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Ralf Rogowski

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The European Social Model and Transitional Labour Markets

Law and Policy

STUDIES IN MODERN LAW AND POLICY

THE EUROPEAN SOCIAL MODEL AND TRANSITIONAL LABOUR MARKETS

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Law and Policy

Edited by
RALF ROGOWSKI
University of Warwick, UK

ASHGATE

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List of Abbreviations

ALMP	active labour market policy
APE	*Allocation parentale d'éducation*
APW	(gross income of) average production worker
BEPG	broad economic policy guidelines
CGP	Commissariat Général du Plan
CIETT	Confédération Internationale des Enterprises de Travail Temporaire
CNAF	Caisse Nationale d'Allocations Familiales
CNE	*Contrat nouvelle embauche*
CPE	*Contrat première embauche*
CVT	continuous vocational training
DARES	Direction de l'Animation de la Recherche, des Etudes et des Statistiques, Ministère de l'Emploi, du Travail et de la Cohésion Sociale
DREES	Direction de la Recherche, des Etudes, de l'Evaluation et des Statistiques
ECHP	European Community Household Panel
EES	European Employment Strategy
EITC	Earned Income Tax Credit (US)
EMU	Economic and Monetary Union (of the EU)
EPL	employment protection legislation
ESM	European social model
ET	education and training
ETC	Employment Tax Credit The Netherlands
HRM	human resources management
ICT	information and communication technology
INSEE	Institut National de la Statistique et des Etudes Economique
IWB	in-work benefit
IZA	Forschungsinstitut zur Zukunft der Arbeit [Institute for the Study of Labour]
LIS	Luxembourg Income Study
LLL	lifelong learning
LMP	labour market policies
MATISSE	Modélisations Appliquées, Trajectoires Institutionelles, Stratégies Socio-Economiques (Centre d'Economie de la Sorbonne)
METR	marginal effective tax rate

MWP	making work pay policies
NBER	National Bureau of Economic Research, Cambridge MA
NWES	national welfare and employment systems
OMC	open method of coordination
OSA	Organisatie voor Strategisch Arbeidsmarktonderzoek [Institute for Labour Studies], Tilburg, The Netherlands
PARE	*Plan d'aide au retour à l'emploi*
PES	public employment service
PPE	*Prime pour l'emploi*
PWA	local employment agency (Belgium)
RLI	*Régime local d'insertion*
RMI	*Revenu minimum d'insertion*
SME	small and medium-sized enterprise
TAW	temporary agency working
TLM	transitional labour markets
TLM.NET	Managing Social Risks through Transitional Labour Markets (thematic network for researchers in this area)
TRANSLAM	Social Integration Through Transitional Labour Markets
TSER	targeted socioeconomic research
UB	unemployment benefit
VERP	voluntary early retirement pension (Denmark)
WFTC	Working Families Tax Credit (UK)
WZB	Wissenschaftszentrum Berlin

Introduction

Ralf Rogowski

The European Social Model (ESM) is at the forefront of policy discussions in Europe and the European Union. However, its meaning is contested. Many, including the European Commission, see it as a defining feature of the EU and its Member States. In this view it is meant to capture the European alternative to rampant free market economies by providing a model of sensible economic policy-making in which economic, welfare and employment policies form an integral if not the central part.

However, others remain sceptical and view the ESM at best as an aspiration that has little chance to develop into a real alternative model in an increasingly global world dominated by neoliberal policies. This book understands itself as a contribution to the debate of the meaning of the ESM by providing information on the reality of policies pursued under the umbrella of the ESM within the EU. The chapters address the ESM from a particular research perspective known as the concept of transitional labour markets (TLM). They have arisen out of discussions in the thematic network *Managing Social Risks through Transitional Labour Markets* (TLM.NET), which was funded under the Fifth Framework Programme *Improving the Socio-Economic Knowledge Base* of the European Commission.[1]

The book focuses on legal and policy aspects of the ESM debate and is divided into four parts that discuss the relationship of the ESM and transitional labour markets from different angles. The first part focuses on theoretical aspects, the second on the European level, the third on national laws and policies and the last on comparative and global assessments of the ESM.

Part I (Transitional Labour Markets and the European Social Model) contains theoretical chapters which introduce the concept of transitional labour markets and explore the relationship of the TLM concept and the ESM.

In Chapter 1, entitled 'The European Social Model and the Law and Policy of Transitional Labour Markets in the European Union', Ralf Rogowski demonstrates that the TLM concept has had a major impact on the design of the European Employment Strategy (EES) since 1998. He outlines main dimensions of the ESM debate and suggests understanding the ESM in functional terms. In Rogowski's view, the ESM is a plural and multilayered concept in which reflexive policy-

1 The Executive Summary of the final report of the TLM.NET is available online at the following web address: <http://www.siswo.uva.nl/tlm/root_files/Executive%20Summary_tlmnet.pdf>.

making and the use of new forms of governance and soft law instruments play crucial roles. He sees a number of similarities between the TLM and the ESM debates but also a crucial difference that relates to the advantage of the TLM concept in being both a normative and an analytical concept, whereas the ESM has so far largely remained a normative construct. Rogowski predicts that the TLM approach will continue to be a central source for policy proposals in future attempts at translating the ESM into concrete policy terms.

In Chapter 2, entitled ‘Sharing Risks: On Social Risk Management and the Governance of Labour Market Transitions’, Günther Schmid identifies new social risks in modern society related to unstable work careers and diminishing earning capacities. In order to manage these new risks he proposes new policy responses based on the TLM concept. Schmid, who can claim to be the intellectual ‘father’ of the TLM concept, demonstrates the need for social risk-sharing in relation to the two examples of taking parental leave and engaging in further training (transitions from employment to family and to education). He promotes the idea of a renewed social insurance designed for these new risks and presents a range of arguments why private insurance cannot solve the social risks and why a restructuring of the existing social insurance systems provides a better alternative. For Schmid the ESM represents an idea in which the nation state as well as the supranational EU still play important roles in organizing social risk-sharing and in conducting economic and welfare policy-making that promotes flexible transitions between paid and unpaid work and between employment statuses.

Part II (The European Employment Strategy and Transitional Labour Markets) contains five chapters on supranational policies conducted under the umbrella of the ESM. They focus in particular on policy fields that form part of the agenda of the EES and other reform efforts pursued in relation to welfare and employment policies at the level of the EU.

In Chapter 3, entitled ‘Research in Transitional Labour Markets: Implications for the European Employment Strategy’, Axel van den Berg and Erik de Gier give an overview of results of research conducted within the EU Thematic Network on ‘Managing Social Risks through Transitional Labour Markets’ (TLM.NET). The chapter reviews the major policy implications of the more than 100 research contributions made by the participants to the Network. These cover topics such as flexibility and job security; activating policies that combat unemployment and social exclusion; education, training and the school-to-work transition; the balance of work with family responsibilities; active retirement; and sustainable employment insurance. It outlines the relationship between TLM and the EES, emphasizing in particular the ways in which the former might reinforce the latter. Van den Berg and de Gier also highlight in which respects TLM goes beyond the ambitions of the EES. And they indicate directions of future research within the TLM framework and of how the TLM approach might be used in designing a coherent European approach towards labour market flexibility, security and efficiency.

In Chapter 4, entitled ‘The European Employment Strategy, Macroeconomic Policies, Institutional Regimes and Transitional Labour Markets’, Bernard Gazier and Arnaud Lechevalier explore possibilities of combining macroeconomic and socio-institutional perspectives in assessing social models in Europe. For them the diversity of actual experiences of European social models puts constraints on the EES. They emphasize global challenges and trends to liberalize welfare models as well as the resilience of national welfare models in resisting liberalization. They contrast two options for reform of the labour market and welfare systems in the context of a knowledge-based society which they call ‘prepare people for the market’ and ‘prepare the market for people’. The first corresponds with neoliberal policies whereas the second encapsulates the main thrust of the TLM approach. The authors are cautiously optimistic that the second, ‘social-democratic’ approach will be the path taken by the EES in the future.

In Chapter 5, entitled ‘Temporary Agency Working and the European Employment Strategy’, Patricia Leighton discusses the role of temporary employment agencies in relation to mobility, employability and career development in Europe. She demonstrates that these agencies play an important role in organizing labour market transitions for certain types of employees. She criticizes the 2002 EU draft directive on temporary work for exclusively focusing on rights of temporary workers rather than regulating duties of the agencies. However, she has hope in a change of focus in this respect which she sees emerging in policy initiatives promoted by the EES and in current labour law reform efforts that reorient EU law and policy-making towards encouraging effective skills provision by temporary work agencies.

In Chapter 6, entitled ‘Employability through Covenants: Taking External Effects Seriously’, Ton Korver and Peter Oeij analyse covenants in the context of flourishing new soft law or soft regulation in Europe. The authors see covenants as useful additions to regulatory efforts provided by law and collective bargaining agreements that offer possibilities for public-collective-private cooperation on issues of common interest. According to the authors covenants are particularly suitable for the implementation of the EES’s objective of enhancing chances of employability. They use the example of Dutch experiences with covenants in regulating continuous vocational training to show that these soft legal instruments can be building blocks of a reformed social security system.

In Chapter 7, entitled ‘Social Europe and the Limits of Soft Law: the Example of Flexicurity’, Jean-Claude Barbier assesses the conduct of coordination policies pursued under the heading of the ESM at the supranational level. He uses the example of flexicurity policies pursued by the European Commission to show that the diversity of national social models poses constraints on the effective implementation of soft law measures used by the current EES. In his view the rejection of the European Constitution in the referenda in France and The Netherlands has repercussions for the pursuit of the ESM and the working of the open methods of coordination. Implementation of employment and welfare policies are hampered by fears that national welfare models are undermined by European policies. However, he sees chances that coordination processes of the OMC type can improve national arrangements in terms of flexibility and security if soft law measures are combined with hard law in future European law and policy-making.

Part III (National Transitional Labour Market Policies in Europe) contains four chapters on national TLM policies that exemplify the diversity of the ESM. They cover countries that have vast experiences with innovative active labour market policies and reforms of social protection systems and national labour laws. At least two of these countries, The Netherlands and Denmark, are also widely regarded as prime examples of successfully pursuing flexicurity policies which are actively promoted by the European Commission and play a prominent role in the EES.

In Chapter 8, entitled 'Transitional Labour Market and Flexicurity Arrangements in Denmark: What Can Europe Learn?', Thomas Bredgaard, Flemming Larsen and Per Kongshøj Madsen map the main forms of TLMs in Denmark which, according to their analysis, employ around 20 per cent of the Danish labour force. They describe the historical background and the specific forces that shaped Danish TLMs, in particular the trust relations between social partners and the wide range of welfare state services. They argue that Danish TLMs are intricately linked to the Danish model of flexicurity that is result of a 'golden policy triangle' of generous unemployment benefit, active labour market policies and low employment protection. The authors are cautiously optimistic that the Danish TLM and flexicurity experience can act as an inspiration in the development of an ESM.

In Chapter 9, entitled 'Making Work Pay and Social Security Reform in The Netherlands', Geralt Nekkers, Wouter Roorda and J.H.L. van der Waart describe the transformation in labour market policy in The Netherlands since the 1970s. In their assessment Dutch labour market policy aims shifted from centring on income support for the unemployed and other beneficiaries to initiatives that increase labour demand and to a more recent focus on increasing labour supply, in particular through making-work-pay schemes. The latest shift was accompanied by attempts at reforming the social security system in order to make social security schemes more activating in character. The chapter stresses the importance of the marginal effective tax rate and the role of in-work benefits for labour market transitions. The authors suggest that lessons can be drawn from the Dutch experience for the ESM and for policy-making in Europe in relation to the balancing of competing goals for an optimal policy design. Such balancing has to take place between measures that improve work incentives, maintain income support and control budgets. Overall the chapter underlines the importance of adequate financial incentives and the reform of social security schemes for successful TLM policy-making.

In Chapter 10, entitled '"Making Work Pay, Making Transitions Flexible": the Case of Belgium in a Comparative Perspective', Lieve De Lathouwer assesses the implementation of 'making-work-pay' policies that form a key policy area of the EES. These policies operate with financial incentives to encourage people to seek, take up and remain in work. Their underlying rationale is an understanding that it is better to pay people for working rather than for inactivity. The chapter assesses making-work-pay policies and the social protection model in Belgium from a comparative perspective. It measures their effects on net incomes for low-wage earners and on net replacement rates for the unemployed by using a tax-benefit model for hypothetical household situations. On the basis of an extended comparative analysis the chapter concludes that the new 'in-work' income arrangements require a stronger integration between social, employment and fiscal policies.

In Chapter 11, entitled 'The French Basic Income (RMI) and Transitional Labour Markets: One National Policy, Many Local Realities', Jacques Bouchoux, Yvette Houzel and Jean-Luc Outin assess the effects of the French minimum income on the French labour market. They analyse local labour market dynamics and the involvement of social services in supporting recipients and reject the assumption that the minimum income necessarily provides disincentives for seeking employment. The minimum income has in fact a number of functions, including being a subsistence income, an unemployment benefit and a salary top-up. Furthermore, it is an important aspect of what the authors call the 'local inclusion regime' and they interpret it in this context as an instrument for organizing transitions.

Part IV (Transitional Labour Market Policies in Comparative and International Perspectives) contains assessments of European employment security and mobility arrangements from comparative and global perspectives.

In Chapter 12, entitled 'Balancing Labour Market Mobility and Employment Security across European Welfare Regimes', Ruud Muffels uses European Community Household Panel data to assess labour market mobility patterns of regular and non-regular workers in Europe during the 1990s. In analysing the use of flexible contracts and (implicitly) transitions between employment statuses, he detects a significant positive relationship between attained levels of mobility and employment security and offers the hypothesis that countries with the greatest flexibility also perform best in safeguarding employment security. In his view this supports ideas underlying the ESM and 'flexicurity' policies pursued at the supranational level of the EU, in particular notions of positive trade-offs between flexibility and security in terms of reduced levels of unemployment, which means (according to Muffels' definition) less employment protection but more employment security.

In the final chapter, Chapter 13, entitled 'Labour Market Institutions and the European Social Model in a Globalizing World', Peter Auer analyses employment protection regulation and the employment-related parts of the social protection system (unemployment benefits and active labour market programmes) from the perspective of an optimal institutional setting that allows workforce adjustment in relative security without jeopardizing productivity and labour market performance. Just as Muffels does, Auer distinguishes between employment stability (protection) and security and detects in his analysis of labour market results and employment rates in OECD countries the paradox that more stability does not necessarily mean more security. He suggests that a policy of 'protected flexibility' combined with institutions for 'protected mobility' have the propensity to achieve high levels of job quality as well as perceived job security. Furthermore they might result in 'real' flexicurity (adaptability for firms and security for workers) and become a common objective of both sides of industry while also reconfirming an enhanced role for the State. Auer arrives at the conclusion that better security understood in this way forms an important part of the ESM.

The editor thanks for their help and support John Bednarz, Thilo Jahn and Paola Toninato and those in charge of the TLM.NET network, in particular Nick van den Heuvel.[2]

2 The views expressed in this publication are those of the authors and do not necessarily reflect legal or political views of the European Commission, and the European Commission is not responsible for any use that might be made of the information.

PART I
Transitional Labour Markets and the European Social Model

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Chapter 1

The European Social Model and the Law and Policy of Transitional Labour Markets in the European Union

Ralf Rogowski

Introduction

The concept of transitional labour markets (TLM) has been prominent and provided core ideas not only for recent labour market reforms in a number of advanced Member States of the EU but also in employment policy discussions in the EU. Yet the fact that it played an important role in the design of the European Employment Strategy (EES) in the mid-1990s, influenced the evaluation of the EES by the Kok Commissions, and helped to revise the EES as part of the Lisbon agenda and to streamline employment and economic policies is rarely acknowledged in public and academic discussions and deserves to be assessed adequately.

In the following it will be argued that the underlying assumptions of the TLM concept lie at the heart of the EES as well as the European social model (ESM). In particular, if the EES and the ESM are assessed in functional terms, it becomes clear that ideas such as balancing organizational and individual interests, life-course policies, and a special focus on transitional phases in employment careers are core concerns of the TLM approach as well as of the debates over the EES and an ESM.

The ESM has been a concept that has risen to prominence in documents issued by the European Commission as well as in academic discussions of the distinct character of both provision of welfare and economic policy-making in the EU. It is possible to distinguish two leading concepts: (1) a narrow view that defines the ESM as a policy concept at the supranational level by indicating the constitutive elements of the role of the EU in introducing uniform regulations and in setting standards for the harmonization of laws in the area of social protection; and (2) a broader understanding that describes the common core in providing the welfare that underlies the diverse understandings of the role of the welfare state, both at the EU level and in its Member States. These two notions are linked in the following way. The more its Member States share a common understanding of what kind of basic protection and social security should be provided by the national welfare state, the less regulation is needed at the supranational level. However, with the erosion of this common understanding, as a result of deregulation and privatization policies favoured in many transition countries and in some older Member States, the traditional European Social Model is challenged. A major consequence of this challenge is the need for the EU to define at the supranational level what minimum protection has to be provided for its citizens, and thus to make explicit the previously tacit common understanding of the basic elements of social protection. Furthermore, in doing so, the EU defines the limits for deregulation and privatization of social protection pursued by its Member States.

This chapter focuses on the first notion. It discusses the ESM as it emerges from policies pursued at the level of the EU, in particular the European Employment Strategy and coordination of social policies. It asks in particular how and to what extent European policies resemble TLM policies. The TLM concept is thereby used as a heuristic device in assessing European policies, and special attention is paid to reflexive legal instruments that aim at increasing flexibility in transitions within the labour market.

The Transitional Labour Market (TLM) Approach

The TLM concept originated in research undertaken by Günther Schmid and his collaborators at the Research Unit on Labour Market Policy of the Wissenschaftszentrum Berlin (WZB). It was the main theoretical concept of the large-scale European project TRANSLAM (Social Integration through Transitional Labour Markets) which was funded under the European Commission's Fourth Framework Programme of Targeted Socio-Economic Research (TSER).[1] TRANSLAM developed the concept of transitional labour markets into a regulatory idea for building institutional bridges to support individual transitions between various employment statuses (unpaid involuntary civil work, part-time and full-time work, continuous adjudication and training, dependent employment and self-employment). A basic premise of it was that 'making transition pay' enhances the employment intensity of growth and avoids the dilemma of a growing segmentation of the labour market into insiders and outsiders. This research came to the conclusion that labour market policy that focuses on transitions transcends the narrow focus on European employment policies and is beneficial for the European economy as a whole.

The idea of transitional labour markets was further advanced in debates and research carried out in the thematic network 'Managing Social Risks through Transitional Labour Markets' (TLM.NET),[2] funded under the European Commission's Fifth Framework Programme 'Improving the Socio-Economic Knowledge Base'. In these discussions the TLM approach was combined with the idea of social risk management and transitions over the life-course of individuals. It led to a wide range of policy conclusions for both national and supranational employment policies.[3]

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1 TRANSLAM lasted officially from 1 February 1996 to 31 January 1999.

2 TLM.NET lasted officially from 1 December 2002 to 1 March 2006.

3 The final report of the thematic network TLM.NET can be accessed under <http://www.siswo.uva.nl/tlm/root_files/tlmnet_final%20report.pdf>.

The contributions in this volume bear further witness to advances in the TLM approach, theoretically as well as in comparative terms, in analysing policy concepts, including legal instruments.

The closeness to policy is indeed one of the defining features of the TLM approach (see in particular Schmid 2002). Its success can be measured in terms of its influence on various national and supranational policy debates. In France, for example, it has been supported for a number of years by Bernard Gazier, who actively promoted it in discussions organized for the *Commissariat général du plan* (before its demise in 2005) (Gazier 2003). But it probably had its strongest influence in Germany, due in large part to Günther Schmid's membership of the Hartz Commission on labour market reform. TLM has been a key concept in the Hartz Commission's fundamental overhaul of German labour market policies since 2002. Furthermore, the TLM concept has been most influential in designing and evaluating the European Employment Strategy (EES), as will be shown later.

The original concept of the transitional labour market operates with five core transitions within the labour market as well as into and out of it. Figure 1.1 shows how the original TLM approach and the idea of management of social risks can be linked.

