

Insider-outsider divides and support for social investment policies

A study of public opinion in eight West European countries

Antonio Giubilaro de Angelis

Abstract

In recent years, many scholars have observed increasing polarization in the distribution of labor market risk, as well as social and employment rights. This phenomenon is often referred to as labor market dualization, a process deepening the divide between privileged insiders and less fortunate outsiders. Some authors have begun to search for a possible insider-outsider divide in policy preferences and voting behavior, fueled by their irreconcilable interests.

In parallel, the literature on welfare state development has observed (and even vocally advocated for) a reframing of welfare policies as social investment policies, geared towards the creation, maintenance, and activation of human capital throughout the life course. A welfare reform strategy founded on the expansion of so-called social investment policies, such as childcare services, active labor market policies, and education, has been invoked as a way to reconcile the interests of the working and middle classes, and to reduce dualization.

In this thesis, I estimate logistic regression models on public opinion data from eight West European countries to study support for social investment policies. Specifically, I ask whether insiders and outsiders differ in the importance they attribute to social investment policies vis-à-vis traditional social protection, or in how they view the primary purpose of the welfare state.

I find no evidence of an insider-outsider divide on the level of spending priorities. When asked to choose only one policy area where they would like to see a spending increase, outsiders are not more likely than insiders to prioritize social investment policies. I do find evidence against outsider support for social investment on an ideational level, since outsiders are less likely than insiders to view social investment as the primary purpose of the welfare state.

Key words: labor market dualization, insider-outsider divides, insider-outsider theory, social investment, welfare state, social policy, policy preferences, political behavior, public opinion.

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1 Introduction

One of the most salient developments in recent welfare state research has been a normative debate about the purpose of social policy in the knowledge economy, which has seen several scholars arguing in favor of its reframing as *social investment policy*.

The concept of social investment refers to policies that activate citizens of working age, elevate and maintain their level of human capital throughout the life course, and enable them to find and keep high-quality employment, thereby avoiding the risk of poverty (Bonoli, 2013; Esping-Andersen et al., 2002; Hemerijck, 2013, 2017b; Morel et al., 2012). Typical examples are education at large, childcare and elderly care services, and active labor market policies (especially those with an upskilling and reskilling focus).

Social investment also refers to a novel legitimization of *all* social policies as a catalyst of economic growth in advanced capitalist economies, rather than a hindrance to it. From the social investment perspective, a virtuous circle should be established, whereby social policies would enable more people to work, and to do so in highly qualified jobs that create more value-added; this broader and more productive working population, in turn, would pay the necessary taxes to finance generous welfare states. Even minimum income protection (the classic "social safety net"), from this perspective, serves the purpose of avoiding the deterioration of human capital during risky life-course transitions.

In parallel, another important stream of welfare state research has recently focused on the phenomenon of labor market *dualization*, especially in Continental and Southern European welfare regimes. The core argument of the dualization perspective is that, starting from the late 1990s, welfare reform in these countries has taken the form of "liberalization at the margins": retrenching protection for the unemployed, workers with fixed-term or part-time contracts, and workers with little work experience in general, in order to preserve high levels of protection for those with permanent, full-time contracts and a long contribution history. These targeted liberalizations have allegedly created a dualized labor market, with strong social protection for a core workforce of "insiders", and high levels of income and job insecurity for "outsiders" (Emmenegger et al., 2012c; Palier & Thelen, 2010; Rueda, 2007; Thelen, 2014).

When looking at these two developments together, one is left with the interesting question of whether labor market outsiders react to liberalizations by demanding *compensation*, i.e. unemployment benefits or other kinds of social assistance, or by demanding *social investments* to help them develop their human capital and obtain more remunerative positions in the labor market.

I argue that labor market outsiders are a cross-pressured group: on the one side, they normally experience dire material conditions, especially if their

exclusion from secure and remunerative jobs is prolonged in time. This should prompt them to demand immediate protection of their livelihood. It is also reasonable to imagine them being envious of insiders' social entitlements, demanding to be included in the same schemes or be given the same level of security.

On the other side, outsiders' exclusion is often due to pressing care needs in the family (typically of young children or elderly parents), the labor market's barriers to entry, or a lack of marketable skills. These are precisely the obstacles social investment policies aim to remove, through child and elderly care services, and opportunities for upskilling and reskilling throughout the life course. In fact, social investment advocates openly claim that social investment policies benefit labor market outsiders more than insiders. It is yet to be seen whether outsiders themselves see it that way.

Solving this puzzle is less straightforward than it seems, since both terms of the equation ("individual preferences for social investment policies" and "labor market outsidersness") can be understood and operationalized in different ways. Plus, our research possibilities are partly limited by the available data. I estimate several binary logistic regression models on data collected by Marius Busemeyer and colleagues through a survey of public opinion in eight West European countries, within the project "Investing in Education in Europe: Attitudes, Politics and Policies" (INVEDUC).

The thesis will proceed as follows: in the first chapter, I review the existing literature on labor market dualization and the social investment approach, with a focus on studies of public opinion.

In the second chapter, I try to connect the dualization and social investment streams of the welfare state literature, and formulate two research questions. I do not develop an entirely new theory of preference formation. Rather, I try to show why, based on the existing literature, we could expect labor market status to be related to social policy preferences. My hypotheses are anchored in a rational choice perspective, so that the main causal mechanism at play is assumed to be material self-interest.

In the third chapter, I briefly present the INVEDUC dataset go through the details of operationalization and estimation strategies.

In the fourth chapter, I analyze the results and relate them to the original research questions.

The final chapter concludes with a brief summary and some reflections on the relevance of this work for the politics of the welfare state.

2 Literature review

This chapter revolves around the topics of labor market dualization and social investment policies.

I will review the most recent literature addressing two sets of questions. First, what is labor market dualization? Who are labor market insiders and outsiders? Most importantly, is there an insider-outsider divide in social policy preferences?

Second, what is social investment? And what are the determinants of support for social investment policies?

2.1 Labor market dualization

2.1.1 What is dualization?

Labor market dualization is a phrase coined to refer to rising labor market inequality, especially in Continental European countries. It can be defined as the process by which "employment, employment protection, as well as the social and economic rights attached to employment are distributed more unequally over time. Regular employment with full access to social and legal protection is increasingly concentrated in particular socio-economic groups, while other groups experience employment vulnerability of mounting scope and intensity" (Häusermann, Kemmerling, et al., 2020, p. 345).

The edited volume "The Age of Dualization: The Changing Face of Inequality in Deindustrializing Societies" (Emmenegger et al., 2012c) is a good starting point to understand the concept of dualization. Its core thesis is that dualization is not an automatic, mechanical consequence of structural changes in the world economy, but rather the result of conscious political choices. This is what distinguishes dualization from similar concepts such as labor market segmentation, stratification, or polarization. In the words of Häusermann and Schwander, "while labor market segmentation is a fairly universal trend, the appearance of actual insider-outsider divides is not: it is contingent on policies" (Häusermann & Schwander, 2012, p. 27).

Emmenegger and colleagues indeed begin with a review of some structural transformations that have put labor markets under pressure across all industrialized countries (Emmenegger et al., 2012b).

First, deindustrialization and the rise of the service economy have presented all advanced economies with the need to create a good number of low-skilled jobs

in the service sector. On this depended their ability to absorb redundant workers laid-off in the shrinking industrial sector, which was no longer able to sustain full employment. However, the lower productivity of these low-skilled service jobs meant that labor costs had to be adjusted accordingly (see also King & Rueda, 2008), possibly while guaranteeing adequate wages and social protection coverage to service workers. These are particularly vulnerable to market forces and have a weaker bargaining power vis-à-vis employers, since the service sector is traditionally less regulated and unionized than the industrial one.

Second, globalization constrains the ability of the State to react to this challenge. Downward wage competition from developing countries, as well as from incoming migrant workers, makes the need to contain labor costs even more urgent. The liberalization of capital movements further discourages the State from imposing excessive costs (including labor costs) on businesses, due to fears that they would delocalize production elsewhere.

Third, women are overrepresented among low-skilled service workers, so these issues interact with changing gender roles and family structures. Female emancipation and increasing divorce rates mean that women can no longer be considered the male breadwinner's financial responsibility. On the contrary, their adequate social policy coverage must be ensured on equal terms with men.

However, women often do interrupt or otherwise compromise their careers to cater to the care needs of the family. Frequent unemployment spans and non-standard employment relationships result in a patchy contribution history, which disentitles them from most earnings-related social insurances.

At the same time, even full-time working women pose a challenge to welfare systems. The role of the family as welfare provider is weakened, and women's care work needs to be substituted by professional child and elderly care services.

In sum, following several structural transformations in the world economy, all countries faced the need to create low-skilled service jobs to increase employment rates, especially among women.

However, not all countries reacted in the same way. As argued by Häusermann and Schwander (2012), path dependencies can be observed in how different welfare regimes found a solution to this puzzle, leading to very different outcomes in terms of poverty and inequality.

Liberal welfare states reacted by simply allowing wages to adjust downwards until they correspond to productivity. This, combined with a strong bifurcation between high- and low-skilled jobs, has resulted in wage dispersion and high levels of inequality.

Social-democratic welfare states relied on public employment, creating a high number of low-skilled, but nonetheless well-protected, service jobs in the public welfare sector.

Conservative welfare states in Continental and Southern Europe, however, could not pursue these roads. A number of factors prevented wages from freely adjusting downwards as in the liberal systems: high payroll taxes and social

contributions; minimum wages, collective bargaining, and generous unemployment insurances, which created a high reservation wage¹; employment protection rules, which increased the cost of dismissals. The standard employment contract was simply too costly for the lower segments of the service sector, but outright liberalizations were difficult, due to the electoral strength of the constituencies benefiting from the status quo (as predicted by Pierson, 2001).

On the other side, taxes and public spending were already too high (with pensions absorbing the lion's share), as were concerns for rising budget deficits and public debt. Further increasing public spending to create mass employment in the public sector was out of the question.

In this context, policymakers in Continental and Southern Europe designed “solutions that do not directly challenge the institutional core, but which create employment options *circumventing it*” (Eichhorst & Marx, 2012, p. 76, own italics). While the “standard” full-time, open-ended contract was left mostly untouched, many cheaper alternatives were created from scratch or, if already present, were deregulated and incentivized: fixed-term contracts, part-time contracts, “bogus” freelancing (for one client only) and agency work, mini-jobs, internships and apprenticeships.

Emmenegger et al. argue that this development is not akin to straightforward liberalization, but that it is more adequately described as a process of dualization:

“We argue that current policies tend to differentiate between different social groups: some portions of the society are insulated from growing risk and inequality through various labor market and social policies, while others are exposed to new or greater risks through policy reforms. [...] [T]he last two to three decades can be characterized in many countries as ‘the age of dualization’, in which new and/or deepened divides have surfaced between various groups of insiders and outsiders” (Emmenegger et al., 2012b, p. 17).

The authors stress the importance of social coalitions and political choices behind this development:

“[T]he translation of structural pressures into policies and outcomes must be understood as a political process, in which politically and economically stronger groups are using their power resources to *insulate themselves* from the negative effects of these structural pressures, and in which governments make deliberate choices in favor or against outsiders” (Emmenegger et al., 2012b, p. 16).

Palier and Thelen (2010, 2012) trace this dualization process for the paradigmatic cases of France and Germany (see also Rueda et al., 2015).

In both countries, employment in the manufacturing sector started declining after the first oil crisis. In reaction to this, strict employment protection legislation was passed, that made lay-offs more difficult and strengthened collective bargaining at the firm level. These local deals between firms and labor

¹ The reservation wage is “the lowest wage rate at which a worker would be willing to accept a [...] job” (Hall & Lieberman, 2009, p. 342).

representatives often included some kind of productivity increase, whereby workers were required to work harder and/or more flexibly than before, in exchange for guaranteed job security. While workers who remained inside the big manufacturing companies benefited from these favorable deals, a range of non-essential activities (e.g. cleaning, maintenance, or security services) were outsourced to smaller companies that offered worse working conditions and made ample use of atypical contracts.

In both countries, labor market policies “responded to, but also *solidified* the new and increasing divide that was emerging in the labor market between different types of jobs” (Palier & Thelen, 2010, pp. 126–127, own italics). Germany relaxed restrictions for the use of agency workers, fixed-term contracts, and the well-known “mini-jobs”. France similarly deregulated the use of temporary, part-time, and agency workers, and introduced a range of state-subsidized “insertion contracts” targeted at the poorly paid, low-skilled population.

The widespread diffusion of atypical employment soon posed problems for the welfare state, since these workers did not pay social contributions in proportion to what they were entitled to receive from the social insurance system. Once again, both countries offered dualizing responses, and gradually sharpened the distinction between social insurance for standard workers and social assistance for the poor. New means-tested, flat-rate minimum income schemes were created to target the socially excluded (the ALG II - Arbeitslosengeld II in Germany, the RMI - Revenu Minimum d’Insertion in France), while qualifying for social insurance benefits became harder, so that more and more workers were shifted from social insurance to social assistance.

In sum, Palier and Thelen show how dualization trends emerged in the real economy, spilled over into labor market regulation, and from there into social policies. Each time, dualization was the result of a political choice to preserve the institutional core of the economic and social model at all costs. The big industry was saved by “reducing the size of the workforce and increasing the productivity of the remaining workers” (Palier & Thelen, 2010, p. 126); the standard employment contract was saved through “flexibility at the margins” (Davidsson & Naczyk, 2009, p. 15), i.e. by creating and promoting a range of cheaper and more flexible alternatives; finally, the Bismarckian social insurance system was saved by relieving it of the weight of “bad risks”, which were shifted to tax-funded social assistance.

King and Rueda (2008) provide further evidence that dualization has been a Continental European response to the need for cheap labor, which the liberal welfare regimes have satisfied via low pay in standard employment. Using OECD data, they find evidence of a trade-off, i.e. a negative correlation, between “the incidence of low pay in standard employment and the levels of fixed-term and part-time work” (King & Rueda, 2008, p. 290). When the two are conflated, the incidence of cheap labor as a whole is “relatively similar” across countries (ranging from 34,01% in Sweden to 54,91% in Spain) (King & Rueda, 2008, p. 292).

Of course, labor market inequalities are not new in and of themselves. The study of labor market segmentation has ancient roots in economics and economic sociology. Already in the 1970s, authors working on dual labor market theory (Piore, 1969; Doeringer & Piore, 1971; Gordon, 1972; Stinchcombe, 1979; Berger & Piore, 1980) had pointed out the existence of two parallel labor markets. The primary labor market, made of stable and well-paying jobs, with good working conditions and career prospects, was relatively insulated from the variability of the business cycle. The secondary labor market, where workers were deprived of all these privileges, served as a buffer in the face of demand and supply fluctuations.

