

## Cheap Labor:

### The New Politics of ‘Bread and Roses’ in Industrial Democracies?

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#### ABSTRACT:

In this paper we aim to return labor (particularly the most vulnerable members of the labor market) to the core of comparative political economy of advanced democracies. We formulate a framework with which to conceptualize cheap labor in advanced democracies. Our argument is developed in three steps. First, we propose that to understand the politics of cheap labor, the weakest members of the labor market need to be divided into two structural groups: those in standard and those in non-standard employment. *Standard cheap labor* includes “regular jobs” while *non-standard cheap labor* includes jobs with temporary and part-time contracts. Second, we argue that the conceptualization of cheap labor allows for a more accurate understanding of both the similarities and the differences among industrialized economies. We show that the use of cheap labor is significant in all industrialized democracies but that there are important contrasts in how different economies use cheap labor. Third, we argue that there is a trade-off between standard and non-standard cheap labor. Countries that satisfy their need for cheap labor through standard employment do not develop large non-standard sectors of their economies. Countries that do not promote cheap labor in the standard sector, on the other hand, end up relying on an army of non-standard workers to meet their cheap labor needs. We would like this paper to convince readers that cheap labor needs to be the focus of comparative politics and hope that our analysis will challenge other scholars to produce better evidence as well as alternative models to explain these developments.

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In February 2004, 21 Chinese immigrants drowned off the west coast of Britain in Morecambe Bay, Lancaster. Working on the sand banks for sub-minimum wages collecting cockles, they fatally failed to get back to the coast before the tide came in. In May 2003, 17 illegal immigrants died of dehydration and asphyxiation as they were being smuggled into the United States from Mexico. These tragedies expose the human side of cheap labor or the 'employment underclass' in the British and American economy. In using cheap labor, however, the US and the UK are far from unique among advanced democracies. All industrialized democracies depend on cheap labor (of different kinds) for a wide range of economic activities.

In addition to low-cost immigrant workers, most advanced economies also rely on a sector of the domestic labor force with flexible and temporary contracts. The ideology and practice of deregulated labor markets has boosted the significance of cheap labor (King and Wood 1999, Crouch 2005: 29-31). Supported for instance by the OECD, these policies foster the development of unprotected outsider positions (filled with part-time and fixed-term workers) and deepen the division between protected, unionized workers and those denied these rights.

Governments can promote cheap labor in a variety of ways. Punitive workfare policies, formulated as conditional systems imposed on recipients of income and unemployment support, are designed both to restrict access to social benefits and to push those receiving them into the labor market, often through filling the least well-paid and least protected jobs (Handler 2003, Torfing 1999, Dingeldey 2004). Although exhortations about improving skill levels through training are common in most industrialized democracies, they are often just a cover for deregulation and greater labor

market flexibility. That is, developing training programs is defended as a means to maintain the pool of cheap labor rather than substantially to reduce its size. By directing those on benefits into mandatory work programs, these schemes complement the perpetuation of a structurally located cheap labor pool.

The political significance of these labor market trends has been neglected. This is surprising given the historical importance of labor in capitalist democracies. Whether victorious or suppressed, organized labor is a significant part of the twentieth century narrative. Labor drove the expansion of the welfare state during the post war consensus (Huber and Stephens 2001, Eley 2002). In some countries this consensus was formalized in corporatist institutions uniting labor and employers. In others, the institutions were weaker and less legitimate, as in the USA's reluctant acceptance of the right to unionize.

In most industrial democracies, the power of organized labor has been under severe threat since the 1970s, tested variously by the ideological shift to neo-liberal market policies, oil crises and economic recessions, the increasing flexibilization of the labor market, and the decline of class based allegiances in the face of rising cultural sources of identity including race, ethnicity and religion. In such a setting, how does labor's traditional concern with equality - symbolized in the phrase "bread and roses" voiced by women workers striking for equal pay in early twentieth century America - manifest itself?

Our aim is to provide a framework with which to conceptualize cheap labor and to return labor to the core of the comparative political economy of advanced democracies.<sup>1</sup>

The empirical evidence we present below is preliminary but nonetheless sufficient to

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<sup>1</sup> We should note that the issues of cheap labor are hardly confined to advanced democracies; it is a crucial problem in developing countries too (see, for example, Collier 1999). We plan to address this aspect in subsequent work.

illustrate the importance of the topic. If nothing else, we would like this paper to convince readers that cheap labor needs to be the focus of comparative politics. We hope our analysis will challenge other scholars to produce better evidence as well as alternative models to explain these developments.

Our data shows that cheap labor is a significant part of the political economy of industrialized nations. But we will also argue, more importantly, that cheap-labor outcomes are the result of political configurations and, in turn, have political consequences. Cheap labor concerns not just the labor market or the political economy of industrialized democracies but connects with the major new non-class cultural based cleavage in industrial democracies. The political salience of this non-class cleavage has steadily intensified since the 1970s and it now affects most aspects of politics in advanced democracies: from the challenges to left parties to the success of anti-system ones, from public reactions to globalization and European integration to the feasibility of most economic policies.