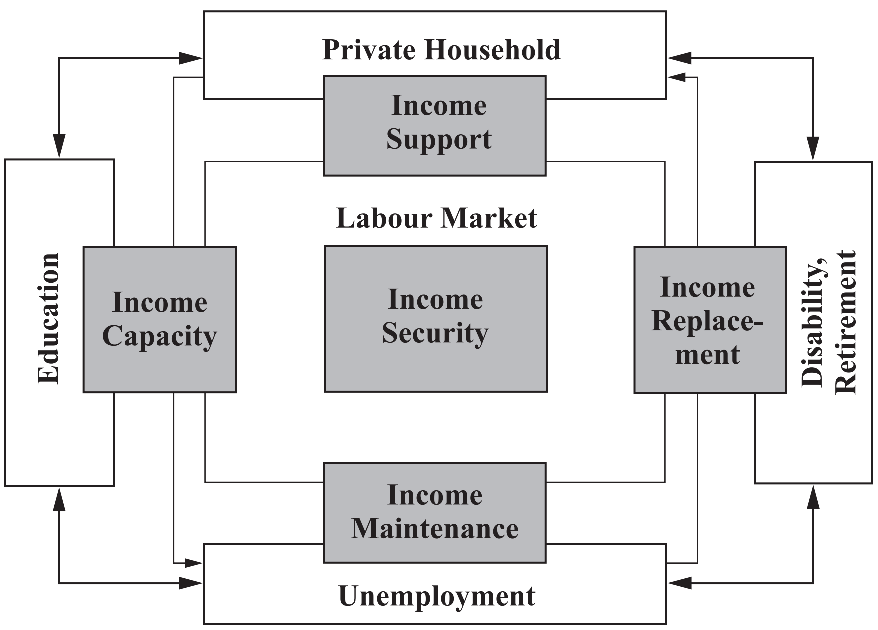

Figure 1.1 The transitional labour market and social risk management

Source: Schmid and Schömann 2004, 21, Figure 6.

It depicts the modern labour market as consisting of an active workforce of wage earners and the self-employed. The main idea here is to view the labour market as being embedded within and linked to four groups and areas of non-wage earners. The concept of transitional labour markets analyses five major transitions into and within the labour market: (1) transitions from education and work, (2) family and work, (3) work and retirement or disability, (4) employment and unemployment, and (5) transitions within the labour market, including change from employment to self-employment and change of type of employment (part-time and other atypical employment). The links between these areas and the labour market are fluid. The idea is that in modern times it is necessary to make the transitions into and out of the labour market more flexible and to concentrate regulatory efforts on these transitions. The model suggests devising policies that support flexible transitions in the labour market and innovative institutional set-ups, including new forms of legal regulation.

Figure 1.1 also shows how the TLM concept can be linked with a concept of social risk management. Different types of transition are related with different types and aspects of income.

1. First, developing, maintaining and enhancing the *income capacity* (known also as ‘employability’) for successful transitions between education and employment and during transitions between (continuous) training and employment.
2. Second, guaranteeing *income security* during critical transitions between various employment relationships, especially between part-time and full-time work, between dependent employment and self-employment, and – increasingly important – between high and low wage jobs.
3. Third, providing *income support* during phases in the life course in which the income capacity is reduced due to social obligations such as the care for children or other dependent persons.
4. Fourth, securing *income maintenance* during transitions between employment and unemployment.
5. Fifth, providing *income replacement* in case of disability or retirement, which means in phases of the life-course in which employability is severely reduced or lacking completely (Schmid and Schömann 2004, 21).

Günther Schmid has proposed that the core idea of TLM (that is, increasing the flexibility of the boundaries between gainful and non-gainful employment, combined with social risk management as outlined above) can lead to a meaningful redefinition of full employment (Schmid 2002). Key here is a new understanding of the role of the welfare state as a coordinator of economic policies. Furthermore, a focus on transitions requires that active labour market policy becomes ‘activating’ labour market policy. Such reorientation of labour market polices opens new paths into employment for the unemployed and inactive sections of the employment force, and carries a large potential for reducing overall unemployment in Europe.

TLM and EU Employment Policies

There is much evidence that the TLM approach and its underlying ideas have influenced policies pursued by the EU. TLM ideas were taken up when European employment and social policies were given a new direction in the wake of the introduction of the European Economic and Monetary Union (EMU) during the 1990s. Already the White Papers on growth, competitiveness and employment (issued in 1993) and on European social policy (issued in 1994) showed rudimentary concern with transitions ('transition from education or school to work'; 'transition to part-time work' – European Commission 1993, 118, 120; European Commission 1994, 7, 114, 330–334). The main concern of these papers was the combating of unemployment through increasing flexibility in the existing laws and policies, as well as support for businesses in their hiring efforts.

A radical shake-up of employment policies at the European Council summit in Essen in December 1994 led to a greater role for the Commission and the Council in monitoring labour market and social policies at national level. The Commission and the Council from then on had to report back annually to the European Council on progress in each of the Member States and the EU as a whole. In terms of labour market policies this has become known as the 'Essen Process'. A similar change of direction in social policy was proposed by the Commission in its 1995 and 1997 Communications concerning *The Future of Social Protection, a Framework for a European Debate* (European Commission 1995) and *Modernising and Improving Social Protection* (European Commission 1997). The Commission proposed to introduce a new strategy to improve the social protection systems of the Member States by concentrating on five areas: employment, poverty, social exclusion, pensions and health.

At the 1997 Intergovernmental Conference in Amsterdam a 'multilateral surveillance process' (Trubek and Mosher 2003, 38) was launched under the aegis of the European Employment Strategy (EES), which enabled the Commission to monitor labour market policies of the Member States on an annual basis. The EES constitutes an ongoing process of negotiation and adjustment between the Member States and the European institutions. In a certain sense it depoliticizes the unemployment issue and turns it into a matter for labour market experts (Goetschy 2003, 73). Furthermore, the EES constitutes a radical shift from the idea of a European social policy focusing on the establishment of a floor of basic rights at the supranational level to a concept of employment policies that foster the labour market and companies as well as employees. This shift from employment protection to employment promotion has the potential to undermine established rights protected at the supranational as well as at the national level (see Ashiagbor 2001 and 2006).

The EES introduced a new governance mechanism that uses soft-law methods to link the EU-level to the national and local levels. This new governance approach, called the 'open method of coordination' (OMC), has been adopted as a general model to be used in a number of policy areas, including social policies.

And it was clearly designed on the model used to introduce EMU (see Hodson and Maher 2001). The Commission adopted it as the core idea in its White Paper on governance in 2001. Through peer review and exchange of best practices, each Member State is directly confronted with the plans and experiences of others, thus acquiring benchmarks by which they can measure their own performance.

Four steps can be distinguished in relation to the OMC in labour market policies:

1. Setting up of guidelines supplemented by timetables for achieving the goals in the short, medium, and long term (the Commission makes proposals on the guidelines).
2. Introduction of quantitative and qualitative indicators and benchmarks as a means of comparing best practices (the Commission organizes the exchange of best practices and makes proposals on indicators).
3. Translation of the European guidelines into national action plans by setting specific targets and adopting measures, thereby taking into account national and regional characteristics.
4. Follow-up system: monitoring and evaluating, combined with peer review (this provides support to the processes of implementation and peer review). In their review of the national action plans the Commission and the Council regularly provide comments and recommendations that are often based on comparisons with the best performers, and create additional benchmarks for each Member State.

As part of the EES the Commission and Council issue a Joint Employment Report each year that creates the basis for the design of guidelines for the following year. While drawing up the guidelines the Commission consults a number of actors, including the Member States, the European Parliament, the Employment Committee, the Committee of the Regions and the Economic and Social Committee, as well as the relevant social actors (that is, trade unions and employer associations). The first employment guidelines were introduced in 1997 and listed them under four 'pillars':

- Employability: measures to endorse active labour market policies and to increase skill levels among workers.
- Entrepreneurship: support for small, innovative businesses, including tax reform, in order to encourage them to create jobs.
- Adaptability of businesses: bridging the need for modernization of work organization and increasing the flexibility of workers through training.
- Equal opportunities for women and men: promoting gender equality in employment.

The TLM approach had a major influence on the content and design of the original guidelines. Table 1.1 lists the first set of 13 Employment Guidelines for 1998

Table 1.1 The 1998 Employment Guidelines and TLM concepts

I. Improving Employability
1. Tackling youth unemployment and preventing long-term unemployment – TLM
2. Transition from passive measures to active measures – TLM
3. Encouraging a partnership approach
4. Easing the transition from school to work – TLM
II. Developing Entrepreneurship
5. Making it easier to start up and run businesses – TLM
6. Exploiting the opportunities for job creation
7. Making the taxation system more employment-friendly
III. Encouraging Adaptability in Business and their Employees
8. Modernizing work organization – TLM
9. Supporting adaptability in enterprises – TLM
IV. Strengthening the Policies for Equal Opportunities
10. Tackling gender gaps
11. Reconciling work and family life – TLM
12. Facilitating return to work – TLM
13. Promoting the integration of people with disabilities into working life – TLM

under these four headings and indicates which guidelines are related to the TLM concept.

Nine of the 13 guidelines are regulating topics directly related to transitions into the labour market or to changes of employment status, and thus propose measures associated with a TLM approach to employment policies. These Guidelines are as follows: No. 1 on tackling youth and long-term unemployment; No. 2 on transition from passive measures to active measures, including training systems and lifelong learning; No. 4 on transition from school to work; No. 5 on easing start-ups and promotion of self-employment; No. 8 on modernizing work organization, including flexicurity and flexible and non-standard employment contracts; No. 9 on adaptability of firms, emphasizing in-house training; No. 11 on reconciling work and family life; No. 12 on return to the paid workforce after leave of absence; and No. 13 on integration of people with disabilities into working life.

European employment policies took a new direction at the Lisbon European Council Summit in 2000 when an ambitious employment rate target was adopted, which proposed that 70 per cent of employable European citizens should actually be employed by 2010. This reorientation of employment policies demands from active labour market policies privileging measures that encourage the creation of new jobs and the removal of the unemployed from dependency on unemployment benefits. A new EES thereby gained shape that favours activation policies in the form of the promotion of training and lifelong learning and support for institutional innovations such as employment agencies that view themselves as service providers and treat the unemployed as clients. The new EES also encourages mutual ‘learning’ among the Member States, suggesting that governments and enterprises view themselves as ‘learning units’. An important learning instrument in this context is peer review, which is meant to identify, evaluate, and distribute useful active labour market practices that could be transferred among Member States.

Although the guidelines changed after Lisbon, the policies themselves are still close to TLM proposals. Many of the changes to the EES can be interpreted as efforts to refine the original guidelines in light of experience as well as academic criticism (Adnett 2001, Ball 2001, Wincott 2003), while others introduce new objectives and set new targets in line with the Lisbon agenda (see Pochet 2003). On the basis of an evaluation of the first five-year experience with the EES, the 2003 and 2004 Kok Reports (European Commission 2003b (known as Kok I); European Commission 2004a (known as Kok II)) and the Commission's Communication on the Future of the Employment Strategy (European Commission 2003a) suggested a reinforced, simplified, and streamlined process to meet the Lisbon target. This new EES was introduced gradually.

In 2003 the four pillars were replaced by three overarching objectives that were especially geared to reinforce the Lisbon agenda: (1) full employment, (2) quality and productivity at work, and (3) cohesion and an inclusive labour market. 'Full employment' calls for both demand- and supply-side policy measures. 'Quality and productivity at work' reflects the call of the Lisbon agenda to create not only more but also better jobs. 'Cohesion and an inclusive labour market' aims at reducing unemployment and promoting equal access for everyone to the labour market became policy concerns expressed in a new set of employment guidelines organized around the three overarching goals.

A major overhaul of the EES occurred in 2005 when the new EES was finally implemented. This went hand in hand with a reduction of the very ambitious original Lisbon target of creating new jobs – from 22 million to 6 million. The focus on activating and targeting specific groups in the labour market was largely dropped

Table 1.2 The 2005 to 2008 Employment Guidelines (Integrated Guidelines Nos 17 to 24) and TLM concepts

17. Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion – TLM
18. Promote a lifecycle approach to work – TLM
19. Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people and the inactive – TLM
20. Improve matching of labour market needs – TLM
21. Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners – TLM
22. Ensure employment-friendly labour cost developments and wage-setting mechanisms
23. Expand and improve investment in human capital
24. Adapt education and training systems in response to new competence requirements – TLM

and replaced by 'streamlining' efforts in order to align economic, employment and social policies. The main innovation and rethinking was to integrate economic and policy guidelines. Since 2005 employment guidelines have been integrated with guidelines for coordination of economic policies. They now form the third part of the Integrated Economic and Employment Guidelines. However, the policy content did not change dramatically, and the policy concepts of the new EES still reveal a close link with TLM-inspired policies, as can be seen from Table 1.2.

In line with the Lisbon criteria and the Lisbon agenda for a globally successful European common market, competitiveness is now a concern of employment policy as well. However, the main focus of the overhaul of EES was related to procedural changes in order to ease the burden on Member States. The annual cycle was replaced by a three-year cycle: the first cycle ran from 2005 to 2008; the second will start in 2008 and last until 2010. It can be predicted that the core policy ideas borrowed from the TLM approach, namely increasing the flexibility of institutional structures in order to ease transitions in the labour market, the favouring of activating over active labour market policies, the balancing of individual security and organizational flexibility concerns, and the coordination of economic and employment policies will also guide European employment policies in the future.

TLM and the European Social Model

The success of the TLM concept in European employment policies can be partially explained by its accordance with the main focus of new policy-making in welfare and employment polices; that is, the use of new forms of governance and the debate over concepts like flexicurity and the European social model (ESM). The concept of the ESM emerged in the 1980s in European welfare state discussions that tried to reconcile economic growth and social protection (see various contributions in Jepsen and Serrano Pasqual 2006). However, at least in the academic debate, there was no common understanding, neither about the function nor about the core elements of the model. Some view it as an ideal type, some as a reality, some as a political project (see, for example, Ferrera 2004, Hay et al. 1999, Offe 2003, Sisson 1999, Tharakanl 2003, Wickham 2002). It is often contrasted with the US model of a neoliberal minimalist welfare state. For a decade or so, the European Commission has referred to the ESM as the underlying goal of European social integration (see, for example, Diamantopoulou 2003), without (however) clearly defining its elements.

What seems clear is that the function of the ESM is to capture an important aspect of the reality of European integration that derives from the unique interlinkage of economic integration and social protection systems. Some European social and employment policies, in particular the coordination of social security systems, have been a necessary task of the European Community since the beginning of the European integration process. They guarantee that millions of workers can effectively exercise their right to free movement: implicit in this 'hard' coordination has always been a common understanding of the goals and the basic welfare provisions of the Member States. However, there was no need to make these goals explicit, largely because of the lack of competences in conducting and shaping social and employment policies at the European level. Nevertheless, these policies rested on a shared set of social values. Furthermore, the antidiscrimination approach that granted migrant workers the same rights as domestic workers formed the key element of the early social security coordination. It assumed that there existed rights in all participating Member States and that these rights were of a somewhat similar kind, aiming at a similar level of welfare protection.

From the beginning of the 1990s the situation changed and the call to define the core elements of social protection at the European level could no longer be avoided. A discussion of the meaning of an ESM started in earnest. A number of factors that have influenced the ESM debate can be delineated (see also Pochet 2005). The ESM is prominently linked to the ambitious project of a political EU that is capable of coordinating the economic as well as foreign and security policies of the Member States. The European Economic and Monetary Union (EMU) that forms the core of the new EU has become the driving force behind new coordination efforts in employment and social policies. However, a most important factor for the elevation of employment and social policy within the canon of European policies has been the high unemployment rate within the EU and its political and economic consequences, as well as the effect this fact has on the legitimacy of the entire project of an EU.

The discussion of the ESM is also influenced by a new rivalry between the EU and the US. The EU is criticized by neoliberal economists who are in favour of US-style economic job growth and of maintaining inflexible labour markets by supporting an outmoded ESM. In response to this ideological challenge the discussion of the ESM has turned into a debate over values such as solidarity, social justice and public responsibility for social hardship, which are shared among European nations and explain the high regard in Europe for welfare policies (Vos et al. 2004, 336–7). The simplistic presumption of neoliberal economists that high economic growth rates will automatically lead to social improvements is not shared among the wider European public.

The European Commission has adopted the rhetoric of working towards an ESM, and argues that the modernization of this model has to be its future target. A number of official documents of the EU and the Council of Europe refer directly to the ESM. These include benchmark documents such as the 1989 Charter of Workers' Rights, the Charter of Fundamental Rights proclaimed at the Nice summit, and the Lisbon social agenda, as well as the Council of Europe's revised Social Charters. In these official documents and statements the ESM is characterized as a unique blend of economic and social aims. Competitiveness is said to be coupled with social justice and the improvement of living and working standards, with more and better jobs. Elements of the ESM can be found in the EC Treaty, which states that a high level of social protection and the promotion of social cohesion are among the major aims of the EU. They are also captured in the dual Lisbon aim of 'growth with more and better jobs and greater social cohesion' (see also the *Final Report of Working Group XI on Social Europe* (European Convention on the Constitution 2003)).

The official version of the ESM acknowledges a number of stakeholders that includes employees and employers as well as social partners. The direct participation of social partners in Community decision-making via social dialogue and indirect participation through 'partnership' models of corporate governance form integral parts of the ESM (Sisson 1999, Lynch-Fannon 2006). The ESM is shaped by a policy-making process that involves decision-making at multiple levels, ranging from the European to the national, regional and local level.

In attempts to justify a distinct ESM we can distinguish two quite different approaches. Some argue that social protection coordination is needed for the sake of solidaristic social values, whereas others emphasize its role in relation to economic efficiency. A prominent example of the second type of argument is Claus Offe's account of the ESM. He has argued that notions related to the ESM constitute the very core of the distinct European character of the political economy of the EU (Offe 2003). It might be contended that the success of any further economic integration of the European economy depends on increased attempts to coordinate social protection and to combat social and economic insecurity and social exclusion, albeit on a 'neo-voluntary' basis (Streeck 1996). At stake is the unity of the EU in economic terms and the protection of Europe as an economic community. The disparity in social protection systems, in particular in the resulting labour costs, disadvantages certain states and is harmful to the Community as a whole, thus providing further incentives to coordinate social policies (Streeck 1996, 458–60, and Streeck 1999 on competitive solidarity).

Anton Hemerijck has gone a step further in his analysis of the ESM. He has argued that the EU's main function in bringing about social integration is that of a facilitator in reforming welfare; in other words, in assisting processes of self-transformation of national welfare policies through coordination (Hemerijck 2002 and 2004).The key idea here is the close connection between economic and social development. This approach represents a shift from a normative to a cognitive understanding of the ESM. In cognitive terms the ESM not only promotes social justice but also contributes to economic growth. Social policy is no longer considered an obstacle but a beneficial economic factor that creates security for economic activities and provides, among other benefits, incentives to pursue collective goods (Hemerijck 2002, 173–4).

It is apparent that the ESM has to combine contradictory sets of values. On one hand, these values include reduced public expenditure for social services, financial sustainability, competitiveness, deregulation, flexibility, privatisation and individual responsibility – key concepts in neoliberal ideology; on the other, security, an inclusive society and adaptability. Or, in the language of the Presidency Conclusions of the Barcelona European Council, the ESM is based on good economic performance, high level of social protection, education and social dialogue (European Council 2002, *Presidency Conclusions*, Barcelona European Council, 15–16 March 2002). There are indeed tensions between budgetary goals and demands for spending on training, reducing regulatory burdens, and demands for new protection through rights,

I would like to suggest that in order to make sense of the notion of an ESM it needs to be assessed not only in its contradictory content but also in its function. The ESM has a number of specific characteristics in this respect that delineate it from any national welfare model. Three functional aspects of the ESM can be highlighted: its decentralized structure, its pluralistic nature and its reflexive style of policy-making.

First, the ESM is decentralized. It consists of a multi-layered structure. The EU as such is not the main player in devising and carrying out social and employment policies. Responsibility for carrying out and financing of these policies rests with the Member States and they stay ultimately in control. The EU only assists the Member States. It acquires competences beyond coordination only in rather specific areas. Decision-making and the provision of welfare and protection is inherently decentralized in the EU. Even the most sophisticated coordination efforts at the centre cannot change this fact. And decentralization is widely viewed as a positive feature, in fact appreciated as a major virtue, of the model.

Second, the ESM is plural. It does not consist of one but of several models. The plural nature of the ESM supports both homogeneity and diversity. The ESM does not favour a European federal welfare state that replaces national welfare approaches, but encourages ‘competitive federalism’ (Barnard 2000) in its coordination policies. In the future, competition might not be confined to welfare states but might include competition between welfare regions, as Maurizio Ferrara argues somewhat convincingly (Ferrara 2005, Ch. 5).

Depending on the intensity of the role of state intervention, it is possible to distinguish four basic social security models that are in operation in a variety of combinations among the Member States. In the *statist model*, the state is responsible for providing welfare, which is financed out of general taxes. In the solidarity-based *social insurance* model, the role of the state is to provide the general regulation under which employees are insured against social risks, and employers and employees are obliged to pay contributions. In the *corporatist model*, the state supports the regulation of welfare through collective agreements or company agreements between trade unions or employee representatives and employer associations or companies. Finally, under the individualist solution, favoured by neoliberal economic policies, protection against risks is left to the individual seeking it through *private insurance*, thereby reducing the role of the state to the granting of tax relief or other concessions.

