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The Governance of the Low Pay-Low
Skill Labour Market in Four European
Countries**

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ABSTRACT

Revisiting Dualism? The Governance of the Low Pay-Low Skill Labour Market in Four European Countries*

The permanent restructuring of the economy, exacerbated by the digital transition and combined with labour market dualization, is progressively increasing semi- and low-skilled workers' risk of marginalization. This article analyses how countries balance employment and equality concerns in core private services sectors and inquires the policy strategy that governments in Germany, France, Italy and Spain have implemented over the last two decades for workers 'at the margins'. The analysis encompasses multiple policy tools – skill upgrading, social benefits, incentives to reduce barriers to employment and wage regulation – and reveals varied trajectories. A common direction is followed by Germany and Spain, which have adopted policies to mitigate long-standing labor market dualism by implementing protective policies that aim at improving job conditions for low-wage and at-risk workers. France is stuck in its protective approach, focusing on job stabilization through subsidies without addressing the need for skill development, which limits long-term labor market mobility. Italy is exacerbating dualism by failing to improve job quality and training opportunities, leading to persistent low productivity and increasing in-work poverty.

JEL Classification: J21, J31, J38

Keywords: labour market dualism, welfare, low wage sector, semi- and low-skilled, adult learning

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1. Introduction

The permanent restructuring of the economy involves changes in industries and technology which impact on largely segmented and progressively dualized labour markets in Europe (Emmenegger et al., 2012; Hassel and Palier, 2021). These processes lead to considerable shifts in the structure of employment, skills, occupations, and tasks. In Europe, over the last decade, this has implied an upgrading of jobs in terms of employment growth in the upper quintiles as regards wages, job quality, but also skill levels. In turn, this trend is putting pressure especially on semi- and low-skilled workers, who are those at higher risk of job loss, potentially leading to long-term unemployment or a difficult reentry via non-standard work in low-grade occupations (Goos et al., 2009; Fernández-Macías and Hurley 2017). If they are excluded from training and professional development, they are significantly exposed to skill erosion, as their position on the labour market is threatened by rapid technological advancements (Lassébie and Quintini 2022). However, this segment is characterized by contradictory trends. Digitalization leads to job losses when tasks can be automated, but parts of the service sector are hard to automate and continue to offer employment opportunities. The progressive expansion of the service sectors creates growing demand for labour in this segment (e.g., care services, food delivery, and logistics) and post-pandemic labour shortages seemed to give rise to increased workers' bargaining power in essential services.

Still, taking a more long-term perspective, it appears difficult to combine high employment with job quality and equality in core private services sectors, the main areas of job creation for this part of the labour force, given their low capacity for productivity growth, in contrast to dynamic, knowledge-intensive services (Wren 2021). If states do not actively pursue a job upgrading strategy via skills, the options given to these workers are returning to employment available at the lower end of the labour market, in more unstable, volatile jobs, switching to self-employment or becoming long-term unemployed or inactive.

Departing from this puzzle, we investigate how and to what extent governments allow workers who are threatened by job downgrading or loss, to keep up with the current labour market transformations, and how state policies are influencing the broader process of labour market dualization. To analyze countries' strategies and policy tools, we develop an analytical framework representing four ideal-types of possible state's approaches, ranging, at the two extremes, from a more preventive approach that enhances upskilling during employment, to a drop-out approach in which the state takes over only in case of unemployment.

Building on in-depth analysis of national policy reforms and interviews with experts, we examine four national cases with the largest populations in Europe, all characterized by highly regulated and

dualized labour markets: two Continental countries, Germany and France, and two Mediterranean ones, Spain and Italy. As labour market policies do not operate in isolation and their effectiveness also depends on the broader economic and institutional environment, we adopt a comprehensive approach which considers a full range of labour market instruments (e.g., active labour market policies, passive tools, collective bargaining) and institutional preconditions - fiscal, administrative, and political feasibility - acknowledging the interconnectedness of these factors.

The findings reveal distinct trajectories. Germany and Spain have recently reversed course in an attempt to move towards a more protective approach and reduce labour market dualism, improving job conditions and skills for low-wage and at-risk workers. In contrast, France and Italy are stuck in their (different) trajectories, either stagnating or worsening existing inequalities. We find diverging tracks within Continental and Mediterranean countries. Germany has reoriented its policies by introducing and increasing the statutory minimum wage and bolstering publicly supported training programs, thereby moving away from its previous tolerance of a large low-wage sector. France, on the other hand, continues to prioritize job stabilization through substantial public funding for labour cost subsidies and in-work benefits, alongside maintaining a high minimum wage, with less emphasis on advancing skill development. Divergence also characterizes the Mediterranean cases. Both countries share a history of ‘flex-insecurity’ and fiscal consolidation constraints, but since 2019 Spain has made concerted efforts to rebalance labour protection and address income inequality, attempting to reduce the prevalence of temporary employment. Conversely, in Italy new policies have not catalyzed meaningful change, failing to tackle skills obsolescence and in-work poverty increase.

The paper is organized as follows. The next section discusses the impact of the transition to the knowledge economy and technological innovation on segmented labour markets. The third section defines our analytical framework and methodology. Section four and five discuss the policy evolution in our cases and the last section concludes by discussing future prospects.