### **Theorizing Cheap Labor**

The first step in our argument concerns the nature of cheap labor. We propose that to understand the politics of cheap labor since the end of the “golden age of social democracy” the weakest members of the labor market need to be divided into two structural groups: those in standard and those in non-standard employment, both of which are in the tougher end of the labor market. *Standard employment* includes what the

OECD calls “regular jobs” (i.e., jobs with non-temporary non-part time contracts). *Non-standard employment* includes jobs with temporary and part-time contracts.<sup>2</sup>

Our analytical point of departure in defining cheap labor is to divide workers into insiders and outsiders, the former defined as those workers occupying highly protected jobs and the latter as a group of workers who are either unemployed or precariously employed. We adopt Rueda’s (2005) category of ‘outsiders’ to define a pool of cheap labor whose members share three characteristics: low levels of pay; low levels of employment protection, if any; and low levels of benefits, if any.<sup>3</sup>

Our focus on low pay, low benefits and low protection has clear implications in terms of the divisions between those in standard and non-standard employment. It is incontrovertible that low pay, low benefits and low protection can be a characteristic of standard employment. It is equally clear, however, that low pay, low benefits and low protection are the norm for almost all non-standard employment in industrialized democracies. Workers in this disadvantaged secondary sector change jobs frequently but across a pool of low paid, unskilled positions; the working conditions they face are commonly grim with few right or protection; the positions themselves are unstable often with no real notice about being laid off; there is little on-the-job training; and earnings are flat neither rising with experience nor length of employment. Often those working in these sectors come from ethnic minorities or new immigrants and many are women and young people. Skill levels and opportunities for training are crucial to the reproduction of

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<sup>2</sup> Inasmuch as a majority of immigrant workers hold jobs that are either illegal or not fully protected, we include them with the non-standard employment group.

<sup>3</sup> For an alternative definition with some similar indicators see the notion of “bad jobs” developed in Kalleberg et al 2000. Unlike Kalleberg *et al*, we do not maintain that all measures of cheap labor are correlated. Quite the opposite. As we will explain in more detail below, we argue that there is a relationship between an economy’s reliance on cheap labor in the standard and non-standard sectors.

dual labor markets, so to be locked into a secondary sector which excludes access to training is commonly fatal (Doeringer and Piore 1971 and Piore 1971).

Developing accurate and adequate measures of the pool of workers falling within the cheap labor sector is complex. It is possible to measure labor's "cheapness" directly for standard employment by measuring low pay, low protection and low benefits as we do below. But presently available data make the direct measurement of non-standard employment much more difficult. Although it is not impossible for high-skilled and well-remunerated workers to opt for unorthodox and highly flexible employment contracts, there is an abundance of data showing that non-standard employment in the OECD is characterized by low pay and minimal levels of benefits and protection. We propose using temporary employment, part-time employment and number of immigrants to measure the prevalence of cheap labor in non-standard employment.

Our first challenge in the empirical analysis below, then, is to show that there is a common factor uniting the different variables constituting standard and non-standard cheap labor: that is, that there is a structural category of 'cheap labor' in advanced democracies. Our argument necessitates that a relationship exists among low pay, low protection and low benefits so that these factors can convincingly be considered part of what we have called cheap labor in standard employment. Logically, we must also show that temporary employment, part-time employment and immigration are related to form what we have called cheap labor in non-standard employment.

Our second goal is to re-conceptualize our vision of the comparative political economy of industrialized democracies in light of existing patterns in the use of cheap labor. It is striking that within the rich flowering of comparative political economy in the

last two decades cheap labor is either a missing or underspecified factor. The dominant explanatory tendency in explaining cross-national variations, has been to concentrate either on labor market ‘insiders’ or on capital and employers conceptualized as firms (see, for example, Martin 2005, Swank and Martin 2000, Swenson 2002). Most studies generally overlook the role of low paid, unprotected workers as a distinct category.<sup>4</sup> Scholars associated with the influential ‘varieties of capitalism’ approach formulate a distinction between coordinated market economies and uncoordinated market economies and maintain that the former, coordinated economies, depend on a work force with high industry-specific or firm-specific skills (Hall and Soskice 2001: 25). According to Kathleen Thelen, for instance, in coordinated market economies both labor and employers have chosen a trajectory of “high-quality, high-skill, high value-added production strategies” that appears to eliminate problems associated with the use of cheap labor (2001: 101). We disagree. Given that all countries make use of cheap labor, we argue that the advanced economies are in fact more similar than they seem.

From a historical perspective cheap labor is hardly a new phenomenon (King 1995). However, the persistence of cheap labor complicates the expectation that some advanced capitalist states have moved to an era in which regulated systems of worker protection would extend to all citizens. Cheap labor has not dissipated in those countries where the welfare state is at its most generous. This prompts us to question the traditional understanding of the relationship between politics and protection in both liberal and social market economies.

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<sup>4</sup> Some scholars writing in political economy have emphasized the importance of worker skill levels to understanding comparative variations (Estevez-Abe, Iversen and Soskice 2001, Thelen 2004). This is an important development but since the pool of cheap labor is largely composed of those engaged in unskilled work, conceptualizing skills as forms of social assets ignores this latter group in the labor market (Iversen and Soskice 2001).

The third and final part of our argument concerns the existence of a tradeoff between standard and non-standard cheap labor. The logic for this relationship is simple. Assuming that there is a widespread need for cheap labor, facilitating the supply of cheap labor in the standard sector should allow economies to rely less on the non-standard sector. Conversely, economies that protect the standard sector need to turn to the non-standard sector for their cheap labor. The analysis below finds that liberal market economies obtain their share of cheap labor from those in standard employment. Europe's social market economies, on the other hand, are much more generous in their protection of standard employment and have turned to non-standard employment and immigration for their supply of cheap labor.

Contrary to the dichotomy between 'social Europe' and 'liberal America' (Pontusson 2005), we contend that European economies need cheap labor just as much as the US. They simply obtain it in a different way, by promoting non-standard employment and (often illegal) immigration.

