness tends to require higher levels of active labor market policy in order to promote the flexible adjustment of markets to competitive pressures (Katzenstein, 1985) and has been argued to motivate countries to develop a large counter-cyclical public sector (Cameron 1978). Yet, trade openness does not necessarily motivate solidarism, as export sector workers' interests may diverge significantly from the interests of marginal workers (Martin and Thelen 2007). Also, Stolper-Samuelson models of factor price equalization suggest that industrialized countries face short- to intermediate term pressures on the incomes and jobs of semi- and unskilled workers (e.g., Frieden and Rogowski 1996). These workers face the loss of income and employment security from regular jobs and, in the absence of effective policies or cooperation among labor, capital and the state, become the central victims of dualism.

Third, *capital mobility* may undercut solidarism through many of the same mechanisms that are operative for trade openness (e.g., Swank 2002). In addition, to the extent that capital mobility constrains national policies that promote solidarism and undercuts capital's willingness to engage in cooperative

institutions and practices, it may be associated with declines in solidarism. Finally, *economic growth* should be positively associated with labor market performance (better wages, more jobs and less inequality), and a generally strong fiscal basis for solidaristic policies. Countries may invest heavily in practices to foster solidarism when they are better able to afford these efforts (Wilensky 2002).

We now turn to the development, specification and estimation of empirical models that seek to assess our central claims. To recap our arguments:

Hypothesis 1: state size and capacity, especially the relative weight of public sector employees in coalition formation, should be positively associated with overall solidarism and, individually, with solidaristic coverage, good jobs, an equitable income distribution, and (low) irregular employment.

Hypothesis 2: inclusiveness in electoral institutions should be positively associated with overall solidarism, its individual components, and (low) irregular employment. (A secondary institutional hypothesis is also offered above for institutional veto points.)

Hypothesis 3a: both social democratic and Christian democratic government should be positively associated with overall solidarism, its individual components, and (low) irregular employment.

Hypothesis 3b: social democratic government should be positively associated, and Christian democratic government unrelated to, or negatively associated with, overall solidarism, its individual components, and (low) irregular employment. (An additional hypothesis would be that social democratic governments may exhibit clear insider-outsider dynamics.)

Hypothesis 4: economic coordination should be positively associated with overall solidarism, its individual components, and (low) irregular employment.

Hypotheses 5, 6 and 7: deindustrialization (H5), trade openness (H6), and capital mobility (H7) should be negatively associated with overall solidarism, its components, and (low) irregular employment.

Hypothesis 8: economic growth should be positively associated with overall solidarism, its individual components, and (low) irregular employment.

Empirical Analysis

As noted above, our principal goal is to explain variations in solidarism and its individual

components, namely, coverage of risks to income, good employment, and an equitable distribution of economic product as well as patterns in irregular employment. Pursuant to our discussion of the determinants of solidarism, we offer the following basic empirical model of overall solidarism and its three components:

[Eq. 1] $\text{Dimension of Solidarism}_{i,t} = \alpha + \beta_1(\text{Public Sector Employment})_{i,t-1}$

$+ \beta_2(\text{Inclusive Electoral Institutions})_{i,t-1} + \beta_3(\text{Social Democratic Government})_{i,t-1} +$

$\beta_4(\text{Christian Democratic Government})_{i,t-1} + \beta_5(\text{Coordination})_{i,t-1} - \beta_6(\text{Deindustrialization})_{i,t-1}$

$- \beta_7(\text{Trade Openness})_{i,t-1} - \beta_8(\text{Capital Mobility})_{i,t-1} + \beta_9(\text{Economic Growth})_{i,t-1} + \varepsilon_{i,t}$

where α is an equation intercept, i designates nation, t designates year, and $\varepsilon_{i,t}$ is the error term. That is, solidarism in some country "i" and year "t" is a function of (past values of) political institutions and partisan dynamics as well as deindustrialization, globalization, and growth. As coordination, itself, may be significantly related to our polity-centered variables, we initially present this model with and without coordination to get a full appreciation of the range of effects on solidarism of political factors.[4] With regard to the "it," we estimate our basic model for 13 nations on data from the mid- 1980s to early 2000s for the aggregate solidarity index and our GINI index of working-age household market incomes; we use data from 17 nations from roughly 1980 to 2002 for the coverage and employment dimensions.

For our model of irregular employment, we confine analysis to the 10 CMEs of Table 2. The empirical model of Eq.1 is adapted to the analysis of irregular employment by reversing the predicted signs of the model. For overall solidarism, we first estimate the basic model with and without fixed effects; we then assess the substantive importance and statistical necessity of fixed effects and estimate subsequent models accordingly. As all exogenous variables have non-trivial or substantial temporal

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[4] An examination of political effects on solidarism with and without economic coordination in the model may be instructive. For instance, state size and capacity may affect solidarism in part through its role in bolstering economic coordination (Martin and Thelen 2007); social and Christian democratic parties may significantly contribute to the development and maintenance of economic coordination (Korpi 2006) and, thus, have substantial indirect effects on solidarism through this linkage.

variance, and our substantive focus is on change in solidarism in the sample period, fixed effects models might be preferred. In a final stage of analysis, we assess the impact of our secondary hypotheses on veto points. Given institutional veto points vary little or, for some nations, not at all, overtime, we use a fixed effects vector decomposition estimator suggested by Plümper and Troeger (2007) for a final model. This estimator partitions the variation accounted for by unit (i.e., nation) effects between substantive variables that do not vary – or vary little – overtime and country dummy variables and, in turn, allows unbiased and consistent estimation of the effects of substantive variables.

We estimate our models by Prais-Winston regression in which serial correlation is modeled as a first-order process. As the length of our time-series and magnitude of year-to-year temporal variation are constrained, we eschew lagged endogenous variable models as the principal structure of estimation. Under these conditions, the lagged dependent variable, itself a function of past values of the exogenous variables, will effectively dominate variance explained (Achen 2000; Plümper, Traeger, and Manow 2005). We do, however, offer alternative estimations with lagged endogenous variables where substantive reasons suggest we examine the results from these models (see below). Finally, given the panel structure of the data, we estimate all models with panel-correct standard errors (e.g., Beck and Katz 1995).