2. Workers at risk, between the digital transition and the service economy

The political economy literature refers to multiple macro dynamics which are reshaping employment, sectors, occupations and tasks in advanced economies, with inevitable consequences for workers’ social risks, industry’s needs, welfare and educational institutions, which are all undergoing profound transformation (Hassel and Palier 2021; Iversen and Wren 1998; Scharpf 2000). The decline in employment opportunities in manufacturing in recent decades has been compensated, in part, by the expansion of services, which offers a high share of less-skilled, and low-paid jobs in non-dynamic

private service sectors (Wren 2021). The shift towards the knowledge economy and the broader application of digital technologies, instead, places a premium on intellectual and information-based skills, generating occupational upgrading, new employment prospects and growing demand for high-skilled, knowledge-intensive jobs (Oesch 2013, Wren 2021). These dynamics are posing critical challenges for governments, which have to avoid potential disruptive implications, supporting workers and employers to readjust skills and work organization (Acemoglu and Restrepo, 2017; Busemeyer et al., 2022).

Such transitions, upward and downward, are exemplified by the increased automation of jobs, that is particularly a threat to routine manual and cognitive tasks, causing a shift in task structures towards more non-routine tasks (e.g., interactive, analytical or manual) at either high or low levels of skills (Lassébie and Quintini, 2022). Demand for middle-skilled workers performing routine work - both manual 'blue-collar' (e.g., manufacturing) and cognitive 'white-collar' occupations (e.g., administration) is declining, progressively being replaced by machines. At the same time, there is a surge in request for high-skilled workers who perform non-routine cognitive work, complementary to ICT and automation (e.g. managers, professionals, technicians) but also for non-routine manual work which is not automated, and can be provided by humans relatively cheaply. This is particularly concentrated in core private service sectors, where the rise of low skilled jobs has been supported in the last decades by institutions and policies on both the supply and the demand side, especially reducing protections and by keeping relative wages low (Wren, 2021).

These processes are exacerbating long-standing segmentation and dualization patterns, caused by progressive labour flexibilization and the deregulation of employment protection since the 1980s (Emmenegger et al., 2012; Prosser, 2016). Labour markets are split by skill level, income level and employment contracts, with a growing number of unstable workers (Kalleberg, 2018). Key dividing lines are the type of contract, employment conditions and the attached social protection: well-protected, standard *VS* non-standard contracts, e.g., low-wage, part-time work, temporary work, agency work, with little or no protection (Eichhorst and Tobsch, 2015).

The implications of these intertwined trends are profound and cross-cutting, but some workers are less equipped to exploit the benefits of the knowledge economy, especially those with moderate or low skills and qualification involved in low added-value service activities. If not reversed by dedicated policies, it appears particularly hard to counter job downgrading and rebalance lower-skilled service employment with equality and quality of jobs in deeply dualized labour markets.

However, the post-pandemic economy seems also to be characterized by labour shortage in sectors that were particularly hit by lockdowns, such as accommodation and food services (Pavolini et al. 2023). This could push up wages and represent an opportunity to enhance workers' bargaining

potential in essential services, and to raise pressure on governments to readjust solidarity mechanisms and rebalance equality in job condition.

What policy strategies are European governments implementing to address the disruptive impacts of labor market changes and align workers' skills with new demands? To what degree do these policies help reshape or mitigate labor market dualization? Are these strategies aimed at reducing inequality, or could they even reinforce existing divisions in the workforce? We reply to these research questions building on historical institutionalism and the comparative political economy approach (Hall and Soskice, 2001; Hassel and Palier, 2021). However, we differ from mainstream studies by looking beyond the most productive core sectors and growth engines and concentrate on the segments more at the margin, specifically on workers with limited education and skills in the private service sectors.

3. Analytical framework and methodology

To systematize the policy responses that governments have put in place to support workers at risk of job downgrading and exclusion, we identify four alternative ideal-types of state strategies based on specific logics of actions and related policy instruments. Drawing on existing literature on vocational education and training, dualization and welfare regulation (Emmenegger et al., 2012; Hassel and Palier, 2021; Busemeyer et al., 2022), we assume that governments can opt for:

1. a 'preventive' approach, enabling individuals to learn new skills throughout their lifetimes by encouraging skill updating of semi- and low-skilled workers during employment, trying to avoid downgrading or long-term unemployment. This entails significant investment in adult learning in and out of the job, through a comprehensive ALMPs package also composed of job assistance and income support benefits to enable workers to re-adjust to labour market skill needs.
2. a 'protective' approach that tries to bring or keep workers into employment while limiting wage dispersion and labour market inequality by way of a demanding minimum wage regime, using statutory minimum wages, binding collectively agreed wages (Pedersen and Picot 2023) and rather strict labour market regulation. While this tends to make labour in service sectors more costly, it can be combined with public subsidies such as hiring incentives or in-work benefits, and even public job creation (Eichhorst and Marx 2012); the government does not substantially support the updating of skills, but it provides incentives for workers and firms to create or maintain employment and work incentives in the lower segment, depending on the relative importance of these instruments.

3. a ‘liberal’ approach that tolerates higher inequality within the labour market, allowing for an expansion of low pay and non-standard employment (Jessop 2003). In such a scenario we expect rather meagre out-of-work benefits (e.g., unemployment insurance, minimum income support or other (pre)retirement options), no or low wage floors and a rather deregulated labour market overall as regards non-standard work. A stricter administration of a demanding activation strategy pushes people into any job that becomes available. Overall, public spending requirements are more limited.
4. a ‘drop-out approach’ which does not involve action to govern the transformation of the labour market and is only based on residual income support for the excluded, tolerating or even encouraging withdrawal from the labour market by way of generous, potentially long-lasting benefits that are made accessible without major activation. The cost of this strategy lies in low employment and high benefit dependency.