### **Cheap Labor in Standard and Non-Standard Employment: Descriptive Data**

#### *Low Pay in Standard Employment:*

Perhaps the simplest way to look at low pay in the industrialized democracies is to measure the wages of those close to the bottom in comparison to those at the middle of the wage distribution. In Table 1, we measure low pay as the ratio of the hourly earnings of a full-time worker in the 50th percentile of the wage distribution (someone whose earnings are at the median for all workers) relative to a worker in the 10th percentile. The higher this ratio is, the greater the incidence of low pay. Greater values of the 50-10

ratio mean that the earnings of a worker in the 10th percentile of the wage distribution are smaller as a proportion of the earnings of a worker getting the median wage.

For each country, the table provides the mean value for low pay for the years between 1973 and 1995. This measure of the incidence of low pay refers to gross income from employment for individuals: other sources of income (such as government transfers, self-employment, income from capital, etc) are disregarded and we exclude the distributive effects of taxation and income pooling within households. The data are restricted to full-time employees (except in the case of Austria).

[Table 1]

The data have been organized in order of decreasing reliance on the cheapness of standard employment. The countries closest to the top of the table are those in which standard labor is cheapest (regarding low pay). Table 1 reveals important cross-national variation in the incidence of low pay in standard employment. In these seventeen countries, the average 50-10 ratio for the 1973-95 period was 1.64. In other words, a person in the 50th percentile of the wage distribution (the wage median) earned, on average, 1.64 times as much as a person in the 10th percentile. The countries in the sample, however, are not clustered into obvious groupings or typologies. Standard labor is very cheap in some liberal market economies (Canada and the US being at the top of the table). But this is also the case in some coordinated market economies (like Austria or Switzerland) and Mediterranean ones (like Spain or even France). The table makes clear, in fact, that the diversity within these groups is more obvious than any similarities.

*Low Protection in Standard Employment:*

Achieving some rights of protection at work is a fundamental demand of organized labor. Employment protection legislation establishes rules about unfair dismissal, the conditions under which lay-offs for economic reasons are permissible, severance payments, minimum periods of notice required to be followed by employers, consultation with union representatives and administrative authorization for dismissals.

The OECD's overall strictness of protection against dismissal index, emphasizes what the OECD calls "regular contracts" and therefore focuses on what we have defined as standard employment (see OECD 2004a: 2). The index is constructed by averaging the scores obtained by each country in three categories: "procedural inconveniences which the employer faces when trying to dismiss employees; notice and severance pay provisions; and prevailing standards of and penalties for unfair dismissal" (OECD 1999: 54). Conceptually, the strictness of protection against dismissal is an ideal dependent variable with which to test our hypothesis. This measure, however, suffers from the important practical limitation of being available only as a summary value for the late 1980s, the late 1990s and 2003. Table 2 presents the index as an average for each of the countries in our sample.

[Table 2]

As was the case in Table 1, we have placed those countries in which standard labor is cheapest regarding job protection closest to the top of the table. Table 2 again reveals important cross-national variation in the levels of protection enjoyed by those with standard employment. It is perhaps in relation to job protection that a distinction between Liberal and Social Market economies is most valid. In the Liberal Market Economies, employment protection is predictably at its lowest (with the US, the UK,

Canada and Australia close to the top of the table). In general, employment protection in these countries is much lower than in the rest of the countries in the table (Switzerland being the exception). However, the level of diversity within the European cases is notable. Countries like Belgium or Denmark have job protection levels that are closer to those of Australia or Canada than to those of Sweden, Spain, the Netherlands and Portugal (closer to the bottom of the table). More importantly, there is a degree of agreement between the positions of the countries in Tables 1 and 2. The tables suggest that a common factor may exist in standard cheap labor.

*Low Benefits in Standard Employment:*

Improving the assistance available to workers during periods of unemployment has been a key demand of labor since the late nineteenth century and it has affected labor market structures significantly (Esping-Andersen 1985, King 1995). Together with pensions, this issue of unemployment benefits characterized the earliest attempts to shape state policy in workers' interests. We use unemployment replacement rates to measure benefits in standard employment.

Our variable measures the average level of earnings replacement provided by public unemployment insurance. The OECD summary measure is defined as the average of the gross unemployment benefit replacement rates for two earnings levels, three family situations and three durations of unemployment.<sup>5</sup> The OECD's approach rests on calculating the total benefits received by a variety of 'typical' worker and household cases over a year of unemployment. The cases include three different durations of an unemployment spell for a person with a long record of previous employment, three family and income situations, and two different levels of previous earnings in work.

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<sup>5</sup> For further details, see OECD (2004 and 1994) and Martin (1996).

Taking all these factors into consideration, Martin concludes that “the replacement rates refer to a 40-year-old worker who is considered a good approximation to the average situation of an unemployed person” (1996: 101). For the purpose of this paper, these rates reflect the level of unemployment benefits that a person in standard employment receives. Given the emphasis on the long record of employment of this “typical” worker, it is unlikely that these rates could be applied to workers in the non-standard sector of the economy.

[Table 3]

In Table 3, three points in time were chosen to capture some of the changes during this period but, as with the previous tables, we have placed those countries in which standard labor is cheapest in 2001 (in terms of replacement rates) closest to the top of the table. The table shows a high degree of national variation not easily reconciled with existing typologies. It is true that the countries on top of the table (the US, Canada and the UK) are Liberal Market Economies. They do display very low levels of replacement rates. But the country that is next in the list is, surprisingly, Sweden, which provides public unemployment insurance replacing only about 24% of earnings. This emphasizes the great diversity within Europe, with countries like Sweden Germany and Austria providing levels of replacement that are more similar to those in Liberal Market Economies than to the ones we can observe in the more generous European countries (Denmark and the Netherlands). At the same time, however, it is evident that there are patterns of cheap labor in standard employment that are common to the three tables presented above. We will argue below that a common factor is in fact reflected in these tables.