We measure core explanatory factors as follows. (As we have detailed the measurement of the aggregate solidarity dimension and its individual components as well as irregular employment above, and with greater detail in the Appendix, we do not repeat those measurement details here). Further measurement detail and data sources for all our factors are reported in Appendices 1 and 2. With respect to state size and capacity, the theoretical discussion above emphasizes the role of high public sector employment in making pro-solidaristic coalitions and otherwise maintaining solidarism. Thus, we measure state size by computing public sector employment as a percentage share of total employment and by calculating public sector employees as a percentage share of total wage and salary employment in the primary sector plus service sector (minus employees in business and financial services). While these indicators have virtually identical effects on solidarism and its components in the analyses presented below, we prefer the latter measure. We do so because it is highly correlated with the public employment

share of total employment (r = .9) and, thus, taps the weight of public sector employers and workers in the economy. It also captures the importance of the relatively well organized and potentially most pro-solidaristic segment of labor, namely, public sector employees, within the pool of wage and salary workers potentially most interested in maintaining or expanding solidarism (that is, workers who rely on public benefits and those that have disproportionately lower general skills).

We measure inclusive electoral institutions with a standard score index of proportionality of elections and multipartism where proportionality of elections is scored on an ordinal scale (0.00 for single member district/plurality rules, 2 for proportional representation, and 1 for semi-proportional systems). The effective number of parties is computed using Laakso and Taagepera's formula: $1/\sum p_i^2$, where p is the proportion of seats for the i-th party. To assess the policy effects of partisan control of government, we use the percentage of cabinet portfolios held by parties of the Left and Christian Democratic parties. We follow Huber and Stephens (2001) and others and measure party government as cumulative annual shares of cabinet portfolios (since 1950) of party families. This measure not only taps partisan policy decisions of past years but, in the presence of nation fixed effects, provides a measure of the impacts of cumulative party power in the sample period. To measure institutional veto points, we use a temporally and cross-nationally varying standard score index of federalism, bicameralism, presidentialism, the strength of judicial review. Finally, we measure economic coordination by the eight-item standard score index discussed above. Unless otherwise noted, political and institutional variables are lagged one year.

As to economic pressures, we follow Iversen and Cusack (2000) and measure deindustrialization as 100 minus industrial and agricultural employment as a percentage share of the working age population. With respect to internationalization, we use measures of trade openness and capital mobility. For trade openness, we use the conventional general openness measure, imports and exports of goods and services as a percentage of GDP. For international capital mobility, we use Dennis Quinn's (1997) 0.0-100 index of liberalization of capital controls. As to economic growth, we use the percentage change in real per capita GDP (in international prices). All these variables are lagged one year.

Findings

The results of estimation of the basic model of the aggregate solidarity index are displayed in Table 3. We initially estimate our basic model without fixed effects. These results are presented in the first column of the table. We then estimate the basic model with fixed effects and, in turn, estimate the model with economic coordination. We do not report (highly significant) country fixed effects to conserve space.[5] In the final column of the table, we estimate the basic model for irregular employment in the CMEs (see the discussion of this variable and estimation strategies above). As the table reveals, public sector employment is consistently, positively, and significantly related to overall solidarism in each version of the model; it is negatively (as predicted) and significantly related to irregular employment. The impact of the weight of public sector employees on solidarism should be construed as substantively important. A modest increase in the share of public sector employment of five percent – it ranges from roughly 30 to 60 percent in the sample – is associated with an increase in the index of solidarism of .05 (and the average change in solidarism is -.11 in our sample of nation years).

With respect to the other political institutional effects on solidarism, inclusive electoral institutions is significantly and positively related to solidarism in the first column equation (without fixed effects); it is insignificant in subsequent specifications.[6] We also find evidence of robust and substantively important partisan impacts of solidarism in all three models of the aggregate index. Focusing on the fixed effects models of columns II and III, an additional 10 years of social democratic or Christian democratic party government, net of other influences in the model, would increase the solidarism index by .14 to .18, a substantively large effect. With respect to irregular employment, party effects are more complex. Social

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[5] With the United States as the "left out" category, all 12 country effects were positive and significant with coefficients of 1.5 to 2.0. This suggests that net of other forces in our model, all other countries were able to achieve a substantially higher level of solidarism than the United States.

[6] While inclusive electoral institutions has limited temporal variation, it is the one variable in the basic model that might be considered to approach the status of a largely time-invariant indicator. We re-estimate its impact below when we consider other variables in this category.

democratic parties do not suppress (or increase) irregular employment. We do, however, find that fixed term and part-time work increases under Christian Democratic party governments. This result lends support to the alternative hypothesis that Christian democratic parties may tend to bolster continued protections for core sector workers but not suppress – or even facilitate – the emergence of irregular employment (e.g., to defer costs of economic adjustment to outsiders). Finally, as the column III equation makes clear, economic coordination is significantly and positively associated with patterns of solidarism. Impacts of other political factors, specifically public sector employment and partisan government control, retain their substantive and statistical importance after economic coordination is added to the model (compare column II and III); this suggests that the main effects of these forces on solidarism are direct and do not primarily run through economic coordination (see above).

As to the effects of our general economic forces, there is little evidence that globalization and economic growth rates matter much for solidarism. While capital mobility is negatively associated with solidarism in the column I model, trade openness and capital mobility otherwise exhibit substantively trivial and insignificant effects on solidarism. On the other hand, Table 3 results underscore an important role for post-industrial economics: deindustrialization is significantly and negatively associated with solidarism in all variants of our basic models (and positively and significantly associated with irregular employment). As employment in the core of the industrial economy declines, coverage of risks, good jobs, and equity seem to diminish as irregular employment seems to increase. How do all these findings stand up as we move to an examination of the determinants of the individual dimensions of solidarism?