Table 1: Typology of state strategies

Approach	Core logic	Requirements/tools	Main focus of public spending	Outcomes
1. Preventive	Skill updating of semi/low-skilled workers <i>during employment or while unemployed</i> through publicly supported training, job matching to avoid unemployment	Continued skill updating for (un)employed and effective governance (in particular VET and ALMPs)	Training policies	Low exclusion and job upgrading
2. Protective	Jobs at minimum wage level, combined with hiring incentives or in-work benefits – to ensure income compensation and reduce inequality	Make work pay policies (e.g., in-work benefits, hiring incentives for firms and self-employment)	Subsidies	Employment without upgrading, but limited wage dispersion/LM inequality
3. Liberal	Activation with little emphasis on skills, work first, focus on sanctions/benefit cuts – to incentivize employment	Strict governance of a demanding activation policy, limited social benefits, deregulated labour market segments	Demanding PES activation	Rather precarious jobs, higher degree of inequality
4. Drop-out	Just income support -acceptance of withdrawal from the labour market and inequality	Spending on out-of-work benefits (e.g., unemployment benefits, social assistance, early retirement)	Out-of-work benefits	Low employment

Source: authors’ elaboration

These four ideal-typical strategies present a distinct set of principles and goals that complement each other. We expect to observe hybrid approaches that combine elements of multiple strategies.

To understand and explain where countries stand, we consider both agency and structure (Mahoney and Thelen 2012). On the one hand, we look at the role of the state, government coalitions and social partners’ action in shaping countries policy responses. On the other, we delve into structural and institutional preconditions and path dependency, considering financial viability, administrative capacity and political feasibility, as well as economic pressure, EU regulation and country-specific recommendations and funding.

More specifically, in terms of ALMPs we consider job-related training programs and financial incentives provided to encourage employment and supplement income for low-wage workers. As for passive tools, we include minimum/basic income supports for individuals with insufficient earnings or those unemployed and financial assistance for unemployed individuals actively seeking work. In terms of labour market regulation and institutions, we focus on minimum wage and policies governing employment contracts, as well as collective bargaining regarding wages, working conditions, and employment terms.

Four case studies, carried out combining qualitative tools, allow us to investigate two Continental regimes, Germany and France, and two Mediterranean regimes, Spain and Italy, and cross-compare the four countries. We adopt an in-depth case-study approach that combines analysis of the relevant policy measures and monitoring reports, with original qualitative interview data (Yin 2009). These were gathered through 10 semi-structured confidential interviews conducted by the authors with key policymakers, representatives of social partner organizations and experts/policy advisers in the four countries during 2023 and 2024. The analysis focuses on the last two decades to capture the evolution and adaptation of policies in response to changing circumstances (Hall and Thelen 2009).

4. Redefining dualisms in Continental Europe

Despite both Germany and France are prime examples of dualism in Continental Europe, their labour market institutions, including industrial relations, wage setting and training systems differ significantly. This has major consequences for the coping strategies in these two countries.

4.1 Germany: Meandering between low pay and training policies

4.1.1 Work-first activation and deregulation (2005-2015)

In the early 2000s, to counter high unemployment, low employment and the resulting fiscal pressure on the welfare state, the governing Red-Green coalition, with support from the Center-Right opposition, adopted a contested, but comprehensive reform package (*Hartz reforms*). The aims were to create job opportunities in the service sectors - on the demand side - and mobilise labour supply more effectively, on the supply side. This implied a partial cut in the generosity of out-of-work benefits, a deregulation of non-standard forms of employment - in particular temporary agency work and marginal part-time - and stricter activation. These reforms were implemented in a phase of weakening social partnership and declining collective bargaining (see Tab. 4). This led to a strong

expansion of low wage employment (see Tab. 3), contributing to strong job creation and significant decline in unemployment (Dustmann et al. 2014, Kuegler et al 2018), also for low skilled people (see Tab. 2). The result was a fall in real wages at the lower end of the labour market, partly due to labour market entry of additional job seekers with low skills or little work experience. One could classify this approach as an example of a liberal or deregulatory activation-oriented (strategy 3), departing from earlier more protective (option 2) and more passive elements.

Consequently, non-standard work and low pay played a major role in job creation in sectors such as retail, hospitality, cleaning and security services, especially for workers with low education. This was partly due to domestic outsourcing from the ‘productive core’ to specialized suppliers focusing on tasks that are typically classified as low skilled and hard to automate, e.g. cleaning, logistics and delivery services, oftentimes organized via marginal part-time work and temporary work agencies (Eichhorst and Tobsch 2015, Hassel 2014, Baccaro and Benassi 2017, Goldschmidt and Schmieder 2017). At the same time, publicly sponsored training for jobseekers was curtailed and basically absent for employed people who did not benefit from firm-sponsored training. Non-employed (previously inactive) or unemployed working-age people moved into jobs with low pay, low employment stability and limited upward mobility – which was also hampered by disincentives for workers and employers to expand working time when workers were in marginal part-time or in the zone of low earnings topped up by in-work benefits, mirroring existing earnings disregard clauses.