The third and final functional aspect of the ESM is that it is characterized by reflexive policy-making and the use of reflexive legal instruments. There is indeed a close link between OMC and ESM.[4] In practising OMC, the EU makes creative use of its limits, in particular of limited legal competencies. The OMC is policy-making in the absence of hard legal competencies. In fact, the EU takes advantage of the lack of hard law to become innovative in introducing new soft law instruments. This self-awareness makes the EU's understanding of the ESM particular and reflexive. It reflects on the need for the reform of the Member States' welfare policies, and understands its role as being a facilitator. Since times of full employment have long gone and the post-war combination of 'strong economic growth, low inflation, confidence in public affairs as well as in individual rights' (European Commission 2004b, 28) is no longer a reality, reform of welfare systems has become inevitable. Indeed, new risks have emerged and these new risks require welfare states to adopt a reflexive approach and undergo processes of self-transformation. Reflexive modernization of welfare states is demanded in order to be able to cope with the challenges that both the risk society and globalization present (see Beck's (1992) thesis on reflexive modernization). In this context, the EU itself becomes reflexive by acting as the coordinator of the welfare states' self-transformation. It supports awareness for welfare reform, including labour market reform, by suggesting trajectories such as flexicurity and transitional labour markets that enable Member States to learn from each other.

Furthermore, the ESM, as practised by the EU, is becoming increasingly reflexive in another sense (Rogowski 2007 and forthcoming). Social and employment policy-making using the OMC is confronted with problems that arise from using different OMCs for different policy arenas. The EU has recently embarked on reforming the method itself. It calls these reforms of the OMC 'simplification'. However, this can also be interpreted as an attempt to cope with self-created complexity and engage in a 'coordination of coordination', a typical form of reflexivity using the very idea of OMC to reform the method itself.

Concluding Remarks

Law and policy of TLMs will be crucial in the future direction of the ESM. The current discussion of a reform of labour law, as outlined in the Green Paper on *Modernising Labour Law to Meet the Challenges of the 21st Century* (European Commission 2006), with its focus on 'flexicurity',[5] is an attempt to reform legal

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4 Milena Büchs goes so far as to assert that, because of an increased use of OMC in European policy-making, 'there are similarities between the EU's concept of the "European Social Model" and the "third way"' policies pursued for example by the Blair government in the UK (Büchs 2007, 43).

5 See also the attempt of the European Commission to translate the flexicurity concept into concrete policy proposals in its Communication *Towards Common Principles of Flexicurity: More and Better Jobs through Flexibility and Security* (European Commission 2007).

concepts and instruments as well as institutional structures that are fundamentally inspired by TLM ideas. Recently Günter Schmid has convincingly argued that flexicurity will have to be interpreted in the light of TLM ideas in order to avoid simplistic assumptions of beneficial trade-offs or idealistic hopes of synergies (Schmid 2007).

Insofar as TLM is a normative concept it has much in common with the ESM. At the supranational level, the ESM is an established concept that is largely synonymous with the discourse of a social dimension of European integration. Both concepts promote the idea of justice as fairness, TLM by reducing risks, and the ESM by insisting on a *social acquis* that comprises core employment and welfare rights. Both concepts promote flexibility combined with institutional security. The ESM developed out of fifty years of creation of rights that were established by using hard law instruments such as regulations, directives and decisions. After the expansion of the EU, this was combined with a new approach of regulating employment and social policies through soft law mechanisms of coordination of policies based on the idea of a common market for an EMU that itself was based on the concept of a political European Union. Similarly, the TLM aims at solidarity in risk-sharing and ultimately at developing individual agency by providing institutional guarantees for flexible transitions in the labour market.

Insofar as the future directions of employment policies are concerned, we can detect a remarkable congruence of visions expressed by the transitional labour market approach and European policies. However, the TLM concept has one enormous advantage over the ESM. It is not only a normative concept but also an analytical one. This can be demonstrated in relation to assessing the OMC. From a TLM perspective the effects of OMCs have to be measured against their ability to ease labour market transitions and assist in coping with social risks. New governance techniques, soft law instruments and procedure in general are viewed as tools to achieve overall aims, not as goals in themselves.

The OMC is indeed not without weaknesses that could potentially undermine the ambitious ESM as it currently evolves at the European level. OMC has been used in different social policy fields with differing success. In some fields, such as in employment policy, it is said to be ‘remarkably successful’ and, according to the High Level Group on the Future of Social Policy in an enlarged EU, it ‘had very positive effects in social inclusion’ (European Commission 2004b, 36). The OMC has been beneficial during the enlargement process as it helped in catching up and benchmarking new Member States. Thus the use of the OMC is spreading and there are remarkably few academic voices that are not optimistic. This seems somewhat astonishing given the fact that the OMC lacks the advantages of binding hard law to achieve policy goals. In some cases of OMC, a resort to moral or political pressure loses the character of a second-best solution to proper legal regulations. In this context it seems necessary to emphasize that the lack of binding legal instruments can very well turn out to be the crucial weakness of the ESM.

TLM does not favour soft law over hard law. Insofar as there is a tension between soft and hard law, and in particular between OMC and proper employment protection, TLM opts for the most efficient ways to reach its goals. In many cases this will be an attempt to search for complementary solutions in order to overcome tensions. It is indeed the case that the hard law measures, mainly Framework Directives,[6] which have been adopted since the introduction of the EES, are all more or less subsumed under the heading of 'combating unemployment'. It is significant that they are concerned with issues such as fixed-term and part-time work or parental leave. But these are issues of employment promotion rather than employment protection. From a TLM perspective, supplanting hard law by soft law can be criticized as wasting opportunities for finding adequate solutions for transitional labour market policies that require stronger state intervention in some cases.

However, the future of the ESM as well as successful TLM polices pursued at the supranational level depend on a favourable political climate towards the social integration of Europe. The most worrying development in this respect, at least for some commentators including myself, is that there seems no clear vision of social cohesion pursued by the current Barroso Commission. What is needed in the current situation in my view is not a downgrading of social and employment policies but consolidation in the form of a 'coordination of coordination' or, to give it another name, 'reflexive European law and policy-making' (Rogowski forthcoming).

The TLM approach offers policy-making a comprehensive view of important areas of the labour market that require policy initiatives. It complements the normative vision of the ESM and enables aspirations to be translated into a range of concrete policy initiatives. Most crucially, the TLM concept provides the yardstick for the coordination of these policy initiatives. In this sense it transcends a narrow focus on employment policies, and includes social rights that reach 'beyond employment' (Supiot 2001).

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Chapter 2

Sharing Risks: On Social Risk Management and the Governance of Labour Market Transitions[1]

Günther Schmid

Introduction

When I accepted the invitation to deliver the Hugo Sinzheimer lecture, I had no idea how to refer to this exceptional man. But an earlier experience gave me confidence. When I wrote an article for the volume *Reflexive Labour Law*, which was edited at the Hugo Sinzheimer Institute by Ralf Rogowski and Ton Wilthagen,[2] I was guided by an important insight from Hugo Sinzheimer. He stated that the regulation of the labour market would be more efficient if parts of this complex task were delegated to the social partners and governed by self-regulation. I was therefore sure that the broad range of topics that Sinzheimer had thought about would help me again. I was even persuaded that Sinzheimer would put me on the right track and enrich my story.

It did not take long to discover what I was looking for in Sinzheimer's impressive list of publications. In 1928, Sinzheimer (1976) wrote an article entitled 'The Democratisation of the Employment Relationship' (*'Die Demokratisierung des Arbeitsverhältnisses'*), in which he called for the participation of the trade unions and employers in administering the unemployment insurance system that had been enacted in Germany just one year earlier. However, Sinzheimer put even more emphasis on another aspect of democratization, namely, the enlargement of the risk-sharing community to embrace all workers, indeed, the whole economy. The nucleus of my own story is captured by Hugo Sinzheimer[3] sharing risks

1 The chapter is based on the text of my annual lecture in honour of Hugo Sinzheimer, which was delivered on 10 November 2005 at the Hugo Sinzheimer Institute of the University of Amsterdam and subsequently published as WZB discussion paper 2006-01. I thank Ralf Rogowski for carefully editing this version.

2 'Flexibilization of the Labour Market through Law' (Schmid 1994a).

3 'Denn die den Rechtsanspruch auf Arbeitslosenunterstützung gewährleistende Arbeitslosenversicherung hat höheren Sinn und Zweck als ausschließlich den der Bewahrung des einzelnen Arbeitslosen vor Hunger und Not. Sie schützt nicht nur den Arbeitslosen selbst, sie schützt auch den Arbeiter im Betrieb vor Verschlechterung der Arbeitsbedingungen;

through universal and state-guaranteed unemployment insurance. This insight is still as valid today as it was in Sinzheimer's time. There is no reason to roll back the welfare state. On the contrary, there are strong reasons to defend the principle of social insurance. By combining a kind of work/life insurance with soft forms of governance, this principle – that of 'sharing risks' – can even be extended to include the new risks related to critical events during the life-course.

In the following I want to defend the principle of social insurance by answering the following four questions. First, what are the new risks we are talking about? Second, why do we need social insurance against these risks? Third, how should we share the risks related to parenting and to continuing education and training? Fourth, how do we overcome risk aversion to stimulate more individual risk-taking and thereby more responsibility?

The Evolution of New Risks in the Modern Labour Market

In the traditional labour market, women worked for a while after completing their education, left the labour market when they got married, and perhaps went back for some occasional work when their children had grown up. Men entered the labour market and worked full-time throughout their lives, possibly with the same employer; received a family wage, an income that rose steadily with age; and possibly experienced brief intervals of joblessness, during which they were covered by unemployment insurance. Risks related to the labour market were shared among men and governed by the state or trade unions organized as industrial risk communities. This traditional model of the labour market is captured in Figure 2.1.

This picture has changed dramatically. In the modern labour market, the 'male breadwinner model' is eroding. Work organization predominantly based on manufactured mass production is shifting to services organized in many cases as projects pursued through changing networks. Both men and women (but especially the latter) experience an increasing number of risky transitions between various employment statuses for which traditional insurance systems provide only incomplete social protection, if any at all. Let me briefly recapitulate the character and some evidence of the three most important new risks as captured in Figure 2.2.

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sie fängt die Rückschläge sinkender Konjunktur auf, weil sie die Rückzugslinie bildet, die einer wirtschaftlich geschwächten Arbeiterschaft den Widerstand gegen schrankenlose Ausnutzung des Konjunkturrückgangs ermöglicht. So schützt sie als lohnerhaltendes Element die Arbeiterschaft. Aber sie schützt auch die gesamte Volkswirtschaft vor planloser Vernichtung der Kaufkraft' (Sinzheimer 1976, vol. 1, p. 132).

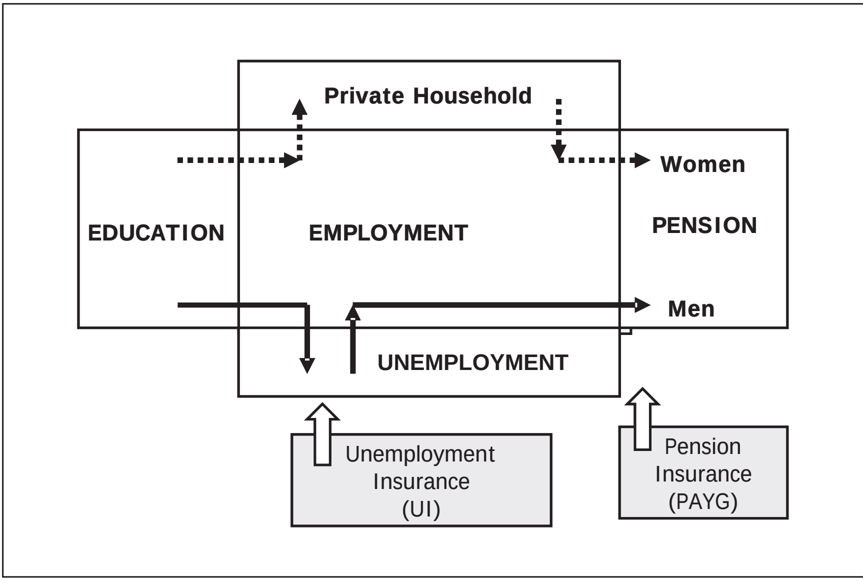

Figure 2.1 The traditional labour market

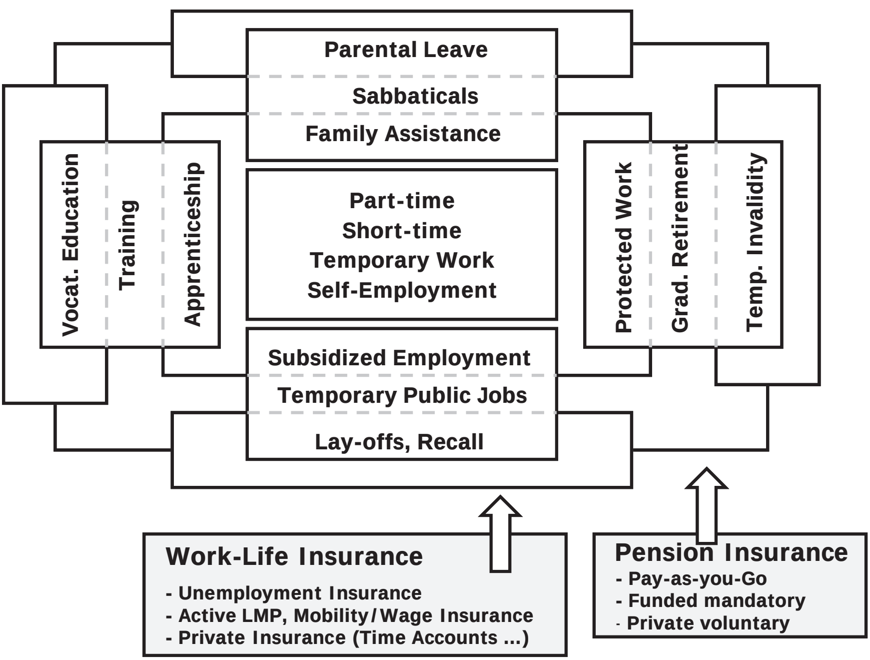

Figure 2.2 The modern labour market

The Changing Face of Education and Training Risks

If we take the European Employment Strategy's main goal of full employment (namely, to reach an employment rate of 70 per cent by 2010), then the breakdown by qualification immediately shows where the main problem lies. Highly skilled people surpass the benchmark of 70 per cent by about 15 percentage points regardless of the kind of welfare regime involved. It is the low-skilled people whose opportunities for participation in the labour market are seriously compromised. In The Netherlands, for instance, the employment rate of the low skilled had fallen to 58 per cent by 2003, more than 30 percentage points below the employment level of 87.1 per cent among the highly skilled (see Figure 2.3). In Germany the corresponding figure was even lower, around 50 per cent.

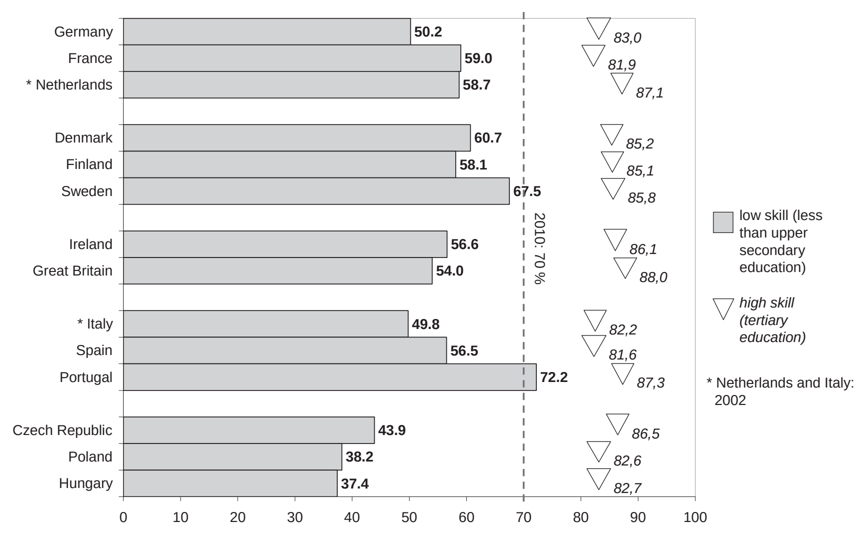

Figure 2.3 Employment rates by skill level, 2003

Note: Percentage of labour force aged 25 to 64 years.
Source: OECD Employment Outlook 2005, Table D.

It is also important to look at the other side of the coin, the unemployment rates, which are, unfortunately, not well reflected in the European Employment Strategy (EES). In my view the Lisbon Strategy should have set the benchmark at halving the unemployment rate to about 5 per cent by 2010. With a few exceptions, the statistics show that highly skilled people are already at that level or even below. The Netherlands could be considered an example well on target in this respect, although recent developments not captured in Figure 2.3 are disappointing to Dutch admirers like me. The picture in Germany is much gloomier. In 2003 the unemployment rates of the low skilled averaged 18 per cent (apart from huge

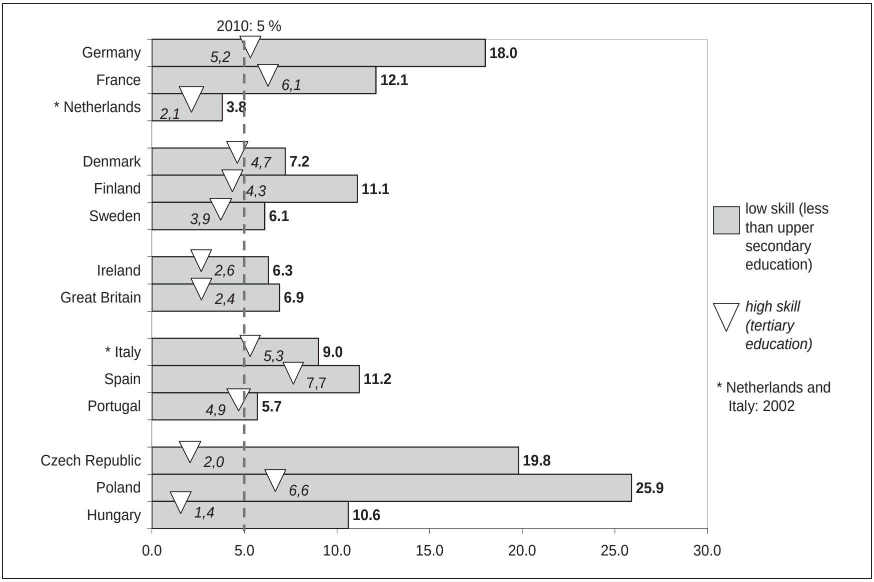

Figure 2.4 Unemployment rates by skill level, 2003

Note: Percentage of labour force aged 25 to 64 years.
Source: OECD Employment Outlook 2005, Table D.

regional differences), and those of the highly skilled hovered at exactly 5 per cent. In most Member States of the European Union (EU), however, the benchmark of 5 per cent unemployment is utterly out of reach for the low skilled (see Figure 2.4).

Yet the times are past when a higher education was an insurance against low income or income volatility over a person's life-course. The risks of proper returns from high human capital investments are multiplying, but are scarcely reflected in the current discussion. The high employment and low unemployment rates of the highly skilled obscure the fact that these people may also be at risk of falling into poverty or avoiding it only at the cost of displacing lower-skilled people. It is not only that one's skills may become obsolete because of new technologies during one's life-course; it is also the fact that uncertainty is mounting because of market globalization. If an Indian girl in Calcutta receives higher education, she might devalue the educational investments of my son in computer science. If your daughter invests heavily in playing the violin, a Chinese boy in Beijing might do the same and win the musical competition, followed by many more engagements due to reputation.

As Paul Krugman (1999, 203) has noted, the new economy is not only a knowledge economy but also a celebrity economy. In other words, good luck and reputation seem to be determining employment careers and life-course income more and more. There is scattered evidence for this thesis. In the US, two thirds of the increase of inequality does not reflect widening gaps between more- and less-educated workers (say, college and high-school graduates). Instead, it reflects bigger gaps among workers with similar education (say, college graduates). People's earnings now fluctuate more from year to year than they used to. In Germany, formal schooling explains, on average, only one third of the returns on human capital investment. Women of age 30 to 39 years have experienced a sharp decline of returns. And at an older age (50–60), the returns on education have been lower for younger cohorts, particularly for women, beginning in 1994 (Lauer and Steiner 2004). A study conducted in The Netherlands found that older workers with higher education faced declining wages compared to old workers with lower education (wage compression), and intra-group inequality increased during the 1980s but remained stable during the 1990s (Jacob 2003). Hartog (2004) comes closest to the implications of risks related to human capital investment. He and collaborators found that higher variance of wages as an indicator of higher risks is partially compensated for by higher wages. However, they also found indications that these risks are presumably 'under-recompensed', as Adam Smith already noted. This circumstance might especially prevent risk-adverse would-be students with a low-income background from investing in those risky jobs.