– Table 4 about here –

The results of estimation of our basic model for each of the three component dimensions of solidarism are reported in Tables 4 and 5. We also address questions about the endogeneity of the public sector employment variable. That is, coverage of risks and "good employment" contain a few elements of public policy that might automatically covary with public sector employees. Utilization of the theoretically central measure of public sector employees as a percentage share of the pool of potentially solidaristic wage and salary workers should mitigate concerns. Nonetheless, we estimate both solidaristic

coverage and good employment with lagged dependent variables. With this specification, any structural

covariation between public sector employees and policy elements should manifest itself in regression-

toward-the-mean effects, that is, a negative coefficient between lagged levels of public sector

employment and changes in the solidarism indices.[7] Our theory predicts significant positive effects of

public sector employees, net of other influences in the model. We might also note that our accounting for

cumulative years of social and Christian democratic party government, political institutions, economic

coordination, country effects, and other forces should also mitigate concerns that the weight of public

sector workers and solidarism are systematically related due to a neglected common source variable (for

instance collective or communitarian traditions). That is, in the presence of these controls, the observed

significant relationship is unlikely to be spurious.

Table 4 displays the results of our analysis of the two alternative indicators of solidaristic

coverage of risks. Recall that the first variable is a full sample index of collective bargaining and sickness

and health insurance coverage; the second is an index of sickness, unemployment, and pension insurance

coverage that deletes the United States from the sample (and it makes no difference for the results

whether or not we include collective bargaining coverage with the alternative index). As the table reveals,

our measure of the weight of public sector employment is consistently, positively, and significantly

related to coverage of risks for both coverage indicators and for lagged dependent variable specifications.

Economic coordination is consistently positively associated with solidaristic coverage and highly

significant in three of the four specifications of Table 4.

Focusing on the core models of columns I and III, we find somewhat inconsistent results for the

effects of partisan government and for deindustrialization.[8] The effect of social democratic party

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[7] With the control for the lagged dependent variable, the dependent variable is, of course, a change score;

automatic covariation would be manifest as a negative (regression-toward-the-mean) effect between these

changes and levels of inadvertently endogenous regressors.

[8] As the lagged dependent variable model is a problematic estimator for our data (see above), we do not

focus on it here for intepretation of the effects of key forces.

government is positive for both measures of solidaristic coverage, but significant in only the case of the full sample indicator. Christian democratic party government is negatively associated with the full sample measure but positively associated with the second; it is significant in both cases. One might note that the latter index weights heavily unemployment and pension coverage, long-standing programs favored by core industrial sector workers. As such, this pattern of findings is consistent with previous ones on the effects of Christian democracy: Christian democratic party governments may pursue policies and political strategies to bolster income and employment conditions for core sector workers but not address other features of rising dualism so as to benefit outsiders.

With respect to economic forces, deindustrialization exhibits significant but inconsistently signed effects: for the full-sample indicator of coverage, deindustrialization displays its characteristically negative effects. For the alternative, reduced sample measure, deindustrialization has a positive and significant effect. As this alternative indicator heavily weights the coverage rates of core social insurance programs for unemployment and pensions, one might speculate that, as Iversen and Cusack (2000) have argued, deindustrialization leads to higher demands for basic social insurance as displaced workers cross the skill barrier; as such, this linkage of deindustrialization to coverage may offset other, documented negative effects of deindustrialization. As to other factors, trade openness, capital mobility, and economic growth exhibit largely insignificant and substantively trivial effects on solidaristic coverage rates.

<center>– **Table 5 about here** –</center>

Table 5 displays the results for our analysis of "good jobs" and market inequality, as well as for models of solidarism that assess the impact of veto points. The final model estimation in the table addresses the problem of estimating effects of factors that vary little if any over time (i.e., institutional veto points) in the presence of fixed effects. As noted above, we also use this technique to shed more light on effects of inclusive electoral institutions, the one variable of the basic model that probably has too little temporal change to assess adequately with the current estimation strategy.

With regard to the core results of Table 5 for "good jobs" and market inequality, public sector employees is significantly and positively related with both components of solidarism; it also remains

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positive and significant in the lagged dependent variable model for "good jobs." Economic coordination is positively and significantly related to "good jobs" but not the distribution of market incomes.[9] With respect to partisan effects, Christian Democratic party government is positively associated with "good jobs,' but not market inequality; social democratic party government is, net of other forces, not significantly related to either component. As our "good jobs" factor is heavily influenced by the absence of low-wage work and employment protection for full-time workers, this pattern of findings is, again, consistent with the alternative hypothesis about the complex effects of Christian Democracy where insiders are favored and outsiders are not. Finally, deindustrialization and capital mobility exert large and significant negative effects on market inequality; these forces are not related to the employment index.

As to our final models of solidarism, we test for the effects of institutional veto points in the column V equation. As the table reveals, institutional veto points has large significant and negative effect on solidarism. As this variable consists almost wholly of cross-national variation, and as we estimate it in a consistent and unbiased way with the fixed effects vector decomposition model, we might interpret this finding as essentially the long-term effects of institutional fragmentation on the development and maintenance of the institutions, policies and practices of solidarism. Similarly, as discussed above, we re-examine the effects of inclusive electoral institutions on solidarism in the fixed effects vector decomposition model. Inclusive electoral institutions now exhibits a strong positive and significant impact on solidarism and might be interpreted similarly to institutional veto points: inclusive electoral institutions foster the long-term development and maintenance of solidarism. Finally, and in summary, as column V of Table 5 makes clear, overall solidarism is positively and significantly shaped by the weight of public sector employees, coordination, and social democratic and Christian democratic party government, and negatively influenced by deindustrialization.