4.1.2 Policy reversal: re-regulation and human capital orientation (2015-2024)

However, this policy pattern did not last forever. The increased wage dispersion, with associated criticisms raised against precarious forms of employment led to a stepwise policy reversal since the mid-2010s. While the quantity of jobs needed to overcome mass unemployment in the 2000s was the main policy objective, in a situation of declining joblessness the quality of jobs created and the associated inequality became a major concern in policy debates. This changed the policy orientation fundamentally (Marx and Starke 2017). Along with a shift from a Christian Democratic/Liberal coalition to a Grand Coalition in 2013, this facilitated the introduction of a statutory minimum wage, for the first time in post-war Germany, creating a binding minimum pay floor in all sectors, including those with low collective bargaining coverage. The minimum wage affected non-standard forms of employment such as marginal part-time work where there used to be a large share of low paid workers, and specific minimum wages were introduced in the agency sector in addition to new restrictions. In fact, in the late 2010s, there were also some limited steps to revert the liberal regulation of temporary agency work, mainly to avoid long-term placements at less favorable working

conditions than regular staff in the use firms. This set incentives for employers to raise productivity (and hire more selectively), the more so as the minimum wage has been updated since (including a massive step to 12.00 EUR in October 2022 and 12.41 as of January 2024), bringing it closer in line with the French one. This helped reduce the share of low pay jobs and non-standard employment to some extent (see Tab. 4) (Grabka 2022, Walwei 2022, Destatis 2024). However, besides the impact of the minimum wage as an effective wage floor, the regulation of non-standard work was basically left untouched, most notably the marginal part-time work arrangement.

At the same time, promoted through several reform acts and the national unemployment insurance fund, a return to more human capital-oriented ALMPs could be observed, focusing on those in employment and covered by unemployment insurance, but potentially threatened by structural and technological change, not least automation. In that respect, firm-level measures for restructuring and skill adjustment can now be supported by public funds more widely. The main motivation for this first step was the concern to avoid future unemployment and skills shortages rather than to reintegrate those stuck in (long-term) unemployment. These policies have been expanded over time and are to become even more generous with a new law on continuous vocational training in 2024. To this day, the take-up of training support by firms has been rather reluctant (Klaus et al. 2020, Kruppe and Lang 2023). The revision of the minimum income support system implemented in early 2023, under the heading of *Bürgergeld* (literally “citizen income”), includes a revision of activation policies for the long-term unemployed. Apart from more generous benefits, less strict means-testing and more equal integration agreements, this implies a stronger emphasis on job-related training for the long-term unemployed relying on income support by abolishing the priority on quick job placements, i.e. the human capital-oriented shift for those with a loose attachment to the labour market.

4.1.3 Constraints: A divided system

The main dividing lines in Germany continue to lie between the productive core, with skilled work force in stable jobs, and the more marginal and vulnerable segments of the labour market, including many private service occupations. The division between those in long-term unemployment, relying on means-tested benefits, and those with jobs and/or entitlements to unemployment insurance benefits, continues to exist, but policies in both segments have changed over time. Explaining this, it is important to take into account the positions of major political parties, in particular the Social Democrats, the trade unions, and changing labour market conditions, i.e. lower unemployment and demographic change.

While fiscal and administrative capacities for human capital-oriented policies seem available, segmented adult learning represents a major constraint. As publicly sponsored human capital-oriented measures have started to gain weight again, the practical relevance of these changes is still not clear, potentially pointing at the constraints stemming from a complex and fragmented skill formation system, creating obstacles to a substantial move towards a more preventive setting (strategy 1) while there has been a partial move from strategy 3 to 2. Notably, training provided and sponsored by employers as well as increasingly relevant training provisions in collective agreements focus on employed people that are exposed to technological and job change. These policies tend to benefit mostly those in well-established employment relationships covered by collective bargaining (Boockmann et al. 2022). One main obstacle to more inclusive adult learning – mostly to the detriment of low-skilled workers - is the reluctance of the firmly established dual vocational training system to allow for a recognition of informal skills acquired during practical work and for a modularized combination of formal training elements. It is not yet clear to what extent the national adult learning strategy launched in 2019 can push for a more coordinated and integrated system that also reaches those groups that are more or less excluded - apart from the more centralized ALMP system which still has to show a more far-reaching impact on training practices.

Table 2: Unemployment and employment of low skilled, %

Year	DE	FR	IT	ES
Unemployment by educational level: below upper secondary				
2005	20.1	11.1	7.8	9.3
2010	15.9	12.9	9.1	24.5
2022	6.0	11.2	10.9	17.7
Employment by educational level: below upper secondary				
2005	51.6	58.6	51.7	58.8
2010	55.3	55.4	50.4	53.0
2022	65.2	54.3	53.3	59.9

Source: OECD Indicators: Employment by education level, Unemployment rates by education level

Table 3: Low wage earners by educational levels, %

	Low-wage earners as a proportion of employees with less than primary, primary and lower secondary education		Low-wage earners as a proportion of employee with upper secondary and post-secondary non-tertiary education	
	2010	2018	2010	2018
DE	54.63	50.37	19.13	21.13
FR	11.94	16.76	6.45	9.75
IT	20.85	15.16	8.5	7.57
ES	22.35	22.32	15.27	15.41

Source: Eurostat: Low-wage earners as a proportion of all employes by educational attainment level (earn_ses_publi)