The impact of the escalating risks associated with human capital investment returns is twofold and ambiguous. On one hand, it feeds the tendency toward credentialing that leads to *over*investment in formal education or training. On the other, it encourages risk aversion that leads to *under*investment in education or training, especially in relation to low-skilled and older employees with only short-term employment prospects.

Risks Related to Unstable Work Careers

The second concern is the swelling number of precarious jobs in the form of fixed-term contracts, temp-agency work or contract work, often disguised as self-employment. Why is this trend, too, almost uniform in all European Member States? It seems that firms need added internal or external flexibility to adjust to the ever more competitive environment and new technologies. However, job protection is strong in the family-centred employment systems of southern Europe (Italy, Spain, Greece) and a bit less strong, but still important, in the conservative or corporate employment systems of other continental European countries (for example, France, Germany, The Netherlands).

Be that as it may, the exceptions to this rule are revealing (see Figure 2.5). In Denmark and the United Kingdom (UK), for instance, the share of fixed-term contracts has even decreased from an already low level, and dismissal protection is almost unknown. Nonetheless, Denmark compensates for the lack of job protection by granting generous unemployment transfers combined with strong activation

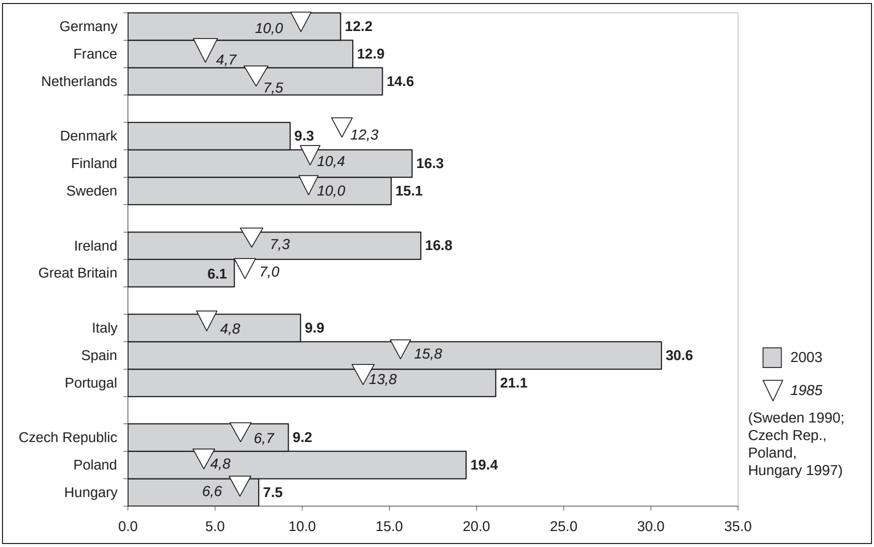

Figure 2.5 Employees in fixed-term contracts as a share of all employees, 1985 and 2003

Note: Percentage of all employees.
Source: Eurostat New Cronos Databank.

measures, and the UK has been somewhat able to protect against precarious jobs by instituting New Deal programmes and successful job-creation machinery.[4]

A growing concern is the concentration of precarious jobs among the young. The case is especially striking in Germany, where the burden of risks related to fixed-term contracts lies almost completely on 15- to 25-year-olds, and on the young adults aged 25 to 35. We know from many studies that fixed-term contracts are often useful bridges to regular work. For many young people, though, and in some countries even for the majority, fixed-term contracts are, unfortunately, also traps leading to permanently disrupted job careers and often ultimately to social exclusion.

The risks that young adults run as they try to make the transition from precarious to stable jobs are often aggravated by ‘compressed work careers’, the phenomenon of having to fulfil several social roles simultaneously within a short period of working life. This mainly affects young women between 20 and 35 years of age. Since labour market participation is becoming the norm for these women, they must cope with at least five social tasks at almost the same time: they have to acquire a good education, look for a suitable job, plan a sustainable career, select a suitable partner and set up a family at considerable expense in housing

4 Another factor might be the UK’s successful macroeconomic policy for stimulating employment growth.

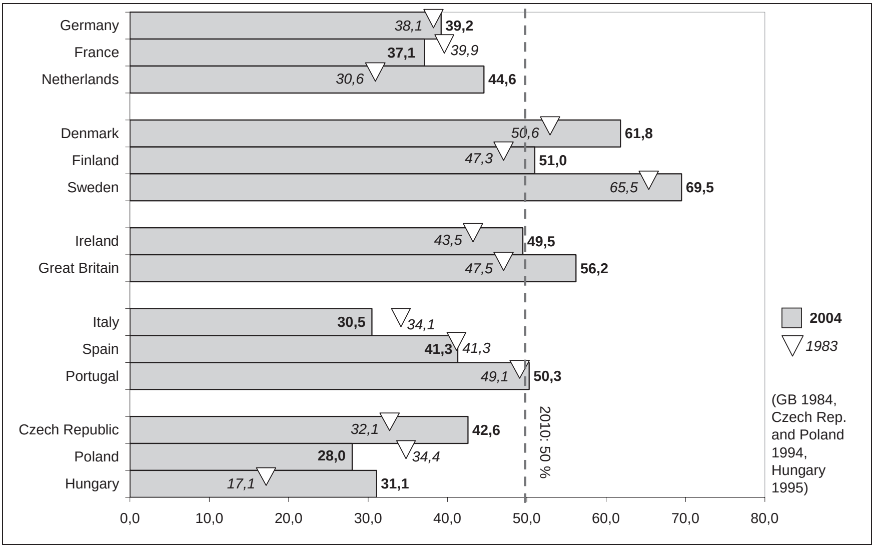

Figure 2.6 Employment rates of workers aged 55 to 64 years, 1983 and 2004

Note: Percentage of labour force aged 55 to 64 years.
Source: OECD Employment Outlook 1997 and 2005, Table C.

and furnishings. The way in which work, education, and welfare (including the housing market) is organized today scarcely helps them master these diverse tasks. Their transition to a sustainable career is seriously endangered.

Even if a woman succeeds in these respects, the accompanying pressures can be physically or psychologically disruptive. A study carried out in The Netherlands has revealed that incapacity to work has soared among young women, a group already referred to by an Australian research team as the ‘excluded generation’.[5] The fact that the EES devotes relatively little attention to the problems of young in comparison to older or mature adults is a serious defect in my view.

Risks Related to Diminishing Earning Capacities over the Life-Course

In addition, there is a third new risk related to critical events during the life-course. It is the risk of the mature adult’s diminishing earning capacity, a decline reflected in their employment rates below the full employment benchmark of 50 per cent in most of the EU Member States. If mature adults become unemployed, they face either a high risk of long-term unemployment or the risk of drastically declining wage income. Only about 45 per cent of 55- to 64-year-olds are employed in The

5 See de Bruijn et al. 2003 and Macdonald and Holm 2001.

Netherlands. However, the situation in this country has improved impressively since 1983, if compared with France and Germany, for example (see Figure 2.6). A notable exception is Sweden, where 69 per cent of mature adults are actively participating in the labour market. Four reasons, which also partly support my argument for complementing the social insurance system with soft forms of governance, account for this ‘anomaly’. The first reason is that Sweden included mature adults in continuing education and training (for example, through the massive ‘knowledge-lift programme’ from 1997 to 2002). Second, all monetary incentives to retire early have been dismantled in that country. Third, soft forms of governance have been established through ‘work-adjustment groups’ in Swedish firms with more than 50 employees. If demand for work declines in these firms, they have to start negotiations and follow procedures in order to relocate or rehabilitate their mature adults. Finally, gender-related differences in mandatory retirement (and probably the very institution of mandatory retirement) are out of date. Women in Sweden accumulate pension rights independently from the working career of their ‘breadwinning’ spouse, an arrangement that Sweden has in common with Switzerland, among other countries.

All three risks – education and training, job instability and reduced demand for work – must be considered against the background of eroding internal labour markets. From the perspective of risk management, internal labour markets operate with an implicit insurance contract, with the employer offering the male breadwinner a family wage, job security and earnings stability over the life-course in exchange for the acceptance of wages below the productivity level at the peak of the work career. This implicit insurance contract is breaking down without a clear alternative in sight yet.

A plausible conclusion would be to extend the principle of insurance to cover these new risks at least to some extent. But why would it be suboptimal to leave people alone with these new risks and to expect solutions through private savings or private insurance? Why should we rely on social insurance rather than on private savings for these new work/life risks?

On the Advantages of Social Insurance in Comparison to Private Savings

In order to find an adequate answer to these questions, we need to remind ourselves of the basic principle of social insurance. Reflecting on this matter 80 years ago, Hugo Sinzheimer interpreted the legal nature of social insurance as not being part of private law based on individual property rights but as collective law based on universal human rights that guarantee participation in the production and distribution of society’s welfare.[6] To ensure that people are not only ‘free from

6 In ‘Wandel im Weltbild des Juristen’ [‘Change in the World View of Lawyers’], Sinzheimer (1976, vol. 2, pp. 42–9) asserted that the introduction of social insurance created a new type of law, one ‘no longer based on legal capacity to be a subject of legal

want' (guaranteed access to basic necessities) but also 'free to act', the state is authorized to intervene in property rights and – to put it bluntly – to redistribute between those who are lucky and those who are not lucky in the lottery of natural endowments and the whims of the market.

There are also macroeconomic arguments in favour of insurance. When we refer to social risks we are not talking about tsunamis, hurricane Katrina, earthquakes or other types of exogenous catastrophes. Social risks are likely events related to social actions that imply individual losses of calculable probability if they occur and gains if they do not occur. Each individual could insure him- or herself against these losses by means of savings or precautionary measures.

In most cases, however, insuring oneself is more costly than pooling risks. Nobody keeps his own fire brigade; we all contribute to the community fire brigade instead. Furthermore, precaution or prevention may become costly and may tie up too many resources. For instance, in former times trading ships used to be accompanied by convoys to ward off pirates; insurance proved to be cheaper. In modern times, many labour markets are heavily regulated to protect against opportunistic resignations or dismissals, but it probably turns out that generous wage and employability insurance may not only be cheaper but also more equitable. I will come back to this point later.

If the risks are individually unrelated and distributed equally by chance, the potential losses can be privately insured. The insurer thereby organizes redistribution between those hit by the cost-causing event and those not hit by it. *Ex ante* – that is, before anyone knows who will be hit, before the veil of ignorance is lifted – insurance is a cooperative game of sharing risks. *Ex post*, after that veil has been lifted, insurance is redistribution from the lucky to the unlucky. If the insurance is effective, it establishes a win-win game.

To be efficient and equitable, however, insurance has to meet some conditions. The three most important ones are well known: no moral hazard, no adverse selection and no correlation of the risks. If risks are correlated or even infectious, as with unemployment, no private insurance can guarantee liquidity high enough to compensate for the losses. If risks are unequally distributed, bad risks would tend to overcrowd and good risks would tend to opt out. As a consequence, either

rights and duties but rather also on people's capacity to make a living' ['nicht mehr an Rechtsfähigkeit, sondern auch an Existenzfähigkeit der Menschen anknüpft']. The principle of property rights is complemented by the principle inherent in the rights of humanity, which justify redistribution. 'The new right intervenes in this redistribution arrangement by recognizing rights to share that derive not from property but rather from the fact that one is a human being' ['Das neue Recht greift in diese Verteilungsordnung ein, in dem es Anteilsberechtigungen anerkennt, die nicht aus dem Eigentum, sondern aus dem Menschsein folgt'], ibid., 45. Unlike private law, which is static, the new social law is dynamic. It does not aim at regulating legal relations between individuals; it is directed instead at social relationships that determine the situation of individuals (ibid., 48). Because the new law shapes legal relationships, it is known as reflexive law in modern terminology.

bad risks would have to pay deterrent high premiums, or private insurance will not be established. If moral hazard exists and is difficult to detect due to informational asymmetries, then control has to be exercised by legitimate power over which private insurers normally do not dispose.

These are the reasons why no civilized country has private unemployment insurance that sufficiently covers the risk of involuntary unemployment. Only the state can guarantee liquidity in the event of correlated risks. Only the state can force good risks to participate in the insurance or alleviate the burden of premiums for the bad risks. Only the state can ultimately exercise legitimate control over moral hazard.

However, if we argue for a wider application of the insurance principle, we have to go beyond the risk of unemployment. We have to ask why the welfare state in effect provides or organizes risk-sharing for many more life-course risks than it does for involuntary unemployment. Even liberal welfare states have some kinds of mandatory social insurance – such as those against the risks of low income (poverty), illness, disability, work accidents and old age. They at least play a strong regulatory role in supervising or supporting various kinds of private insurance.

The few mainstream economists who dare to deal with this question agree that the welfare state plays an indispensable role as a risk-sharing institution.[7] Why? First, social insurance can enhance efficiency by stimulating otherwise risk-averse people to engage in prosperity-enhancing activities. Historical examples abound. In fact, Peter Bernstein argues in his stimulating book *Against the Gods* (1996) that it was the invention of insurance that propelled modern capitalism. The rise of Venice to become the world's richest city in the 14th and 15th centuries would have been inconceivable without the invention of a modern insurance system. Henry Ford once said that New York would not have been built without the help of the insurance system.

In addition to the traditional arguments concerning market failure, political economists provide further important reasons for universal risk-sharing institutions. One is the timing problem related to risks over the life-course.[8] Typically, private insurance companies deal only with contingent risks that affect clearly distinguishable groups of people. Such risks include the risk of fire, theft or traffic accidents. They are not correlated with a person's lifetime. Social insurance, by contrast, is an all-inclusive insurance that protects against multiple and interdependent risks of lifetime careers. The insurance provided by the public tax and transfer system is an insurance against the randomness of career opportunities and in nature's lottery of innate abilities. Because of time dependencies, private insurance contracts would have to start right at the beginning of human life, maybe even with conception. How should a private insurer determine the premiums

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7 The best references, in my view, are Agell 1999 and 2002; Atkinson 1991 and 1999; Barr 2001 and Sinn 1995 and 1996.

8 See, in particular, Sinn 1996, 263–4.

and the indemnities for such complex and interrelated risks? Only public social insurance can deal with this time problem.

Another important reason for the advent of social insurance, one that cannot be explained by the traditional economic focus on information asymmetries and adverse selection, is related to the distinction between risk and uncertainty, which harks back to the classic work by Frank Knight (1964 [1921]). When social risks cannot be calculated, no private insurance can do the job of compensating for severe and irreversible damages. Faced with uncertainties such as wars, riots, epidemics, demographic imbalances, large-scale accidents and other unforeseeable challenges, social insurance contracts have to be flexible enough to mobilize quickly the resources to mitigate such risks and cope with them.[9]

Furthermore, proponents of rolling back the welfare state often neglect that social insurance did not develop as a rent-seeking behaviour of interest groups but as substitution for the erosion, weakness or even disappearance of traditional institutions such as the extended family, the ‘hinterland’ of small farms providing economic subsistence, the neighbourhoods, and the communities or trade unions organizing mutual self-help. The shift to universal social insurance systems occurred especially in countries exposed to rapid structural change and characterized by a relatively homogeneous population.[10]

There are a number of functional equivalents if tax-financed universal social insurance is not feasible. Although only second- or third-best solutions to insuring against the hazards of volatile wages directly through minimum-wage laws or unemployment insurance, there are indirect ways of narrowing and stabilizing wage distribution by means of centralized wage bargaining.[11] In Agell’s (2002) formal model, insurance benefits that derive from a small compression of the wage structure outweigh costs in terms of unemployment and reduced output. Furthermore, surveys persistently report that the state and collective social insurance systems are politically accepted, even strongly supported. The representative worker is willing to accept a lower expected wage in exchange for a wage structure that offers insurance against the uncertainty of who will be in the wage distribution.

Of course, there is a trade-off. On one hand, people protected by the welfare state engage in risky and profitable activities that they otherwise would not have dared to undertake. Risky occupations might not be chosen without the protection of the welfare state. And it would be difficult to find entrepreneurs willing to undertake risky investment if debtors’ prison were all that society provides should the venture fail. On the other, the welfare state may, in fact, make people too

9 See, in particular, Atkinson 1991. The Contergan case at the end of the 1950s and the beginning of the 1960s (also known as the scandal caused by Thalidomide) might serve as an instructive example of social risks that cannot easily be calculated.

10 See, in particular, Agell 2002.

11 In any case, totally flexible wages would aggravate cobweb-like (and therefore quite instable and costly) adjustments to external shocks (see Arrow 1971, for example).

eager to jump, to become careless, and to take excessively dangerous short cuts in the mountainous paths of life (Sinn 1996). This is the moral hazard to which an overwhelming majority of policy advisors call attention.

How to balance productive risk-taking by avoiding careless risk-taking and its moral hazard in a way that maximizes efficiency and equity is an old conundrum of welfare state theory. Risk-taking has important repercussions on the observable degree of inequality in the economy. If people choose more risks *ex ante*, there will typically be more inequality *ex post*. Risk-averse societies may exhibit relatively little inequality on the expense of reduced economic dynamism. By contrast, risk-taking societies may exhibit high economic incomes on the cost of high inequality, as the liberal US regime seems to demonstrate. Denmark, however, seems the odd case in this context. It has recently received increasing applause for its achievement of high risk-taking and low inequality both before and after taxes – the ‘flexicurity’ model par excellence.[12] It therefore does not seem that social insurance necessarily drives the ‘big trade-off between equality and efficiency’ (Okun 1975); under certain circumstances it may well lead to a ‘virtuous marriage between equality and efficiency’ (Schmid 1994b). The question of how such a complementary relationship might work shall be tackled in the next section.

Application of Risk-Sharing to New Social Risks

Can the new risks mentioned above be covered through an extension of the social insurance principle or, as a second-best solution, through a revitalization of self-insuring organizations such as collective wage bargaining? The argument in favour of such solutions will be developed in relation to two critical transitions over the life-course: first, risks related to parental leave (that is, the combination of parenting and work); and, second, risks related to educational or training leaves (that is, models combining them).

Sharing Risks Related to Parenting

What are the social risks related to parenting? The social construction of risks is clear in this area. The time problem already mentioned is best understood from the perspective of parents-to-be because for them the veil of ignorance has not yet been lifted. These parents do not know which abilities their children will be endowed with. They may fear that their children will suffer from illness and injuries. They may worry about bad teachers and friends. They are concerned about missing job opportunities and bad choices. They are afraid that their children may become unemployed, and they hope, but cannot be sure, that a successful marriage will be possible.

12 See Auer 2000 and Madsen 2005, for instance.

It is inconceivable that private insurers could cover these risks. They could do this only under the condition of contracts that would come close to bondage.[13] It would have to be acceptable for parents to allocate substantial portions of their children's future incomes to private institutions without their offspring having the chance to nullify or even modify the decision when they become adults. Private insurance contracts would therefore have to wait until a person comes of age. But by then most of the veil of ignorance would have been lifted. When both the insurer and the insured have the same knowledge about existing inequalities, they will not be able to enter mutually agreeable redistribution contracts. And when the insured person has superior knowledge, the typical adverse selection problem will exist.

In fact, the solution is probably simpler than this overly sophisticated economic talk suggests. Children are wonderful. Their risks cannot be calculated, and uncertainty cannot be insured privately. The solution for the lifetime risks of children can only be the family as an insurance device, or – if families are poor or family relationships become unstable – the state. The welfare state cannot eliminate these risks. But by offering a redistributive social contract between successful and unlucky children, it can help mitigate the consequences. All welfare states therefore offer some social protection against child poverty, equal access to primary and secondary education, and health and disability insurance. However, new risks arise, and that circumstance has much to do with endogenous changes related to values, families and labour markets.

Let us examine value changes first. As long as the role (that is, the responsibility) of parenting is socially ascribed to women, childbearing and child-rearing is not a risk that goes beyond the boundary of the family. However, as soon as it is accepted that both men and women should have the free choice of engaging in this task and that both should have the opportunity to earn their own income, caring for children involves a career risk as well as an income risk for both parents. One can even imagine conception being randomly distributed between men and women. In a way, of course, this idea is seriously misplaced, for most children are consciously planned. However, if you accept this thought experiment and take into account that men could also become pregnant, then you would probably agree that the debate over the compatibility of family work and labour market work would change drastically. Men would certainly be much more open for the concept of social risk-sharing related to parenting.[14]

I now turn to family and labour market changes. When children are born, not every one of them is hit by the related risks in the same way as all the others. Whether and how much men or women are affected depends on the employer, the occupation, the working tasks and the neighbourhood. Individuals normally cannot determine or predict these factors. For instance, people living in intact

13 As Sinn (1996, 263) puts it pointedly.

14 The topic of the 'pregnant man' goes far back in history and mythology; see Zapperi (1991).

families or functioning neighbourhoods can probably manage to combine market work and family work more easily than people who must live in broken families or those who are not integrated into a functioning neighbourhood. Furthermore, the number of single-parent families is climbing in almost all modern welfare states and thereby exacerbating the vulnerability of children and single parents alike.