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[9] It is important to recall that "good jobs" contains a measure of the 50-10 ratio of wages for full-time workers; therefore, the positive effect economic coordination on the jobs measure is consistent with the large literature (e.g., Wallerstein 1999) that links bargaining centralization (a central component of coordination) with wage equality.

Conclusions and Implications

Once appearing quite similar in levels of coordination, CMEs today are moving on different trajectories, particularly in their treatment of marginal labor market participants who are most vulnerable to the vagaries of the post-industrial economy. Scholars have been highly perplexed by the divergence among nations once considered quite similar, as well as by countries that exhibit an odd mix of continued coordination and declining solidarity. The literature on comparative political economy seems to have reached a theoretical impasse and, in a more profound sense, the magical formula for attaining social solidarity with economic coordination no longer seems to produce the best of all possible worlds.

We believe that this confusion reflects the limitations of the theory. Framing recent changes as simply a move toward a pernicious liberalization (that is undermining the CME model) is too much of a glass full/glass empty discussion -- an either/or framing that clings to one linear continuum. Rather, it is necessary to go beyond the simple linear continuum of more or less coordination, and to distinguish different types of coordinated market economies with notably different capacities to sustain solidarism.

We argue that a second fault line distinguishes advanced societies, namely, a continuum between solidarism and segmentalism, and have developed a solidarity index to measure this dimension. Our solidarity index is composed of three sets of factors that include measures of the coverage of risks to income through collective bargaining and social insurance, the existence of "good" rather than "bad" jobs, and the equitable distribution of economic product. Our solidarity index, and complementary measures of irregular employment, reveal that, indeed, while economic coordination has remained relatively stable in the typical CME, solidarism has declined moderately. In the LME's, segmentalism and dualism have been reinforced: solidarism has declined from already very low levels over the last 25 years.

Of course, specifying the problem is only half the battle; therefore, we also seek to establish how solidarity is sustained. While we find clear evidence that the decline in solidarism is significantly influenced by deindustrialization, we also find strong support for our expectations that political institutions, state structure and political dynamics matter. Indeed, politics dominates the determination of solidarism. Specifically, our findings reveal that countries with high levels of public sector employment

are significantly better situated to maintain solidarism than those with low levels of public sector employment. The relative magnitude of public sector employment, as a central indicator of the political force of pro-solidaristic coalitions, promotes the maintenance of solidaristic coverage and "good jobs," and contributes to equity in household shares of economic product; it also retards the expansion of irregular employment. We also find evidence that economic coordination, itself, and the cumulative years in office of social democratic and, in complex ways, Christian democratic parties undergird solidarism. Additionally, inclusive electoral institutions may promote, and institutional veto points may retard, solidarism. Surprisingly, there is little evidence that those factors associated with internationalization of markets have much to do at all with patterns of solidarism in the contemporary era.

These findings have implications for both the state of the theory and the state of the world. Our analysis holds important lessons for both the literature on varieties of capitalism and that on institutional change generally. With respect to the varieties of capitalism literature, we show how a more complete picture of change emerges when one evaluates recent trends not only against the typical indicators of coordination among employers and between the social partners, but also by evaluating countries' ability to sustain solidarity. Our analysis also seeks to contribute theoretically to a dialogue about how the state matters to contemporary policymaking. Anti-state rhetoric of the past quarter century has come from both the left and the right: while the right has attacked a bloated public sector for its alleged impact on the economy, the left has perceived a large welfare state as exacerbating tensions between the working class who pay for the welfare state and the unemployed beneficiaries of such largesse. Belief that an expansive welfare state creates social tensions has had a profound impact on the perceived political opportunities for sustaining pro-solidaristic institutions, policies, and practices. Yet we show that "big government" can be thought of as part of the solution rather than part of the problem. Bureaucrats in a large and well organized public sector can shape the interests and strategic options of other key actors in the political economy, in a way that enhances income, employment, and equity among citizens.

One might protest that a large public sector and associated pro-solidaristic institutions and practices have negative economic consequences by creating market rigidities, crowding out private

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investment, and discouraging work effort. While it is beyond the scope of this paper to review the large body of evidence or supply new facts on this claim, recent work in comparative political economy suggests that nations with high levels of solidarism can deliver a felicitous mix of growth and equity (Pontusson 2005; Kenworthy 2008). Indeed, among CMEs, countries with large states are doing better economically than ones with small states (Carlin and Soskice, 2006). The skeptics have generally tended to neglect the conditions under which the state can build political coalitions to pursue this high road to economic growth and equitable distributions of employment and income. We seek to fill this gap by demonstrating the state's importance to sustaining social solidarity in the contemporary period.

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Appendix 1. Table 1. The Components of Solidarism.

	Coverage of Income RisksA	Coverage of Income RisksB*	Employment "Good Jobs"	Overall Solidarism
Collective Bargains Coverage	**.6278**	.3325	---	**.8625**
Public Health Coverage	**.5944**	-.2790	---	**.4639**
Sick Days Coverage	**.8768**	**.8440**	---	**.8081**
Unemployment Coverage	.1526	**.7037**	---	-.0252
Pension Coverage	.1569	**.5144**	---	.1930
Irregular Employment	---	---	.3064	.2293
Low Wage Employment	---	---	**-.6328**	**-.8614**
Employment Protection	---	---	**.6983**	**.7586**
Active Labor Market Policy	---	---	**.5770**	**.7699**
GINI-Market Income 25-59HH	---	---	---	**-.5994**

Data are country years for 1980-2002 for 18 developed capitalist democracies (fewer years and countries

for some variables). Analysis is conducted by principal components with varimax rotation.

* Factor analysis of Coverage of Risks to Income B deletes the United States. (See text.)

Appendix 1. Table 2. The Components of Economic Coordination.