Investigating the causes of high unemployment in Europe, labor market economists also developed an insider-outsider approach (Blanchard & Summers 1986; Lindbeck & Snower 1988, 1990; Nickell & Wadhvani 1990; Holmlund 1991; Lindbeck 1993; Saint-Paul 1996, 1997, 2000, 2002, Lindbeck & Snower 2001). They argued that workers in the primary labor market, defended by strong unions, have an incentive to demand ever higher wages and tightened employment protection, even at the cost of fewer jobs and further exclusion for the outsiders.

Furthermore, the dual nature of welfare states, particularly in the USA and in Continental Europe, has long been established (Tussing 1975; Weir et al. 1988; Leibfried & Tennstedt 1985, Hacker 2002): more often than not, generous social insurance policies targeted at workers have coexisted with means-tested, flat-rate assistance targeted at the poor.

What is new is not segmentation per se, but rather “the extent of people affected, the composition of outsiders, the saliency or visibility of dualization, and the political sources of dualization” (Emmenegger et al., 2012a, p. 306).

First, atypical contracts and long-term unemployment have become more widespread, due to both structural changes and the conscious deregulation and flexibilization of labor markets.

Second, while women have always been weakly integrated into the labor market, now they can no longer count on the family as a welfare provider, so their individual welfare needs have gained saliency in many countries. This stands in contrast with when the household was treated as an indivisible welfare recipient, because the protection of the male breadwinner was extended to all other household members.

Third, dualization is a political process, while segmentation refers merely to structural changes. What is new in the “age of dualization” is that political decisions now openly endorse the institutionalization of dualisms, both in the labor market and the welfare state:

“[O]utsiderness in the ‘age of dualization’ differs from previous periods because it affects a larger portion of the workforce, as well as different groups of people in more precarious social situations than in the past; additionally, the deepening, widening, and creation of new divides between insiders and outsiders have been the result of deliberate deregulation of labor markets. Hence, while divides between insiders and outsiders have always been part of industrial labor markets, they now have risen in salience and constitute a core element of labor markets in deindustrializing economies” (Emmenegger et al., 2012a, p. 307).

2.1.2 The policy preferences of insiders and outsiders

We have seen how dualization unfolds at the macro-level of labor market and welfare policy making, where the line between standard and atypical employment, as well as between social insurance and social assistance, is drawn more sharply.

Treating dualization as a political process has naturally led political scientists to ask questions regarding the actors leading this process. What political parties enact dualizing reforms? What parties are left to defend the interests of outsiders? And who do trade unions side with? This attention to the party politics of dualization has also spurred a considerable amount of research on insider-outsider divides in voting behavior, i.e. party choice at the ballot box. Especially social democratic parties have been in the spotlight, with regard to both their policy positions and the changing class composition of their constituency.

Notwithstanding the valuable insights provided by this literature (Corbetta & Colloca, 2013; Emmenegger et al., 2015; Gallego, 2007; Lindvall & Rueda, 2012; Marx, 2016; Marx & Picot, 2013; Vlandas, 2013), in order to keep this subsection relevant for this thesis, I am going to strictly focus on insiders' and outsiders' *policy preferences* and attitudes towards the role of government.

Rueda (2005, 2006, 2007) was the first one to systematically inquire into the political consequences of labor market dualization. In his works, he develops what would later come to be known as *insider-outsider theory*, i.e. a theory designed to explain the puzzling behavior of social democratic parties (particularly the growing similarity between social democratic and conservative economic policy) with changes in those parties' constituency.

According to insider-outsider theory, the working class can no longer be considered a homogeneous, united entity: it is now divided between two groups with diverging and irreconcilable interests.

Insiders, defined as those "employed full-time with a permanent job or [...] those with part-time or fixed-term jobs who do not want a full-time or permanent job" (Rueda, 2005, p. 63), are insulated from the risk of unemployment, thanks to employment protection regulations such as restrictive tenure and severance pay arrangements. Moreover, they rely on the very existence of outsiders for their job security, since outsiders function as a buffer against market fluctuations.

Insiders have a strong interest in preserving this status quo. Hence, they should support employment protection legislation and the social security privileges from which they benefit, even if this promotes dualization by raising barriers to entry for outsiders. On the other side, insiders should oppose both active and passive labor market policies. In the former case, because the labor market integration of outsiders exposes them to downward wage competition. In the latter case, because they are not interested in paying higher taxes to finance passive transfers from which they will probably not benefit.

Outsiders, defined as "those who are unemployed, employed full-time in fixed-term and temporary jobs (unless they do not want a permanent job), employed part-time (unless they do not want a full-time job), and studying" (Rueda, 2005, p. 63), are primarily concerned with unemployment and job precariousness. Consequently, they should advocate for active labor market

policies (ALMPs), which would increase their chances to find employment, and for passive labor market policies (PLMPs), which guarantee them a decent standard of living in case of unemployment. Conversely, they should oppose employment protection, because they do not expect to benefit from it in the near future and they understand its role as a barrier to entry.

This last point reveals a key assumption of insider-outsider theory: insider-outsider divides become politically salient, and come to shape people's policy preferences and voting behavior, only inasmuch as outsiders do not expect to become insiders in the future. Indeed, longitudinal data shows that outsidership is often not a fleeting experience, or a "stepping stone" to an insider position. Rather, outsiders are often trapped in the secondary labor market for long periods of time and experience recurrent poverty (Tomlinson & Walker, 2012).

As previously stated, Rueda is primarily interested in the fading distinctiveness of left-wing economic policy, and in why left-wing governments have seemingly lost their willingness or ability to fight unemployment. In this respect, the core of his argument is that, given the insider-outsider cleavage *within* the working class, if forced to choose, social democratic parties have an incentive to favor insiders. This happens not only because socialists are attached to insiders as their historical constituency, but also because outsiders are "less politically active and electorally relevant (as well as less economically independent) than insiders" (Rueda, 2005, p. 62). Rueda indeed finds that "social democratic governments are significantly associated with higher severance pay" (Rueda, 2005, p. 70) and with a higher OECD overall employment protection index (Rueda, 2005, p. 71), but they have no significant effect on the levels of ALMP or PLMP promoted (Rueda, 2005, p. 68).

However, since this argument rests largely on assumptions about the micro-level preferences of insiders and outsiders, Rueda's work also contains some empirical tests of these assumptions, which are somewhat lateral for him, but more relevant for this thesis.

In these analyses, respondents are categorized as either insiders, outsiders, or "upscale". Insiders and outsiders are operationalized as explained above; the upscale are the self-employed and those who define themselves as "managers". Rueda applies logistic regression models on data from the 1996 Eurobarometer survey, with respondents from 13 European countries. He finds a good amount of evidence confirming his expectations.

First, "being an insider is associated with a 45 percent increase in the probability of considering employment security very important when choosing a job", while outsider and upscale status are not statistically significant (Rueda, 2007, p. 50).

As for ALMPs, outsider status increases the probability of agreeing to pay more taxes "devoted to creating new jobs" by 23 percent. Somewhat contrary to Rueda's expectations, being an insider also increases the willingness to finance public job creation, though only by 14 percent. Upscale status is not significant (Rueda, 2007, pp. 52–53).

Finally, regarding PLMP, Rueda analyses reactions to the statement "The welfare state costs too much to be maintained in its present form" (the closest

proxy he could find in his Eurobarometer survey). He finds that outsider status increases the probability of *disagreeing* with this statement, i.e. supporting PLMP, by 11 percent; upscale status decreases the same probability by 21 percent, while insider status is not significant (Rueda, 2007, pp. 54–55).

Emmenegger (2009) takes issue with a lot of the assumptions made by Rueda regarding the preferences for employment protection legislation. Furthermore, he introduces more nuances in the operationalization of insiders and outsiders.

First, he argues that it is not straightforward why outsiders should oppose employment protection so strongly: "being unemployed may also make one realize the value of job security. Or, if a person is forward-looking, he or she might realize that once in a new job, regulations will be beneficial for him or her too" (Emmenegger, 2009, p. 134). If outsiders have a reasonable expectation to become insiders in the future, they might see deregulation as reducing their chances of success. Furthermore, many outsiders depend on an insider relative (usually a father or husband) for their livelihood, an aspect which is missing from Rueda's analysis, and which could make outsiders supportive of the breadwinner's insider privileges. Finally, Emmenegger theorizes that outsiders might perceive deregulation as a "slippery slope": even small steps towards deregulation would empower capitalists to demand more and more of it, to the point where any initial benefit for outsiders would be lost.

In a second step, Emmenegger points to the many points of convergence between insider and outsider interests, such as their equal stakes in universal education and healthcare systems. He questions why, when considering the whole policy package proposed by social democratic parties, disagreement on labor market policy should be more salient than agreement on these other issues; outsiders might still see social democracy as the lesser evil, especially when there are no far-left or protest-party alternatives.

To test these hunches, Emmenegger uses logistic regression on data from the 1996 and 1997 waves of the International Social Survey Program. Respondents are assigned to one of five groups: upscale (full-time employees under permanent contract in higher-grade professional, administrative, or managerial positions); insiders (the remaining full-time employees under permanent contracts); outsiders (employees who are working part-time or under a temporary contract, and the unemployed); the inactive (students, housewives and househusbands, pensioners, caregivers, the permanently disabled/sick); the self-employed (Emmenegger, 2009, p. 137).

At least for the unemployed, Emmenegger can confirm his hypotheses. In fact, he finds important differences between the preferences of the unemployed and those of temporary and part-time workers. With the inactive as the reference category, the unemployed are more likely to consider job security important and to support "government action for declining industries to protect jobs". Temporary and part-time workers, instead, seem to align with the inactive (the regression coefficients are close to zero). The self-employed and upscale groups, as expected, are rather hostile to job security (Emmenegger, 2009, p. 138).

Using data from the 2001 Eurobarometer for 15 European countries, Burgoon and Dekker (2010) test the hypothesis that being in temporary or part-time

employment spurs economic insecurities which fuel demand for social protection. They use an ordered probit model, and find that people who are temporary workers, part-time workers, or both, are more likely to agree that "the government should provide a decent standard of living for the unemployed", in comparison with other employed respondents as well as with the overall sample (Burgoon & Dekker, 2010, p. 134). While people who face neither of these two risk situations have a 45 percent chance of (slightly or strongly) agreeing with this statement, for those who are employed *both* temporarily and part-time the probability of supporting unemployment assistance raises to 54 percent. The coefficients fall below statistical significance thresholds when including measures of subjective economic insecurity as independent variables (reactions to the statement that "my job is secure" and that "there is a risk that I could fall into poverty"). This is interpreted by the authors as suggesting that the effect of atypical employment on support for social protection is mediated by the feeling of economic insecurity induced by the former (Burgoon & Dekker, 2010, pp. 136–137).

Guillaud and Marx (2014) investigate outsiders' support for labor market deregulation by analyzing support for a concrete reform proposal in France (the *contrat de travail unique*). In the French Electoral Study 2012, respondents were asked: "Would you be in favor of or against the establishment of a single employment contract replacing temporary and permanent contracts? It would be easier to fire someone than with a permanent contract but severance payments would increase with seniority". The authors do not find any significant difference between the preferences of insiders and temporary workers. Conversely, the self-employed and the unemployed are significantly more in favor of the reform proposal than insiders (Guillaud & Marx, 2014, p. 1181). The authors subsequently replicate previous studies on preferences for active and passive labor market policy, and find that temporary workers do support them significantly more than standard workers (Guillaud & Marx, 2014, p. 1183). Hence, they conclude that temporary workers, in contrast to the unemployed, are not part of the constituency in favor of labor market deregulation.

In his book on the electoral behavior of temporary workers in Europe, Marx (2015) begins to broaden the scope of the literature beyond labor market policy, taking it to the level of welfare provision at large². Based on data from ESS 4-6 for 17 European countries (2008-2013), he finds that temporary employment is positively correlated with support for redistribution, public job creation, and "egalitarian pensions" ("low earners should get the same or higher pensions compared to high-income earners", (Marx, 2015, p. 60).

Marx (2015) also investigates the interaction effect between employment contract and income, and finds that "temporary contracts make no or only a minor difference for low-income workers, [because for them] current income leads to

² The book includes many more sophisticated arguments and empirical tests about temporary workers' vote choices, which are however beyond the scope of this review. In short, Marx argues that precarious employment spurs feelings of relative deprivation, increases the saliency of "pocketbook evaluations" at the ballot box, and encourages to blame and punish the incumbent government for one's own financial situation. See also (Marx, 2016).

strong support already and leaves no further room for risk effects. [...] [T]he effect of contract type becomes stronger if one moves to middle and high incomes. Hence, temporary contracts make income groups that typically show relatively weak support more supportive of the welfare state” (Marx, 2015, p. 62).

Marx analyses preferences for labor market deregulation too. These results are based on original 2014 survey data from the Netherlands, Poland, Spain, and Sweden (1500 dependent workers per country). Here too, he brings novel insights to the literature by analyzing not only support for the deregulation of standard contracts, but also for introducing restrictions to the use of non-standard contracts. However, the results are mixed. While temporary employment significantly increases support for deregulation in Poland and the Netherlands, no such effect is found in Sweden and Spain. As for restricting the use of temporary contracts, the effect is positive and significant only in Poland (Marx, 2015, pp. 64–67).

Overall, Marx concludes that, even where differences between permanent and temporary workers are statistically significant, the substantive effects are of modest size. In all cases, permanent workers (less strongly) support the same policies as temporary ones (Marx, 2015, p. 68). ”By and large, the argument that both types of workers belong to groups with irreconcilable policy preferences (as suggested by Rueda, 2007 and Saint-Paul, 2004) is not borne out by the data” (Marx, 2015, p. 70).

In parallel with the debate sparked by Rueda, a different strand of the political-economic literature has focused on the concept of labor market *risk* (as opposed to labor market *status*). Insider-outsider theory has emerged as a reaction against the power resources approach: in contrast with the mainstream assumption that trade union and social democratic parties defend the interests of the working class as a whole, Rueda contends that they defend the interests of insiders at the expense of outsiders. The concept of labor market risk, on the other side, has been developed in response to the dominance of the Meltzer-Richard model (Meltzer & Richard, 1981) in explanations of support for social insurance: in contrast with the mainstream assumption that low-income people support redistribution and high-income people oppose it, Rehm and colleagues argued that the expected probability of losing one’s source of income plays an equally important role.