The lack of social insurance against these new risks will lead to two kinds of penalties: wage and career penalties on one hand and social penalties on the other. The calculated average risk of wage penalty incurred by five years of full-time leave amounts to 1.5 to 2 percentage points yearly. The wage penalty declines to 0.5 percentage points if only part-time leave is taken, and it differs from one employment regime to the next. The wage penalty for interrupting full-time work is 7 percentage points in conservative regimes (such as Germany), compared to liberal regimes with medium public support for employment during the family phase (such as Canada), and compared to social democratic regimes enjoying high public support (for example, Sweden).[15] Such large wage penalties for complete employment interruptions can be taken as an argument in favour of publicly financed or publicly provided childcare during pre-school and elementary school. Such support would not only broaden the occupational choices of parents (especially women), but would pay off economically as well. One must also figure in the risks of status loss and restricted occupational choice after expiration of parental leave.[16]

The social penalties of inadequate social insurance are no less severe. Whenever children's lifetime risks are not properly provided for, the lapse will have repercussions on the decision to establish a family with children. From this perspective it becomes plausible that the welfare regimes with the largest drop in fertility rates are those in which life-course securities for children are not properly covered. If would-be parents are highly uncertain about how to protect against these risks, they will decide against having children. The desire to have children – an important aspect in the quality of life – will continue to be blocked if the future of the would-be parents themselves becomes insecure. Unemployment of the parents or of people in their immediate environment is one of the most important predictors of low fertility. One piece of evidence for the damaging impact of unemployment on family formation, although not a causal relationship in a strict sense, is the negative relationship between fertility rates and unemployment across OECD countries, in both cross-section and dynamic form (Figures 2.7a and 2.7b).

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15 See Gustafsson et al. 2002 and Stier et al. 2001. Similar results are offered by the varieties-of-capitalism approach. Coordinated regimes are characterized by higher specific human capital investment, the effect being that the wage penalty of employment interruptions is higher than in liberal regimes, where firms do not invest much in specific human capital. Correspondingly, wage penalties are generally higher for the highly skilled than for the low skilled, whereby the regime types, again, compound the differences; see Estevez-Abe 2001; Rosenbluth et al. 2002.

16 Of the vast literature on The Netherlands, see Vlasblom and Schippers 2005.

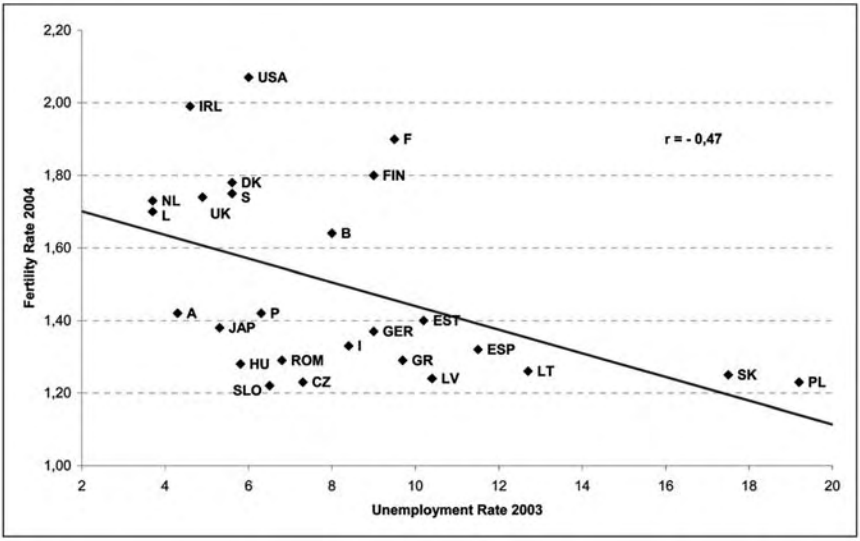

Figure 2.7a Fertility rates and unemployment in OECD countries: cross-section

Source: Eurostat.

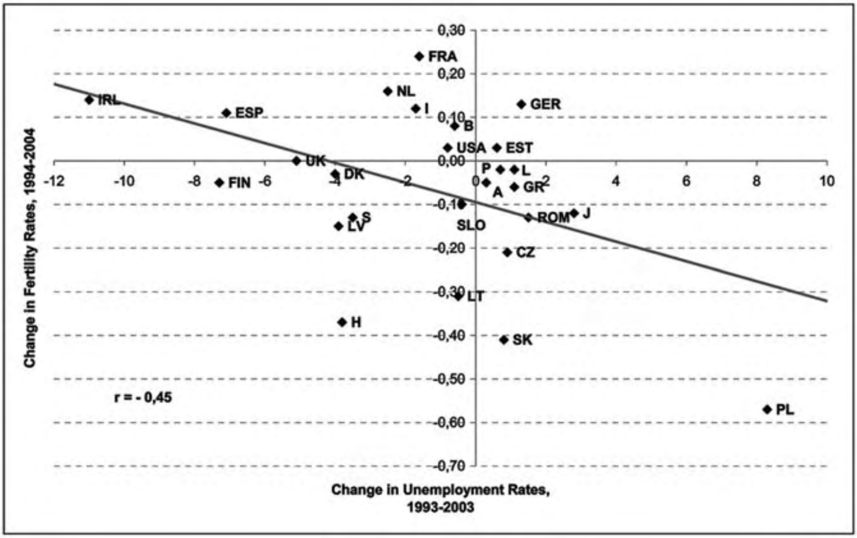

Figure 2.7b Fertility rates and unemployment in OECD countries: change in percentage points

Source: Eurostat.

Summing up, if we accept the abolition of traditional role ascription of who shall take care of children, we shroud ourselves in the veil of ignorance described by John Rawls (1990; 2001). Would-be parents do not know where they will end up in the lottery of their own careers and that of their children's careers. Hence, the structural situation for risk-sharing through social insurance is given, and it legitimates redistribution between fortunate and less-fortunate parents and their children. To the extent that societies value their children, there are strong arguments for inter-generational redistribution and intra-generational redistribution. In the inter-generational contract, this would be a generous lump sum to cover some of the immediate costs of children (a non-means-tested child allowance). In the intra-generational contract, this would be wage insurance to compensate for the risk of reduced earning capacities due to childcare.[17]

In terms of governance, parental risk-sharing as social insurance would have the advantage of reducing the fragmented, non-transparent and often contradictory childcare subsidies that have mushroomed over the decades.[18] There are further strong arguments for providing tax-financed public childcare facilities or at least for ensuring affordable public or private childcare services through tax premiums. Finally, there are even strong arguments for introducing take-it-or-leave-it paternity leaves to share the risks between men and women equally, as already introduced on a small scale in Scandinavia. The other side of the coin, however, would be the acceptance of co-financing and the willingness to negotiate solutions to complicated problems of coordination between employers and employees.

Sharing Risks Related to Continuing Education and Training

A case for social insurance can also be made in relation to sharing risks associated with education, continuing education and training. There are a number of reasons why the state should become involved in sharing risks related to deteriorating skills over the life-course, to skills lacked by a person who must change jobs, or to the uncertainty of returns on investments in human capital, and why these matters should not be left solely to individual savings or precautionary measures taken by employers or employees.

The first reason why the state should become involved is savings restrictions: most people who need continuing education and training lack the necessary financial resources. Numerous studies have shown that people with the greatest need for continuing education and training are often not able to save enough for substantial investments. Apart from the fact that participation in continuing education and training varies between 10 per cent and 40 per cent of the labour force on average from one OECD country to another, the participation of highly

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17 This arrangement means paying a generous wage replacement of, say, 80 per cent for up to two years instead of only a small lump sum, which usually leads to parental leave being taken by low-income women.

18 Germany has about 150 such childcare subsidies.

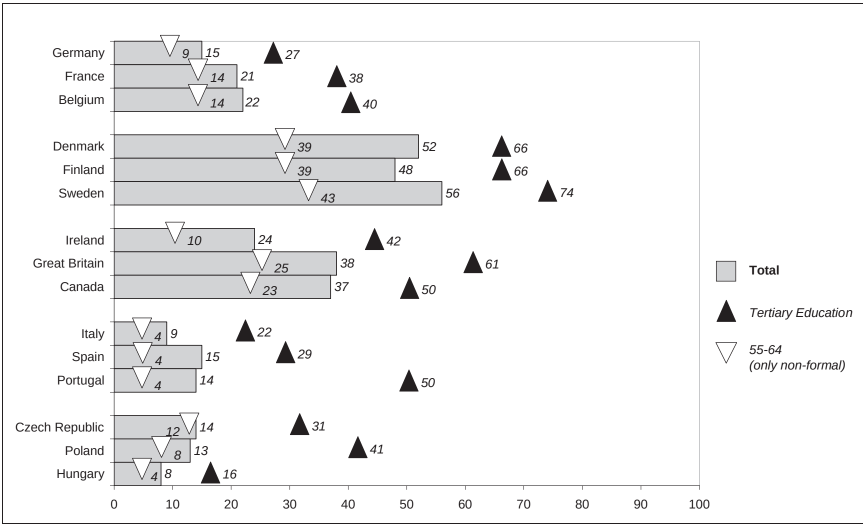

Figure 2.8 Participation rates in formal and non-formal continuing education and training, in percentage terms, 2003

Note: Labour force aged 25–65 years.

Source: OECD Education at a Glance, 2005, Tables C6.1a, C6.4.

skilled persons is an average of 26 percentage points higher than for people with low or only upper secondary skills (see Figure 2.8). Multivariate studies using industry, educational attainment, gender and age to explain participation produces a fairly stable result. In most countries, the only significantly positive variables are the level of educational attainment and the upper tier of the service industry. In a few countries the age group of 55–64-year-olds is significantly negative (OECD 2005, 314). Studies on the reason for non-participation in training on the supply side emphasize financial bottlenecks as important determinants especially for the low-skilled. On the demand side, education and training costs decrease for the employers as employee skills improve through higher learning capacities and lower risks of failing at training courses.[19]

The second reason why the state should help shoulder the risks related to education and training is capital market failure. The market does not grant credit to those who most need continuing education and training.[20] High risks of default make banks reluctant to grant such loans to young or mature adults. Unlike a housing loan, an education or training loan has no collateral for the bank to sell if the loan recipient defaults on repayment. The implication is that banks will

19 For facts and figures related to participation and investment in continuing education and training, see OECD 2003, 2004 and 2005.

20 The following reasoning is inspired, among others, by Chapman and Ryan 2005.

not be interested in underwriting human capital investments unless at least one of two conditions is met: (1) high interest rates with deterrent effects on would-be loan-takers, or (2) securities from assets other than human capital, a demand many candidates for loans cannot fulfil. Prospective investors without sufficient financial resources or real estate will not be able to invest in continuing education and training. This foreclosure has four important implications: a loss of talent and, hence, a cost to the whole society; a loss of opportunity for individuals; a cementing of inequalities resulting from previous disadvantages related to family background and education; and the perpetuation of inter-generational inequality.

The third argument in favour of risk-sharing by the state is lack of equity. The people who most prefer investment in continuing education and training may have the weakest position in private household bargaining, even where government-assisted bank loans are an option. Government assistance would be linked to means testing. This approach rests on the assumption that the individuals involved have equal access to household income, which might not hold for young dependent family members or women in a weak bargaining position. This condition would, in turn, restrict loan access for those family members who value human capital investments more highly than the co-determining family members.

The greatest problem, however, is default. The risk of inability to repay a loan is highest among those with a poor income background. Experience has shown that default rates among such people are very high.[21] If government guarantees are unlimited, investors will put little care into their choice of investment, and banks will put little effort into debt recovery. Default and moral hazard problems can make government assistance very expensive for taxpayers. Thus, governments will assist only if quite restrictive guarantees are agreed to. In other words, bank loans will have to be repaid under normal circumstances. This condition has serious implications for would-be borrowers. Out of fear of not meeting future repayment obligations, some eligible investors will not be prepared to take bank loans. They would also fear damage to their credit reputation and, hence, to their future borrowing ability, say, for a house. Consequently, some eligible borrowers will not be prepared to take out bank loans. Risk aversion is intensified by the fact that returns on continuing education and training investments are particularly uncertain.[22]

What are the alternatives? Some countries have experimented with various forms of state-subsidized individual training accounts, such as individual development accounts (IDAs), individual learning accounts (ILAs) and long-term time-saving accounts (TSAs) especially earmarked for education and training. It is too early

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21 Chapman and Ryan 2005, footnote 10, quote literature reporting 15 to 30 per cent average default rates for student loans in Australia and 50 per cent in the US.

22 First, it is unsure that the complex web of factors that influence the returns on continuing education and training can be analytically disentangled. Second, returns can materialize quite late in a person's career, as shown by most of the recent evaluation research on this subject; see Heckman et al. 2002.

to assess these experiments, but most of them have been failures. Moral hazard or even fraud terminated some of them (for example, the UK's ILA) in the middle of their implementation. Other types of state-subsidized individual training accounts were even not introduced despite long preparations, as happened in Sweden for fear of unbalanced social consequences favouring people who were already well off. Even a panel of experts in the US came to an ambivalent result after studying the idea of complementing social insurance with individual accounts.

The strongest arguments in favour of such accounts were that they:

- counter-balance the political discretion of purely publicly administrated social insurance,
- encourage individual responsibility,
- allow individual ownership and individual choice, and
- perhaps discourage tax evasion and increase incentives to participate.

The strongest arguments against state-subsidized individual training accounts were that they:

- escalate administrative costs,
- expose workers to market risks and the risk of poor investment choices,
- erode the benefit level provided to those with low earnings,
- undercut the sense of community responsibility and shared concerns embodied in Social Security,
- entail undesirably large variation in benefits between members of different cohorts employing the same investment strategy, and
- restore actuarial balance in the existing system, an effect that might revive worker's confidence in the future of Social Security. By diverting revenues and introducing new risks, individual accounts might not improve confidence in either the remaining defined-benefit portion of Social Security or in the overall system.

In fact, the balance of the pros and cons reflected a fair degree of scepticism about individual accounts.[23] This finding raises the question as to whether combining social insurance and elements of individual choice and responsibility would be more promising than state-subsidized individual training accounts. A worthy example is Australia's Higher Education Contribution Scheme (HECS). This income-contingent loan, introduced in 1989 and amended in 1997, goes beyond risk-pooling, which would be possible to organize privately. It is a public/private risk-sharing device for financing higher education. All students are entitled to a loan regardless of family income. The debts must be repaid only if a stated income

23 Diamond 1999, 21–4; see also, for differentiated view and the dampening of high expectations of private social insurance, Pearson and Martin 2005.

threshold is exceeded.[24] The issues of default and moral hazard are effectively resolved by a government guarantee if default occurs and by repayment through the effective governmental tax authorities. New Zealand (1991) and the UK (2005) have introduced this kind of scheme, and Thailand has followed in 2006.

The Australian scheme seems to be accepted. It does have flaws, however. Although HECS was introduced explicitly to improve the share of university students from poor family backgrounds, it had no discernible effect on this target group. It may have helped expand overall university attendance, but it made only the middle class (and perhaps women) better off without making the poor worse off.[25] Another problem of the Australian scheme is the political discretion of fixing the earnings threshold beyond which the debts must be repaid. After a relatively generous threshold set by the Labour government in 1988, the Conservative government lowered the threshold considerably, slashing the implicit subsidy of the loans. This discretion is probably the main reason for the mediocre success of the programme, for it has created uncertainties that deter the most risk-averse students – those from poor backgrounds – from taking out these income-contingent loans.

In principle, income-contingent loans could also be used for continuing education and training. Apart from the critical points already mentioned, however, practical problems exist. Most continuing education and training is piecemeal and ad hoc, a characteristic that makes it difficult to attribute rising income to these kinds of fuzzy investments. And unlike higher education, which generates overwhelmingly general and transferable skills, continuing education and training produces more company-specific, less transferable and therefore riskier skills. Thus, one can expect employers and employees to share risk or the firm to shoulder all of it. In fact, however, we are again confronted with the 'Matthew' principle that the people who profit most from company-specific training are those who already have a strong position within the company or who enjoy overall employability on the labour market. In addition, recent literature shows that company-financed training has many more general traits than is usually assumed.[26]

What about other alternatives to state-subsidized individual training accounts? It should be clear by now that one-size-fits-all solutions are impossible in this complicated area of continuing education and training. The case for sharing risks

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24 For a description and evaluation of the HECS, see especially Chapman 2005 and Chapman and Ryan 2005.

25 In economic terms the scheme thus met the Pareto efficiency criterion but not the Rawls criterion. The justice theory of John Rawls (1990, 2001) advocates, instead, making the rich better off without making the poor worse off. In Rawls' terms, HECS would be justifiable only if the remaining inequality lifts everyone's lot through greater efficiency, which in the present context means improved growth rates. It may be that HECS meet this criterion, provided that the increasing participation in higher education was due to HECS and that it contributed to growth.

26 There is even evidence that firms use general training as an insurance device. See Acemoglu and Pischke 1998 and Feuer et al. 1991.

through social insurance does not seem as strong. After all, the externalities related to continuing education and training might not be as major as those related to primary, secondary, and higher education. Market failures related to continuing education and training might not be as strong. And risk-sharing between employers and employees should be assumed in many instances. Nonetheless, untapped qualification potentials, looming shortages of skilled labour, and disadvantaged groups legitimate state involvement. The involvement of the state can take different forms, and there are still second-best solutions through other forms of collective insurance. Examples illustrating the range of possibilities will end this section.

First, the state can use its redistributive capacity of taxation to ensure a second chance for those who were unlucky on the education and training market. This reprieve could be a form of financing periodically targeted programmes for lifting the overall level of knowledge and competence of the disadvantaged.[27] An instructive example is the Swedish 'Knowledge Lift' (*kunshaftsliftet*) programme, which spent an annual sum of about €350 million on upgrading the knowledge and competence of low-skilled employees or unemployed persons from 1997 to 2002. Applied to The Netherlands, this would amount to a yearly investment of about €700 million and 200,000 additional participants in continuing education and training.

Second, the entitlements to unemployment benefits can be 'activated' as 'social drawing rights' in the form of training vouchers or job subsidies. The concept of active labour market policy has already extended the insurance principle to those unemployed who need education or training in order to find a new job. Job subsidies for the unskilled can thereby be interpreted as employability measures because learning on a matched job in a firm is a functional equivalent of formal training for this target group.[28] The spiralling need for continuing education and training would suggest extending the entitlement to vouchers to low-skilled employees as well if they have accumulated unemployment benefit entitlements for a number of years. Denmark and Sweden have long practised this transformation of unemployment benefits into education-and-training benefits.[29]

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27 This approach corresponds to Dworkin's (2000) theory of equality in which he recommended periodic redistribution to correct for random inequalities in order to make access of resources equal. One way of doing so is to impose heavy taxes on non-invested inherited assets. On the normative foundation of social risk management, see also Schmid 2006.

28 For the unskilled, Dustmann and Meghir (2005) found substantial positive returns related only to firm tenure. They concluded that programmes designed to improve the employability of the unskilled by means of general work experience are likely to be less successful, at least in Germany, than programmes attempting to match a worker with a firm during an initial job subsidy.

29 For arguments in favour of vouchers and drawing-right systems, see Supiot 2000 and 2001, and Wilthagen and Rogowski 2002; both sources provide examples of good practice in this area. Supiot defines such drawing rights exactly in the tradition of Hugo Sinzheimer – as rights built on the notion of people's civil status. However, these rights relate to rights to exercise liberty, so their use simultaneously implies individual responsibility,

A third alternative to state-subsidized individual training accounts is the idea of stimulating continuing education and training by means of tax deductibles, including tax credits for those who pay little or no tax. Austria, for instance, provides 120 per cent deductibles for firms investing in the employability of their employees. Another example is deferred taxation of savings accounts related to continuing education and training.