	Coordination	National Coordination	Sector Coordination
Union Organization	**.5602**	**.7354**	-.0788
Employment Organization	**.6896**	**.6792**	.2302
Level of Collective Bargains	**.7272**	**.7932**	.2681
Bargaining Cooperation	**.8049**	**.8192**	.0937
Purchaser-Supplier Linkages	**.5433**	.0739	**.8486**
Competitive Firms Cooperation	**.6076**	.1388	**.8676**
Investor-Firm Linkages	**.8076**	.6019	**.5479**
Labor-Management Cooperation	**.8422**	.6623	**.5230**

*Results for the second and third columns are obtained by allowing a two-factor solution; eigenvalues

suggest a one-factor solution as sector coordination achieves a marginally important eigenvalue (1.3).

Appendix 2. Principal Variables and Data Sources.

Details and Data Sources for Economic Coordination.

Level of Bargaining: level of collective bargaining where 1 is plant level, 2 is industry level without constraints, 3 is industry level with constraints, 4 is sectoral level without sanctions, and 5 is sectoral level with sanctions. *Coordination of Collective Bargaining*. 1-4 index of degree of coordination across peak/sectoral associations of labor and of capital in wage bargaining. *Union Organization*: Index (standard score) of union density and centralization of union confederation (e.g., power of appointment, veto over wage agreements, veto over strikes, strike funds). *Employer Organization*: Index (standard score) of the presence of a national association and powers of that association (i.e., power of appointment, industrial actions, bargains, and conflict funds). *Investor-Productive Enterprise Linkage*: Hicks-Kenworthy measure of the strength of long-term cooperative relations between financial institutions and the enterprises they lend to. *Purchaser-Supplier Relations*: Hicks-Kenworthy measure of long-term supplier-purchaser relationships.*Cooperative Arrangements-Competitive Firms*: Hicks-Kenworthy measure of cooperation between competitive firms in research and development and technology sharing, export promotion, standard setting, training, and related firm cooperative activities. *Labor Management Cooperation*: Hicks-Kenworthy measure of management and labor cooperation. Data Sources: for the first four variables, Miriam Golden, Michael Wallerstein, and Peter Lange, "Union Centralization Among Advanced Industrial Societies: Update," Department of Political Science, UCLA, 2002; for the second four, Lane Kenworthy, "Economic Cooperation in 18 Industrial Democracies, Department of Sociology, University of Arizona (original data and country sources for extension of some time series).

Details and Data Sources for Solidarity Indexes:

Public Health Coverage: Public health system coverage (percentage of population). OECD Health Data Base. *Unemployment, Pension, and Sickness Insurance Coverage*. Source: Lyle Scruggs and James Allen, "The Comparative Welfare State Entitlements Data Set." *Collective Bargaining Coverage*: (Percentage of labor force). OECD *Employment Outlook* (selected numbers). *Part-Time and Fixed Term Employment*: Percentage of total employees in part-time work. OECD, *Employment Outlook* (selected numbers); OECD

Employment Data Base. *Active Labor Market Policy*: OECD (2004) *Social Expenditures Data Base*, CD Rom. Paris: OECD. *Employment Protection Index* (Expanded): G. Faggio and S. Nickell, "Patterns of Work Across the OECD," Center for Economic Policy Discussion Paper No. 730. *Low Wage Employment*: Ratio of 50th percentile to 10th percentile (full-time equivalent) earner. OECD Earnings Data Base. *GINI Index for Market Income Distribution of Working-Age Households*. Luxembourg Income Study data; GINI's computed by Vincent Mahler, Department of Political Scinece Loyola University.

Details and Data Sources for internationalization variables:

Indexes of restrictions on capital and financial flows: Dennis Quinn, Georgetown University. (Quinn and Inclan 1997). *Exports and Imports of goods and services*: OECD, *National Accounts of OECD Member Countries*. Paris: OECD, various years. *Gross domestic product*: OECD, *National Accounts*.

Details and Data Sources for Government/Politics/Political Institutions

State Size/Capacity: Government spending, receipts and public sector employment: Source: *OECD Economic Outlook Database* (No.82), *OECD Historical Statistics* and ILO, Public Employment Database. *Left and Christian Democratic Government; Number of Effective Parties, Proportional Representation*: data on votes, seats and party cabinet portfolios for all parties and party groups as a percent of all cabinet portfolios are from: Duane Swank, Comparative Parties Data Base, (www.marquette.edu/polisci/Swank.htm). *Components of Institutional Veto Points*: Lijphart (1999) and country-specific sources.

Details and Data Sources for Socioeconomic Variables:

Percent of the civilian labor force unemployed, total employment and wage and salary employees across sectors, civilian labor force, population: OECD, *Labor Force Statistics*. Paris: OECD, various years. *Real per capita GDP in constant (1995) international prices*: Source: The Penn World Table (Mark 6.1). National Bureau of Economic Research (http://www.nber.org).

Table 1. Variation Across Time and Countries in Economic Cooperation and Solidarism.

	Economic Coordination		Solidarism		Change, 1980s--2000s	
	1980s*	2000s*	1980s	2000s	Coordination	Solidarism
CME's						
Belgium	.3071	.4634	.5434	.4739	.1563	-.0695
Denmark	.5173	.5056	.5259	.6015	-.0117	.0756
Finland	.9773	.7319	.8279	.5376	-.2454	-.2903
Germany	.5165	.2620	.4389	.2419	-.2545	-.1970
Netherlands	-.3327	.1694	.1193	.4251	.5021	.3058
Norway	.8624	.7276	.5867	.4536	-.1348	-.1331
Sweden	.7009	.5413	1.0869	.7670	-.1596	-.3199
Mean CME's	.5069	.4858	.5898	.5001	-.0211	.0897
State Coordin.						
France	-.4651	-.3910	.1523	.4110	.0741	.2587
MixCME/LME						
Switzerland	.1197	.1056	-.1231	-.3439	-.0141	-.2208
LME's						
Australia	-.5795	-.5917	-.3631	-.4191	-.0122	-.0560
Canada	-1.4186	-.9623	-.7172	-.6797	.4563	.0375
UK	-.9798	-.7747	-.4520	-.7115	.2051	-.2595
USA	-1.1689	-1.0268	-2.1279	-2.2910	.1421	-.1631
Mean LME's	-1.0367	-.8389	-.9150	-1.0253	.1978	-.1103

* See text for description of the variables Economic Coordination and Solidarism. Values for 1980s and 2000s indices of coordination and solidarism computed as 1986-1988 and 2000-2002 means, respectively; values for Belgium, Norway and Switzerland encompass the early to mid-1990s for "1980s" data point, and late 1990s to 2000s for "2000s" data point.

