

Cheap labour is Europe's outsider class

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Recent figures showing that nearly half a million east European workers have settled in the UK since the European Union's last wave of enlargement in 2004 have turned public focus on to the probable negative effects on domestic unemployment levels. This overlooks a deeper and more enduring change within European labour markets including Britain: the rise of "new outsiders". They are the new, cheap labour.

Traditionally, commentators have seen a dichotomy between the co-ordinated market economies of social Europe and the liberal, flexible market economies of the US and UK. Social Europe, the argument goes, represents high-quality, high-skill, high value-added production. In contrast, the liberal US economy is the land of low-paid, low-skilled workers many of whom are illegal immigrants.

But "cheap labour" has become as important in social Europe as it has been in liberal America. If we define cheap labour as a sector of workers characterised by low pay levels, poor employment protection and scant benefits, European economies now use it as much as America. They simply obtain it in a different way, by promoting non-standard employment (including employment of, often illegal, immigrants). These are the new outsiders.

To understand the politics of cheap labour since the end of the "golden age of social democracy" in the 1970s, divide the weakest members of the labour market into two structural groups: those in standard and those in non-standard employment. Standard employment includes what the Organisation for Economic Co-operation and Development calls "regular jobs" (jobs with non-temporary, non-part time contracts). Non-standard employment includes jobs with temporary and part-time contracts.

Cheap labour in standard employment (which is low in Europe and high in the US) has gained much attention. But cheap labour in low paid, non-standard employment has been overlooked. When this sector is taken into account, similarities between Europe and liberal America appear.

To quantify standard cheap labour, the OECD examines jobs paying less than two-thirds of the median wage. Since low pay, low benefits and low protection are the norm for almost all non-standard employment in industrialised democracies, the prevalence of cheap labour in non-standard employment can be measured by combining temporary and part-time employment.

A study of three countries illustrates the development of a cheap labour sector. Using the most recent data available, we can add the levels of standard cheap labour (measured as standard low-pay as a percentage of the labour force) and non-standard cheap labour (fixed-term and part-time employment, also as a percentage of the labour force). The results may surprise those who believe that social Europe is reluctant to use cheap labour. The US is a classic liberal market economy where almost 37 per cent of the labour force can be categorised as "cheap labour". But the social market economies of western Europe are not that different. Indeed in Germany the number (43 per cent) is higher than in the US, and even Sweden records almost 34 per cent for aggregate cheap labour. Clearly, Europe's social market economies have as much need of cheap labour as the liberal market economies.

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Unfortunately, data on legal and illegal immigrants are non-existent or unreliable. Our expectation is that including reliable measures in our analysis for immigrant workers would only increase the percentage of cheap labour in EU countries, thereby reinforcing their similarity with the US.

So why does it matter if a high level of cheap labour comes from non-standard employment in Europe? It matters because the rise of new outsiders challenges political parties across the ideological spectrum, in three related ways. First, parties of the left might traditionally have sought cheap labour's votes but worry about alienating their core supporters who feel economically vulnerable. Second, parties of the right have been tempted by the rise of cheap labour to cater to populist anxieties about legal and illegal immigration.

Last, and more important, cheap labour workers, condemned to milling around in this ideological vacuum, may feel increasingly excluded from the normal routes of political assimilation and integration – especially as inequality grows. The structure of the labour market may turn those in the non-standard categories away from democracy by eroding its legitimacy as a system associated with economic protection and political inclusion.

These divisions will soon be tested politically, for instance, in the forthcoming Swedish general election and next year's French presidential election. The political dilemma facing parties of all persuasions involves the choice of model to promote. In many ways, the existing options have proven unsuccessful. The liberal model fails because cheap labour is integrated into standard employment but remains unprotected, and the social model fails because, so far, it has promoted the difference between insiders and outsiders and equated cheap labour with second-class citizenship. Resolving the dilemma posed by cheap labour is the challenge facing governments of all industrialised democracies.

The writers, respectively professors of American government and comparative politics at the University of Oxford, are finishing a book on the rise of cheap labour in industrialised democracies

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