Fourth, collective agreements can include individual training or timesaving accounts, with the state guaranteeing transferability and liquidity of such entitlements and funds. Yet another possibility is an agreement on 'working time reductions' in the form of investment. In this arrangement, employees agree to use reduced working time for education and training and thereby share the costs with the employers. The state can enter the game – as is often the case in The Netherlands – and enlarge the risk community by mandatory extension of such collective agreements to prevent cutthroat price competition between companies.[30]

Covenants are a fifth alternative to state-subsidized individual training accounts. As a soft form of governance, covenants seem especially well suited to managing the risks of continuing education and training.[31] As previously noted, the situation surrounding the decision about investing in education or training is characterized by great uncertainties. First, there is the uncertainty about the required skills in the future training market. Second, the players of the game – employers, employees, and the state as the representative of externalities – do not know in advance where gains are going to accrue and where losses must be incurred. This observation holds true at the micro- and macro-levels alike. The veil of ignorance – the insurance situation – is a given.

Covenants are written agreements between two or more parties or partners and signed by each of them with the understanding that they are committed to cooperation for an overarching common goal. In many cases, the state is involved as an initiating and co-signing partner. Unlike private or public contracts, covenants are voluntary and require no legal framework. Partners thus retain an exit option if the risk-taking appears excessive. On the other hand, the agreements also contain voice options regulating procedures to solve problems step by step as they arise. Because the balance of costs and benefits for the partners involved might change at each step, there must be trust that corrective measures are taken in pursuit of the common goal. Such 'induced decision-making' through learning-by-doing,

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including the acknowledgment of quantitative (financial) and qualitative (social) limits. The quantitative limit in extended risk communities of this sort implies the acceptance of fair co-financing. The qualitative limit implies the acceptance of coordination in using the drawing rights, usually by way of negotiation and mutual agreements; that is, through soft forms of governance.

30 A further example of extension of collective bargaining agreements (related to continuing education and training) can be found in the German construction industry.

31 On this point and in the following passages, I rely heavily on the excellent and stimulating contributions of Korver and Oeij 2005 and their chapter in this volume.

muddling through step by step, and learning-by-monitoring are the essence of covenants to establish such trust relationships.[32]

Covenants as public/private partnerships have become rather popular as a policy instrument, particularly in The Netherlands. There are two reasons for this development: (1) to overcome state failures in regulating complex issues, and (2) to close the gaps of inadequate laws that are either not followed properly or even circumvented. There are reportedly several hundred such covenants in The Netherlands. These agreements pertain to environmental issues, energy-saving, educational matters, health care, traffic and transport, housing, and especially working conditions. Best practice in continuing education and training is not common knowledge yet, but it probably already exists and may be the secret of successful local or regional labour markets. It is also likely to evolve, for the urgency of this overarching common goal at all levels of governance is pressing, not least in relation to the Lisbon goal of the EES.[33]

However, it would be a mistake to consider risk aversion only in economic terms. Prospect theory, or the psychological theory of intuitive beliefs and choices, teaches us that risk aversion is not only a matter of rational choice that can be resolved with the right economic incentives.[34] The way that people perceive risks greatly determines their daily choices, and utility is not only a matter of income maximization but also of cognitive and emotional relationships. The consequences of these insights for the management of new social risks will be explored in the next section.

Sharing and Governing Risks under the Lens of Risk Perception

How can risk aversion be overcome in order to induce people to accept more risks and the increased responsibility that goes with them? Prospect theory (Kahnemann and Tversky 2000) provides interesting insights into this question. Most people tend toward myopic risk perceptions. They overestimate small-scale risks in the foreseeable future, and they underestimate large-scale risks that seem to lie far ahead. Most people are therefore more apt to buy travel insurance than disability insurance. Most people also underestimate the risk of unemployment or the risk of large income loss due to the erosion or lack of skills over the life-course.

Another important psychological insight is that losses loom larger than gains in risk perception. Most people prefer small, certain gains to large, uncertain gains – that is, they prefer a bird in the hand to two in the bush. Yet most people are extremely averse to loss. They do not like to give things away even if the prospect

32 On the concepts of induced decision-making, learning-by-monitoring, and policy learning, see also Hirschman 1967 and 1995, Sabel 1994 and 1995 and Hemerijck and Visser 2003.

33 See Ferrera 2005 and Kok 2004, among many others.

34 See especially Kahnemann and Tversky 2000 and Gigerenzer 2002. For an application to labour market policy, see Schmid 2006.

of gain is bright. Psychologists have found that the loss/gain ratio is about two to one. It thus makes a difference in perception whether you frame a risk in terms of loss alternatives or gain alternatives.

Important conclusions for the design of risk-sharing policy can be drawn from these insights. Daniel Bernoulli (1700–1792), one of the founders of probability theory and risk management, gives us a clue. As he pointed out, a beggar will not give up begging for a workfare job, for he would lose his ability to beg. He has to be offered something more.[35]

What could that 'more' be? The concept of transitional labour markets (TLMs) suggests a specific solution to this psychological problem: the extension of the expectation horizon through a set of opportunity structures available in the most critical events during the life-course.[36]

The first pillar in an extension of the horizon of expectation would be the *establishment of new social rights that go beyond employment*. I am sure it would be in the spirit of Hugo Sinzheimer to extend the employment contract to an employability contract that includes income and employment risks related to transitions between various employment statuses.

As forcefully presented in the Supiot Report, these social rights are new in content, scope, and nature (Supiot 2001). They are new in that they cover subjects unfamiliar to industrial wage-earners: rights to education and training, to appropriate working hours, to a family life, and to occupational redeployment, retraining or vocational rehabilitation. Their scope is also new since they would cover not only 'regular' wage earners but also the self-employed; the semi-self-employed; and temp-agency, contract and marginal workers. They are new in nature because they often take the form of vouchers or social drawing rights, which allow workers to rely on solidarity within defined and perhaps collectively bargained limits when exercising their new freedoms.

These new securities can no longer be seen as being given in exchange for subordination (as in the old employment contract), but as the foundations of a new freedom to act. They can be considered as active social securities, which go hand in hand with workers' initiatives to shoulder the risks of flexible employment relationships instead of restricting them.

The second pillar in an extension of the horizon of expectation would actually consist of *stepping-stones and bridges for overcoming critical events during the life-course*. The tendency to overestimate immediate small risks and underestimating distant large risks leads people to perceive the risk of being stuck in the low-wage sector to be greater than the risk of long-term unemployment resulting, perhaps, from being too choosy about the jobs they will accept. Active

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35 Quoted in Bernstein 1996, 119f.

36 On the concept and applications of TLM, see O'Reilly et al. 2000, de Koning and Mosley 2001, Schmid and Gazier 2002, Schömann and O'Connell 2002, and Mosley et al. 2002. For The Netherlands, see especially Wilthagen 2002, Muffels et al. 2002 and van den Heuvel et al. 2004.

labour market policies, therefore, should not be confined solely to offering jobs and placing individuals in work. Follow-up measures are required for transforming workfare measures into stepping-stones to a sustainable job career.

The third pillar in any extension of the horizon of expectation would be *psychological bridges for overcoming asymmetric risk perception*. Acceptance of a risky new job often requires abandonment of familiar certainties, such as confidence in one's own productive capacities or the reliability of social assistance benefits possibly supplemented by a small amount of clandestine employment.

Among people from a relatively poor background, the psychological dimension of risk aversion is compounded by the financial dimension, with the former paradoxically sometimes being even more important than the latter, as Bernoulli's beggar has already suggested. Motivation studies have shown that poor people are especially dependent on the sociability of their peer groups. But training and education often imply a change of peer group, particularly when job mobility is required. Hence, it might be advisable to arrange group measures instead of individualized measures in such cases.

The financial implication for programme design is to ensure that fallback positions are always plainly available. It is therefore important for people from financially insecure backgrounds to have the opportunity to try out several jobs without benefits being withdrawn immediately if one option does not immediately lead to success. Trust in such sets of opportunities rules out workfare strategies that rigidly preclude trial and error as a productive job search strategy. For the same reason, the implementation of training measures for these target groups should also avoid the creation of exaggerated expectations, which can be nurtured when a job candidate is required to pass formal examinations.

The fourth pillar in an extension of the expectation horizon would be the *establishment and reinforcement of learning communities*. Coping with the risks of parenting and of education and training have demonstrated the importance of uncertainty, including that of family timing, of the needs to care for children, of the skills required by the future training market and of one's position in the wage distribution after investment. These kinds of uncertainty defy precise advance calculation of financial contributions and benefits, for the risks occur only in the course of action. It is therefore necessary to design forms of social contracts that make constant revisions possible in order to recalibrate the balance of costs and benefits. Social insurance against new risks thus requires soft forms of governance that allow learning in the process of implementation.

In reality, we already know many forms of such learning communities based on soft law governance. Collective bargaining agreements (for example) turn out to be, on closer inspection, framework agreements that enable flexible negotiations of their implementation. The social dialogue and the open method of coordination at the European level are modern forms of such learning communities. And as previously mentioned, two Dutch researchers have recently drawn attention to *covenants* as a promising form of learning-by-monitoring (Korver and Oeij 2005 and their chapter in this volume).

Conclusion

By way of conclusion a number of points can be kept in mind.

First, new social risks have evolved from familiar risks not yet well covered by unemployment insurance or other insurance devices. They include increasing social risks related to human capital investment; increasing risks of job instability related to family, to care, and to lifelong learning obligations; along with increasing earning capacity risks due to ageing and new ways of organizing work.

Second, compared to private insurance, social insurance has the great advantage of keeping the rules of the game flexible. In addition, democratically legitimate governments can redistribute *ex ante* on the basis of social criteria or, to use an outmoded term, solidarity. Solidarity is fundamental to social insurance, as expressed in spirit by Lord Beveridge in his famous 1942 report entitled *Social Insurance and Allied Services*: 'The term social insurance', he wrote, 'implies both that it is compulsory and that men stand together with their fellows.' This notion, of course, is precisely the reason for the fierce opposition to social insurance from neoliberal quarters.

Third, if we accept that the practice of ascribing the role of childcare solely to women has been abolished, we cloak ourselves in the veil of ignorance described by John Rawls. Would-be parents do not know where they will end up in the lottery of their own careers and that of their children's careers. In other words, the structural situation for risk-sharing through social insurance is a given, and this legitimates redistribution between fortunate and less fortunate parents and children. That redistribution could take place, for instance, through generous non-means-tested child allowances and wage insurance during parental leave.

Fourth, sharing risks by applying social insurance principles could also stimulate low-skilled young and mature adults alike to increase their participation in continuing education and training so as to enhance their employability. With proper incentives, employers and other regional actors can be brought into the boat through income-contingent loans, periodic governmental second-chance programmes, tax deductibles or deferred taxes on educational or timesaving accounts.

Fifth, it would be a mistake to consider risk aversion only in economic terms. This stance is supported by Sinzheimer's view of social insurance quoted at the beginning of this chapter. Prospect theory, or the theory of intuitive beliefs and choices, teaches us that risk aversion is not a matter of rational choice alone. It is also a matter of cognitive and emotional relationships. Active or activating labour market policy still has a long way to go to exploit these insights in an effective recalibration of social risk management, especially when it experiments with new forms of governance as means of implementation of these policies. What is needed is a combination of new social rights, such as training leaves and training vouchers, and soft forms of governance, such as negotiated flexibility, covenants and open methods of coordination.

The concept of TLM makes suggestions in this direction, and there is some reason to hope that it is receiving increased attention, for example through the ingenious experimental spirit of Dutch politics.

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PART II
The European Employment Strategy and Transitional Labour Markets

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Chapter 3
Research in Transitional Labour Markets: Implications for the European Employment Strategy

Axel van den Berg and Erik de Gier

Introduction

The European Social Model (ESM) is a multi-faceted concept used to refer to several different sets of ideas and covering a variety of distinct welfare state regimes (as demonstrated, for example, by Jepsen and Serrano Pascual 2005). There is one feature, however, that all different uses of the term have in common: at a minimum, the ESM stands for a commitment to promote economic growth and social protection or social cohesion simultaneously in the EU. This was also the overarching commitment behind the European Employment Strategy (EES) since its very inception in 1997.

While the main stated objective of what was to become known as the Lisbon Strategy was the transformation of the EU into the most competitive knowledge-based economy of the world by 2010, this objective was to be achieved by a judicious combination of policies aiming at economic growth and social inclusion. This combination of aims can be easily traced in the successive EES guidelines reviewed by Ralf Rogowski in Chapter 1 of this volume.

As Rogowski also shows, the transitional labour market (TLM) approach has much in common with the ESM and the EES in terms of both ultimate goals and more concrete concerns and policy recommendations. With respect to the ultimate goals it shares the commitment to seeking ways and means to combine high levels of social protection with high levels of productivity in a context of high-quality employment. At the intermediate, programmatic level, the guidelines contain a number of TLM-relevant aspects, including a lifecycle approach to work, inclusive labour markets for jobseekers and disadvantaged people, flexibility combined with employment security and the adaptation of education and training systems to new competence requirements. In terms of more concrete policy recommendations the TLM approach has provided the basis for advocating policies that facilitate the major transitions within the labour market and between it and other life activities in such a way as to maintain social protection while at the same time enhancing economic flexibility and efficiency. These affinities between TLM and the EES are more than coincidental, as Rogowski also notes: TLM scholars, first and foremost Günther Schmid, have had a significant degree of direct influence on the formulation of the successive EES guidelines and targets.

It can be predicted that the TLM approach will continue to make major contributions to the further development of the EES through the wide-ranging research activity that it has inspired. At this point we should remind ourselves that the main targets and guidelines issued by the EES are deliberately set in very general terms and that the means by which they will be achieved are left open in recognition of the diversity of practices, conditions and jurisdictions within the EU community. The open method of coordination (OMC) was conceived specifically to manage this delicate combination of shared ultimate goals and potentially varied policy routes towards them. In some respects, research conducted from the vantage point of the transitional labour markets approach examines a variety of more concrete means of reaching the EES's general targets, by focusing on a well-defined set of important labour market transitions. But in its explicitly comparative orientation it also serves to provide some of the scientific knowledge base for the assessments of country performance and the mutual learning process aimed at by the OMC. In this way, TLM-based research stands to make major contributions to the processes of policy learning through information exchange, benchmarking, peer review, deliberation and blaming and shaming envisaged by the OMC (Scharpf 2002).

In his chapter in this volume, Rogowski identifies a number of EES policy aims and research domains for which the transitional labour markets approach is particularly relevant. In our chapter we present a survey of the main policy-relevant research results of the TLM.NET research community, particularly from the point of view of the contributions they make towards achieving those shared aims. Accordingly, we will present the findings roughly following those aims or themes as identified by Rogowski.

TLM.NET Research and its Policy Implications: a Survey[1]

The general aims of the ESM and the EES must be seen in the wider context of rapidly changing conditions and demands in the economies and labour markets of the Member States of the EU. The main trends include the emergence of the so-called 'knowledge economy', the ageing of the (working) population, the rise in the labour force participation of women, and 'globalization'. All of these trends converge to produce a rapid diversification of employment arrangements statuses and careers, rising flexibility requirements on the part of both employers and employees, and growing demand for continuous (re-)training. This means, *inter alia*, that the many possible transitions between these different arrangements and

1 For a more detailed presentation of the findings of the research associated with the TLM.NET network see de Gier and van den Berg 2005. The following section is largely based on Chapter 5 of that book.

statuses carry with them a whole new set of possible social risks. Dealing with these new risks, in turn, poses a major challenge to the traditional social protection apparatus which was primarily designed to cope with the risks associated with the 'standard' employment and career model. At the very heart of the TLM approach is the ambition to help develop policies of managing these risks and transitions in such a way as to limit undesirable ('exclusionary') and foster positive ('integrative') transitions, thereby promoting trajectories for all workers that are both socially useful and individually desirable.

Combining Flexibility with Employment Security

These new challenges raise anew the old issue of the possible trade-off between social objectives (social protection) and economic goals (efficiency). At bottom, both the Lisbon Strategy and TLM proceed from the assumption that there are ways in which it is possible to avoid the seeming inescapability of the social protection/efficiency trade-off, policies and institutional innovations that might even enable social protection to partly underwrite efficiency and flexibility in the labour market, in short, forms of 'flexicurity'.

Welfare Regimes and Flexicurity

Some of the TLM research provides provisional reasons for caution as well as optimism with respect to the possibility of achieving a mutually reinforcing relationship between flexibility and security. While there is evidence that in the so-called 'liberal' regimes, which provide relatively low levels of social protection, labour markets are indeed more flexible than in other regimes – which appears to support the neoclassical idea of an inescapable trade-off between flexibility and security – there is also some evidence to suggest that the seemingly *most* socially protective 'social democratic' regimes manage to generate almost as much labour market flexibility as the liberal ones, without significant apparent welfare loss as compared to the latter (Muffels and Luijkx 2005; Ziguras and Stricker 2004).

Muffels and Luijkx analysed ECHP data covering the 1990s on job mobility and employment transition patterns across 12 European welfare states. They found widely diverging mobility and employment security patterns across countries and regimes. One important conclusion is that, quite contrary to the predictions of the advocates of neoliberal reforms, the ongoing trends noted above do not necessarily force a convergence in the direction of a wholesale shift of the balance between a flexible labour market and employment security in favour of flexibility. The second important conclusion is that the ability to combine flexibility with security runs across welfare state regime types in a wholly unexpected manner. It turns out that, despite substantial differences, both social democratic regimes and liberal regimes perform relatively well with respect to maintaining a balance between flexibility and security. Moreover, in terms of overall performance outcomes the two regime types appear to be less different from each other than from the other welfare state types ('Continental' and 'Mediterranean'). Thus, liberal labour market regimes such as the UK and Ireland perform well with respect to flexibility and efficiency (in terms of mobility), as perhaps expected, but they also perform relatively well regarding maintaining employment security in terms of keeping unemployment spells relatively short. On the other hand, they perform less well in keeping income security at satisfactory levels and in terms of earnings equality. Social democratic regimes such as Denmark, Austria and The Netherlands, on the other hand, perform better with respect to work and income security and are much more egalitarian, but do somewhat less well with respect to efficiency. It is the Southern, 'Mediterranean' regimes (Spain, Italy and Greece) that appear to perform worst both in terms of flexibility and with respect to work security. The 'Continental' countries (Germany, Belgium, France, Luxemburg) perform somewhere in between. It is worth noting in this context that one major feature that distinguishes the latter two regime types is their strong tradition of job and dismissal protection, which is often cited as a major source of rigidity in their labour markets. We will return to this issue below.

Flexibility through 'Precarious' Jobs: Solution or Problem?

Several TLM papers document the rapid growth across the EU of 'precarious' employment; that is, jobs that are on time-limited contracts or are casual. Cross-country evidence suggests that such jobs function as an alternative strategy to enhance labour market flexibility in contexts where job protection legislation for permanent employees is strong. Thus, Chung's (2005) comparison of 19 OECD countries shows that there is a clear inverse relationship between the strictness of legal employment protection and the prevalence of temporary labour contracts. A major concern is whether these kinds of jobs create a second-class segment in the labour market from which it is difficult to escape or serve as possible stepping-stones to more permanent employment (Debels 2004). Temporary jobs are widely used in case of first-time labour market entry. Hence, particularly women and young workers are prone to occupy such jobs. In their international comparison, Muffels and Luijkx explicitly look at transition patterns from such jobs ('flexjobs') to permanent jobs. In this respect as well, they find that the countries with the strictest job protection regimes, the Southern European countries, perform worst. They also show that education, work experience and unemployment history play an important role in upward as well as downward mobility in all countries: perhaps not surprisingly, the higher the human capital endowments, the more likely is a move upwards into better jobs and the less likely is a move downwards into less stable or lower-level jobs. Relatively low-skilled workers are more prone to downward moves in this respect (Muffels and Luijkx 2005). While confirming these findings in part, Gagliarducci (2005) also shows that the relationship between labour market regime and the fate of non-permanent workers is perhaps somewhat more complicated. His comparison between permanent and non-permanent workers in the UK and Italy shows that while the non-permanent have less stable work histories (that is, more frequent spells of unemployment) than permanent workers in both countries, in the more liberalized UK these spells tend to be more frequent but shorter than in Italy with its stronger job protection regime.

These findings are confirmed by several country-specific studies that document significant differences between the various welfare and employment systems in the EU. Taken together these papers tend to show that whether non-permanent jobs serve as stepping-stones to permanent ones or as a new form of permanent segmentation depends on the institutional context, in particular the degree to which existing permanent jobs are subject to strong job protection. Such protection presumably reduces possible flows into and out of such jobs and hence puts limits on the degree to which non-permanent jobs *can* serve as stepping-stones, although activating policy interventions meant to move workers from temporary to permanent jobs do seem to have some positive effect here (Verdú et al. 2004). In Spain and Italy the rate of involuntary temporary workers is very high,[2] although temporary workers are still more likely than the unemployed to find a permanent job in the end (Hernanz et al. 2005). A complicating factor in Spain and Italy is that first-time job seekers are not entitled to legal social protection and are therefore dependent on the family as a safety net. The likelihood of young workers in both countries of finding a first permanent job depends strongly on previous educational success. This is even more the case for women entering the labour market than for men (Verdú et al. 2004). Finally, a study on the value-added logistics industry in The Netherlands confirms the crucial importance of training for upward mobility of low-skilled non-permanent workers, a process which depends greatly on the character of the firms employing them (van Velzen 2004).