Table 4: Wage dispersion

	Minimum wage in % average wage (median)		% of collective bargaining coverage		Wage dispersion D5 – D1		Share of low pay in dependent employment	
	2010	2022	2010	2019	2010	2022	2010	2022
DE	-	48,1	59,8	54,0*	1,87	1,71	18,93	16,00
FR	62,1	60,9	98,0	98,0*	1,45	1,51	5,79	10,30
IT	-	-	100,0	100,0	1,50	1,49	8,14	3,90
ES	37,7	49,5	79,4	80,1*	1,60	1,38	10,61	10,40

Source: OECD last available data (*2018), Indicators: Minimum relative to average wages of full-time workers, Collective bargaining coverage, Decile ratios of gross earnings

Table 5: Temporary employment, %

	Employed persons working for a temporary work agency in wholesale, retail trade, transport, accommodation and food service		Employees with a short-term contract of up to 3 months		Employees with a short-term contract of up to 3 months in wholesale, retail trade, transport, accommodation and food service	
	2010	2023	2010	2023	2010	2023
DE	1.4	3.2	0.6	0.3	0.7	0.4
FR	1.7	3.1	4,7	3.9	4.7	4.6
IT	0.5	0.6	2,1	1.2	2.8	1.6
ES	3.3	5.2	4,3	1.9	5.8	2.1

Source: Eurostat: Precarious employment by sex, age and NACE Rev.2 activity (lfsa_qoe_4ax1r2)

4.2 France: Long-standing employment subsidies to contain wage dispersion

4.2.1 Wage compression and flexible contracts

In contrast to Germany, France could maintain a relatively high employment rate of formally and actually low skilled in the post-industrial period and reconcile that with a degree of wage dispersion that is lower than in many other European countries (see Tab. 2 & 4) (Askenazy and Palier 2018). This profile can be related to specific institutions and policies. First, despite low trade union density and a more confrontational type of social dialogue, France exhibits a stable system of binding collective agreements (see Tab. 4). This is due to the administrative routine of making collective agreements generally binding for all employers in the respective sector, a mechanism that is only occasionally used in Germany. Second, France has always had one of the highest statutory minimum wages – the SMIC, *Salaire Minimum Interprofessionnel de Croissance* - relative to median wages, which has a massive impact on the lower segment of the labour market (Cahuc 2022), while Germany

has caught up in this respect only recently (see Tab. 4). This reduces wage dispersion, but inhibits employment of low skilled workers due to high labour cost encountered by employers in France.

However, specific complementarities need to be considered. First, as mentioned by some interviewees, in France employers practically use very short-term temporary contracts to gain a high level of employment - and pay – flexibility, while overall wage and income dispersion is most limited (Askenazy 2022, Askenazy and Palier 2018, Eichhorst and Marx 2012, see Tab. 4 and 5). This is feasible despite rules on fixed-term contracts that are relative strict and notwithstanding above-average non-wage labour costs in case of the termination of a fixed-term contract. Part of the income risk, and the effective wage bill, as seen from the point of view of employers, is covered by French unemployment insurance that allows for short-term movements from work to unemployment and back (by way of “rechargeable” benefits), although this has become more restrictive lately. On the other hand, this model of “time-sliced” contracting (Askenazy 2022) reduces the incentive to invest in workers’ skills which we would expect given a strong bite of the minimum wage, directly concerning about one in seven workers (Cahuc 2022).

4.2.2 Subsidizing low paid work

Since 1993, with a Conservative government in power, France started to provide massive and permanent subsidies for employers that employ workers in jobs at or above the statutory minimum wage (Askenazy and Palier 2018). The main aim of this policy instrument (*réduction générale des cotisations patronales*) was, and still is, to create or safeguard jobs at or above the politically defined minimum wage. In particular, monthly pay and jobs were to be stabilized when there was a prominent move to cut weekly working time to 35 hours in 2000, introduced by a Socialist government, which was complemented by additional labour cost reductions. While initially limited to the minimum wage and a narrow zone above, this policy was extended considerably over time, irrespective of the political orientation of the diverse governments in charge. Currently, the general degressive employer contribution relief cover wages between 100 and 160% of the statutory minimum wage, above that some contribution rate reductions apply to wages up to 3.5 SMIC. This comes at the price of significant and increasing public spending that amounts to up to about 2.8% of the French GDP (Cahuc 2022, Assemblée Nationale 2023), but leads to rather high employment in private services combined with relatively low earnings dispersion in the French case (L’Horty et al. 2019, Goux and Maurin 2019). Still, these subsidies can only slow down or delay a decline in jobs for the low skilled. Besides general subsidies to employers, since the early 1990s there is also a large and complex system of support for personal and household services in France with the aim of creating incentives to

formalize this segment and create regular jobs both in terms of dependent employment with households or agencies and self-employed contracting (Goux and Maurin 2019, Carbonnier and Morel 2015). This model provides for tax incentives for user households, complemented by social contribution exemptions in this field. As with the general subsidies for low pay work, this scheme was expanded over time with the support of different governments.

On the side of the workers, France has expanded in-work benefits over time. In particular, the creation of *RSA activité* in 2009 that was changed into the more generous *Prime d'activité* in 2016 have developed into major permanent in-work support schemes that raise net incomes of those with low earnings from work. Both the employer subsidies and the prominent in-work benefits make work at lower hours/duration or pay feasible in a context characterized by a demanding minimum wage. Hence, the state pays part of the wage bill, i.e., the employer cost of the minimum wage - in addition to out-of-work support through minimum income support, unemployment assistance and unemployment insurance, that runs deficits. On the flipside, there is limited upward mobility to more permanent or better paying jobs due to the heavily segmented labour market in France as the switch to open-ended contracts remains difficult. That means that in France, based on political decisions, a large low pay segment at the - relatively elevated - minimum wage and above is sustained by way of massive subsidies, institutionally stabilizing employment in this segment, but also supporting a dual labour market (Goux and Maurin 2019).