Table 2. "Cheap Labor" in Coordinated Market Economies: Variations Across Time and Countries of Irregular Employment, Coverage of Risks, and Active Labor Market Policy.

	Irregular Employment		Coverage of Risks		ALMP	
	1980s*	2000s*	1980s	2000s	1980s	2000s
Austria	15.4	23.4	.5606	.5212	.09	.15
Belgium	18.3	27.3	.5808	.6149	.13	.16
Denmark	30.8	26.3	.4971	.6309	.06	.36
Finland	26.5	27.7	.7648	.7648	.20	.09
France	19.7	25.5	.3764	.5246	.07	.13
Germany	22.6	33.3	.3119	.0996	.17	.14
Italy	13.6	25.1	.1498	.1773	.02	.07
Japan	27.0	39.5	-.6974	-.7848	.11	.06
Netherlands	34.3	49.9	.1935	.4570	.11	.42
Norway	34.9	30.6	.4971	.4971	.22	.19
Sweden	27.5	29.2	.6309	.6738	.75	.27
Mean All	27.1	33.8	.3253	.3481	.19	.20

* Values for 1980s indices of employment, coverage, and ALMP computed as 1986-1988 means (although 1980s data points for Finland, Norway and Sweden are 1990-1992 means); 2000s values for coverage and ALMP are 2000-2002 means, and 2000s data points for employment are 2003-2005 means.

Irregular Employment: Sum of percentage of employment in fixed-term contracts and part-time work.

Coverage of Risks: Standard score index of universal coverage of risks to income (health insurance, sick days, collective bargaining coverage).

ALMP : Expenditure on active labor market policy (as % of GDP) per percentage of civilian labor force unemployed (standardized unemployment rate).

Table 3. The Political and Economic Bases of Solidarism and Determinants of "Cheap Labor," 1980s to 2000s.

	Solidarism			Irregular Employment-CMEs
	I	II	III	I
Politics/Institutions				
Public Sector Employees	.0239*** (.0026)	.0101*** (.0027)	.0116*** (.0025)	-.1595** (.0988)
Inclusive Electoral Institutions	.0589** (.0044)	-.0068 (.0073)	-.0126 (.0067)	1.1186 (.7062
Left Party Government	.0304*** (.0044)	.0145** (.0073)	.0174*** (.0067)	.1585 (.1498)
Christian Democrat Government	.0384** (.0048)	.0172*** (.0067)	.0182*** (.0059)	.8776*** (.1464)
Coordination	---	---	.1289*** (.0467)	---
Economic Forces				
Deindustrialization	-.0181*** (.0005)	-.0169*** (.0049)	-.01990*** (.0048)	.2163** (.1202)
Trade Openness	.0018* (.0009)	-.0009 (.0010)	-.0010 (.0010)	-.0138 (.1266)
Capital Mobility	-.0036*** (.0012)	-.0001 (.0009)	.0002 (.0010)	-.0102 (.0264)
Economic Growth	-.0019 (.0022)	-.0021 (.0018)	-.0018 (.0019)	.0265 (.0576)
R^2	.5954	.9490	.9658	.8193
Fixed Effects	No	Yes	Yes	Yes
Wald Chi-Square	305.57	20483.26	26284.27	1255.17
Probability	.0000	.0000	.0000	.0000
Number of Cases	217	217	217	170

Models are estimated with Prais-Winsten regression (first-order autocorrelation) for unbalanced panels; panel-correct standard errors are reported in parentheses. Models in Columns I to III are estimated on the basis of time series from 13 nations where the time frame is typically 1985 to 2002. The model of irregular employment in the final column is estimated with 1980s to 2000s data for 10 coordinated market economies as discussed in the text.

Table 4. The Political and Economic Bases of Coverage of Income Risks, 1980s to 2000s.

	Coverage Risks A		Coverage of Risks B	
	I	II	I	II
Politics/Institutions				
Public Sector Employees	.0068*** (.0020)	.0005*** (.0002)	.0057** (.0027)	.0010*** (.0003)
Inclusive Electoral Institutions	-.0160 (.0179)	-.0101 (.0060)	-.0252 (.0334)	-.0081 (.0098)
Left Party Government	.0076** (.0032)	-.0006*** (.0002)	.0037 (.0052)	-.0016*** (.0005)
Christian Democrat Government	-.0099** (.0035)	-.0001 (.0001)	.0309** (.0089)	.0006 (.0004)
Coordination	.0112 (.0154)	.0239*** (.0078)	.1087** (.0471)	.0154* (.0113)
Lagged Coverage of Risk	---	.9966*** (.0028)	---	.9970*** (.0049)
Economic Forces				
Deindustrialization	-.0081*** (.0035)	.0022*** (.0008)	.0122** (.0053)	-.0011 (.0019)
Trade Openness	-.0002 (.0005)	.0001 (.0001)	.0029*** (.0009)	.0002 (.0002)
Capital Mobility	.0005 (.0007)	-.0003** (.0001)	.0007 (.0009)	.0001 (.0003)
Economic Growth	.0001 (.0011)	.0004 (.0008)	-.0012 (.0019)	.0014 (.0014)
R^2	.9611	.9980	.8254	.9921
Fixed Effects	Yes	No	Yes	No
Wald Chi-Square	140385.06	739074.21	33532.32	90062.82
Probability	.0000	.0000	.0000	.0000
Number of Cases	364	363	370	370

Models of columns I and III are estimated with Prais-Winsten regression (first-order autocorrelation) for unbalanced panels; panel-correct standard errors are reported in parentheses. Models in Columns II to IV are estimated by OLS with panel correct standard errors in parentheses. All models are estimated on the basis of data from 17 nations (18 focal nations with the exclusion of Ireland) where the time frame is typically 1981 to 2002.