Denmark: the New Flexicurity Model?

Denmark is currently held up as perhaps the most successful example of a country pursuing ‘flexicurity’ through something like an integrated ‘transitional labour market’ approach. The Danish unemployment rate, and particularly long-term unemployment, has been brought down dramatically since the early 1990s while the Danish labour market is characterized by an extraordinary amount of mobility (Madsen 2004). Interestingly, the ‘Danish model’ appears to be, if anything, a hybrid of the ‘liberal’ and the ‘social democratic’ approach. On one hand, statutory job protection is virtually non-existent in Denmark. As a result, employers can hire and fire personnel almost at will, but in any case much more easily than in any other European country except perhaps the UK. Interestingly, this feature appears to have turned Danish employers into staunch supporters of the system as a whole. This is all the more remarkable because, on the other hand, the earnings replacement ratios of the unemployment insurance system and the maximum

2 In Spain and Italy respectively, 41 per cent and 70 per cent of temporary unemployment was involuntary in 2002, whereas the EU average was 34 per cent (Hernanz et al. 2005).

benefit periods are quite generous even by Nordic social-democratic standards, although they are combined with quite strict and apparently vigorously enforced willingness-to-work requirements. Perhaps even more important, Denmark has a system of skilled-trades colleges of long and successful standing which continues to function well as a provider of training in new skills and skill updating courses for a highly mobile and skilled workforce and which seems particularly well-adapted to the requirements of the modern knowledge economy.

But the relatively recent achievement of this exemplary status as the ‘model’ of flexicurity has neither been automatic nor costless. The Danish ‘system’ has undergone important changes in recent years and the ‘model’ as we know it today only took its present institutional shape in the 1990s as a result of major labour market and welfare reforms, after a period of alarmingly high unemployment in the 1980s. As has been the case elsewhere, the Danish reforms largely involved a shift from the mainly passive welfare state arrangements of the 1980s to activation policies with a very strong accent on education and training in the 1990s and to somewhat more restrictive welfare and labour market policies, introducing more elements of workfare into the system and reducing unemployment compensation entitlements (Larsen 2004; Madsen 2004). Note also that these reforms and the subsequent success in bringing down (long-term) unemployment rates have occurred during a period characterized by very favourable macroeconomic conditions with strong growth in employment. It still remains to be seen how well the current Danish system, with its emphasis on costly ‘active’ labour market policies, will fare under less favourable economic conditions.

Furthermore, as already noted, one crucial feature of the Danish system is the absence of any significant statutory job protection. In fact, historically Danish employers have always had very low hiring and firing costs. It was against this backdrop of lack of job protection that the Danish government, under strong pressure from corporatist interest groups, developed its quite generous social benefit systems and active labour market policies from the 1960s onwards. As a result, the Danish model has become quite costly. Thus, in 2000 Denmark spent 4.63 per cent of its GDP on (active and passive) labour market policies, much in excess of the amount spent by the traditional champion of active labour market policy, Sweden (2.74 per cent), not to mention the ‘liberal’ UK (only 0.8 per cent; see Madsen 2004, 12).

Finally, there are several reasons for being cautious in recommending the current Danish success story as a model for other countries. For all its apparent coherence and internal logic, the Danish ‘model’ was never based on any deliberate grand policy design or long-term strategy (Vosse 2005). It was, if anything, the somewhat lucky outcome of a confluence of developments and circumstances that are in many respects peculiar to Denmark and may not be easily transferred to countries with different institutions and traditions. For one thing, Denmark has an exceptionally strong tradition of ‘neocorporatist’ cooperation between the social partners, based on a long history of constructive and close relations between strong unions and employers’ organizations. Perhaps even more important, the Danish economy is quite unusual in one highly salient respect: it is dominated by a very large number of small and medium-sized businesses and has an extraordinarily low proportion of large firms. Unlike an economy such as the Swedish one, which is dominated by very large firms and a correspondingly large and centralized union movement, the Danish economy is one in which numerical flexibility of the labour force is, for most firms, a matter of survival. It is only within the context of these peculiar characteristics of the Danish industrial relations system and its economy that one can understand the Danish employers' support for the country's still extremely generous social protection and welfare institutions as a clear *quid pro quo* for the absence of statutory job and dismissal protection. It is not easy to envisage how such a clear-sighted, national-level arrangement could emerge in countries with more adversarial and/or fragmented industrial relations traditions.

Yet, however important it may be to keep all these qualifications in mind, the fact remains that Denmark's current success does show that it is possible to combine generous levels of social protection with high levels of labour market flexibility; that is, that 'flexicurity' is not just an academic pipedream but a practically feasible policy goal, *given* certain specific favourable conditions. At the very least, this means that academic research and policy-making debates should henceforth focus on what exactly these necessary conditions consist of and to what extent they may be successfully transplanted to, or imitated in, other national contexts. Thus, the Danish case is definitely becoming the reference point or even the benchmark for reforms in other European employment regimes aimed at introducing or reinforcing transitional labour market arrangements such as combinations of leave schemes, provisions for training and education aimed at improving the employability of workers, job mobility and job rotation provisions, etc.

Combating Unemployment and Social Exclusion

As a result of the aforementioned general trends, the unemployment risk has become more complicated by several developments, including the deteriorating earnings capacities of the low-skilled, the increase of single-parent (mostly mother) families, the growing use of early retirement by older workers, the increase of flexibility in terms of volume, functions, labour contracts and wages, and finally by the increasing individualization of preferences and behaviour. Given the relative rise in the demand for high-skilled, highly productive workers, low-skilled, low-paid workers have become increasingly vulnerable to marginalization and even complete exclusion from the regular labour market, adding to an already considerable problem of long-term unemployment in a number of European countries. Policy-makers have generally responded by putting greater emphasis on active labour market policies (ALMPs); that is, shifting from passive social protection policies to activating policies, as part of a general shift over time from demand-oriented Keynesian socioeconomic policies to supply-side-oriented policies. A variety of measures are being introduced that are intended to make work and transitions pay (De Lathouwer 2004 and Chapter 10 in this volume). A new policy mix consisting of financial incentives, motivation-oriented measures and administrative reforms seems to be emerging. Many of the new policy initiatives and proposals imply a fundamental rethinking of the proper relationship between individual and collective responsibility in the management of old and new social risks.

The Shift to More Activating Policies

There has been an unmistakable trend in recent academic and policy-making discourse towards an increasing emphasis on ‘active’ and ‘activating’ labour market policy (for example, Nekkers et al. 2004 and Chapter 9 of this volume). Variants of ‘work first’ policies are being introduced in a variety of otherwise quite different institutional settings (Bruttel and Sol 2004). Yet these terms can mean quite different things depending on the institutional context (Barbier 2005), even within the same country (Gazier and Zajdela 2004). In so-called ‘liberal’ or ‘residual’ welfare states (primarily the Anglo-Saxon countries), ‘activating’ reforms have mainly meant cutting back on benefit levels and durations of income support programmes and a stronger emphasis on various ‘back to work’ incentives and sanctions (van den Berg et al. 2004; Ziguras and Stricker 2004). In the more ‘universalistic’ and especially the ‘social democratic’ welfare states, ‘the concept of “activation” is … envisaged as the introduction of an increased and explicit linkage between, on the one hand, social protection and on the other hand, labour market participation’ (Barbier 2005, 6). But these are ideal-typifications that should not obscure the considerable range of variation between countries, in almost all of which some combination of these two reform thrusts has been attempted in recent years (Barbier 2005). In the transition countries, on the other hand, the evolution towards implementing active labour market policies has been somewhat erratic and hesitant, hindered in part by limited resources and different policy priorities but also by the sheer enormity of the task, and the levels of unemployment involved (Zawadzki and Wojdylo-Preisner 2004; Wojdylo-Preisner and Zawadski 2004). Nevertheless, with the encouragement of the European Commission, there does seem to be a trend towards the design and adoption of activating policies suited to a labour market that is functioning more and more along capitalist lines (Kajtár and Rogowski 2005).

De Lathouwer (2004 and Chapter 10 in this book) and Nekkers et al. (2004 and this volume) analyse the recent introduction of so-called in-work benefits (IWBs). IWBs are a form of making work pay policies (MWP) which have been explicitly recommended in the EES guidelines. IWBs can take various practical forms such as complementary social benefits to work, reduction of social contributions and tax credits. As the Belgian case shows, all these policies have in common that they directly subsidize low-wage earners and thus presumably help to prevent possible poverty and unemployment traps.

When considering the current trend towards ‘activation’ policies, the effect of combinations of policies, while often pointed to in policy debates, is rarely studied directly. In Chapter 10 in this book De Lathouwer addresses this issue for a combination of recently implemented MWP reforms in Belgium. Belgium is a particularly important and pressing case with respect to current efforts to introduce more ‘activating’ elements into the labour market policy repertoire. For some years now, it has had one of the highest rates of long-term unemployment in Europe, while also having a higher-than-average overall unemployment rate. Traditionally, this has been blamed on Belgium’s allegedly excessively generous unemployment benefit and social assistance systems, which allow beneficiaries to draw relatively high benefits for indefinite periods of time. Recently, Belgium has implemented a number of measures to try and overcome the resulting so-called ‘unemployment trap’. These reforms have included reducing the cost of employment of certain categories of workers by reducing the social contributions payable by employers who hire them; reduction of social contributions paid by the employee; wage subsidies to low-paid employees (the ‘guaranteed income benefit’) and subsidies to unemployed full-time workers accepting part-time work; an income-tax credit scheme for low-paid workers; reducing the cost of childcare for low-income groups; and ‘activation’ measures such as a programme to help the long-term unemployed re-acquire work experience through publicly funded temporary jobs, mostly in the social services sphere.

So far, the evidence on the effectiveness of these measures is mixed. One obvious concern is that this drift towards subsidizing low-wage work effectively abandons the commitment to relatively high-quality employment underlying the traditional minimum-wage policies in Continental Europe, and stated as an explicit element of the EES, merely moving people from the former ‘dependency trap’ to a new ‘low-quality job trap’. But, in any case, while various in-work benefits appear to have had substantial employment effects in Anglo-Saxon countries, there are reasons to believe the Belgian versions will be less successful. Given the universalistic character of the Belgian welfare state, benefits tend to be universal rather than targeted or (household) means-tested, putting severe budgetary restrictions on feasible individual benefit levels, which must necessarily remain very modest indeed, even for the lowest-paid workers. Similarly, the inability to target these subsidies to the neediest families, as opposed to individuals, renders them fairly ineffective as instruments in the fight to reduce poverty. Thus, in the Belgian, and generally the Continental European case, financial incentives alone are not likely to have a major impact on unemployment. Consequently, De Lathouwer argues that to improve the efficacy of such policies it is crucial to complement them with other active labour market measures. These should include, for instance, skill-upgrading programmes, job-search enhancement policies and policies directed at improving the work/life balance by means of substantial care provisions and parental leave and flexible working time arrangements (De Lathouwer 2005). De Lathouwer and Bogaerts (2004) draw the same conclusions from their finding that a recent restriction of the maximum benefit period in the generous Belgian unemployment insurance system had surprisingly minor activation effects on long-term unemployed women with spouses. Similarly, in an analysis of the French *Plan d'Aide au Retour à l'Emploi* (PARE), Cazenave (2004) questions whether 'making work pay' policies are appropriate at all in Continental social protection systems.

One specific measure which has received much attention is the tax credit. A number of experiments are currently being conducted in several EU countries with tax credits as a way to overcome the so-called 'unemployment trap', by increasing the financial incentives, particularly for workers with relatively poor employment prospects, to take on available employment. Such policies appear to have worked relatively well in Anglo-Saxon countries, where they appear not only to contribute to a reduction of poverty, but also to an increase in employment. Preliminary evaluation studies of tax credit programmes implemented in France (the *Prime pour l'Emploi* or PPE), The Netherlands (Employment Tax Credit) and Belgium (Low Wage Tax Credit) suggest, however, that the effects are limited as a result of the relatively modest incentives that have so far been offered and the fact that, given the relatively generous transfer payments available to the target category of workers in these countries, the effects of such modest increases in financial incentives on overall earnings are likely to be relatively small (Verbist et al. 2005; Cazenave 2004; Courtioux 2005a). The Belgian Low Wage Tax Credit, for instance, is a rather expensive measure as it is targeted on individuals instead of taking into account household income. Moreover, there is a delay of two years in calculating final taxes payable, which seriously undermines the immediate incentive effect, of course. In France many observers still see the PPE as a *Fremdkörper*, not fitting very well in the nature of the French welfare state tradition even as it performs rather modestly in facilitating unemployment-to-employment transitions.

Of a somewhat different order is the introduction of tax credits on the demand side. In Italy a tax credit for employers was introduced to stimulate firms to offer open-ended rather than fixed-term contracts to (young) workers. According to the research findings available, however, this measure turned out to be mostly a dead-weight loss, as employers appear to have used the grant to a large extent to subsidize the hiring of workers who otherwise would have received an open-ended contract in any case (Cipollone and Guelfi 2004).

In short, while some of these policies may be successful in the Anglo-Saxon countries where, due to either low or absent minimum wages or/and relatively restrictive social protection programmes, there is no dearth of low-paid, low-skilled jobs and people willing to take them, they are not likely to be very effective in the quite different social protection regimes in force in Continental Europe. And exchanging high unemployment for high rates of employment in poor-quality jobs is not necessarily an acceptable bargain (Cazenave 2004). These arguments come close to the plea by Gazier and Zajdela for a balanced combination of 'making-work-pay' policies and 'making-transitions-pay' policies. They specifically call upon policy-makers not only to pay attention to short-term improvements on the labour market, but also to take into account a longer-term or lifetime perspective with respect to labour market actors (Gazier and Zajdela 2004).

On the other hand, Nekkers et al. (2004 and Chapter 9 in this volume) report on the Dutch case where policy-makers are now considering the supplementing of apparently weakly effective recent MWPs with additional targeted activation-oriented reforms of social security in combination with adequate incentives for employers to hire more labour, and, in contrast to the Belgian case, means-tested individualized IWBs, such as targeted tax credits for single parents. If, eventually, IWBs contribute directly to upward market wage mobility, it is argued, they can remain temporary measures, which is also one of the main aims of the European Employment Strategy. Recall in this context that in the EES upward wage mobility is taken to be a proxy for several other dimensions of the job ladder, such as the transition from low-skilled to more highly skilled and productive jobs (Calandrino and Gagliarducci 2004).

TLM researchers have examined the introduction and effects of a number of other specific policies meant to facilitate the transition from (long-term) unemployment to work. For instance, the *Revenu Minimum d'Insertion* (RMI), introduced in the late 1980s in France, consists not only of a benefit to combat poverty, it also contains several accompanying measures such as housing and training allowances directed towards activating the unemployed at the local level. In order to qualify, beneficiaries have to sign an 'insertion contract' stipulating their commitment to participate in specific programmes and activities intended to help them find employment. The results of the RMI with respect to re-insertion of the long-term unemployed are mixed, in part because of the great diversity in treatments and trajectories at the local level (Outin 2004). A Swedish experiment hiring currently unemployed workers to assist overloaded public employment officers in dealing with long-term unemployed clients turned out to have modestly positive effects, somewhat increasing the clients' likelihood of finding part-time (but not full-time) employment and/or labour market training (Delander et al. 2004b).

Finally, the promotion of self-employment has been touted as one possible solution to long-term unemployment, particularly in the Anglo-Saxon countries, but elsewhere as well (see Aerts 2005 for The Netherlands). Accordingly, most labour market policy reforms include some additional emphasis on various support programmes for unemployed individuals wishing to start up their own businesses. The underlying assumption is that even if such businesses tend to have a relatively low survival rate, the experience of having been self-employed makes the participants more employable later on. However, the evidence on the careers of those who have undergone a spell of self-employment, at least in the UK and the US, is not very encouraging. While the evidence on possible scarring effects of self-employment spells is inconclusive, there definitely does not appear to be any positive effect on future career paths. In the short term earnings prospects for those returning to wage employment after a self-employment spell do not appear worse than for comparable workers who had not been self-employed, but in the long run having been self-employed at some point during one's working life is strongly associated with very low income during later life. In short, these findings suggest 'some scepticism regarding the promotion of self-employment as a policy tool within a TLM framework' (Meager 2005, 43).

Groups Vulnerable to Social Exclusion

In several European countries long-term unemployment (one year or more) has become one of the biggest and least tractable problems facing labour market policy-makers. Much has been made in the literature of the so-called 'scar' effects of long-lasting unemployment; that is, the significant negative effects of long unemployment spells on workers' employability and earnings capacity in the short and longer term. It turns out, however, that these effects differ significantly between workers as well as countries. These differences appear to have something to do with the labour market regulation regime. Scar effects are significantly less serious in countries with either generous unemployment benefits *or* strict labour market regulation, but not both. Perhaps less surprisingly, scarring is also more severe in countries undergoing economic recessions (Gangl 2004). These partly rather puzzling findings actually fit rather well with the other findings of the TLM researchers we have reviewed. Generous unemployment provisions combined with strict regulation, such as is the case in Belgium, Germany and France, make it neither attractive nor easy for the long-term unemployed to re-enter the labour market. On the other hand, in the absence of strict regulation, generous benefits do not necessarily prevent the long-term unemployed from finding new jobs (Denmark), although this is obviously much facilitated by a good economic climate.

Similar cross-regime differences have been identified for low-wage workers. While such workers tend to become trapped in low-wage employment or in a 'revolving door' cycle of alternating low-wage jobs and spells of unemployment in the highly segmented labour markets of France and Spain, in the more flexible labour markets of Denmark and the UK, low-wage employment appears more to serve as a 'stepping-stone' towards higher-quality jobs or at least to growing protection against the threat of unemployment with rising tenure and experience (Ramos-Diaz 2005).

The prospect of potential segmentation and marginalization is even more serious, however, and more widespread across different social protection regimes, for workers with low skill levels. As the demand for higher skill levels increases and as average education and skill levels rise, the position of the least-skilled worker is likely to become more precarious. As Clayton notes, there may be a serious mismatch of skills building up in European labour markets with severe marginalizing consequences for the many low-skilled (Clayton 2004). Those with little in the way of formal education and credentials are in danger of remaining stuck in low-paid, low-skilled jobs from the moment they enter the work force. In France, for example, despite educational expansion in the recent past, there are still some 4 million (or 8 per cent of the active labour force) blue- and white-collar workers employed in low-skilled jobs. On the whole, for them, chances for upward mobility have decreased while chances of moving to a better job are strongly influenced by initial level of training and credentials. In addition, chances to escape unskilled jobs depend on gender, age, and working in the manufacturing or service sectors (Coutrot and Kieffer 2004). On the basis of their findings with respect to the importance of previous training experience, Coutrot and Kieffer even go so far as to plead for a degree of over-education of young people so as to safeguard their later chances for upward mobility and to prevent their marginalization (Coutrot and Kieffer 2004).

At the same time, comparative work suggests that the degree to which chances of upward mobility from low-skilled jobs are blocked and/or influenced by initial levels of education varies considerably between countries as well, apparently depending on the significance of vocational degrees for the nature of first jobs and possible subsequent 'lock-in' (Coutrot and Kieffer 2004). At the firm level, too, there are significant differences between the chances of low-skilled workers to move to better-paying jobs depending on characteristics of the firms and sectors (Bolvig 2004). There are good reasons to believe, as well, that for a significant proportion of low-paid/low-skilled workers psychological, social and financial impediments conspire to prevent them from taking up further training to increase their skills and employability. A variety of initiatives, such as workplace guidance, is being taken by various (combinations of) social partners and authorities in different countries to try and overcome these barriers (Clayton 2004; Lassen et al. 2004). Preliminary comparative evidence suggests that these initiatives are promising only where they involve intensive, long-term counselling organized and administered at the local levels by close partnerships of employers and local unions and authorities (Clayton 2004).

Skill differentials and deficiencies may also underlie the finding that, quite contrary to most current policy rhetoric at all levels, there is no obvious or simple connection between employment growth and poverty reduction. The reason seems to be that rapid employment growth, where it has occurred, has not tended to benefit those most in need of a job (that is, those who are unemployed or out of the labour force and without any other sources of family income) but the already relatively well-off living in households with other income earners. This is even true for the least-skilled, lowest-paid jobs. Thus, job growth may well end up exacerbating relative poverty levels if specific attention is not paid to those groups least able to benefit from it (Marx 2005).