Cusack, Iversen, and Rehm (2006), for instance, study support for unemployment insurance, and argue that traditional assumptions from the Meltzer-Richard model (unemployment insurance is supported by low-income earners and opposed by high-income earners) are insufficient: uncertainty about future income is just as important. They identify two key sources of uncertainty: the risk of becoming unemployed, captured by the occupational unemployment rate (“as these numbers rise, so too will the individual’s insecurity and fear that he or she will be forced to take a job at lower pay or become unemployed”, Cusack et al., 2006, p. 367), and the risk of skills devaluation (“individuals with specific skills [...] may have to accept re-employment in jobs where their skills are not

used fully and, therefore, suffer significant income loss”, Cusack et al., 2006, p. 367).

Using an ordered logit model on ISSP data, they find that skill specificity³ and exposure to unemployment risk are almost as powerful as unemployment status in predicting high levels of support for redistribution (government’s responsibility to reduce income differences between the rich and the poor): “[w]hile being unemployed increases the probability of strongly agreeing with government redistribution by 0.13, a high risk of unemployment elevates this probability at a slightly lower rate, i.e. 0.09. Similarly, individuals with high skill specificity have an 0.09 higher chance of strongly supporting government redistribution than do individuals with general skills” (Cusack et al., 2006, p. 375).

Rehm (2009) obtains similar results using the first 2 waves of ESS data for 17 countries: skill specificity and probability to become unemployed (i.e. occupational unemployment rates) both have a significant, positive effect on the probability that respondents strongly support government redistribution. Substantively, “simulating a change in the occupational unemployment rate of an employed person from the empirical minimum (about 1%) to about 30% increases that person’s probability to prefer redistribution from about 0.65 to about 0.8” (Rehm, 2009, p. 870).

Rehm also rejects similar hypotheses at the industry level: industry-level unemployment rates and sectoral exposure to international competition fail to be statistically significant (Rehm, 2009, p. 867). He explains this by arguing that people’s terms of comparison lie at the occupational level: “[i]f social networks are structured around occupations (Weeden & Grusky, 2005), people would be much more concerned about risk exposure within occupations (as opposed to sectors) simply because the probability that they know someone who suffers from these risks (e.g., by losing the job) is higher” (Rehm, 2009, pp. 861–862).

In subsequent studies, Rehm solidifies these findings. Using ISSP data from 2006, he finds that unemployment risk (i.e. occupational unemployment rate) is among the strongest predictors of support for (much) more government spending on unemployment benefits (Rehm, 2011, pp. 282–284).

The labor market risk approach has also generated valuable macro-level findings on the relationship between income inequality, risk inequality, and welfare state generosity (Cusack et al., 2006; Kim, 2007; Mughan, 2007; Rehm, 2011; Rehm et al., 2012), which are however beyond the scope of this review.

Schwander and Häusermann (2013) attempt to reconcile insider-outsider theory with Rehm’s risk-based approach by developing an alternative operationalization of outsidership. Similarly to Rehm, this approach emphasizes the importance of labor market risk at the aggregate level, rather than individual labor market status. At the same time, in tune with Rueda’s insider-outsider theory, it goes beyond unemployment and includes temporary, part-time, and housework as equally influential risks.

³ See Iversen & Soskice, 2001 for a detailed description of the skill specificity index.

The authors argue that people do not develop welfare policy preferences solely based on their current, transient labor market status. Instead, they consider their likelihood of ever falling into unemployment or atypical employment, and they base this estimation on the "typical" employment biography of similar workers (Schwander & Häusermann, 2013, pp. 249–252). Relevant criteria to define this "reference group" are gender, age, and occupation. Hence, the authors divide the sample into five occupational classes⁴. Upscales ("capital accumulators") are considered insiders by default, without further differentiation, while each other occupational class is split according to gender (male or female) and age (over or under 40). The final result is 17 categories. If the combined incidence of unemployment and atypical employment within a given category is significantly higher than the workforce average, all respondents belonging to that category are coded as outsiders, regardless of their current labor market status. Conversely, if the rate is lower than the workforce average, all members are coded as insiders. Alternatively, one can subtract the workforce average rate from the group-specific rate to obtain a continuous measure of outsidership (Schwander & Häusermann, 2013, pp. 253–254).

In practice, Häusermann and Schwander hypothesize that a young, permanently employed waitress will not oppose unemployment assistance or public job creation because of her provisionally good labor market status. Instead, she will consider the career prospects of young, female, low-skilled service workers like herself. Considering the high incidence of unemployment and atypical employment for this category, she will come to see herself as a likely future beneficiary of labor market policy. Moreover, being part of this group increases the likelihood of having been unemployed or atypically employed in the past; past experiences should also have an effect on her preferences, one that cannot be captured through current labor market status alone. In sum, this young waitress should *think* like an outsider (Schwander & Häusermann, 2013, p. 249) because of her prospective and/or retrospective labor market risk, even if she has a standard contract.

Häusermann and Schwander find substantial evidence in favor of these hypotheses. They use ordered logit regression analysis on data from the 2006 ISSP Role of Government survey, which includes 16 European countries. They find that outsiders support both active and passive labor market policy significantly more than insiders. "Using the country-specific continuous measure, going from the highest to the lowest value of outsidership has a net effect of about 15 percentage points (from 78.5 to 63.4 percent) on the likelihood that a respondent agrees that the government should provide a job for everyone" (Schwander & Häusermann, 2013, p. 261). At the same time, "an individual with the highest value of labor market vulnerability is about [...] 14.4 (country-specific measure) percentage points more likely to [agree that the government should

⁴ Following Oesch's postindustrial class schema (Oesch, 2006), rearranged as proposed by Kitschelt & Rehm, 2005.

spend more on unemployment benefits] than an individual with the lowest score of labor market vulnerability” (Schwander & Häusermann, 2013, p. 261).

Häusermann et al. (2015), based on the EU-SILC survey 2007, show how the insider-outsider cleavage is not just a rebranding of skill polarization, since the high-skilled are not necessarily insiders. This is not immediately evident when looking at data for the high-skilled workforce as a whole, but the picture changes once gender and age are taken into account: high-skilled workers under 40 are more exposed to the risk of being in temporary employment, while high-skilled women are disproportionately affected by both temporary and involuntary part-time employment. Only unemployment rates are generally lower for the high-skilled than for the entire workforce (Häusermann et al., 2015, pp. 242–245⁵).

Using ESS 5 data from 2010 for 14 countries, the authors proceed to analyze the marginal effect of labor market vulnerability (measured as in Schwander & Häusermann, 2013) on subjective and objective job security, at different levels of education. They demonstrate that, even for high-skilled outsiders, atypical employment is a source of dissatisfaction with their job, job insecurity, income insecurity, and reduced possibilities for career advancement (Häusermann et al., 2015, p. 248⁶). These results are important because, together with other studies (Burgoon & Dekker, 2010; Häusermann & Schwander, 2012; Marx, 2015, Chapter 2; Tomlinson & Walker, 2012), they provide us with a plausible causal mechanism linking labor market dualization to diverging social policy preferences: outsiders develop different social policy preferences than insiders because atypical employment worsens their material conditions and exposes them to feelings of insecurity and dissatisfaction.

The work of Häusermann, Kurer, and Schwander (2015) deserves further attention for the nuances it introduces in the study of outsiders’ welfare policy preferences (based on ESS 4 data from 2008, for 13 countries). Here, the authors do not limit themselves to the study of only one kind of public policy. Instead, they compare support for three different “distributive principles of social policy: redistribution, activation, and social insurance” (Häusermann et al., 2015, p. 237). They find that outsidersness (measured as above) is positively correlated with support for the government reducing income differences and providing a job for everyone who wants one. Conversely, it has a negative effect on the level of support for social insurance (“individuals who have contributed more to the

⁵ “[I]n all countries, high-skilled individuals [those with a post-secondary or tertiary degree] aged between 18 and 40 have higher rates of temporary employment than the entire workforce”. Moreover, “the general gender bias of part-time employment is echoed in higher involuntary part-time rates among high-skilled women in all countries but Finland, Portugal and Greece [...]. Also, in many countries, temporary work is more widespread among highly educated women than among the workforce in general”.

⁶ “[a high-skilled’s] probability to be fairly or completely satisfied with her main job (values 7 and higher on the 11-point scale) is 57% if she is a maximum outsider compared to 80% if she has the lowest value of labor market vulnerability. With regard to satisfaction with household income, the difference for the same individual with highest and lowest value of labor market vulnerability is 10.5 percentage points”. Moreover, “[t]he higher the labor market vulnerability a respondent is exposed to, the lower he or she estimates the time span that it would take someone to do his or her job right [...]. Similarly, highly educated yet vulnerable respondents fall behind their insider peers in the chances they got to improve their knowledge or skills in the past 12 months by 21%”.

pension system should be entitled to higher benefits (as opposed to individuals in greater need being entitled to higher benefits)", Häusermann et al., 2015, p. 250).

For the high-skilled, outsidership makes all the more difference: "[a] high-skilled individual with the highest value of labor market vulnerability has a likelihood of 65.4% to support redistribution, whereas the same probability is 18 percentage points lower for [the same] individual experiencing the lowest level of outsidership" (Häusermann et al., 2015, p. 252). Similarly, "the likelihood of an individual with the highest degree of outsidership and tertiary education to strongly support activation (a score of 7 or more on a scale from 0 to 10) is 52%, while the same individual exposed to the lowest degree of labor market vulnerability has only a 36.3% chance to strongly support activation" (Häusermann et al., 2015, p. 253). Finally, "a high-skilled insider (lowest degree of outsidership) has a likelihood of 81.9% of agreeing that individuals with higher contribution records should receive larger old-age pension benefits. For the same individual being an outsider (highest degree of labor market vulnerability), this probability is 15 percentage points lower (Häusermann et al., 2015, p. 253).

These results are important because labor market outsidership did not always make a difference for the low-skilled. For instance, support for redistribution was high among low-skilled insiders and outsiders alike, so the effect of outsidership, in that case, was not statistically significant (Häusermann et al., 2015, p. 252). This means that including the interaction term between outsidership and level of education allowed the authors to uncover patterns that could otherwise have been overlooked.

The same authors continue exploring the link between labor market vulnerability and support for redistribution and job creation (Häusermann et al., 2016). This time they investigate how the relationship is moderated by the presence of an insider partner, working again on data from ESS 4. Using an interaction term between the respondent's level of outsidership and their partner's as independent variable, they find that "women whose partners also experience strong labor market risks support redistribution very strongly (about 80% probability). Women living with an insider, on the other hand, are almost equally likely to agree or disagree with redistribution (probability of slightly more than 50%)" (Häusermann et al., 2016, p. 1055). However, the opposite is true for men: their support for redistribution even slightly decreases as their partner's labor market situation gets more precarious. Similar considerations apply to preferences for job creation.

In sum, "men's preferences are largely independent of the labor market vulnerability of their partners, while women's preferences depend strongly on the labor market position of their partners" (Häusermann et al., 2016, p. 1056). While these results could potentially undermine the key claim of insider-outsider theory, namely that these two groups have substantially different and conflicting interests, the authors downplay their own findings by pointing out that outsiders actually living with an insider partner range from 2% in Finland to 13% in Switzerland. "We do find a strong effect of the household, but only for a small group of the population. Hence, for the large majority of respondents labor market

vulnerability is clearly relevant for their social policy preferences” (Häusermann et al., 2016, p. 1057).

On top of labor market status, occupational unemployment risk, and Schwander and Häusermann’s outsidersness measure, another possible operationalization of outsidersness is *subjective* unemployment risk. For example, Marx (2014) studies the effect of subjective feelings of job insecurity on preferences for redistribution. He defines the former as ”individuals’ perceived likelihood of losing their current job involuntarily” (Marx, 2014, p. 352), and the latter as agreeing that ”the government should reduce differences in income levels”. Using data from the 2010 ESS wave for 11 European countries, he finds that subjective job insecurity significantly increases support for redistribution, but only for those workers who do not feel competitive in the labor market⁷. For workers who express high levels of perceived employability, the effect of job insecurity is not significant. Conversely, ”[i]f the value of employability is held constant at two [...], the difference [in average probability to strongly support redistribution] between the most secure and most insecure workers is almost 8 percentage points” (Marx, 2014, p. 358).

As a side note, all the evidence accumulated in the European context regarding the insider-outsider divide falls apart when replications are conducted in the USA.

Mughan (2007) analyses the effect of various types of subjective job insecurity on welfare policy preferences in the USA, using a 1995 New York Times survey⁸. He differentiates between fear of job loss, ”anxiety that good jobs have become harder to find”, and the interaction between the two (Mughan, 2007, p. 296). He calculates probit maximum likelihood estimates, and finds that neither of these types of subjective job insecurity has any effect on American respondents’ probability to think that the Government should ”take care of people”, or to support a tax-funded healthcare system. Instead, party identification emerges as the prime determinant of such preferences (Mughan, 2007, p. 300). Mughan speculates that these results are due to the exceptional American ”ethos of individualism and self-reliance”, and reluctance to blame the Government for one’s own financial conditions (Mughan, 2007, p. 302).

Similarly, Gelepithis and Jeannet (2018) find no relationship between labor market outsider status and preferences for increasing welfare spending, improving the standard of living for the poor, or reducing income differences. The only exception is the significant association between unemployment and support for increased welfare spending (Gelepithis & Jeannet, 2018, p. 1032). Outsiders and insiders do not even differ in terms of party identification, i.e. outsiders are not significantly more likely to vote Democrat (Gelepithis & Jeannet, 2018, p. 1033). The authors’ hunch is that, in the USA, a cultural reluctance to hold the

⁷ Respondents were asked: “How difficult or easy would it be for you to get a similar or better job with another employer if you had to leave your current job?” (10-point Likert scale).

⁸ And in Australia, using a 1996 National Election Study. Australian respondents were asked a different question (to choose between lower taxes and increased social service spending). Here, Mughan finds that ”support for welfare spending is greatest [...] among those scoring lowest on fear of job loss and highest on anxiety about the availability of good jobs” (Mughan, 2007, p. 306).

government responsible for personal economic hardship may weaken the link between the economic risks experienced by outsiders and their political preferences. Marx (2016) puts forward a similar argument about the importance of responsibility attribution on the part of outsiders; however, in his case, the causal mechanism is psychological more than cultural. The effect of cultural norms and values on the politicization of the insider-outsider divide remains an underexplored and interesting topic for future research.

2.2 From social protection to social investment

In this second section of the literature review, I introduce the concept of social investment and its most common uses. Thereafter, I present the empirical evidence accumulated so far with regard to public attitudes towards social investment.

2.2.1 What is social investment?

The concept of social investment is used to refer to two interrelated, yet separated phenomena.