Table 5. The Political and Economic Bases of Good Jobs and Income Inequality with More Evidence on the Impacts of Political Institutions, 1980s to 2000s.

|	"Good Jobs"		Market Inequality	Solidarism
	I	II	III	IV
Politics/Institutions				
Public Sector Employees	.0082*** (.0033)	.0009** (.0005)	.0135** (.0064)	.0156*** (.0012)
Inclusive Electoral Institutions	-.0525* (.0288)	-.0145 (.0125)	-.0078 (.0567)	.0686*** (.0235)
Left Party Government	.0107 (.0238)	-.0002 (.0014)	-.0048 (.0126)	.0269*** (.0020)
Christian Democrat Government	.0238** (.0103)	.0010* (.0007)	.0117 (.0230)	.0227*** (.0024)
Coordination	.1406** (.0662)	.0300** (.0185)	.1084 (.1023)	.2985*** (.0305)
Lagged "Good Jobs"	---	.9650*** (.0175)	---	---
Institutional Veto Points	---	---	---	-.1586*** (.0244)
Unit Effects	---	---	---	.9374*** (.0378)
Economic Forces				
Deindustrialization	.0055 (.0078)	-.0027 (.0022)	-.0919*** (.0132)	-.0250*** (.0038)
Trade Openness	-.0008 (.0016)	.0005 (.0013)	.0004 (.0024)	-.0007 (.0007)
Capital Mobility	.0028* (.0015)	-.0004 (.0005)	-.0079*** (.0024)	-.0011 (.0009)
Economic Growth	-.0018 (.0032)	-.0087 (.0029)	-.0041 (.0043)	-.0009 (.0020)
R^2	.8881	.9865	.6614	.9622
Fixed Effects	Yes	No	Yes	Yes-FEVD
Wald Chi-Square (Probability)	8685.27 (.0000)	46156.22 (.0000)	2905.93 (.0000)	9730.27 (.0000)
Number of Cases	295	284	265	217

Models of columns I, III, IV and V are estimated with Prais-Winsten regression (first-order autocorrelation) for unbalanced panels; the Models in columns II is estimated by OLS. Panel correct standard errors are in parentheses. Models in Columns III and IV are estimated for 13 nations where the time frame is typically 1985 to 2002. The model of column V utilizes a "fixed effects vector decomposition" estimator (Plümper and Troeger 2007).

Figure 1. Two Dimensions of Coordinated Capitalism

Solidarism/Collectivism

Uncoordinated Markets   *Economic Coordination*
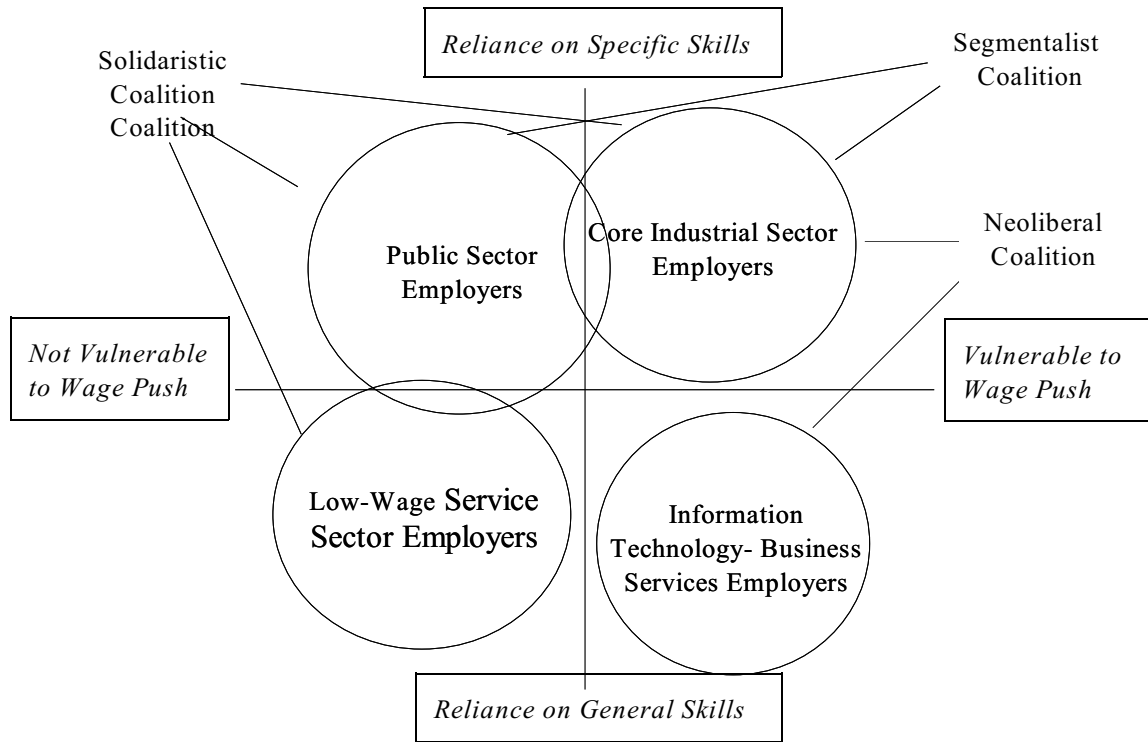
Segmentalism/Dualism
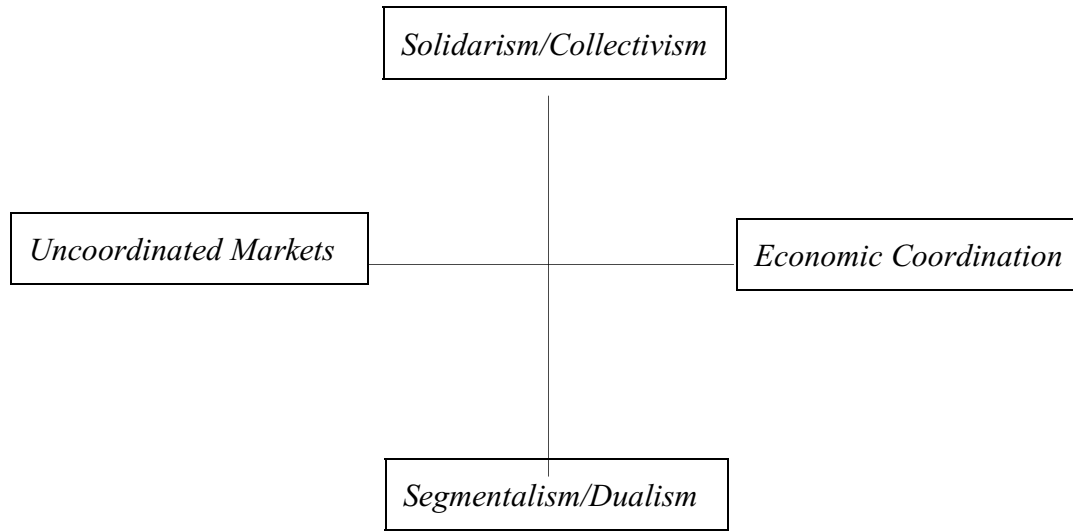
Adapted from Höpner (2007)