4.2.3 Constraints in activation and skill formation

Compared to Germany, there is less systematic activation and training policies for adults, despite considerable public spending on ALMPs and training. According to expert views, there is little concern by policy makers and social partners about the impact of technological change or automation on low pay occupations and the associated need for training. This might also have to do with the apparent stability of employment in private services due to the strong subsidization, despite pressure from technological and sectoral change. Yet, this rather stable protective approach (strategy 2) notwithstanding dualistic patterns tends to crowd out upskilling policies conceptually and fiscally. Despite the highly subsidized low pay sector in France represents a generally accepted and stable equilibrium solution that is not challenged by political actors, employers and unions by way of questioning the subsidies in favour of massively investing in skill upgrading, it creates a constraint for more skill-oriented policies, as it weakens incentives for upward mobility and tends to divert public funding from training policies. One notable human capital formation instrument, however, is the personal training account that provides for the accumulation of employer-provided funds on an

individual account for training courses over time. In practice, this is mostly used for smaller courses, e.g. the acquisition or validation of basic competences (Perez and Vourc'h 2020). The account can also be used for more substantial professional reorientation if combined with additional funding from ALMP sources or a longer phase of training leave, while wage replacement is available.

5. Italy and Spain: from a common past to an ongoing diversification?

Since the '90s, Italy and Spain pursued labour market flexibilization without upgrading income support and upskilling systems. Both countries share persistent youth unemployment and high incidence of non-regular employment. The weak institutionalization of industrial relations and decentralized collective bargaining limit the involvement of social partners in vocational training, resulting in inadequate professionalization and weak integration into the production structure (Burroni et al., 2019).

5.1 Italian reformism without change

5.1.1 A decade of intense policy reforms (2014-2024)

Throughout the '90s and early 2000s, Italy reduced labour costs by expanding temporary and low-paid contracts (strategy 3). This created a growing divide between protected pre-reforms workers and those hired under less secure conditions, a gap further widened by the absence of a statutory minimum wage, for long time opposed by trade unions. An intense wave of reformism has characterized the last decade, with several reforms often following inconsistent directions, largely due to high political instability and the incapacity to engage in structured dialogue with social partners. From 2013 to 2018, Italy was governed by three successive center-left governments, which on the one hand introduced a new work-insertion contract (Jobs Act reform, 2014-2016) highly contested by unions - as it exempt from the protective regime against dismissal guaranteed by Article 18 of the 1970 Workers' Statute; on the other, they expanded the unemployment benefit system introducing a new scheme (NASpI) addressed to non-standard workers. In the wake of EU recommendations, benefit conditionality linked to activation was strengthened and duration of wage supplement schemes for industrial crises was limited, to promote a quick reallocation of workers. In 2016, a new National Agency for ALMPs (ANPAL) was established to overcome the lack of coordination among national and local administrations and the fragmentation of subnational ALMPs and since 2019 new resources were devoted for strengthening traditionally under-staffed public employment services. However, following governments depowered ANPAL, which has been recently abolished by the Meloni

executive. Comparatively, ALMPs remain inadequately financed, and the main instrument to favour the creation of permanent employment is the provision of incentives to employers lowering the cost of social security contributions. Unemployment among low-skilled workers has continued to rise from 2005 to 2022 (Tab. 2).

VET, historically very weak in Italy (D'Agostino and Vaccaro 2021), continues to be addressed with rather feeble tools. Policies incentivizing the adoption of digital technologies (2016 Industry 4.0; 2017 Enterprise 4.0; 2020 Transition 4.0; Italy 2025 Strategy) included digital training for workers and in 2020 additional resources were devoted to reimbursing workers' training hours to companies (*Fondo nuove competenze*). New interventions to develop ICT learning environments and a School–Work Alternation program (Good School Act) started in 2015, making a traineeships compulsory in the last three years of upper secondary education. This reform was also extensively contested by unions as it doesn't intervene on the institutional asset of the dual system to address lack of systematic involvement of and coordination with the social partners in planning VET provision and addressing emerging skills needs. Rather, it just allocates resources to regions to provide on-the-job training activities in coordination with firms, and to strengthening the delivery of professional training for unemployed.

In the aftermath of the pandemic, and in the framework of the National Recovery and Resilience Plan (NRRP), Draghi's government (2021-2022) consolidated these measures in the 'New Skills' National Plan and 'GOL' program (*Garanzia Occupabilità Lavoratori*). Upskilling within firms was facilitated allowing companies to reschedule working hours to encourage training activities, and ALMPs for unemployed receiving income support were reorganized, with targeted schemes for NEETs, women, and over 50s. Yet, as emerged from the interviews, despite aligned with businesses interests, firms make a partial use of these tools and the lack of territorial administrative capacity limits the local implementation of ALMPs. Italy remains one of the worst performing European countries in terms of literacy and educational levels (only 20% in 2021 of the population with tertiary education, well below the OECD average of 39.9 and much less the Spanish average of 40.7%) and adults human capital development remains an under-developed field, where the country's territorial disparities are reproduced. In the adult learning arena, the effort of the central state is minimal, bordering a drop out strategy (n.4).