On a normative level, social investment is a distinctive set of ideas about the appropriate goals and tools of social policy, i.e. what the welfare state should do, how, and why, in the context of the globalized knowledge economy. It can be most fruitfully interpreted as a *policy paradigm*, i.e. "a coherent set of ideas, relating *causal understanding* of social risk change and effective policy responses, the *political mobilization* behind legitimate priorities of social risk mitigation, together with a *governance structure* that allows welfare policymaking to be conducted in an internally consistent fashion" (Hemerijck, 2017a, p. 5).

In a nutshell, social investment advocates (Bonoli, 2013; Esping-Andersen et al., 2002; Hemerijck, 2013, 2017b; Morel et al., 2012) argue that the welfare state can become a *productive factor* in the knowledge economy, enhancing economic growth and competitiveness, on the condition that its focus shifts from decommodification and redistribution to the creation, maintenance, and mobilization of human capital throughout the life course.

These authors argue that the Keynesian welfare settlement has been destabilized by a number of ongoing structural transformations: deindustrialization, technological change, globalization, the liberalization of capital movements, European economic integration, changing family structures and gender roles, population aging, and declining fertility (see also Beramendi et al., 2015, pt. I). These trends have reduced the fiscal leeway of the State, while simultaneously exposing a growing share of the European population to new social risks (see also Armingeon & Bonoli, 2006): atypical employment, youth and long-term unemployment, insufficient social security coverage, in-work

poverty, family instability and single parenthood, labor-market exclusion resulting from obsolete skills and care obligations.

If the welfare state is to address these risks effectively, they argue, it needs to restore its financial sustainability by increasing the number and productivity of (current and future) workers and taxpayers, i.e. increasing its *carrying capacity*. This would have the non-trivial side-effect of boosting economic growth: higher employment and higher average productivity mean that the economy is making the most of its human capital. To the extent that social policies help create, maintain, and mobilize human capital, they should be considered a productive factor rather than a "deadweight loss" (Hemerijck, 2018, p. 815).

Hemerijck (2017a, 2018) explains that a social investment state should perform three interdependent and complementary functions:

- Easing the "flow" of risky life-course transitions. Social investment advocates anticipate four moments when individuals are particularly vulnerable: "(1) when they move from education into their first job; (2) when they have children; (3) when they—almost inevitably—experience spells of labor-market inactivity; and, finally, (4) when they move to retirement" (Hemerijck, 2018, p. 816). Capacitating social services should be designed to ease each of these delicate transitions and prevent them from becoming poverty traps.
- Creating and maintaining a good "stock" of human capital. Here the social investment paradigm translates into massive investments in all forms of education and training: general, academic and vocational, for children and adults alike, with a special focus on the upskilling and reskilling of the unemployed. However, Hemerijck also mentions "health, family and housing support" (Hemerijck, 2018, p. 817).
- "Buffering" economic shocks. A social investment state includes a universal minimum income safety net, because "[w]ellbeing returns on social investment hinge fundamentally on the synergy effects across complementary – capacitating *and compensatory* – policy interventions" (Hemerijck, 2018, p. 816, own italics). In the words of Esping-Andersen, "[the belief that] activation may substitute for conventional income guarantees [...] may be regarded as naïve optimism, but, worse, it may also be counterproductive. [...] [T]he minimization of poverty and income insecurity is a precondition for any effective social investment strategy" (Esping-Andersen et al., 2002, p. 5).

From these three bullet points, one can see how social investment *as a policy paradigm* is a set of ideas on which to found the normative legitimization of the welfare state *as a whole*. It is not a set of concrete policy proposals to be adopted in the place of others. With the inclusion of the "buffer" function, *any* policy can be (re-)framed as a safeguard against human capital deterioration: "at least some spending by the individual on food, clothing, and so on, [...] clearly also has a potential return in terms of worker productivity. In the same vein, the recognition that the health and physical capacity of the workforce can play a crucial role in productive capacity helped to motivate health-focused interventions going back to

the birth of modern welfare states [...]. The same could be said of unemployment insurance, helping to keep up the individual's nutritional intake and physical strength while he or she seeks alternative work so that they are still productive when they succeed. Even old age and disability pensions can be (and would on introduction have been) seen as allowing unproductive workers to exit the labor force and thus not act as a drag on industrial productivity and restructuring" (Nolan, 2013, p. 464).

As Nolan rightfully points out, all that is left is then a "rhetorical device" to be used "to argue for the critical role of (at least some forms of) social spending in underpinning productive capacity and economic growth, in the face of alternative ideological perspectives and demands for 'retrenchment' across the board" (Nolan, 2013, p. 460).

As a policy paradigm, social investment seems to have enjoyed a good amount of success. Looking at the world of international organizations and policy think tanks, social investment has first been promoted by the Dutch Presidency of the European Union in 1997, then included in the Lisbon Agenda (European Council 2000), and finally in the European Commission's Social Investment Package (2013). It has recently been embraced by the OECD (2014, 2015) and the World Bank (2021), as well as by a vast epistemic community spread between universities, think tanks, and public administration.

Nonetheless, social investment is not only a policy paradigm, but also a proposed "institutional structuring for the welfare state [...], towards which efforts to reform current structures and policies should be directed. [...] Combining that desired end-point with a set of measures designed to get from here to there in a series of stages over time would clearly represent a social investment *strategy* for the welfare state" (Nolan, 2013, p. 460). Hence why social investment is seldom studied on the ideational level. Virtually all existing studies use the phrase *descriptively*, to refer to a specific set of policies: education, active labor market policies, and childcare services.

Clearly, while Scandinavian countries have long been considered social investment pioneers, most other countries are very far from having an optimal policy mix of "buffer", "flow" and "stock" policies. Continental and Southern European welfare states, as a case in point, are heavily reliant on social insurances and pensions, and biased towards the protection of male breadwinners. Following a social investment strategy would involve massive investments precisely in education, active labor market policies, and childcare services. This explains why scholars often refer to these policies as "social investment policies", as well as the widespread research interest in their introduction and expansion in various contexts (Bonoli & Natali, 2012; Fleckenstein & Lee, 2020; Häusermann, 2010, 2018; Hemerijck, 2017b, pt. 5; Kazepov & Ranci, 2017; León & Pavolini, 2014; Natali et al., 2016), their distributional consequences (Bonoli et al., 2017; Bonoli & Liechti, 2018; Pavolini & Van Lancker, 2018), or their investment returns (Begg, 2017; Verbist, 2017).

While this literature is incredibly vast, in the subsection below I will present the much narrower research niche studying public opinion towards these so-called "social investment policies". I will show that empirical evidence is still limited⁹, and that variables capturing insider-outsider divides are seldom included in the analysis.

2.2.2 Research on attitudes towards social investment

While in subsection 2.1.2 I reviewed studies including some measure of labor market outsidership as a determinant of policy preferences and attitudes, here I introduce the few studies which explicitly focus on support for social investment policies as the dependent variable.

Busemeyer (2014) studies how survey respondents react to trade-offs between social investments and passive transfers. He considers the trade-off setting to be optimal for studying support for a social investment strategy, because of its realism: "[b]oth increasing taxes or levels of public debt have become politically more difficult to defend", especially in the aftermaths of the Great Recession and the European sovereign debt crisis, so that the only option left to transform welfare states is to expand certain programs at the expense of others (Busemeyer, 2014, pp. 7–8).

He conducted a survey experiment using data from the INVEDUC survey (the same used in this thesis, and many other studies presented in this subsection). Respondents were split into 4 subgroups, each of which was asked a different question:

- "Split 1 ("Control")": "The government should increase spending on education."
- Split 2 ("Treatment 1")": "The government should increase spending on education, even if that implies higher taxes."
- Split 3 ("Treatment 2")": "The government should increase spending on education, even if that implies cutting back spending in other areas such as pensions."
- Split 4 ("Treatment 3")": "The government should increase spending on education, even if that implies a higher public debt." (Busemeyer, 2014, pp. 11–12).

Using regression analysis, he finds that "educational background, left-right orientation and general spending preferences are strong determinants of [and have a positive effect on] support for education spending" for the control group and groups receiving treatment 1 and 3 (Busemeyer, 2014, p. 18). However, for the

⁹ The ongoing research project "The World Politics of Social Investment" should begin to fill this gap. Two volumes, "The World Politics of Social Investment (vol I) - Welfare States in the Knowledge Economy" and "The World Politics of Social Investment (vol II) - The Politics of Varying Social Investment Strategies", edited by Garrizmann, Häusermann and Palier, were said to be "forthcoming in 2021", but to my knowledge they have not been published yet (J. Garrizmann et al., 2016).

group receiving treatment 2 (the trade-off between education and pensions), only educational level remains statistically significant. Instead of general left-right orientation or broad views towards state spending¹⁰, the variables significant for this group are age and having kids at home: “the predicted change in the probability for [a male person over 65] to support education spending compared to a younger person is a reduction of about 6 percentage points. Vice versa, [...] [s]imulating a similar change as above [for individuals with small kids at home] yields an increase in support for education spending [...] of about 10 percentage points” (Busemeyer, 2014, p. 19).

He finds similar results in a second survey experiment, where respondents were split into 2 groups and asked one of these questions:

- Split 1 (from here on, “support for social investment”): “What do you think about the following statement? To be able to finance more spending on education and families, the government should cut back on old-age pensions and unemployment benefits” (ibidem, 24).
- Split 2 (from here on, “support for passive transfers”): “What do you think about the following statement? To be able to finance more spending on old-age pensions and unemployment benefits, the government should cut back spending on education and families” (Busemeyer, 2014, p. 24).

Once again, having small kids (under 10) at home and being older than 65 are strong predictors of support for these statements: while people with small kids at home are more likely to support social investments (at the expense of passive transfers), older people are more likely to support passive transfers (at the expense of social investments). Among the “higher-level” variables, again, only the level of education proves significant, since highly educated respondents are *less* likely to support passive transfers in this trade-off setting.

Busemeyer compares these results to those obtained using a classic dependent variable measuring support for redistribution (“The government should reduce income differences between the rich and the poor”). Here, he finds instead that “education, income, age and gender” all have “more explanatory power” in comparison with the trade-off models above (Busemeyer, 2014, p. 26). He also finds that a positive view of state spending is positively correlated with support for redistribution, but negatively correlated with support for social investments in the trade-off model (Busemeyer, 2014, p. 26).

The author takes these results as a confirmation of his original hypothesis: whereas conflicts about the overall size and generosity of the welfare state are related to macro-level cleavages defined by income, age, class, ideology or similar factors, conflicts about the (re-)distribution of resources across different parts of the welfare state are shaped more by material self-interest, in the sense of belonging to a particular welfare state constituency group. This happens because

¹⁰ “A share of the national government’s annual budget is spent on social benefits and social services. Please tell me, according to you: Should the government spend much more, more, the same, spend less or much less on social benefits and social services?” (M. Busemeyer, 2014, pp. 17–18).

“services and transfers are very visible and concrete for those who immediately benefit from them, whereas the issue of redistribution and welfare state generosity is located on a more abstract level” (Busemeyer, 2014, p. 7).

Before moving on, I wish to specify that no variables regarding social class or labor market status were included in Busemeyer’s analyses, except for trade union membership. The latter was significant and negatively correlated with support for spending on passive social transfers (at the expense of social investments) ($ES^{11} = -0.176$; $p < .01$; see Busemeyer, 2014, table 8). This seems in line with Rueda’s insider-outsider theory, according to which unions are expected to defend the interests of insiders at the expense of outsiders (Rueda, 2005, 2007). In this case, supposing that union members are disproportionately part of the insider group, it makes sense that they oppose spending cuts in education and family policy, from which they benefit massively. It was also to be expected that they oppose spending increases on unemployment benefits, since the core of Rueda’s argument is that insiders are shielded from the risk of unemployment and hence uninterested in the fate of outsiders (Rueda, 2005, 2007).

Busemeyer and Neimanns (2017) explore these conflictive preferences towards social investments and transfers further. This time, they compare the unemployed and single parents in their support for policies from which they do not benefit themselves. They work on ESS data from 2008 for 21 European countries. Respondents were asked how much responsibility they thought governments should have to ensure sufficient childcare services for working parents, and to ensure a reasonable standard of living for the unemployed (Busemeyer & Neimanns, 2017, pp. 233–234). Predictably, they find that the unemployed are significantly more likely to agree that the government should provide for them. Single parents, on the other side, are not only more likely to support government involvement in childcare provision, but also significantly less likely to support unemployment benefits (Busemeyer & Neimanns, 2017, p. 236). Investigating interactions with macro-level variables of welfare generosity, the authors also find evidence of feedback effects: “support of single parents and the unemployed for the policy of the other beneficiary group decreases and tends to become negative, when existing institutions in that policy field are more generous” (Busemeyer & Neimanns, 2017, p. 239). “[A] high degree of generosity or government involvement in the financing and provision of welfare state services does not necessarily trigger opposition against the welfare state as such, but contributes to and exacerbates political struggles between the different beneficiary groups over the distribution of resources across different fields of activity” (Busemeyer & Neimanns, 2017, p. 230).

From this data, we can only know that the unemployed are obviously in favor of the government providing for them, and that they are not necessarily opposed to social investments such as services for working parents. However, no other variables consistent with insider-outsider theory were included in the analysis. We know nothing about the attitudes of atypical workers, and cannot compare

¹¹ Effect size.

outsiders to insiders, the upscale, or the non-employed, as would have been possible using Emmenegger's classification (Emmenegger, 2009). Social class¹² was included in the analysis, but it tells us little about the insider-outsider divide, since the latter cuts *across* social classes: outsiders are not the same as "blue-collar workers" (Rueda, 2005, 2007), just as "sociocultural professionals" cannot be indiscriminately counted as "insiders" (Häusermann et al., 2015).

Perhaps "capital accumulators" could be safely considered upscale by default (as in Schwander & Häusermann, 2013). In accordance with insider-outsider theory, Busemeyer and Neimanns in fact find that capital accumulators oppose government responsibility in *both* policy fields (M. Busemeyer & Neimanns, 2017, p. 236). Union members, on the other side, support government involvement in both policy fields (Busemeyer & Neimanns, 2017, Table I), which points to the fact that, while they dislike being forced to choose as in Busemeyer (2014), they might not be opposed to social investments in principle.