Figure 2. Solidarism and Coordination in Capitalist Democracies: Patterns of Change.*
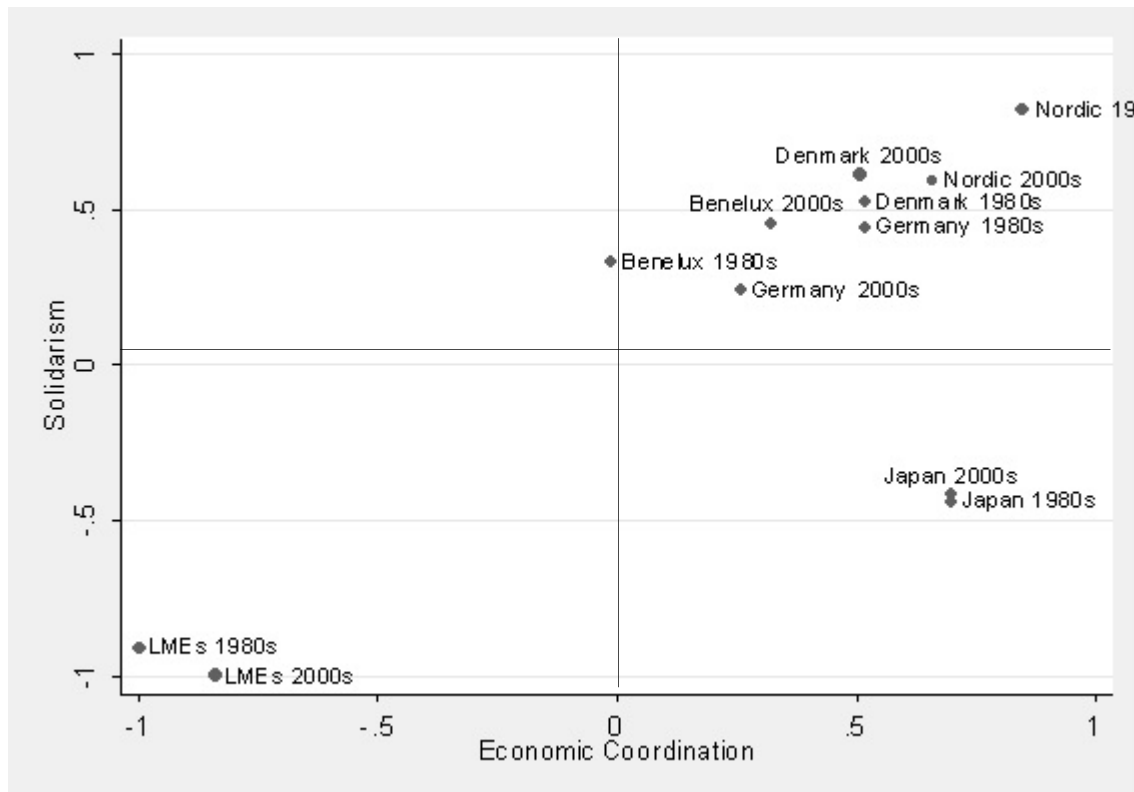
* 1980s values refer to 1986-1988 means while 2000s values designate 2000-2002 means of either

dimension. See text for description of Solidarism and Economic Coordination and country groupings.

Figure 3. Potential Employer Coalitions for Solidaristic or Segmenetalist Strategies

Solidaristic
Coalition
Coalition

Reliance on Specific Skills

Segmentalist
Coalition

Public Sector
Employers

Core Industrial Sector
Employers

Neoliberal
Coalition

*Not Vulnerable
to Wage Push*

*Vulnerable to
Wage Push*

Low-Wage Service
Sector Employers

Information
Technology- Business
Services Employers

Reliance on General Skills

Figure 4. Potential Labor Coalitions for Solidaristic or Segmentalist Strategies

Strong Employment Protection

Solidaristic
Coalition

Segmentalist
Coalition

Public Sector
Employees

Core Industrial
Sector Workers

*Reliance on
Public Benefits*

*Reliance on
Private Benefits*

Low-Wage Service
Sector Workers

Information
Technology-
Business Sector
Workers

Weak Employment Protection