In terms of data measurement, the most daunting task is to construct indicators of cheap labor in non-standard employment. This category is of considerable importance since it covers large sections of the cheap labor pool in industrial democracies.

*Temporary and part-time employment.*

Fixed-term employment in advanced democracies is often judged to be second-class employment. There are several reasons for this presumption. First, temporary employment normally pays less than permanent employment. No less a stalwart for labor market flexibility than the OECD has to concede that the average wage gap between temporary and permanent workers is non trivial, reaching over 45% in some countries (2002: 142). In calculations to control for age, skills, and other individual factors there is still a significant wage differential between those in permanent and those in temporary employment. Second, temporary employment provides fewer benefits and protection than permanent employment. This is often the case even in countries where statutory benefits apply to all jobs. The reason for this denial of rights is that eligibility conditions for benefits and protection often require a minimum period of contribution which excludes temporary workers from the benefit system.

Another important aspect of temporary employment, but one that is difficult to capture with the data available, is its relationship to the hidden economy. Temporary employment and the hidden economy are interrelated. Employers in the hidden economy engage in two key activities: they ignore regulations concerning labor market arrangements and they undercut wage hierarchies either by paying very low wages on a hourly or daily basis (often recruiting the workers each day in familiar city center

gathering points in a manner reminiscent of the nineteenth century) or by using flexible cash wages which avoid such taxes as VAT or income taxation. The former feature is common practice in temporary employment of the seasonal variety – such as that associated with agricultural production – but is also found in the bottom end of the food industry (Tapinos 2000).

Since the mid-1970s part-time employment has grown. To increase flexibility and productivity employers in many sector have favored new production arrangements based on ‘working time’ variations.<sup>6</sup> The need for flexibility to achieve international competitiveness, however, did not result in the lowering of employment protection in most OECD countries. Rather, the flexibilization of labor market legislation accomplished in the 1980s affected in most cases the entry into (not the exit from) the labor market (see, for example, Bentolila and Bertola 1990).

One of the consequences of this process was a dramatic increase of part-time work to the point that, Maier argues, “whole sectors of national economies have reorganized their employment/working-time patterns around various forms of part-time work” (1994: 152; and see Salverda, Bazen and Gregory 2001). The great majority of part-time work and temporary contracts, however, pay poorly, are concentrated in low-skilled activities, and possess precarious benefits, social security regulations, and employment rights.<sup>7</sup> Most analysts also agree that the majority of workers holding part-time contracts in the OECD do so involuntarily. It is often contended that some part-time workers, in particular women, acquire these contracts voluntarily but the fact that many

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<sup>6</sup> For more detail see Rueda (2001: chapter 1).

<sup>7</sup> See Maier (1994) for an analysis of part-time legislation and Mosley (1994) for a description of temporary employment in Europe.

working women do not want to work full-time does not imply that they prefer part-time jobs with precarious levels of protection and benefits.

[Table 4]

Table 4 presents data for fixed-term and part-time employment. They are presented together because there is a relationship between these two kinds of employment. Countries that promote high levels of labor market flexibility through fixed-term employment are less likely to need high levels of part-time employment. We use the OECD's definition of temporary and of part-time employment (for details, see the OECD Labour Market Statistics Database and OECD 2004b).

The first thing to point out about Table 4 is the extraordinarily high levels of fixed-term and part-time employment in most OECD countries. The levels in the Netherlands (46%), Spain (40%), Switzerland (36%), Canada (31% in 1997), and Germany (30%) illustrate that in these countries non-standard employment has become a portion of the labor market that we ignore at our analytical peril (Frade and Darmon 2005).

The countries are ranked according to their reliance on cheap labor in non-standard employment. The countries near the top of the table make most extensive use of fixed-term and part-time employment, while those near the bottom do not. The data shows no clear differentiation between Liberal and Coordinated Market Economies. The US is clearly the country that needs non-standard cheap labor the least, but it is accompanied at the bottom of the table by Austria and Italy (two European economies). The same can be said about the top of the table, where the Netherlands, Spain and Switzerland are accompanied by Canada.

Comparing Table 4 with the previous tables reveals the trade-off between standard and non-standard cheap labor. We provide a more systematic analysis of this below but, for the moment, it can be observed that the US is at the bottom of Table 4, while it had been close to the top of tables 1, 2, and 3. The opposite can be said about the Netherlands, which is at the top of Table 4, while it had been close to the bottom of tables 1, 2, and 3.

*Immigration - Legal and Illegal:*

Some key characteristics of immigration into the industrialized democracies are fundamentally relevant to understanding cheap labor. The number of workers in the cheap labor pool who are immigrants, whether legal or illegal, is high. Although the figures are not completely reliable and the incidence of illegal migration is likely to make these numbers even more dramatic, in Germany and France, for example, more than 70% of foreign employees but less than 45% of nationals are employed as manual workers in manufacturing or agriculture (Brücker et al 2002a: 24-5).

Many European countries have relied on immigrant workers in their service sectors since the 1950s. In fact in these decades immigration was promoted by countries such as the UK, Germany and France (Joppke 1999). This pattern ended abruptly with the first oil shock in 1973, when the number of immigrants admitted was drastically reduced. The increasing economic relevance and political visibility of immigration has coincided with deepening European integration. This coincidence has prompted contradictory policies: greater internal mobility coupled with tougher policing toward aspirant non-EU immigrants. These tendencies have grown with EU enlargement. At the same time, there has been a geographic spread of immigration in Europe. Such

traditionally emigrant-exporting countries as Spain and Italy began receiving immigrants just as formerly immigrant-importing nations such as Germany were closing their borders to them. The authorities in these new immigrant-importing nations have tended to think they were principally countries of first entry but, by the late 1980s and early 1990s, they had become places of settlement for a large number of illegal immigrants. In most of these states the issue of immigration has achieved extreme political salience.