The state's inertia is also evident in wage regulation. Between 1990 and 2020 Italy is the only European country where inflation-adjusted wages fell of about 3% and the system of adjustment of nominal wages did not protect real earnings, especially those of the lower income employees. Wage stagnation has meant that, despite high collective bargaining coverage, the risk of poverty among

workers has increased, also due to the spread of irregular jobs, which do not appear in official statistics. As reported by experts, in the last years in many sectors the renewal of collective agreements has been lagging, causing delays in the alignment of contractual conditions for workers.

Finally, highly politicized but short-lived was also the first Italian minimum income (*Reddito di inclusione*) introduced in 2018, replaced by the Five Star government with the ‘Citizens’ income benefit’ in 2019, which addressed jobseekers and low earners who accepted to sign an employment pact declaring themselves immediately available for work. It has been abolished in 2024, and substituted by a new reform of poverty support and ALMPs that adopts stricter eligibility criteria, increased work requirements, monitoring and penalties, and reducing benefit duration.

5.1.2 The Italian gridlock

The interaction between domestic politics and EU recommendations has not led to a consistent policy trajectory in Italy. Governments vary in their response to EU influence, with some resisting and others showing commitment but lacking stability for long-term reforms. For instance, the influence of the European Commission impacted significantly on the identification of priorities of the National Recovery and Resilience Plan (NRRP), while the 2022 EU Directive on minimum wages has not influenced wage-setting in collective agreements. The NRRP, which aims for structural reforms, upgrading ALMPs and digital skill formation by 2026, is currently facing delays due to political instability and the renegotiation of targets with Brussels.

As evidenced by the tables, the intense reform efforts do not seem to have a significant impact on labor market conditions. Challenges like skill gaps and poor work conditions remain unaddressed. The state fails to intervene effectively ‘at the margins’, also with limited and fragmented passive tools. Social concertation has been intermittent over time and heterogeneous coalitions in power with internal divisions have not allowed for building up stable social dialogue, so governments acted mostly independently.

5.2 Spain’s direction shift?

Compared to Italy, Spain experienced a robust recovery after the global financial crisis and a growth in GDP per capita largely driven by greater labour utilization - also due to female participation to labour market, higher than in Italy - and supported by flexibility. In recent times a pickup in the creation of permanent jobs has taken place, but the labour market continues to be largely segmented.

Two key structural reforms shaped the Spanish trajectory: the packages of 2010-12 and the most recent 2019-2022 laws.

5.2.1 The early decade of 2000s

The 2010-12 reform packages have been adopted by the then-ruling conservative Partido Popular as unilateral action, after trilateral concertation failed, and changed key institutions of the collective bargaining system and dismissal procedures (Royo, 2015). On the one hand, the reforms required that company-level agreement prevailed, increased companies' internal flexibility by easing modifications of working conditions and introduced the possibility to opt out of the terms and conditions contained in a collective agreement in force at sectoral, regional, or national level. On the other, the law eased the circumstances that could justify the termination of a contract and introduced an "open-ended contract for the support of entrepreneurs" to be applied by companies with fewer than 50 employees.

Despite employment has grown at an average annual rate of 2.4% since 2014, dualism increased, as the firing-cost gap between temporary and permanent contracts remained large. This is exemplified by the fact that in 2018 the share of temporary employees amounted to 26.8%.

Compared to Italy, the Spanish governments have prioritized EU recommendations on their political agendas, investing more in tertiary education and ALMPs in the periods when the state had more room for public spending. ALMPs have been expanded through many national and regional programs, but as in the Italian case had limited impact and weak delivery because of the lacking coordination between the central and subnational employment systems.

A system of dual vocational training has been incentivized for part-time employment involving a training component and several programs based on activation, incentives and subsidies linked to training were delivered for workers, firms and entrepreneurship (e.g., 2014-2016 Employment Activation Strategy, extended to 2018; 2015 Operational Programme for Employment, Training and Education; 2019-2021 Shock Plan for Youth Employment; PRODI - Temporary Unemployment Protection and Integration Programme; PREPARA retraining programme). These targets inform every year the Spanish Annual Employment Policy Plan (PAPE), in which training activities and employment incentives have accounted so far for more than 80% of the total budget.

Despite Spain allocates more public resources than Italy on employment incentives, supported employment and job creation, and developed several programs to support the low skilled (e.g., 2020 Program for Educational Guidance, Progress and Enrichment; 2020 Modernisation Plan for Vocational Training which integrates the educational and vocational training for employment under a single authority), economic constraints render these programs temporary and not structural reforms.

The state operates within a limited time horizon and its strategy is still rooted on contingent policy tools disconnected from a long-term perspective oriented to human capital development.

5.2.2 The 2018 change of pace

The awareness that the increasing poverty and social exclusion among low skilled workers is linked to the spread of low-quality jobs and wage restraint, led to a change of pace in 2018, when the Socialist-led government reached consensus from unions and main business associations around an organic labour reform (2019-22). This new regulation addressed wages and labour relations in a structural and complementary manner, reversing the temporary character of employment and imbalances in collective bargaining, and approving a hike in the statutory minimum wage (see Tab. 4).