Neimanns et al. (2018) go back to the INVEDUC survey and to the study of preferences in constrained versus unconstrained settings. They study the results of yet another survey experiment contained in the INVEDUC dataset. This time, respondents were split into 4 groups and asked to express their (dis)agreement (on a 5-points Likert scale) with one of these statements:

- Split 1: "Imagine the [COUNTRY] government plans to increase spending on education by 10 percent and wants to finance this by cutting the benefits for the unemployed".
- Split 2: "Imagine the [COUNTRY] government plans to increase spending on education by 10 percent and wants to finance this by cutting old-age pensions".
- Split 3: "Imagine the government plans to enact reforms involving a 10 percent increase in the budget for financial support and public services for families with young children, and wants to finance this by cutting the benefits for the unemployed".
- Split 4: "Imagine the government plans to enact reforms involving a 10 percent increase in the budget for financial support and public services for families with young children; and wants to finance this by cutting old-age pensions" (Neimanns et al., 2018, p. 243).

They compare these preferences with those expressed in an (almost) unconstrained setting, when respondents were simply asked whether they wanted to see (much) more or (much) less government spending in certain policy areas (Neimanns et al., 2018, p. 244).

Their results are very similar to those obtained by Busemeyer (2014): "in the unconstrained scenarios neither having small kids nor being a student is significantly associated with preferences for more spending. This picture changes when moving to the models for spending trade-offs: respondents with small children are now significantly more likely to support increases in social

¹² The Oesch class scheme (Oesch 2006), as modified by Schwander & Häusermann (2013).

investment spending [...], students support increasing education spending [...], and the unemployed [...] and the retired [...] oppose cuts in ‘their’ benefit schemes for the sake of increasing social investment spending. [...] In sum, once spending increases for social investment would be financed by cuts in compensatory spending, considerable differences between different welfare state beneficiary groups come to the fore and self-interest becomes a much stronger predictor of preferences” (Neimanns et al., 2018, p. 246).

The authors also find evidence of an interaction effect between ideological left-right orientation and the importance of beneficiary status: “left-wing ideology attenuates differences in preferences between winner and loser groups. That is, materialistic self-interest plays less of a role for left-wing voters, while it matters significantly for right-leaning citizens” (Neimanns et al., 2018, p. 249).

Once again, this analysis is insufficient to test the existence of insider-outsider divides in policy preferences. It does, however, include an interesting insight: the effect of subjective unemployment risk¹³ was not significant. The authors themselves take this as a sign that “individuals’ current situation is more relevant for their attitudes than their potential future needs” (Neimanns et al., 2018, p. 246). Indeed, this widespread “short-termism” has long been identified as one of the main obstacles to public investments (Jacobs, 2011, 2016; Jacobs & Matthews, 2017; Myles, 2017). This can be taken into account when choosing between risk-based approaches, such as Rehm’s (2009) or Schwander and Häusermann’s (2013), and status-based approaches, such as Rueda’s (2007) or Emmenegger’s (2009).

Häusermann et al. (2021) work on very recent survey data (collected in 2018) from eight West European countries collected within the ERC-project “Welfare Priorities”. They depart from similar premises, i.e. that studying social investment support requires some sort of constrained setting, forcing a choice between social investments and other kinds of welfare provision. They also provide some evidence for this: “no less than eighty percent of the respondents agree with the statement that ‘the limits of taxation have been reached’, and over two-thirds of respondents agree that ‘social policy improvements for one social group sooner or later come at the expense of other social groups’” (Häusermann et al., 2021, p. 2).

However, they adopt a different methodological strategy, asking respondents to “allocate 100 points to six items, reflecting the *relative importance* they attribute to different strategies of welfare state expansion” (Häusermann et al., 2021, p. 7, own italics). Respondents could choose between old-age pensions, childcare, higher education, unemployment benefits, labor market reintegration services, and services for the social and labor market integration of immigrants.

The authors find that being part of the middle class has a significant, positive effect on the number of points (i.e. the relative importance) assigned to childcare and higher education, as well as a negative effect on the number of points assigned to old-age pensions (the reference category is the working class) (Häusermann et al., 2021, p. 10).

¹³ “According to you, how likely does it seem that you will become unemployed in the next 12 months?”

Respondents were also put in front of a trade-off: they had to evaluate how acceptable it is that “[t]he government increases the availability of good-quality childcare, at a cost of lowering child benefits”. This trade-off captures the difference between social investment and consumption policies much better than a trade-off between different policy fields: while childcare services are explicitly conceived as dual-earner support, transfers are more akin to general family support; they are “neutral with respect to the labor force participation of the spouses” (Korpi, 1999, p. 145), and hence not consistent with the social investment focus on human capital mobilization. The social investment paradigm is not about privileging certain welfare policies at the expense of others, but rather about gearing all welfare state functions towards human capital investments.

However, Häusermann and colleagues find weaker evidence of a class divide in reactions to this trade-off: “[o]n average, middle-class respondents find it more acceptable than working-class respondents to reallocate parts of government expenditures that go into child allowances to childcare services”, but the effect is “is weaker, and significant only in half of the countries” (Häusermann et al., 2021, pp. 10–13).

The authors also use structural equation modeling to test different causal mechanisms linking social class to social policy priorities. They find that the importance attributed by middle-class respondents to investments in higher education, childcare, and childcare services versus transfers is mediated, in varying degrees, by universalistic values, political trust, and a positive subjective evaluation of their future opportunities in work and society¹⁴ (Häusermann et al., 2021, pp. 15–17). “The more positively respondents evaluate their chances of being in good employment, the more importance they attribute to social policies that aim at furthering welfare through sustaining the creation, preservation and formation of human capital” (Häusermann et al., 2021, p. 18).

I wish to highlight the contrast between this argument and the observations of Neimanns et al. (2018). While Neimanns and colleagues find that people oppose recalibration based on narrow, short-sighted considerations, i.e. which policies directly benefit them here and now, Häusermann and colleagues demonstrate that the middle class is more immune to this kind of “short-termism” than the working class. “[W]e suggest that working-class voters prioritize more immediate (and secure) benefits, and middle-class voters are more trusting, can afford to be more ‘patient’, and attribute overall more value to distant egalitarian-universalistic outcomes. [...] [T]he middle-class prioritization of SI reflects their economic opportunities, prospects and expected returns on these investments” (Häusermann et al., 2021, p. 5). To be precise, Neimanns et al. (2018) had found self-interest to be less important in the evaluations of left-leaning respondents. However, it is not possible to equate the left-right dimension with the universalistic-particularistic dimension. Plus, contrary to Häusermann et al. (2021), in Neimanns et al. (2018) respondents were confronted with zero-sum games. Attributing more importance

¹⁴ Respondents were asked: “The world is changing fast. If you think of your future, how do you rate your personal chances of being in good, stable employment until you will retire?”

to social investment policies relative to social consumption policies is not the same as explicitly agreeing to cut pensions or unemployment benefits. This might be the source of divergence between the two studies (and the reason why Häusermann et al.'s (2021) evidence of a class divide was weaker precisely when using the trade-off question).

Finally, Garritzmann et al. (2018) work again on the INVEDUC dataset, but adopt a completely different methodological approach. They perform a principal component factor analysis on six survey items:

“[...] Please indicate whether you would strongly agree, agree, neither agree nor disagree, disagree or strongly disagree with the following reform proposals:

- 1) Giving the unemployed more time and opportunities to improve their qualification before they are required to accept a job.
- 2) Expanding access to early childhood education and improving its quality.
- 3) Investing more money in university education and research at universities.
- 4) Forcing unemployed to accept a job quickly, even if it is not as good as their previous job.
- 5) Increasing old age pensions to a higher degree than wages.
- 6) Lowering the statutory retirement age and facilitating early retirement” (Garritzmann et al., 2018, p. 851).

Their analysis reveals a three-factor structure. The first three items correlate with the first factor, which they name “social investment” (Garritzmann et al., 2018, p. 853). Indeed, the three reform proposals capture important aspects of a social investment strategy. The first item is particularly well-fitting, since *upskilling* is exactly the kind of active labor market policy that strongly invests in human capital while maintaining a pro-market employment orientation. *Incentive reinforcement* (the fourth item), on the other side, while being abruptly activating, sacrifices human capital investments for the sake of activation (Bonoli, 2010), and is more consistent with the neoliberal policy paradigm. Inasmuch as workers are forced to accept jobs where their skills are devalued, this kind of ALMP leads to the deterioration of human capital, and risks trapping workers in the secondary labor market, thereby contributing to labor market dualization.

Items 5 and 6 are correlated with a second factor, which they name “passive transfers” (basically taking pensions as a proxy for all kinds of consumption-oriented transfers) (Garritzmann et al., 2018, p. 853).

Finally, a third factor is positively correlated with item 4, and negatively correlated with item 1. The authors name this factor “workfare”, and they see it as capturing support for neoliberal ALMPs (Garritzmann et al., 2018, p. 853).

In a further step, Garritzmann and colleagues use the predicted values of the rotated factor scores as dependent variables in a multivariate regression analysis.

They find that “social investment reforms are supported by individuals with higher levels of education, and by those who subscribe to economically left-wing and to more egalitarian social values. Neither individuals’ income position, nor their gender, nor having small children are associated with support for social

investment” (Garritzmann et al., 2018, p. 855). This is consistent with previous findings highlighting the relevance of ideological cleavages (as opposed to narrow self-interest) in unconstrained settings.

As for passive transfers, they find “strong negative effects of income, educational background and male gender [...]. [S]upporters of passive transfers tend more towards the right on the social values dimension” and towards the left on the economic values dimension (Garritzmann et al., 2018, p. 856).

Effects of age are puzzling. Most age brackets are not significant, except for the retired, who are significantly more likely to support social investments and less likely to support passive transfers. Also, those between 50 and 59 years of age are more likely to support social transfers.

Social class¹⁵ is only included in additional models that can be found in the online appendix. In the service sector, only sociocultural professionals are significantly more likely to support social investments, while “mixed service functionaries” and “low service functionaries” are not (blue-collar workers being the reference category). However, all three subgroups are less likely to support passive transfers. When it comes to “capital accumulators”, the authors find that they are significantly more likely to support social investments and oppose passive transfers. Hence, the behavior of sociocultural professionals aligns with that of managers and technical specialists (as in Häusermann et al., 2021), and even with that of employers.

These findings somewhat contrast with those of Busemeyer & Neimanns (2017), according to which capital accumulators opposed government responsibility for both childcare services and unemployment benefits. It seems that measuring support for social investment as a latent dimension, pooling together support for various reform proposals in different policy fields, leads to substantially different results than when using a single, specific question.

2.3 Summary

Reviewing the literature on the policy preferences of labor market outsiders has highlighted some important facts.

Most noticeably, there is a great variety of possible operationalizations of the independent variable. There are at least two classifications based on current employment status (Rueda’s and Emmenegger’s), and two classifications based on unemployment and/or atypical employment risk (Rehm’s and Schwander and Häusermann’s). It is important to bear in mind that choosing one instead of the other has far-reaching consequences.

First, these different measures capture different phenomena: labor market risk, i.e. the probability of becoming unemployed, is different from labor market status,

¹⁵ The Oesch class scheme (Oesch 2006), as modified by Schwander & Häusermann (2013).

i.e. one's employment contract (or lack thereof) and the privileges or disadvantages that come with it.

Second, these different measures single out different people. As Rovny & Rovny (2017) show, using five waves of ESS data (2002-2010), "almost 10% of the sample are Schwander and Häusermann insiders but Rueda outsiders, and a striking 34% are Schwander and Häusermann outsiders but Rueda insiders. [Similarly,] comparing the Rehm measure to that of Schwander and Häusermann shows that these two measures 'misplace' 42% of the sample with respect to each other", and the same happens when comparing Rehm's measure to that of Rueda (Rovny & Rovny, 2017, pp. 167–168).

As an example of the consequences of choosing different measures of outsidership, when the authors try to predict voting behavior using these four operationalizations, they indeed find conflicting results: while status-based measures predict increased support for the radical left, risk-based measures predict higher support for the radical right (Rovny & Rovny, 2017, pp. 175–176). The authors try to reconcile the two approaches by making Rehm's risk-based measure binary and placing respondents in one of four mutually exclusive categories: those with good labor market status and low risk; those with poor labor market status and low risk; those with good labor market status and high risk; good labor market status and high risk (Rovny & Rovny, 2017, p. 177). Predicting vote choice with this 4-groups variable, they find that "individuals in poor labor market standing tend to turn toward left-wing political solutions, likely seeking social protection and state support. On the contrary, those at risk—and particularly those with good labor market status, but at risk of losing it—turn toward radical right forces that focus on issues of immigration" (Rovny & Rovny, 2017, p. 179).

Another comparison between the predictions of different classifications of insiders and outsiders comes from Vlandas (2020). Working on data from different waves of the ISSP (1985-2006) covering 17 countries, he uses logistic regression to analyze the impact of both unemployment risk (occupational unemployment rate) and actual unemployment status on labor market policy preferences (whether the government should provide a decent standard of living for the unemployed, provide a job for everyone who wants one, and spend more money on the unemployed).

He finds that "occupational unemployment [the measure of unemployment risk] has the smallest effect on wanting governments to provide for unemployed living standard and the largest effect on wanting governments to provide jobs for everyone. By contrast, being unemployed has a smaller effect on wanting governments to provide a job for everyone than for the other two dependent variables. This is consistent with the notion that *the two approaches represent distinct dividing lines*: high-occupational unemployment makes you most concerned about jobs, while being unemployed makes you most concerned about the standard of living of the unemployed" (Vlandas, 2020, p. 364, own italics). Vlandas would settle for the labor market status approach: "being unemployed has a strong effect regardless of occupational unemployment and the effect of occupational unemployment is stronger among those that are unemployed.

Current labor market status, therefore, appears to be a more important driver of preferences for more government spending on unemployment benefits than the occupational risk of unemployment” (Vlandas, 2020, p. 365).

This diversity of approaches makes a comparison of results considerably more complicated, and should be overcome to allow for a more productive accumulation of knowledge. Nonetheless, there seems to be an emerging consensus in the literature around a few common findings.

First, labor market outsiders seem to be more likely to support both active and passive labor market policies (Burgoon & Dekker, 2010; Guillaud & Marx, 2014; Häusermann et al., 2015, 2016; Marx, 2015; Rueda, 2005, 2007; Schwander & Häusermann, 2013). They support government responsibility in guaranteeing a decent standard of living to the unemployed (e.g. unemployment benefits), but also in public job creation (e.g. ”providing a job to everyone who wants one”). Hence, while social investment advocates draw a sharp line between active and passive labor market policies, this does not seem to be the case for labor market outsiders.

Second, outsiders tend to have more egalitarian views. They have consistently been found to support income redistribution (Cusack et al., 2006; Häusermann et al., 2015, 2016; Marx, 2015; Rehm, 2009), and some studies have found them to be opposed to the equivalence principle (which states that the benefits depend on the contributions paid), specifically with regard to pensions (Häusermann et al., 2015; Marx, 2015).