Ideally, we would want to include illegal immigration into this analysis. Unfortunately, the lack of data availability makes this inclusion impossible. The difficulties in trying to measure illegal immigration are, in fact, almost overwhelming. Specialists emphasize how complex it is to determine how many times those apprehended at borders have been apprehended previously, the problem of inadequate data on those registered and the weaknesses of surveys aimed at establishing the number of illegal immigrants. Nonetheless, despite the absence of reliable annual data on illegal immigration, we can report some general trends. One of the most important characteristics of immigration into the industrialized democracies is that there is a substitution effect between the legal and illegal kinds. The trade-off between illegal and legal immigration is particularly clear when comparing the US and Europe. Estimates suggest that “illegal flows as a proportion of the population can be about a fourth larger in Europe than in the US. At the same time, legal flows are in broadly the same proportions (+25 per cent) in the US than in Europe” (Boeri et al 2002: vii). Illegal immigration into the EU is estimated by Europol to be about 500,000 individuals a year (European Commission 2000). Illegal immigration into the US is estimated to be about 300,000 individuals a year (Borjas 1999), though some estimates calculate the figure to

be 500,000 a year. When the US tightens legal immigration this usually stimulates the flow of illegal immigrants. In Europe the migration of the 1960s and early 1970s was driven by a demand for manual workers, which receded after the oil crises. Since then, there has been a significant increase in illegal migration. Furthermore, with the collapse of the Berlin Wall in 1989 the number of illegal immigrants able to find their way to countries such as Germany, Britain and France – already large immigrant-receiving countries – grew (Brücker et al: 19). Lederer (1998) suggests that illegal immigration has increased between 150% and 300% in the 1990s. In the Southern European Countries, illegal immigration is rampant in the informal sector of the economy (Brücker et al 2002a: 19).

Even when we exclude illegal immigration (perhaps the most important sector for our argument) from the analysis, there are several complications attached to the existing immigration measures. First, immigration is usually measured as foreign born population or as foreign nationals. There is a lack of uniformity in national surveys and neither measure is available as a unified and consistent statistic (for the EU case, see Brücker et al 2002a: 5). Second, the EU excludes naturalized immigrants in its measure of foreign population. Countries in which naturalization is easier may have lower levels of official immigration. In this paper, we restrict our analysis to one measure: the inflow of foreigners into a country. Table 5 presents the data for the countries in our sample.

[Table 5]

The first thing to note about the table is that the unavailability of the data is particularly acute in the Mediterranean cases. Only France provides data for the inflow of foreigners. The second feature of note is, once again, the general difficulty in making

Varieties of Capitalism distinctions. Although the UK is close to the bottom in terms of its reliance on legal immigrants, countries like Canada or Australia are close to the top. The same could be said about coordinated market economies, since they display a high degree of variance (from the high levels of Germany to the low levels of Denmark).

### **Analyzing Cheap Labor in Standard and Non-Standard Employment**

The paragraphs above present some circumstantial evidence in favor of our argument that there is a common factor regarding cheap labor in standard employment. But we can analyze the data in a more systematic way.

#### *Cheap Labor in Standard Employment.*

Our argument is based on one simple proposition: there is an underlying “cheap labor in standard employment” dimension that distinguishes industrialized democracies. It runs from one extreme of low pay, low benefits and low protection to the opposite of higher pay, generous benefits and systematic protection in standard employment. Accepting that cheap labor is difficult to measure directly; the analytical question therefore is whether a common “cheap labor in standard employment” dimension can in fact be found in the data. Factor analysis is an appropriate technique for exploring this question. Factor analysis is designed to detect structure in the relationships between variables and to identify the proportion of variance within a set of variables that is due to common factors. This method also allows us to extract the common factors and to analyze their characteristics.

We performed factor analysis on the three variables (low pay, benefits, and protection) using maximum likelihood. Table 6 reports the results.<sup>8</sup> The analysis identified one common factor with an eigenvalue above 1. All variables in the analysis are highly correlated with this factor and the signs are congruent with the expectation one would have for a factor representing cheap labor in standard employment. The 50-10 ratio is negatively correlated with the common factor, which means that low pay is positively correlated (recall that the higher the 50-10 ratio, the lower the pay of the lowest 10<sup>th</sup> decile). This is also the case with low benefits and low protection. It seems then that low pay, benefits and protection are all part of the common factor we have identified as cheap labor in standard employment.

[Table 6]

Table 6 also provides the uniqueness of each variable. The numbers indicate (uniqueness equals 1 minus commonality) that the proportion of variance that each variable has in common with the cheap labor in standard employment factor is more than 50%. We also conducted a chi-square test to explore the hypothesis that there is in fact no common factor. The results of the test allow us to reject this hypothesis at better than the 99% confidence level. It is therefore clear that, as hypothesized, one “cheap labor in standard employment” factor underlies the data from industrialized democracies analyzed above.

#### *Cheap Labor in Nonstandard Employment*

We also hypothesized that there is an underlying “cheap labor in nonstandard employment” dimension that distinguishes industrialized democracies. It runs from the

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<sup>8</sup> It is important to point out that the limitations of the employment protection data obligate us to transform the other two variables. The three measures used in the factor analysis are averages for the three periods when employment protection data were available: the late 1980s, late 1990s and 2003.

extreme of high use of flexible and migrant employment to the opposite pattern (limited use of cheap labor in nonstandard employment).