The Royal Decree-Law 32/2021 overturned the most controversial aspects of the 2010-2012 reforms. It made permanent job contracts prevailing by eliminating the most common type of temporary contract and permitted temporary hiring only under justified circumstances and for limited amounts of time. Contracts for seasonal work acquired the same protection as permanent jobs and companies breaking rules face now much steeper fines. The rules of internships have been tightened to include guaranteed training and evaluation and companies have been incentivized to provide training to workers during temporary layoffs or seasonal downtime. In 2022, a reform process of the vocational training system has been initiated based on collaboration with enterprises to adapt training to market needs and digital skills, incentives for enterprises to train during periods of slowdown.

The statutory minimum wage came into force in 2019, rising from 14 monthly payments of €735.90 per year to €900 for those in full-time employment, and represented an increase of 22%, the highest in more than four decades in Spain and the most significant among EU countries in 2019 (Eurofound 2019). In 2022 it has been further increased to €1,000.

In terms of social benefits, in 2020 the government also introduced the national minimum income scheme (“Ingreso Mínimo Vital”), which improves the traditional fragmentation of the Spanish welfare system. However, this scheme, conditional upon participation in activation program, has created a complex hybrid setup, as since the ‘90s the Autonomous Communities were running different regional minimum income of insertion (Rentas Mínimas de Inserción), with great territorial disparities in terms of generosity, restrictions, and effectiveness. The new scheme aims to standardize regional programs and to complement other inclusion and activation measures, yet advanced cooperation with autonomous regions and municipalities are required to implement it (Eichhorst et al. 2023).

In the Spanish case as well the NRRP, supported by the EU with €69.5 billion in grants, is a pivotal tool for boosting structural reforms, as it devotes 28% of the resource to foster the digital transition, social cohesion, and labour market inclusion. Skill improvement represents the key objective of both the National Plan for Digital Skills adopted in 2021 and the NRRP, with policy actions envisaging the digital divide in education and employment.

Like in Italy, the implementation of these plans runs up against political instability. Following major losses in the regional and local elections in May 2023, Prime Minister Pedro Sanchez of the Socialist Workers' Party (PSOE) has called for early elections in Spain and the political landscape is characterized by high fragmentation and polarization. Spain appears to have shifted course by adopting a more protective strategy (n.2) for workers on the margins, and European funds could enable investment in training. However, political and social tensions may undermine the continuity needed to strengthen this approach.

6. Divergent trajectories and persistent challenges

The analysis exposes that policies reflecting the protective and liberal approaches – classified as strategies no. 2 and 3 – are prevailing in the analyzed countries, despite these approaches are pursued through domestic “receipts” (subsidies VS regulation VS incentives). In Continental Europe we observe quite different paths. Germany shifted from a more liberal approach characterizing the 2005-2015 deregulation and work-first period, towards a more protective approach, introducing a statutory minimum wage and re-regulating labor market conditions to reduce inequality. France instead shows institutional continuity, already centered on protective tools, with high statutory minimum wage, extensive use of wage subsidies, and strong labor market regulations. While this has kept wage dispersion low, it has also limited upward mobility and skill development, reflecting the country’s focus on maintaining employment stability.

The liberal orientation seems more rooted within the Mediterranean countries, where hiring incentives and reduced social security contribution tools prevail, and little ambition is shown by the state to develop skills, as well as little capacity for promoting consensus and cooperation between employers and workers, especially in the Italian case. Yet, despite common constraints and international pressure related to their public debt and low competitiveness, in the last years Spain and Italy seem to be moving apart (Burrone et al. 2021). Italy’s strategy tends more towards a drop-out approach, as the country provides limited support beyond residual income measures and despite several reforms the state’s action does not impact job quality and skill level. Spain instead, more similarly to Germany, has recently moved away from its liberal trajectory, as the 2019-2022 reforms

indicate an effort towards a more protective approach, especially through the introduction of a statutory minimum wage and enhanced worker protections, albeit with ongoing challenges in structural reforms.

There is strong path dependency with national tailored strategies in terms of training provision and labour market arrangements, and it seems particularly difficult to roll out a preventive approach for all when there is a challenging policy legacy that tends to favor a more segmented profile of skill formation and dualized labour markets. Institutions such as minimum wages and collective bargaining coverage, and less deep divides in labour market regulation, can help avoid a heavy reliance on non-standard work and low pay, even in rather low skill labour market segments. Making work pay for low-pay workers can be costly for the state but it can limit wage dispersion if coupled with a minimum wage (e.g. in France), but it limits upward mobility if there are no massive skills policy, which would require systematic investment, rather than spending on subsidies for low pay jobs.

However, while there is increasing recognition of VET systems' significance in promoting upskilling and competences, states' adult learning systems are not always able to promote inclusive skill development programs, from which those with lower levels of education remain more excluded. It seems difficult to move from a long phase of neglect of training for medium- and low-skilled workers (especially older workers) to a high training intensity setting. Rather such an equilibrium can be maintained than be created within a few years, as this has massive consequences for funding, governance, providers etc. and these are enormous constraints in countries such as Germany or France, but also Spain and Italy, given the more segmented or fragmented nature of their skill systems. In Mediterranean countries, being low-skilled or in a low-quality job, creates a vicious circle where workers find themselves trapped with insufficient resources to improve their prospects and low income which increase poverty risk, in particular when benefit systems, wage setting, and employment wage regulation cannot effectively stabilize pay or job duration. NRRPs could represent a game changer, since they enable them to have the spending capacity for an ambitious reform agenda that goes towards a social investment direction (Guillen, Leon and Pavolini 2022). For the time being, both Italian and Spanish labour markets still suffer from a limited perspective on lifelong education and from the legacy of a prolonged underfunding of labour market services and education.

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