Another aspect worth noticing is how most of the literature is dominated by a rational-choice logic of preference formation, according to which people have a preference for introducing, maintaining and expanding policies from which they benefit, and are able to understand which policies they benefit from, even when it is not straightforward (e.g. Rueda (2005) assumes that they understand how employment protection regulation reduces the chances for the unemployed to find stable employment). Disagreement then revolves around the optimal definition of insider and outsider interests. Relaxing these rationality assumptions and exploring non-rational (psychological, cultural) mechanisms linking labor market experiences to policy preferences could be a promising direction for future research.

Finally, the literature overwhelmingly adopts a cross-national perspective. Country fixed effects are mostly included as a control variable, but even when patterns of support vary significantly across countries, the underlying reason is not seriously discussed beyond a few brief speculations. In the future, researchers should pay closer attention to feedback effects, i.e. the mechanisms leading insider-outsider divides to be deeper in some countries than in others.

Turning to the study of support for social investment, this literature is characterized by an emerging consensus (except for Garritzmann et al., 2018) over the need to put survey respondents in front of constrained choices, to avoid the all too common situation where most respondents support higher public spending across the board, and all social cleavages disappear.

However, it turns out that setting the bar too high leads to similar problems. If the price for expanding social investment policies is zero, i.e. respondents are

simply asked whether they would like to see more or less spending, they tend to express preferences for higher spending in all policy fields. If, however, the price is too high, as in the case of a spending cut in another policy field, respondents will turn to vehemently opposing cuts to policies from which they benefit directly, and being part of a given beneficiary group will be the only determinant of their preferences. In both cases, we are unlikely to find evidence of broad social cleavages defined by education, income, social class, or political values.

Perhaps Häusermann et al. (2021) found a comfortable middle ground when they used a point distribution question. There, respondents were forced to reflect on their priorities and on the relative importance they attributed to different kinds of welfare provision, but without having to worry about draconian financing options. This way, the authors were able to uncover a significant class cleavage.

Overall, Garritzmann et al. (2018) and Häusermann et al. (2021) agree that highly educated people, the middle class (especially sociocultural professionals), and people embracing universalistic values (also referred to as "green-alternative-libertarian" values) are more likely to support (and prioritize) the expansion of social investment policies.

In conclusion, I wish to highlight that research on insider-outsider divides and social investment support rarely intersect. While the policy preferences of labor market outsiders have been studied almost exclusively in the field of labor market policy, studies of the politics of social investments never consider employment status as a possible determinant of individual preferences (and sometimes do not even include social class, with the notable exception of Häusermann et al. (2021).

In the following chapter, I explain why there are good reasons to reconnect these two research streams.

3 Theory

Scholars of labor market dualization and social investment policies sometimes seem to talk past each other. For instance, although they do not explore the hypothesis empirically, scholars of dualization often invoke a social investment strategy as a policy package that could reconcile the interests of insiders and outsiders, and as a panacea against dualization. Consider, for instance, the following quotes:

”More egalitarian policies are complicated by the difficulties to form sustainable political coalitions between insiders and outsiders on the various issues encapsulated within the dualization processes in rich democracies. *A possible solution could be a social investment strategy [...]. Investments in childcare, human capital, education, and lifelong learning could benefit both insiders and outsiders and might provide the glue for a new universalistic policy orientation. Not only could such a strategy bridge the differences between insiders and outsiders, but also, if successfully implemented, it could potentially contribute to socially sustainable economic growth*” (Emmenegger et al., 2012a, p. 318, own italics).

“Salaried groups, especially professionals and semi-professionals, are not necessarily against the welfare state and they often favor universalism. However, they tend to embrace a different version of universalism, one that emphasizes individual development, internationalization, gender equality, and meritocracy [...]. [R]econciling the interests of these groups with those of more vulnerable segments of the working class seems to imply different kinds of interventions *based above all on a social investment logic*” (Thelen, 2014, p. 198, own italics).

On the other side, although scholars of social investment policies rarely speak of insiders and outsiders, many of their considerations strongly resonate with Rueda’s insider-outsider theory. Consider the following quotes as examples:

“[W]hile it is true that left-leaning citizens are more in favor of social investment - it might actually be easier for right-leaning politicians to ‘recalibrate’ welfare states towards social investment because their voters are more willing to accept accompanying cutbacks in other (‘old’) social policies. *Left-wing politicians could become stuck between a rock and a hard place: while their voters demand the expansion of social investments, they are not willing to accept policy trade-offs*” (Neimanns et al., 2018, p. 250, own italics).

“[J]ust as with other second dimension issues, when political parties promote SI, this is likely to resonate with middle-class voters, but it may also be unable to reach working-class voters or may even antagonize them, and vice versa when it comes to social consumption policies. Hence, class politics do matter in the

twenty-first century, but in quite different ways and on quite different matters than in the twentieth century of welfare state development” (Häusermann et al. 2021, 19).

There seems to be a common theme of social democratic parties being “stuck between a rock and a hard place”, i.e. unable to reconcile the interests of two important electoral groups, due to their conflicting interests. The question is: are these two groups better understood as the middle and working class, or as insiders and outsiders? In the words of Busemeyer and Kemmerling (2020, pp. 376–377), is the insider-outsider divide becoming the dominant cleavage, superimposing other cleavages including social class?

This would be an ambitious argument, and it is unlikely to be borne out by the data. However, the high expectations regarding the potential of the social investment strategy, not only to reduce inequalities in dualized societies, but also to be met with equal favor by insiders and outsiders, has led me to formulate two research questions. The first relates to social investment as a strategy of welfare reform, while the second relates to its nature of policy paradigm.

The first research question is the following:

How do labor market insiders and outsiders differ in the importance they attribute to social investment policies?

This research question mirrors insights from the most recent literature about the need to look at priorities for different kinds of welfare provision, rather than generalized welfare support (Häusermann et al., 2021; Neimanns et al., 2018; see Busemeyer et al., 2020 for a similar argument regarding education reform).

There was a time when a deep cleavage existed ran between supporters and adversaries of the welfare state as an overarching political goal, a cleavage largely determined by social class (Inglehart, 1977). However, that was the post-war period after the Second World War, a time of welfare state construction. Most European countries entered the *Trente Glorieuses* with just a few rudimentary social insurance programs, and the very idea to change that status quo and move towards a full-fledged welfare state was an object of political contention.

Nowadays, the public faces a very different situation. As pointed out by Paul Pierson and many scholars after him, “[t]he welfare state now *represents the status quo*, with all the political advantages that this status confers” (Pierson, 1996, p. 174, own italics). It benefits from the typical inertia of democratic institutions, where power is often shared among several bodies and change requires the assent of numerous veto players. Moreover, many welfare programs entail long-term commitments (such as the promise to provide a pension to those who pay a certain amount of contributions) which are hard to back out of, and constrain future political choices (what is known as the “lock-in” effect, or “path dependency”). Most importantly, the welfare state has over time transcended its original nature of working-class project to generate a large, cross-class, combative constituency made of trade unions, public sector workers, welfare providers, and (current and prospective) welfare beneficiaries, who together pose a serious electoral threat to anyone who pursues the goal of welfare dismantlement.

This broad constituency shows clearly in all surveys of public opinion, and in the INVEDUC survey as well. When asked whether the government should “spend more or less on social benefits”, 45,7% choose either “more” or “much more”, and, when adding those who support the current level of spending (“the same as now”), the percentage rises to 79,8%. These numbers do not drop even when respondents are asked about specific policy areas, such as unemployment benefits or financial assistance to families: the share of those who support the current level of spending, or a higher one, never falls below 80%.

These vertiginous levels of support make it hard to identify social cleavages in contemporary welfare politics. Taken as they are, they would instead suggest the welfare state has become a valence issue, and, rather than focusing on support for expansion or retrenchment, we should perhaps turn towards matters of governance and implementation to find real disagreement.

At the same time, I refrain from studying the same survey experiments used by Busemeyer (2014) and Neimanns et al. (2018), i.e. the trade-off questions, for two reasons. First, their results already point towards the irrelevance of macro-level cleavages in these situations. I would be likely to reach similar results, i.e. that when considering these difficult trade-offs, what really counts is the welfare beneficiary group respondents are part of.

Second, it does not seem like a realistic or fair operationalization of the social investment strategy. As we have seen, social investment advocates have argued from the very beginning that a strong social safety net would remain necessary, and that expanding social investments at the expense of social protection would actually undermine the goals of a social investment approach.

Moreover, albeit the budget constraint is real, it is hardly as tight as these trade-offs picture it. In the process of assembling a sensible budget law, European governments are usually able to find at least *some* money to spend, perhaps through small tax increases, small increases in the budget deficit, and/or small spending cuts. Even if spending cuts were the only feasible financing option, there is no reason to assume that they would be directed against social protection.

In sum, INVEDUC trade-off questions do not reflect the variety of financing options available to governments, nor do they fairly represent the social investment strategy, as described by its proponents. A more common and realistic scenario, however, is this: the little money the Government has been able to collect to finance its preferred policies is only enough to satisfy a fraction of its wishes. Hence, the government must prioritize, and must often wager all its money on a single policy program to magnify its impact and visibility.

For these reasons, I study the choices of labor market insiders and outsiders when they are forced to choose one, and only one, policy area where they wish to see a spending increase, but without being reminded of how to finance this increase. While this is not a direct measure of attributed “importance”, it helps us to get close to it, and it mirrors a very realistic scenario.

In comparison with the point distribution question from Häusermann et al. (2021), this scenario is nonetheless more restrictive. It is as if their respondents were forced to attribute all their 100 points to one policy area, and zero to all

others, a choice made by fewer than 6 percent of their sample (Häusermann et al., 2021, p. 8).

I define insiders and outsiders based on their labor market status. I replicate Emmenegger's classification (Emmenegger, 2009), since it adds more nuances to Rueda's original classification, while remaining overall faithful to insider-outsider theory. Outsiders are the unemployed, those working under fixed-term contracts, and those involuntarily working part-time. Insiders are those employed full-time under permanent (open-ended) contracts, unless they are employed as technical experts or higher-grade managers, in which case they are considered upscale. The inactive and the self-employed are the two remaining categories.

I agree with Busemeyer and Kemmerling that "[moving] away from the stark distinction between insiders and outsiders as it was described in the early contributions [...] defies the original purpose of the dualization argument, because it challenges the core argument that labor market risks are distributed in a starkly asymmetrical manner, protecting insiders to the detriment of outsiders" (Busemeyer & Kemmerling, 2020, p. 377). Moreover, as Vlandas (2020) pointed out, risk and status are better understood as two distinct, but complementary dividing lines, rather than competing versions of the same concept. My goal with this thesis is to test the relevance of insider-outsider theory for the politics of social investments, hence why I adhere to the more faithful operationalizations of insider-outsider divides.

As for prioritized policy areas, I consider health care, unemployment benefits, old-age pensions, social assistance to the poor, and financial support for families as "social protection policies", while I consider education and labor market and public employment programs as "social investment policies".

Unfortunately, childcare services were not included among possible choices, despite being a cornerstone of the social investment strategy (as are elderly care services, another policy too often excluded from surveys of public opinion). Nonetheless, this range of options allows us to gauge the relative importance outsiders attribute to compensatory vis-à-vis investment-oriented policies to tackle poverty and unemployment. Do the disadvantaged "prioritize human capital formation and activation policies to remedy their situation", or do they "prefer the welfare state to support and sustain their individual situation as it is"? (Häusermann et al., 2021, p. 18).

I wish to clarify that the point of this study is not to draw a sharp line between policies that are "pure investments" and policies that are "pure consumption". As it has been argued most convincingly by Nolan (2013), seeking to distinguish social investment from social consumption in actuarial terms (as in De Deken, 2013; Nikolai, 2012; Vandenbroucke & Vleminckx, 2011) is bound to be an unsuccessful effort. All investments in human capital satisfy some kind of consumption need in the present. Even education "clearly has consumption benefits to the individual, in terms of enjoyment of and fulfillment from the educational process itself" (Nolan, 2013, p. 463). In parallel, all traditional social protection policies have some investment value inasmuch as they preserve worker productivity. "[W]ith a definition of 'investment' broad enough to include anything that might conceivably facilitate higher labor force participation or

contribute (directly or indirectly) to the health and productive capacity of the workforce, what is it legitimate to exclude?” (Nolan, 2013, p. 465).

The reason why I distinguish between ”social investment policies” and ”social protection policies” is pragmatic: when social investment ideas are applied in a real-life setting, they call for a process of *social investment recalibration* (Ronchi, 2018), i.e. a series of incremental, concrete policy adaptations to redirect policy efforts towards investments in human capital. This is why it makes sense to say that expanding childcare services is a ”social investment policy”: not because they are a ”pure investment” with no present consumption value (it is not), but because expanding childcare services is a necessary step to get closer to an ideal ”social investment state” (Morel et al., 2012). Throughout this thesis, I use the term ”social investment policies” as a shortcut for ”policies which need to be prioritized to achieve an optimal policy mix of ’buffer’, ’flow’ and ’stock’ policies” (cfr. Hemerijck, 2017a, pp. 26–29).

However, as I have already discussed in the previous chapter, social investment is primarily a policy paradigm, i.e. an ideational phenomenon. Hemerijck describes the emergence of a policy paradigm in these terms: ”[b]oundedly rational authorities, steering through complex and ambiguous and – at times – turbulent environments, rely on ’cognitive maps’, ’interpretive frames’, ’causal beliefs’, ’common understandings’ or ’worldviews’ and ’rules of thumb’ in their policy-making endeavors [...]. Once cognitive templates align with normative beliefs, they amass paradigmatic portent by transforming understandings into ’taken-for-granted’ mindsets through [which] policy makers make sense of inherently ambiguous policy environments” (Hemerijck, 2018, p. 812).

The core of the social investment paradigm is the idea that the welfare state *as a whole*, not deprived of a ”buffer” function, should be geared towards helping people to stay in employment, or to upgrade their skills and get a better job. In order to study support for this idea, I argue that it is useful to study public opinion regarding the primary purpose of the welfare state.

Hence, I ask a second research question:

How do labor market insiders and outsiders differ in their view of the primary purpose of the welfare state?

I contrast the importance attributed to the social investment function of the welfare state, relative to the classic ”safety net” function, and the redistributive function. Here too, I use a survey item that forces respondents to prioritize one, and only one, purpose of the welfare state.

Once again, I wish to highlight that, just as all policies contain a consumption and an investment element, all welfare states perform functions of social insurance, investment in human capital, and redistribution (though to varying degrees). These three functions are not mutually exclusive, and I am sure that, if given the chance, survey respondents would tick all three boxes. However, embracing the social investment paradigm requires prioritizing the social investment function. That is why it makes sense to investigate people’s views about the *primary* (not the *only*) function of the welfare state.