Table 7 reports a factor analysis performed on the three variables (temporary employment, part-time employment and immigration) using maximum likelihood.<sup>9</sup> The analysis identified one common factor with an eigenvalue above 1. All variables in the analysis are positively correlated with this factor and the signs are congruent with the expectation one would have for a factor representing cheap labor in nonstandard employment. Temporary and part-time employment and immigration are all part of the common factor we have identified as cheap labor in nonstandard employment.

[Table 7]

Table 7 also provides the uniqueness of each variable. The numbers indicate that temporary employment has the highest proportion of variance in common with the cheap labor in nonstandard employment factor. They also indicate that immigration has the lowest proportion of variance in common with the factor. This result for immigration is not surprising. As explained in detail above the measures used in our analysis are far from perfect. It is still interesting that, in spite of the problems with the data, the analysis supports the hypotheses so strongly. We also conducted a chi-square test to explore the hypothesis that there is in fact no common factor. The results of the test allow us to reject this hypothesis at better than the 99% confidence level. It is therefore clear that, as hypothesized, one “cheap labor in nonstandard employment” factor underlies the data from industrialized democracies we have analyzed.

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<sup>9</sup> As was the case in the previous table, the data analyzed were limited due to the availability of country-year observations for the three variables. The data in the factor analysis are: Belgium 1983-1995, Denmark 1984-1994, Finland 1989-1995, France 1983-1995, Germany 1984-1995, the Netherlands 1983-1997, Norway 1989-1995, Sweden 1987-1995, Switzerland 1991-1995, the UK 1983-1995, and the USA 1995.

*The Trade-Off between Standard and Nonstandard Cheap Labor*

The final claim that we made in our analysis is that there is a trade-off between standard and nonstandard forms of cheap labor. It is difficult to produce a systematic test of this proposition. The availability of the data (both in terms of country and year coverage) makes comparing scores in cheap standard and nonstandard labor complicated.

Understanding the limitations in terms of compatibility, it is still possible to look at the relative positioning of the countries for which data on both standard and nonstandard employment exist. We have calculated the means for the common factors extracted for Tables 6 and 7. Table 8 presents the rankings of the countries for which there is data both regarding cheap labor in standard employment and cheap labor in nonstandard employment. The second column in the table indicates the ranking for cheapness of standard labor (1 being the cheapest) and the third column indicates the order for the use of cheap labor in nonstandard employment (1 being the highest use).

[Table 8]

Our theoretical expectations led us to believe that there would be an inverse correlation between the cheapness of labor in standard employment and the use of cheap labor in nonstandard employment. Emphasizing once again its obvious limitations, Table 8 presents some evidence in favor of this expectation. Countries that have very cheap labor in standard employment (such as the USA) would make little use of nonstandard cheap labor. In a similar way, we expected that countries that do not have very cheap labor in standard employment (such as Denmark) would need to make more use of nonstandard cheap labor. There are exceptions, as we would expect from the imperfect nature of the data, but the patterns are clear. Although Switzerland is unusually high in

terms of its use of cheap nonstandard labor (given its comparatively cheap standard labor) and Belgium is unusually low in terms of its use of cheap nonstandard labor (given its comparatively expensive standard labor), most other countries exhibit the correlation as anticipated.

## **Conclusion**

The preceding pages are intended to support our proposition that cheap labor is an important, if presently neglected, feature of the political economy of industrialized democracies. Cheap labor highlights a significant similarity in OECD economies (all economies need cheap labor) but also emphasizes the important variations in how it is used in different economies. We have also shown that there is a trade-off between standard and non-standard cheap labor and that different clusters of countries can be identified according to this trade-off.

It is important at this stage to identify and correct a potential criticism to our analysis. Because of the difficulties associated with measuring the number of people that constitute cheap labor in standard employment, the arguments we have presented above concentrated on the nature of cheap labor in different countries (the presence of low pay, low protection and low benefits). A critical reader, however, may agree about the political importance of cheap labor but still wonder about the substantive relevance of our findings. In other words, it would be possible to argue that even if European countries have developed a significant non-standard cheap labor sector, it may still be the case that this sector is much more limited as a part of the labor market than the combination of standard and non-standard cheap labor in the liberal market economies.

To explore this issue we need to determine the number of people in standard low-pay employment in some industrialized democracies. The OECD measures the incidence of low-pay as employment in a job paying less than two-thirds of the economy-wide median wage (OECD 1996: Table 3.2). The problem with this measure (which would be interesting to include with the rest of our variables in the analysis of standard cheap labor) is that it is available for only a small number of countries (and years). It is nevertheless possible to get an impressionistic picture of the number of workers in standard cheap labor in a selection of countries. We have selected a diverse sample of countries for which we have the data. The data in Table 9 is from the more recent year for which there is availability for all these variables (1995, unless otherwise specified).

[Table 9]

Table 9 makes clear that when the standard and non-standard kinds are combined the total number of people in cheap labor is relatively similar in all our countries. Almost 45% of the labor force in the USA can be categorized as cheap labor, a very high number indeed. But the social market economies of Western Europe are not that different. In Germany, 38% of the labor force is cheap labor and even in Sweden this number is 36%. It is indeed the case that everybody needs cheap labor and that the European social market economies have as much of a need as the liberal market economies.

The amount of cheap labor that comes from non-standard employment in Europe, however, is much larger. Why does this matter? One significant conjecture is that the structure of the labor market might be expected to turn those in the most marginally non-

standard categories away from democracy by eroding its legitimacy as a mechanism associated with economic protection and political inclusion.<sup>10</sup>

The endurance of cheap labor in advanced capitalist societies underlines the challenges that the most marginal parts of the labor market face when organizing collectively and the ambivalent stance of left parties toward a part of the electorate that should be among their core constituencies (Kitschelt 1995, Pontusson 1995, Przeworski 1985). Standard cheap labor forms a substantial part of the polity but who mobilizes them? Conventional analysis gives this role to social democratic and labor parties who define themselves as representatives of the least well off in society. However, many social democratic parties choose to advance the interests of one sector of the labor force, insiders in standard employment, and deliberately to neglect the concerns of the outsiders. This pattern poses a challenge to the way in which non-standard cheap labor can be mobilized in advanced democracies. One insider-outsider model finds the interests of cheap labor to be systematically ignored by Left parties (Rueda 2001, 2005).

Mainstream parties make little effort to mobilize the members of what we have called non-standard cheap labor. Focusing on the United States, the APSA Task Force writes that both the Republican and Democrat parties target “many of their resources on recruiting those who are already the most privileged and involved... What is more, political parties ignore parts of the electorate that have not turned out at high rates in past elections; the major parties have both become less likely to personally contact large numbers of less privileged and less active citizens” (2004: 657; and see Hacker and Pierson 2005).

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<sup>10</sup> This question is the subject of ongoing research by the authors.

Collective action has become more difficult for those in cheap labor with the greater salience given to sources of identity other than the workplace, what sociologist Michael Hechter (2004) terms “cultural identity.” The persistent marginality of cheap labor compels many workers to attach greater significance to their ethnicity or race or gender than to their status as workers. Thus the growth in immigration to advanced capitalist societies has made immigrant status an important de-marker of self-identity for those with common experiences (Levitt 2001). Cheap labor workers themselves often develop little identity rooted in occupation since they move rapidly between jobs and form their ties in terms of immigrant community networks, articulating political consciousness and action about immigrant rights rather than class based issues.<sup>11</sup>

The status of immigrants is also increasingly politicized. They are now often treated as the suspects of ideological extremism or as objects of hostility among anti-immigrant populist politicians, or as both. Some political parties gain from the trends represented by a growth of non-standard cheap labor. Those in non-standard cheap labor occupations have political incentives to oppose a system that provides few benefits. Historically the appeal of anti-system parties to the marginal has become significant at important moments in polity’s developments (Capoccia 2001, 2005, Bermeo 2003). Factors such as high unemployment, hesitant economic growth, growing income inequalities and globalization influence the political preferences of disadvantaged groups. This view of the potential political consequences of non-standard cheap labor is consistent with what other authors have observed (for example, Betz 1994 and Kitschelt 1995). Anxiety about the destabilizing effects of non-standard cheap labor can easily be integrated into these two visions of anti-system support in Western Europe.

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<sup>11</sup> On these issues about migrant rights see Hansen (2002), Hollifield (1992) and Joppke (1998).

A more optimistic interpretation of the political implications of non-standard cheap labor is possible. The political party system is not the only outlet for cheap labor and means through which it can exercise its political muscle. Historically, some grass-roots organizations have been of primary importance. In this context the growth of movements which transcend the community-work divide in novel ways is significant. Janice Fine (2005) maintains that community unions - that is organizations representing low paid and cheap labor workers organized along ethnic and geographical communities rather than occupational workplace - have emerged as effective pressure groups on local politicians about a range of issues including conditions at work and housing and health.

This sort of organization (which is not limited to the US) holds obvious potential for bridging the gap between standard and non-standard cheap labor and for providing a forum through which forms of identity such as ethnicity and race can be rendered an organizational and political asset rather than a liability. Is it a version of organized labor appropriate to contemporary conditions rooted in the pervasiveness of cheap labor? If it is, then parties in the Left should reproduce these strategies so that the political integration of non-standard cheap labor becomes a reality.

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TABLE 1:  
INCIDENCE OF LOW PAY IN STANDARD EMPLOYMENT

COUNTRY AND YEARS COVERED	50-10 RATIO MEANS
CANADA (1973, 1981, 1986, 1988, 1990-1994, 1997-2003)	2.16
USA (1973-2003)	2.00
AUSTRIA (1980, 1987-1994)	1.97
SPAIN (1995, 2002)	1.83
UNITED KINGDOM (1973-2003)	1.80
SWITZERLAND (1991-2003)	1.66
AUSTRALIA (1975-1995, 1997-2003)	1.65
FRANCE (1973-2002)	1.64
GERMANY (1984-2002)	1.63
NETHERLANDS (1977-1997, 1999)	1.58
PORTUGAL (2001-2003)	1.44
FINLAND (1977, 1980, 1983, 1986-2002)	1.44
ITALY (1986-1996)	1.42
BELGIUM (1985-1995, 1999-2003)	1.40
DENMARK (1980-1990)	1.40
NORWAY (1990, 1993, 1997-2002)	1.39
SWEDEN (1975-2004)	1.35

**Notes:** See OECD (1996: 61-62) for all countries except the US, Spain and Portugal. For the US, OECD (1993: 161) and OECD (1996: 103); for Spain and Portugal, OECD (new data).

TABLE 2:  
STRICTNESS OF EMPLOYMENT PROTECTION FOR REGULAR EMPLOYMENT

COUNTRY	OVERALL INDEX
	MEANS
USA	0.2
UNITED KINGDOM	0.97
SWITZERLAND	1.2
CANADA	1.3
AUSTRALIA	1.33
DENMARK	1.5
BELGIUM	1.7
ITALY	1.8
NORWAY	2.3
FRANCE	2.37
FINLAND	2.43
GERMANY	2.67
AUSTRIA	2.73
SWEDEN	2.9
SPAIN	3.03
NETHERLANDS	3.1
PORTUGAL	4.43

*Notes:* Source for overall index: OECD 2004a.