In line with the rest of the political-economic literature, I adopt a rational-choice perspective on preference formation, according to which preferences arise from material self-interest. Hence, to the extent that individuals have a clear understanding of where their interests lie, they will prioritize the policy from which they (expect to) benefit the most in terms of wellbeing and utility. When thinking in terms of the primary purpose of the welfare state, they will choose a function that best relates to their current and expected needs.

4 Methods

This chapter describes the statistical procedure followed in the analysis. It proceeds as follows: first, I briefly describe the INVEDUC survey and highlight how it differs from other commonly used datasets. Second, I present the independent and dependent variables, their operationalization, and the statistical models' exact specifications. Results will be presented and discussed in the following chapter.

4.1 The INVEDUC survey

In this study, I answer my questions using data from the INVEDUC survey. INVEDUC is a survey of public opinion conducted between mid-April and the end of May 2014 to collect comparative data on individual attitudes and policy preferences on education. The survey was part of the ERC project "Investing in Education in Europe: Attitudes, Politics and Policies", led by Prof. Marius R. Busemeyer. It was conducted using computer-assisted telephone interviewing (CATI). The sample was selected via random probability sampling, including landlines and mobile phones (Busemeyer et al., 2018). Table 1 reports the number of interviews and response rate for each country.

<i>Country</i>	<i>Number of interviews</i>	<i>Response rate</i>
<i>Denmark</i>	1,000	36%
<i>France</i>	1,003	28%
<i>Germany</i>	1,500	26%
<i>Ireland</i>	1,000	20%
<i>Italy</i>	1,002	28%
<i>Spain</i>	1,000	24%
<i>Sweden</i>	1,100	33%
<i>United Kingdom</i>	1,300	21%
<i>Total</i>	8,905	≈27%

Table 1. Number of interviews and response rates for the INVEDUC survey.

We can compare the INVEDUC survey to four other large-scale public opinion surveys that are commonly used in welfare state research: the European Social Survey (ESS), the International Social Survey Program (ISSP), Eurobarometer, and the European/World Values Survey (EVS/WVS).

In comparison with these four popular datasets, a downside of the INVEDUC survey is undoubtedly its limited sample of only 8 West-European countries: Germany, France, Italy, Spain, Sweden, Denmark, the United Kingdom, and

Ireland. In contrast, Eurobarometer covers all EU member states, while, in their latest waves, the ISSP covered 33 countries, the EVS got to 35, and the WVS reached 80 countries. However, this shortcoming should not be magnified: the sample, albeit small, is a good representation of the main welfare regimes (Continental, Scandinavian, Southern, and Anglo-Saxon) (Esping-Andersen, 1990; Ferrera, 1996) and varieties of capitalism (coordinated market economies and liberal market economies) (Hall & Soskice, 2001). This means that it is possible to cautiously generalize results to the rest of Western Europe.

Another obvious downside of the INVEDUC survey is that it was conducted only once, in 2014, while all other surveys are repeated periodically (at least parts of them). This means that, unless researchers are keen to replicate it in the foreseeable future, the INVEDUC survey does not allow for longitudinal analysis¹⁶. There is no way to get around this shortfall, but the INVEDUC survey still provides us with valuable insights into welfare attitudes.

First, despite being designed primarily to answer questions regarding education policy, INVEDUC does an excellent job at differentiating between social investment, workfare, and social protection policies, and does so with the explicit intention to contribute to the ongoing debate about the social investment turn (Bussemeyer et al., 2018). Opinions on active labor market policy (ALMP), family policy, early childhood education and care, vocational education and training, and academic higher education are all investigated thoroughly. The fine-grained analyses allowed by INVEDUC would be impossible with other surveys, which include fewer questions on these topics, use a more generic language, and conflate different policies and policy paradigms, leading to ambiguous answers.

Second, the questions' wording forces respondents to prioritize policies and consider the necessary price for a policy change. Policy preferences are inquired in four ways: first, by asking for a principled policy and spending preference (with a generic reminder of the additional taxes this might entail). Second, by forcing respondents to choose one, and only one, policy area on which they wish there were additional investments. Third, by separately asking whether respondents would be willing to pay additional taxes, increase public debt, or cut spending on other policy areas for the sake of financing education. Finally, by putting respondents in front of a series of trade-offs, each time asking whether they would support cuts in one policy area to finance additional spending in another.

These scenarios are all too common in real political life: scarce resources and budget constraints force people into difficult, controversial trade-offs. Even when people can agree on what needs should be addressed, finding the necessary resources is often a source of discord, as it implies identifying the least needy, or least deserving, sections of society to be called to a sacrifice. Thus, the preferences emerging from this survey are not "cheap talk". They do not belong to a fictional world where all needs can be catered to, and whether this happens or not depends solely on willpower. Instead, these are *relative* preferences, the result

¹⁶ The "Welfare Priorities" database (Häusermann et al., 2020) is very similar to the INVEDUC database. With all due precautions, the two surveys could be used to design pseudo-panel research.

of prioritization and constrained choices, and are likely closer to the kind of considerations guiding citizens in their electoral choices.

To conclude this subsection, it is worth noting how the INVEDUC survey is representative of the European population on major demographic variables. When we compare the mean values of the main demographic variables between INVEDUC and ESS 2014 (2012 for Italy, Spain, and the UK), we find negligible differences, except perhaps for age; however, even those discrepancies are significantly reduced when weights are applied (Busemeyer et al., 2018). Thus, if we take the European Social Survey as a quality benchmark concerning sample representativeness, we can be confident in using the INVEDUC data to make inferences about its eight countries' populations.

4.2 Operationalization and estimation strategy

The main independent variable is *employment status*. The sample is divided into five mutually exclusive and collectively exhaustive categories:

- *Insiders* are workers in full-time, permanent employment, as well as part-time workers, in case they do not wish to work more hours¹⁷.
- *Upscale* respondents are insiders who work as technical experts or higher grade managers (classes 5 and 10 in Oesch's class schema, Oesch, 2006).
- *Outsiders* are all workers employed with fixed-term contracts (the survey does not allow to differentiate between voluntary and involuntary temporary work); involuntary part-time workers (who would like to work more hours); the unemployed.
- *Inactive* respondents include students; the retired; those engaging in housework, looking after children or other people; the permanently sick or disabled.
- The *self-employed* or freelancers.

In all statistical models, insiders are the reference category.

As for the dependent variables, the importance attributed by respondents to different social policy areas is measured by a question requiring them to choose a single policy area where they would like to see a spending increase.

Respondents were asked:

¹⁷ Respondents were asked: "Why do you work part-time? Because you... 1) do not want to work more hours; 2) would like to work more hours, but have not found the right job yet; 3) would like to work more hours, but your current employer does not allow you to increase the working hours; 4) would like to work more hours, but can't due to family or other obligations; 5) cannot work more hours due to sickness or other limitations". Respondents who chose answers 2, 3, or 4 were considered involuntary part-time workers.

“If the government could increase spending for only one area of its activity, which one of the following should it be in your opinion?”

- 1) *Health care*
- 2) *Unemployment benefits*
- 3) *Old-age pensions*
- 4) *Social assistance to the poor*
- 5) *Financial support for families*
- 6) *Education*
- 7) *Labor market and public employment programs*
- 8) *Defense*
- 9) *Environmental protection”*

The interpretation of these items has already been discussed in the previous chapter.

The importance attributed by respondents to different purposes of the welfare state is measured thanks to the following question:

“What is the primary purpose of the welfare state?”

- 1) *To provide a safety net when people become ill, old or unemployed*
- 2) *To support people to get better education and new jobs*
- 3) *To redistribute money from the rich to the poor*
- 4) *None of the above”*

In both cases, the order in which available options appeared was randomized, so that it did not influence the answers. “Don’t know” or “No answer” have been coded as missing cases.

Regarding the latter question, I interpret the second option as indicating support for the social investment policy paradigm, i.e. the idea that the welfare state should primarily focus on investments in human capital. The first option reflects higher importance attributed to the classic compensating function of social insurance¹⁸, while the third option does the same for redistribution between the rich and the poor.

Beyond the main variables, I include the most common control variables used in the political economy literature.

Education is measured as a categorical variable, distinguishing between those with no degree or only a lower secondary degree, those with an upper secondary degree, and those with a post-secondary degree (the reference category).

Household income is also measured as a categorical variable, assigning each respondent to an income quintile. The fifth income quintile is the reference category.

Age is measured categorically as well. I divide respondents into five age brackets: 18-29, 30-39, 40-49, 50-59, and over 60 (the reference category).

¹⁸ At least, these were probably the intentions of the research team designing the survey. However, the wording of the question does not explicitly reference the equivalence principle, i.e. that benefits depend on contributions. This could confuse respondents, who could interpret the phrase “safety net” as unconditional help to people in need.

Gender is measured as a dummy variable where 1 = female.

The number of *children present in the household* was also dichotomized, so that a dummy variable indicates whether the respondent has children at home (of any age).

Trade union membership is included as an additional dummy variable.

To reflect the importance attributed by the literature to libertarian values as a determinant of social investment support (Garrizmann et al., 2018; Häusermann & Kriesi, 2015), I also include two indexes of social and economic value orientation. To enhance comparability, I replicate the methodology used by Garrizmann et al. (2018, see the online appendix). Respondents were asked:

“I am going to read several statements to you. Please indicate whether you strongly agree, agree, neither agree nor disagree, disagree or strongly disagree with each of the following statements.

- *Private enterprise is the best way to solve [COUNTRY]’s economic problems.*
- *Public services and major industries ought to be in state ownership.*
- *People who break the law should be given much harsher sentences than they are these days.*
- *[COUNTRY]’s cultural life is generally enriched by people coming to live here from other countries.*
- *A woman should be prepared to cut down on her paid work for the sake of her family.*

Performing a principal component factor analysis with a Varimax rotation, one obtains two factors with an Eigenvalue higher than 1. The first factor, labeled as the “economic values dimension”, is negatively correlated with support for the first statement, and positively correlated with support for the second statement. The second factor, labeled as the “social values dimension”, is negatively correlated with the third and the fifth statement, and positively correlated with the fourth statement.

I use the predicted values (using the regression method) of the rotated factor scores as independent variables. Higher values indicate more progressive positions.

Collinearity diagnostics show that there are no issues with multicollinearity. The variance inflation factor (VIF) for all independent variables is never higher than 2, whereas the suggested cut-off is 10 (Hair et al., 2019, p. 316).

In order to estimate the effect of employment status (and other independent variables) on the probability that respondents prioritize a given policy area or policy paradigm, I estimate several single-level logistic regression models, with country fixed effects and country-clustered standard errors. I do not include sampling weights, because they are unnecessary when the control variables account for differences in sampling probability (Schmidt-Catran, 2016). I do not use multinomial logistic regression, because that would imply having to choose one policy area as the reference category, which would make the results less intuitive and more difficult to interpret.

5 Results

Table 2 displays the results of the binary logistic regression models for policy priorities.

Jumping straight to the coefficients for labor market status, we can see how outsiders are significantly less likely than insiders to prioritize old-age pensions. Original logistic coefficients cannot tell us much more than the direction of the relationship, but we can turn to exponentiated coefficients (not reported) to assess the magnitude of the effect. Then, we see that outsiders have 23 percent lower odds than insiders to prioritize old-age pensions. This is understandable, since pensions depend heavily on contributions. Having patchy contribution histories, outsiders are likely skeptical about their chances to qualify for a contributory pension.

Other coefficients are not statistically significant, but they seem to indicate that outsiders are less likely than insiders to prioritize health care, or financial assistance for families, and more likely to prioritize unemployment benefits. This latter finding is in line with the most recent literature.

The upscale, on the other side, are much less likely than insiders to prioritize unemployment benefits (39 percent lower odds). They are instead significantly more likely to prioritize education (20 percent higher odds than insiders). For the rest, the coefficients, though not statistically significant, show that they are overall cold towards the welfare state (respondents could also choose to prioritize spending on defense, or environmental protection), except for a surprisingly positive coefficient for social assistance to the poor.

The self-employed largely mirror upscale priorities, except for a sizable difference: they are markedly less likely than insiders to prioritize labor market and public employment programs. The odds of a self-employed person choosing them as their spending priority are 25 percent lower than those of insiders. This is understandable, since these programs are often aimed at helping people find dependent employment. The self-employed, who already have their business up and running, are unlikely to think of themselves as possible beneficiaries of active labor market policies.

The inactive, on the other side, do not mirror outsider priorities at all. Here, no coefficients are statistically significant, so we should be careful not to give them too much weight. However, we can notice how they are not as passionate about unemployment benefits: they seem to be less likely than insiders to prioritize them. Furthermore, their odds of prioritizing health care are similar to those of insiders, whereas the coefficient for outsiders was negative. This is not surprising, considering that, in our sample, the inactive are largely made of pensioners.

Although they are not the main focus of the analysis, I will take a brief look at the control variables to highlight the most notable findings. First, income plays a

massive role in shaping support for education. The coefficients for the first 3 income quintiles are all statistically significant, and negative, when the fifth quintile is the reference category. Not only this, but the poorer his/her household, the less likely the respondent will be to prioritize education. A respondent in the first income quintile has 49 percent lower odds than a respondent in the fifth quintile to choose education.

As in previous studies, age behaves like a good proxy of narrow self-interest. Most obviously, those aged between 18 and 29 are more likely than those over 60 to prioritize education, or financial assistance to families, and less likely to prioritize healthcare. The presence of children in the household behaves similarly, increasing the odds of prioritizing family support, and decreasing the odds of prioritizing pensions.

The behavior of educational attainment is interesting, because almost all the coefficients are statistically significant, and follow a pattern that very closely resembles a textbook division between social investment and social protection policies. *Not* having a post-secondary degree (i.e. a university degree, or a post-secondary vocational diploma) makes respondents more likely to prioritize health care, unemployment benefits, pensions, social assistance to the poor, and much less likely to prioritize education or ALMPs. Only for financial support for families do the preferences of the high- and low-educated seem to converge (the coefficients are not significant).

The effect of the social values index is very much in line with findings from the social investment literature. Here, we must remember that higher values indicate more *progressive* positions, i.e. more libertarian and universalistic. In fact, we find that libertarian values increase the odds of prioritizing education. A one-unit increase in the social values index increases the odds of choosing education by 22 percent. Conversely, the social values index has a negative effect on the odds of prioritizing health care, pensions, and financial support for families.