TABLE 3:  
REPLACEMENT RATES

COUNTRY	GROSS UNEMPLOYMENT BENEFIT REPLACEMENT RATES		
	1981	1991	2001
USA	14.57	11.10	13.40
CANADA	17.96	19.25	15.28
UNITED KINGDOM	24.19	17.78	16.55
SWEDEN	25.13	29.40	23.62
AUSTRALIA	22.18	26.49	24.51
GERMANY	29.33	28.78	27.61
AUSTRIA	29.36	31.21	30.99
SPAIN	27.9	33.5	31.37
FINLAND	23.70	38.80	32.28
ITALY	0.68	2.5	34.14
SWITZERLAND	12.89	21.92	37.50
BELGIUM	44.64	41.56	38.49
PORTUGAL	8.58	34.36	41.25
NORWAY	29.00	38.83	43.12
FRANCE	31.3	37.58	43.53
DENMARK	54.20	51.90	50.81
NETHERLANDS	47.97	53.15	52.86

*Notes:* Source for replacement rates: OECD 2004c.

TABLE 4:  
FIXED-TERM AND PART-TIME EMPLOYMENT

COUNTRY	FIXED-TERM EMPLOYMENT AS % OF TOTAL LABOR FORCE (2000)	PART-TIME EMPLOYMENT AS % OF TOTAL EMPLOYMENT (2000)	TOTAL
NETHERLANDS	14.00	32.1	46.1
SPAIN	32.10	7.7	39.8
SWITZERLAND	11.70	24.4	36.1
CANADA	12.50	18.1	30.6
GERMANY	12.70	17.6	30.3
PORTUGAL	20.40	9.4	29.8
FRANCE	15.50	14.2	29.7
UNITED KINGDOM	6.70	23.0	29.7
NORWAY	9.30	20.2	29.5
SWEDEN	15.20	14.0	29.2
BELGIUM	9.00	19.0	28
FINLAND	16.50	10.4	26.9
DENMARK	10.20	16.1	26.3
AUSTRALIA	-	26.2	26.2
ITALY	10.10	12.2	22.3
AUSTRIA	7.90	12.2	20.1
USA	4.00 (2001)	12.6	16.6

*Notes:* Source for fixed-term employment: OECD Labour Market Statistics Database. Source for part-time employment: OECD 2004b, Table E.

TABLE 5:  
LEGAL IMMIGRATION

COUNTRY	INFLOW OF FOREIGNERS AS % OF LABOR FORCE	
	1985	1995
SWITZERLAND	1.76	2.15
GERMANY	1.40	2.00
CANADA	0.64	1.43
BELGIUM	0.91	1.23
AUSTRALIA	1.07	0.97
NETHERLANDS	0.79	0.90
SWEDEN	0.63	0.82
NORWAY	0.73	0.75
DENMARK	0.56	0.56
USA	0.48	0.54
FINLAND	-	0.29
FRANCE	0.18	0.22
UNITED KINGDOM	0.20	.19
AUSTRIA	-	-
ITALY	-	-
SPAIN	-	-
PORTUGAL	-	-

*Notes:* Foreigners are defined as all persons who have a country as country of usual residence and who are the citizens of another country (Source: OECD Immigration Database).

TABLE 6:  
FACTOR ANALYSIS OF CHEAP LABOR IN STANDARD EMPLOYMENT

	COMMON FACTOR LOADINGS	UNIQUENESS
INEQUALITY (LOW PAY)	-0.72861	0.46913
LOW BENEFITS	0.71158	0.49365
LOW PROTECTION	0.77316	0.40223

*Notes:* N=39. Estimates calculated by maximum likelihood method; factor presented above was the only one whose eigenvalue exceeded 1.

TABLE 7:  
FACTOR ANALYSIS OF CHEAP LABOR IN NONSTANDARD EMPLOYMENT

	COMMON FACTOR LOADINGS	UNIQUENESS
TEMPORARY EMPLOYMENT	1.00000	0.00000
PART-TIME EMPLOYMENT	0.24600	0.93948
IMMIGRATION INFLOW	0.44567	1.00000

*Notes:* N=39. Estimates calculated by maximum likelihood method; factor presented above was the only one whose eigenvalue exceeded 1.

TABLE 8:  
COUNTRY RANKINGS FOR CHEAP LABOR IN STANDARD AND NONSTANDARD EMPLOYMENT

RANK	CHEAPNESS OF STANDARD LABOR	USE OF NONSTANDARD CHEAP LABOR
1	USA	SWITZERLAND
2	GREAT BRITAIN	DENMARK
3	SWITZERLAND	GERMANY
4	GERMANY	THE NETHERLANDS
5	BELGIUM	FRANCE
6	FRANCE	GREAT BRITAIN
7	DENMARK	BELGIUM
8	THE NETHERLANDS	USA

TABLE 9:  
TOTAL NUMBER OF PEOPLE IN CHEAP LABOR AS % OF LABOR FORCE, 1995

COUNTRY	STANDARD CHEAP LABOR	NON-STANDARD CHEAP LABOR			TOTAL CHEAP LABOR
	LOW PAY	FIXED	PART	IMMIGRAT.	
USA	25.2	14.00	5.10	0.54	44.84
GERMANY	11.1	14.20	10.40	2.00	37.7
SWEDEN	5.7 (1997)	15.10	14.60 (1997)	0.82	36.22