Finally, the coefficients of the economic values index confirm hunches from the social investment literature, i.e. that classic left-leaning views on the role of the state in the economy are actually in direct contrast with the social investment perspective. Being more economically left-leaning decreases the chances of prioritizing family policy, education, or ALMPs, while it increases the chances of choosing health care. For example, a unitary increase in the economic values index decreases the odds of prioritizing labor market programs by close to 12 percent.

Going back to our main independent variable, i.e. employment status, it is overall difficult to talk about a proper insider-outsider divide based on this data. Outsiders significantly differ from insiders only with respect to pensions. While this is very consistent with the assumptions of insider-outsider theory, i.e. that outsiders have no interest in contributory schemes given that they hardly qualify, all other coefficients were not statistically significant. Instead, income, educational level, and value orientations seem to play a more deciding role. Results do not change substantially if the two value indexes are removed from the equation.

In table 3, I explore a different operationalization of the dependent variable. I merge education with labor market and public employment programs to obtain a dummy variable that takes the value of 1 if the respondent has prioritized one of these two "social investment policies". I do the same with health care, unemployment benefits, pensions, social assistance to the poor, and financial assistance to families, so that the "social protection policy" dummy takes the value of 1 when the respondent has prioritized any one of these policies.

The patterns observed in table 2 now emerge even more clearly. There are no statistically significant differences between insiders and outsiders. Instead, social investments are prioritized by the upscale group. Being upscale increases the odds of choosing a social investment policy by 15 percent in comparison with insiders.

Prioritizing social investments or protection is primarily a matter of income, educational attainment, and values. Individuals with a higher income, with a tertiary degree, and who embrace libertarian values are more likely to prioritize social investments, whereas individuals with a lower income, with no post-secondary education, and who embrace authoritarian values are more likely to prioritize social protection policies.

Age and gender also emerge as powerful predictors. Being between 18 and 29 years of age significantly increases the odds of prioritizing social investment (this effect is probably driven by high importance attributed to education).

Gender, on the other side, behaves in contrast to what is normally assumed in the social investment literature. Being a woman *decreases* the odds of prioritizing social investment by 16 percent in comparison with men. Women are instead more likely to prioritize social protection. Looking back to table 2, being a woman is one of the few factors increasing the odds of prioritizing social assistance to the poor, while it decreases the odds of choosing education.

Substantively, 39.1% of outsiders choose either education or labor market programs (i.e. a "social investment policy") when confronted with the spending priority question. This percentage equals 39.8% for insiders. It ranges from 35.2% for the inactive to 47.9% for the upscale. It seems that, more than an insider-outsider divide, there is a divide between the working and middle class on the one side, and upscale groups on the other.

Now we turn to support for social investment on a conceptual level. Here, we are interested in understanding whether the social investment platform resonates with labor market outsiders. The short answer is no. As table 4 shows, outsider status *decreases* the odds of indicating "supporting people to get better education and new jobs" as the primary purpose of the welfare state by 16 percent (with respect to insiders). Instead, though the coefficient is not significant, outsiders seem to lean more towards redistribution. In sum, though I could not find a sharp insider-outsider divide at the level of social investment policy priorities, I do find evidence that outsiders are *less* likely than insiders to be attracted by social investment ideas.

Substantively, in our sample, 28.3% of outsiders and 28.9% of insiders see "supporting people to get better education and new jobs" as the primary purpose of the welfare state. This percentage ranges between 25.9% for the upscale and

30,6% for the inactive, i.e. a reversed pattern in comparison with the one observed for concrete spending priorities.

The latter is actually a striking puzzle. In table 4, income, education, gender, and social values follow a reversed pattern with respect to table 3. Having a very low income, only having an upper secondary degree (i.e. no university education), and being a woman *increase* the odds of seeing social investment as the primary purpose of the welfare state. Being in the first income quintile increases the odds by 21 percent with respect to those in the fifth quintile. On the contrary, libertarian values now have a *negative* effect.

<i>Variables</i>	Health care	Unemployment benefits	Old-age pensions	Social assistance to the poor	Financial support for families	Education	Labor market and public employment programs
<i>Intercept</i>	1.475 (.133)	-1.999 (.482)	-5.263 (.362)	-2.016 (.186)	.951 (.223)	1.938 (.235)	-11.592 (.338)
<i>1st income quintile (ref. 5th income quintile)</i>	.146* (.071)	-.067 (.279)	.653** (.221)	.347* (.174)	.415 (.240)	-.675*** (.086)	.006 (.169)
<i>2nd income quintile</i>	.257*** (.047)	-.412* (.216)	.404 (.250)	.250 (.177)	.384** (.143)	-.424*** (.055)	-.004 (.159)
<i>3rd income quintile</i>	.216*** (.049)	-.470 (.250)	.223 (.194)	.072 (.221)	.154 (.153)	-.308** (.123)	.062 (.103)
<i>4th income quintile</i>	.151* (.072)	-.383 (.259)	.126 (.276)	.202 (.166)	.118 (.132)	-.275 (.088)	.061 (.175)
<i>Age: 18-29 (ref. 60+)</i>	-.436*** (.086)	.089 (.373)	-.542 (.290)	-.157 (.176)	.455** (.139)	.463*** (.110)	.150 (.184)
<i>Age: 30-39</i>	.070 (.106)	-.085 (.188)	.193 (.122)	-.549* (.265)	.390** (.141)	.158 (.110)	-.155 (.240)
<i>Age: 40-49</i>	.178** (.074)	-.017 (.321)	-.082 (.193)	-.114 (.135)	.136 (.100)	.043 (.087)	-.109 (.213)
<i>Age: 50-59</i>	.128 (.079)	.103 (.118)	.279 (.187)	-.047 (.082)	-.090 (.142)	-.142 (.080)	.110 (.136)
<i>Education: lower secondary</i>	.193 (.109)	.376 (.240)	.848*** (.174)	.407** (.124)	.251 (.148)	-.729*** (.086)	-.181* (.085)

<i>degree or less (ref. Post secondary degree)</i>							
<i>Education: upper secondary degree</i>	.326*** (.060)	.548*** (.097)	.298** (.103)	.011 (.122)	.029 (.096)	-.372*** (.079)	.028 (.093)
<i>Upscale (ref. Insiders)</i>	-.081 (.165)	-.498* (.258)	-.235 (.216)	.129 (.185)	-.211 (.208)	.178* (.085)	-.027 (.100)
<i>Outsider</i>	-.125 (.115)	.498 (.366)	-.261** (.106)	.058 (.116)	-.137 (.172)	.057 (.083)	.037 (.169)
<i>Self-employed or freelance</i>	.005 (.177)	-.441 (.333)	-.380 (.209)	.050 (.153)	-.051 (.216)	.203 (.148)	-.286** (.098)
<i>Inactive</i>	.004 (.045)	-.253 (.314)	-.120 (.168)	-.071 (.169)	-.038 (.087)	.103 (.079)	-.047 (.089)
<i>Female</i>	.310*** (.057)	-.044 (.194)	-.110 (.133)	.141* (.068)	-.071 (.073)	-.151* (.074)	-.079 (.084)
<i>Having children at home</i>	-.104 (.060)	-.128 (.099)	-.367* (.166)	-.075 (.136)	.361** (.116)	.106 (.064)	.016 (.160)
<i>Trade union membership</i>	-.179** (.068)	-.229 (.195)	-.019 (.117)	-.104 (.128)	.079 (.098)	-.042 (.098)	-.005 (.153)
<i>Social values</i>	-.167** (.053)	-.177* (.082)	-.262*** (.053)	.083 (.057)	-.184** (.056)	.199*** (.034)	.034 (.049)
<i>Economic values</i>	.103** (.040)	.037 (.068)	.041 (.060)	.056 (.055)	-.131*** (.035)	-.056* (.030)	-.124* (.065)

<i>Country dummies</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Nagelkerke's pseudo-R²</i>	.116	.056	.073	.029	.081	.105	.112

Table 2. *If the government could increase spending for only one area of its activity, which one of the following should it be in your opinion?* Single-level binary logistic regressions: original logistic coefficients (country-clustered standards errors in parentheses). *** $p < .01$, ** $p < .05$, * $p < .10$. $N = 7755$.

<i>Variables</i>	Social investment policy	Social protection policy
<i>Intercept</i>	-3.722 (.153)	3.458 (.161)
<i>1st income quintile (ref. 5th income quintile)</i>	-.568*** (.081)	.525*** (.085)
<i>2nd income quintile</i>	-.392*** (.073)	.417*** (.101)
<i>3rd income quintile</i>	-.273** (.116)	.210 (.115)
<i>4th income quintile</i>	-.224* (.105)	.196* (.101)
<i>Age: 18-29 (ref. 60+)</i>	.421** (.142)	-.386** (.139)
<i>Age: 30-39</i>	.050 (.077)	.052 (.092)
<i>Age: 40-49</i>	-.023 (.095)	.123 (.090)
<i>Age: 50-59</i>	-.065 (.065)	.137 (.077)
<i>Education: lower secondary degree or less (ref. Post secondary degree)</i>	-.651*** (.080)	.699*** (.102)
<i>Education: upper secondary degree</i>	-.302*** (.064)	.380*** (.059)
<i>Upscale (ref. Insiders)</i>	.142* (.074)	-.163 (.112)
<i>Outsiders</i>	.080 (.057)	-.119 (.069)
<i>Self-employed or freelance</i>	.042 (.107)	-.125 (.106)
<i>Inactive</i>	.081* (.040)	-.067 (.051)
<i>Female</i>	-.175** (.056)	.221*** (.056)
<i>Having children at home</i>	.100 (.064)	-.078 (.056)
<i>Trade union membership</i>	-.041 (.086)	.110 (.079)
<i>Social values</i>	.185*** (.025)	-.250*** (.040)
<i>Economic values</i>	-.098*** (.025)	.100*** (.022)
<i>Country dummies</i>	Yes	Yes
<i>Nagelkerke's pseudo-R²</i>	.098	.113

Table 3. *If the government could increase spending for only one area of its activity, which one of the following should it be in your opinion? Education and labor market programs combined into “social investment”. All other policies combined into “social protection”. Single-level binary logistic regressions: original logistic coefficients (country-clustered standards errors in parentheses). *** $p < .01$, ** $p < .05$, * $p < .10$. $N = 7652$.*

<i>Variables</i>	Social investment	Safety net	Income redistribution
<i>Intercept</i>	-6.057 (.192)	4.855 (.212)	-2.816 (.192)
<i>1st income quintile (ref. 5th income quintile)</i>	.187** (.064)	-.352*** (.060)	.428** (.136)
<i>2nd income quintile</i>	.067 (.072)	-.181* (.086)	.371** (.137)
<i>3rd income quintile</i>	-.012 (.080)	-.037 (.081)	.200 (.135)
<i>4th income quintile</i>	.069 (.097)	-.057 (.080)	.117 (.143)
<i>Age: 18-29 (ref. 60+)</i>	-.102 (.155)	.069 (.165)	.042 (.125)
<i>Age: 30-39</i>	-.114 (.216)	.195 (.224)	-.257* (.119)
<i>Age: 40-49</i>	-.203 (.134)	.288* (.151)	-.313** (.127)
<i>Age: 50-59</i>	-.186 (.117)	.205 (.131)	-.091 (.089)
<i>Education: lower secondary degree or less (ref. Post secondary degree)</i>	.004 (.088)	-.145 (.147)	.266 (.194)
<i>Education: upper secondary degree</i>	.139* (.071)	-.135* (.060)	.120 (.083)
<i>Upscale (ref. Insiders)</i>	-.027 (.080)	.146 (.112)	-.327 (.216)
<i>Outsider</i>	-.176* (.084)	.075 (.093)	.172 (.125)
<i>Self-employed or freelance</i>	-.095 (.096)	.039 (.088)	.055 (.183)
<i>Inactive</i>	-.075 (.072)	-.035 (.061)	.180 (.123)
<i>Female</i>	.257*** (.036)	-.106** (.044)	-.217** (.063)
<i>Having children at home</i>	.117* (.057)	-.139** (.063)	.094 (.094)
<i>Trade union membership</i>	-.123* (.057)	.077 (.054)	.048 (.080)
<i>Social values</i>	-.079** (.027)	.024 (.033)	.047 (.049)
<i>Economic values</i>	-.004 (.063)	-.145*** (.037)	.243*** (.035)
<i>Country dummies</i>	Yes	Yes	Yes

<i>Nagelkerke's pseudo-R²</i>	.082	.115	.097
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Table 4. What is the primary purpose of the welfare state? Single-level binary logistic regressions: original logistic coefficients (country-clustered standard errors in parentheses). * p < .01, ** p < .05, * p < .10. N = 7617.**

6 Conclusion

In this thesis, I have searched for evidence of an insider-outsider divide in social investment support. I was motivated by the somewhat widespread hope that social investment might contribute to attenuating inequalities in dualized welfare states.

I have investigated whether insiders and outsiders differ in their spending priorities, and specifically whether outsiders would be willing to prioritize social investments in situations of limited spending capacity. I have had to reject this hypothesis, while I was able to confirm previous findings regarding the role of education, income, and libertarian values.

In a second step, I have treated social investment as a policy paradigm, rather than a set of policies. Here, the goal was to understand whether social investment as a political platform is able to resonate with labor market outsiders. I found evidence against this hypothesis: outsiders are actually less likely than insiders to see skill development and employment support as the primary purpose of the welfare state.

In conclusion, we are left with a question: why are low-income, low-educated people *more* likely to see the primary purpose of the welfare state as "supporting people to get a better education and new jobs", but at the same time *less* likely to prioritize investments in education and ALMPs? In other words, why do the more disadvantaged seemingly embrace social investment ideas, and then fail to place social investment policies among their spending priorities?

Although my results have limited generalizability outside of the West European context, they are relevant to understanding the political motives and demands of labor market outsiders. In spite of having pressing social needs, labor market outsiders have been shown to be one of the least politically active constituencies (Anderson & Beramendi, 2012; Marx & Nguyen, 2018). This is often reflected in the scarce attention paid to them in scholarly analyses. Beramendi and colleagues, in their outstanding analysis of the political economy of advanced capitalist societies, relegate them to a blunt footnote: "[...] [E]ven though their integration in our analytical scheme is perfectly possible, they are not a powerful electoral group in contemporary capitalist democracies; that is why we do not fully conceptualize them in the context of demand-side constraints governments face" (Beramendi et al., 2015a, p. 23).

This is unfortunate, since insider-outsider divides are a major source of inequality in contemporary societies. Tackling them requires the political mobilization of outsiders, which cannot be achieved without a thorough understanding of their values, expectations, and policy preferences, and how they relate to the ones of other social groups. The ultimate goal is to understand whether and how outsiders can be mobilized in favor of solidaristic welfare reforms. This thesis can be seen as a first step in this direction.

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