Education and Training: Meeting New Competence Requirements

For obvious reasons, education and training (ET) is a central concern in both the EES and for TLM-based research. High-quality and well-designed ET systems are, in principle, capable of greatly increasing the likelihood of achieving a range of goals and targets set by the EES and various conceptions of the ESM.

Improved ET will increase the employability of the workforce, in particular, but not only, the (long-term) unemployed and those not currently part of the labour force. Thus, ET is a central instrument in helping to achieve the simultaneous goals of increased labour force participation and lower unemployment which are at the core of the EES. At the same time, ET is crucial in helping to shape the highly skilled workforce that will be necessary in the emerging knowledge-based economy and will enable Europe to become the most dynamic and competitive knowledge-based economy in the world. Finally, high-quality ET is a necessary precondition for the stimulation of the growth of high-quality employment which is both a fundamental goal of the EES and an intrinsic feature of the successful knowledge-based economy.

School-to-Work Transitions

The transition from school to work is crucial from the perspective of the EES as well as the concerns of TLM researchers, not only because it is a major determinant of subsequent careers but also because youth unemployment has taken on worrying dimensions in several Member States. It is not surprising, then, that most of the available empirical research on the effects of education on labour market performance concerns younger workers. Recent European data show that in the EU-14 (excluding Germany), the average age of completing initial education ranges from 18 to 24 years and that the average time gap between leaving ET and starting the first job ranges from 5 to 35 months. With respect to the quality of jobs, the available data show that the proportion of precarious work among younger workers is seldom lower than 15 per cent and even reaches figures ranging from 40 to 70 per cent in some countries in the first years following the transition from school. Finally, there remains a significant proportion of young people who do not successfully settle in the labour market at all: about two fifths of young people experienced a job search period of more than one year, 19 per cent were searching for up to two years and 26 per cent on average even more than two years (Lassnigg 2005).

The considerable differences in the role of education in affecting the school-to-work transition between EU countries, and the trends therein, are confirmed by EHCP data. They show, for instance, that the performance of Denmark and Spain regarding transitions from education to employment has significantly improved in the period 1994–2001 when compared to countries such as the UK, Germany and France (Brzinsky-Fay 2005). A crucial variable in this respect is the degree to which and how the educational system is linked to the labour market, and even directly to firms. Thus, in an interesting comparative study on perceived ‘overeducation’ in France, Spain, Italy and Denmark, Gervasi (2005) shows that this kind of mismatch is much less of a problem in the Danish case, with its emphasis on differentiated education and apprenticeships, than in the other three countries with their heavy reliance on general, theoretically oriented education. Of particular concern here is Spain, where a recent push towards educational expansion happened to be accompanied by a rapidly growing segmentation between permanent and temporary jobs in the economy which has led to acute and seemingly more intractable skills/jobs mismatch problems than in any of the other countries. On the other hand, Burzlaff's study of a number of school-firm partnerships in the Nord-Pas de Calais region in France shows how the success of these schemes depends on an often idiosyncratic mix of local needs and opportunities that are not easily influenced from the outside.

One well-documented case of relative success in moving workers from school into high-quality permanent jobs which is attributed to close linkage with employers is the German apprenticeship system. Equally well-documented are the problems faced by young entrants in countries with relatively high minimum wages and strong job protection (France, Italy, Spain). Yet our evidence shows that even in the latter the roles of (level of) education in promoting successful labour market entry is crucial, with some interesting inter-country and even inter-gender differences (Verdú et al. 2004). This latter conclusion is further confirmed by the results of Fons and Meyer's (2004) comparison of the effects of subsidized employment programmes for unemployed youth in three countries with quite different traditions of education-to-labour-market linkage: the UK, Germany and France. In all three settings, it turns out, even the best-designed subsidized employment schemes tend to lock the least-skilled young workers into either permanent subsidized jobs or recurring bouts of unemployment. In sum, successful local school–firm partnerships and good brokerage show some promise of facilitating the school-to-work transition even in institutionally otherwise difficult conditions.

At the same time, there is a large literature now claiming that the emerging knowledge-based economy requires 'trainability' rather than specific training (in analogy to the shift from employment to 'employability') which points to the need for greater emphasis on general education at the expense of more specific vocational training. Several studies do indeed seem to suggest that workers who have enjoyed longer spells of general education do indeed do better in the labour market (Karasiotou 2004; Allen and de Vries 2004). The paradox may be partly resolved by noting that most studies showing the positive effects of vocational training closely tied to existing jobs deal with relatively low-skilled or otherwise hard-to-employ workers while the findings on the benefits of general education are based on surveys of the workforce as a whole.

Lifelong Learning

It is widely argued that in order to meet the ever-changing skill demands of the knowledge-based economy and to prevent vulnerable workers from becoming marginalized, lifelong learning (LLL) will have to become an integral part of working life. But several studies suggest that access to LLL opportunities is distributed in a highly unequal fashion among different categories of workers. Thus, in a study of potentially beneficial effects of LLL for the hard core of unstably employed or unemployed workers in France, Perez concludes that there exists a sort of a hierarchy of workers. That is to say, workers with unstable work histories have fewer opportunities than stable employees to take part in training activities. This is largely the result of the fact that stable workers are more likely to receive employer-financed training. Despite several proposals in France to counteract these tendencies (for instance by introducing social drawing rights for professional and vocational training (the Supiot report) and new legislation with regard to the *Droit individuel à la formation* in 2004), there has not been much progress in this regard so far.

O'Connell's study of vocational training in Ireland comes to very similar conclusions. As he sums it up, '[t]here is a familiar pattern in participation in training: older workers receive less training, more highly skilled workers receive more training, those in large organisations and in the public sector receive more training' (O'Connell 2004, 17). Training is also associated with workplace change, most obviously with the introduction of new technology, but it is also, intriguingly, positively related to participatory management practices (ibid.). In comparing workers with vocational training intended to compensate for skill obsolescence with workers without any vocational training at all, Fernandes et al. show that leaving unemployment situations for jobs in Portugal is significantly easier for the former. Also, the unemployment spells are shorter for workers with training experiences. Such so-called 'chimney effects' need to be counteracted, the authors argue, by deliberate labour market and educational policies for workers with the lowest qualifications on the labour market (Fernandes et al. 2004).

In short, there is a growing body of evidence identifying specific groups of workers who are in danger of becoming marginalized due to their relative lack of access to education and training facilities, just at a time when skill demands are becoming more exacting and low skill is becoming more and more of a handicap on the labour market. Presumably this pattern mainly reflects employers' judgements about the highest likely pay-off of their investments in their workers' human capital. Consequently, if systematic marginalization of these categories of workers is to be prevented, there undeniably is an important task here for government to provide them with ready access to training opportunities that are of high quality. At the same time, it must be recognized that the large literature on the effectiveness of public labour market training programmes is not particularly encouraging. Training disadvantaged workers to raise their employability is a major challenge under the best of circumstances, however well-designed the training programmes are. A fundamental reason for this is that such workers tend to be caught in a vicious cycle of low expectations and unfavourable outcomes. It is precisely in order to help such workers break out of this cycle that it is necessary to promote credible, visible 'integrative' transitions that are accessible to them, which is the essence of the TLM approach.

But there are some glimmers of hope. One well-known finding from the evaluation literature on labour market training programmes is that such programmes can be effective under very special conditions that encourage extremely close collaboration between the educational institutions, all labour market actors and other authorities at the local level (Lassen et al. 2004). Similarly, there is evidence that groups of workers who face particularly high barriers to participation in skill-enhancing adult training schemes because of financial, social and motivational impediments, can be helped by intensive, long-term counselling, if this is organized at the most local level possible by closely collaborating social partners and authorities (Clayton 2004). Furthermore, in several areas of labour market policy evaluation, recent evidence is accumulating to the effect that it is the career or path of consecutive labour market and employment statuses rather than any single given point in time that explains how and to what extent workers benefit from post-initial training and education. There are distinctive paths or careers of employment instability which differentiate not only workers who have ready access to training to upgrade their skills and employability from those who do not, but also those who are likely to benefit, in terms of future permanent employment opportunities, from such training from those who are not, not even after lengthier training spells.

When it comes to ICT skills, the preference of employers for training younger rather than older workers is well-known and also readily understood in terms of the likely costs and benefits of human capital investments. But as de Koning and Gelderblom (2004) argue, ICT might also contribute to easing some of the problems and bottlenecks in efforts to provide (older) workers with access to lifetime learning opportunities by making the training instruments more flexible, adaptable and widely accessible.

Finally, the transition countries, in particular the Visegrad countries (Czech Republic, Hungary, Poland and Slovakia), have their own peculiar skills mismatch problems to cope with as they are making the transition from industrial socialist to post-industrial capitalist economies. Starting with a relatively highly skilled workforce, yet lacking some of the crucial skills for the ‘new’ economy, these countries face some very specific lifelong-learning issues that they have only just begun to address in various institutional ways (Kajtár and Rogowski 2005; Zawadzki and Wojdylo-Preisner 2004).

Supporting Life-Course-Related Transitions

The life-course approach to work and its relation to various non-work statuses is central to both the EES and the TLM perspective. It focuses our attention on two major transitions in particular; that is, those related to childcare and homecare and those related to ageing. The first revolves around the aim of finding better, and particularly more gender-equitable, ways of reconciling work and family life. The second deals with the issues arising from the ageing of the working population and the private as well as social costs and benefits of (early) retirement. Both clearly have a strong equity as well as an important economic productivity aspect, the combination of which, as we have argued before, is a hallmark of the EES, the ESM as well as TLM. Here we will deal, first, with issues having to do with reconciling family and work in the context of the rising labour force participation of women of child-bearing age and then, in the next subsection, with the ageing working population and retirement options and behaviour.

Reconciling Family and Work: Female Labour Force Participation in Comparative Perspective

In most European countries, first and foremost in the Nordic social democratic ones, the labour force participation of women of child-bearing age has risen quite dramatically over the past several decades. One factor which is related, in no doubt complicated ways, to the rise of the participation of women in the labour market is the trend towards changing, and more varied, family composition, which has been occurring, and at an accelerated rate during the 1990s, in all EU Member States. Family units have in general become smaller, although there still remain striking differences between Member States. Also, the number of couples without children has increased, as well as the number of singles without children and the number of lone parents. This greater demographic diversity coincides with a more varied pattern of labour market participation of males and females alike. But the common European trend is that the increasing diversity in family composition is strongly related to the substantial increase of labour market participation by women (Geurts 2004).

In general, there is a strong relation between a country's institutional welfare state type and the choices household members can make regarding the extent of labour market participation and the overall gender division of labour over the life-course. Important in this respect are, for example, the design of family policy, the availability and cost of childcare facilities, the prevailing tax and benefits systems, gender wage differentials, employers' human resources management policies and working time regimes. For instance, a comparison between Sweden and France shows considerable differences with respect to active labour market participation of young women with small children. In Sweden, and also in the other Nordic countries, family formation hardly impedes labour market participation at all, whereas the reverse is the case in France as well as in other Mediterranean welfare states. The main explanation for the difference is the existence of a generous parental leave system in combination with a complete employment guarantee in Sweden versus working-time rigidities coupled with the shortage of childcare facilities for young pre-school children in France (Marc and Zajdela 2005).

A number of TLM studies have focused on the so-called child effect; that is, the tendency for women having children to work less than women without children. As data from a paper by Vlasblom and Schippers on Germany, the UK and The Netherlands show, this effect is not homogeneous across Europe. The authors discern several patterns. Although women having children do tend to work fewer hours than women without children in all three countries, in The Netherlands there is a noticeable trend towards more uninterrupted careers at childbirth, whereas in Germany there is a persistent tendency to leave the labour force, while in the UK there have been no visible changes in behaviour around childbirth during the period covered. Generally, more highly educated women have higher participation rates than less educated women. Vlasblom and Schippers attribute the differences they find to divergent institutional changes in the three countries. Thus, for instance, in Germany adjustments in tax deductions contributed to making motherhood cheaper in comparison with the costs of combining work and family care (Vlasblom and Schippers 2004).

The importance of institutional factors is also quite apparent in a comparison of Denmark and Finland with Germany and Austria (Leitner and Wroblewski 2005). Not only do Denmark and Finland have higher fertility rates than Germany and Austria, the two Nordic countries also have higher employment rates among women of child-bearing age and particularly in the 30–40 year age bracket. This is mainly caused by more favourable leave and income replacement regulations, in combination with return-to-the-job guarantees. Clearly, then, such policies matter a great deal in terms of affecting patterns of female labour force participation as well as in affecting, or at least facilitating the maintenance of birth rates.

Using panel data from 13 EU countries, Uunk et al. (2004) looked at the influence of institutional differences as well as possible explanatory effects of economic need and cultural values with respect to gender roles on the labour market participation of women around childbirth. Their evidence suggests that economic affluence, as measured by country GDP per capita, does raise the ‘child effect’; in other words it leads women to reduce their labour force participation around childbirth and thus it somewhat neutralizes the institutional effects of childcare and other support facilities, which tend to be positively related to affluence as well. On the other hand, they find no independent effect of cultural values with respect to gender roles on the reduction in labour force participation of mothers around childbirth (as opposed to the overall labour force participation of women) once institutional supports are controlled for.

This hardly means that culture does not matter, however. There is little question that the well-documented cross-country differences in overall labour force participation of women – as opposed to the reduction in labour supply at childbirth discussed above – is strongly influenced by differences in cultural attitudes. The study by Bevelander and Groeneveld (2004) sheds additional light on this matter. They compared changes over time in the labour force participation of native and immigrant women in The Netherlands during the period from 1991 to 2002. They found increasing employment levels for native, Surinamese and Antillian women for almost all age groups, but particularly in the marrying and child-rearing age groups. The pattern for Moroccan and Turkish immigrant women was a more traditional one, however, showing clear negative effects of marriage and childbirth on labour market participation, although the overall employment rate of these women (in particular women between the ages of 20 and 24) has increased as well between 1991 and 2002. Since in this case the institutional and economic environments are controlled for, there can be little doubt that cultural values must play a large role in accounting for these differences.

But as Vlasblom and Schippers (2005) show for the Dutch case, while the overall labour force participation of women with children continues to rise, those who choose to temporarily withdraw from the labour force or take part-time rather than full-time work while caring for young children may suffer significant and long-lasting effects in terms of (loss of) human capital and their ability to earn an optimal return on the human capital they have invested in earlier on in their lives. A similar problem exists with respect to the potential loss of unemployment insurance entitlements by women who temporarily withdraw from the labour force to take care of young children (Koopmans et al. 2004; Koopmans et al. 2005). This raises a major policy issue: rather than only looking at the effects of various policies and institutions on women's labour force participation as such, policy-makers and analysts should seriously consider ways of actively restoring and/or maintaining the human capital that is potentially lost to both participants and the economy as a whole as a result of partial or full leaves taken as part of life-course or parental leave programmes. This longer-term perspective is clearly mandated by the life-course approach recommended in both the EES and the transitional labour market literature.

Reconciling Family and Work: the Labour Market and the Domestic Division of Labour

Not only do patterns of female labour force participation vary considerably, there appear to be significant cross-country differences in the relationship between female labour force participation and the domestic division of labour as well. Again, different institutional contexts and labour market policies, particularly accessible childcare facilities, account for a large part of these different outcomes (Anxo et al. 2005).

Not very much is known in detail yet about the more specific motives and preferences of young parents and how they affect the division of labour with respect to labour market participation and time spent on child-caring and rearing. The general assumption often seems to be that both men and women have a strong preference for carrying out paid work to the extent made possible by institutional options and constraints. But Ghysels (2005) uncovers some very interesting differences based on a comparison of Denmark, Spain and Belgium. Not surprisingly, his data show that all parents spend more time with their children when they spend less time on their jobs, when they have more children and when their children are younger. However, he also shows that despite the higher employment rate of Danish parents, they spend on average more time with their children than Spanish and Belgian parents do. Ghysels conjectures that the type and level of response partly depends on a core of lifelong preferences or a choice of life style and most probably is also coordinated with the life-plan of the partner. Ghysels finds some evidence of joint lifetime preferences with respect to the relation of work and childcare and a certain clustering tendency at the extremes of couples who are either mostly career-oriented or care-oriented. On the basis of a Dutch survey of spouses' time use, Wotschak (2005) finds some additional evidence suggesting that the way spouses deal with their time conflicts influences their labour supply on the labour market.

In several countries, policy-makers have attempted indirectly to influence the domestic division of labour by designing parental leave policies for both parents. Such schemes tend nevertheless be very disproportionately used by mothers and very little by fathers. Boyer's (2004) research on the French APE (*Allocation parentale d'éducation*), shows that fathers who did use the programme worked disproportionately in so-called feminine occupations and had lower incomes and educational qualifications than their wives. Clearly, the decision to stop is not taken on an individual basis, but jointly by the couple and is made at least in part with a view to the partners' professional career prospects. Such findings contain a very important message from the policy point of view: programmes designed to help spread the 'risk' of childcare and career interruption more evenly between mothers and fathers must take into account the fact that, given the higher average earnings of males as compared to females in most settings, the financial incentives generally favour female over male temporary withdrawal from the labour force, irrespective of culturally determined child-rearing preferences. Put somewhat more bluntly, parental leave policies are unlikely to have an equalizing effect on the domestic division of labour before the gender gap in earnings and career prospects is substantially narrowed.

Reconciling Family and Work: Family and Employment from the Life-Course Perspective

Institutionalized life-course arrangements potentially play an important role with regard to labour market integration, especially for women. This not only concerns the availability and costs of life-course-related programmes and facilities (daycare, parental or training leaves), but also a number of other things, such as the supportive tax and benefit systems and the working-time regimes. In an international comparison of six European countries, Anxo et al. (2005) show that Sweden has advanced the furthest in providing flexible life-course arrangements, whereas the Mediterranean countries, and France to a lesser extent, are definitely lagging behind in this respect. In between we find the Continental welfare states – Germany and The Netherlands, as well as the UK.

As the Belgian example shows, childbirth constitutes a particularly high risk with respect to employment for low-skilled women (Debacker 2005). There are several reasons for this. On average they have more children than higher-skilled women. As a result they are more likely to remain at home because they have fewer possibilities of combining work and care. Moreover, childcare costs are a relatively higher burden for low-skilled women, due to their lower earning capacity. These women are also more often confronted with irregular working hours that are not compatible with the opening hours of childcare facilities. Recently introduced policies in several non-Nordic countries with respect to time leave might alleviate this situation somewhat. In Belgium a time credit system was recently implemented. This system replaces the more limited career-break system that had existed since 1985. The time credit system covers more than just parental leaves and allows people to withdraw partially or fully from the labour market for a fixed period of time (Debacker et al. 2004). What makes the system unique is its embeddedness in the social security system. In this respect it differs fundamentally from the new personal savings account-based life-course arrangement to be implemented as of 1 January 2006 in The Netherlands (van der Meer and Leijnse 2005).

The Belgian time credit system compensates for income loss and also guarantees job protection. A first evaluation of the users of the time credit system shows positive results if compared with the former career break system. Take-up is much more equally distributed between men and women (in 2003 61 per cent of the users were women and 39 per cent men). However, most female users are under the age of 50, using the system mainly for parental leave reasons, whereas among men those of age 50 and older are overrepresented. The latter mainly seem to use the system for (partial) early retirement.

The individualized Nordic programmes as well as the new time and leave arrangement systems being implemented in other EU countries raise an important question: to what extent are individuals really able to take major decisions at one point that will in principle affect their whole life-course? Are they, and in particular the younger generations, sufficiently prepared to weigh the pros and cons of their decisions? Life-course decisions taken at one point in time will most likely restrict the options available for life-course decisions to be taken later on in life. The study by Ester and Kalmijn (2004) points to the complexities involved in the life-course reflexivity or life-course competence that such decisions require of individuals. They find significant differences on three correlated dimensions (planning, saving and the cognitive dimension) between average ability of various groups to look towards the future. Consequently, the increase in the number of choices that workers can make with respect to various labour market transitions may also lead to the emergence of new sources of social inequality over the life-course that are quite unintended by the framers of the current leave policies. Ester and Kalmijn's preliminary research suggests that these are potentially quite important and that therefore there is a need to document these differences in time orientation and, where desired, begin thinking of ways to augment workers' cognitive resources that will enable them to make more informed decisions about the types and timing of possible labour market transitions over the life-course. This should be an integral part of efforts to find new ways of managing social risks from the life-course perspective.

Reconciling Family and Work: Flexible Working Hours

Inflexible working hours can form a serious barrier to the labour force participation of women with small children. It is therefore of great importance to document the different working hour regimes in the Member States of the EU. As the survey by Anxo et al. (2005) shows, in Sweden one can speak of a regime of negotiated flexibility, with the social partners firmly involved in not only shaping working time options, but also in legitimizing them. Sweden has a large array of individual working time options, backed with employment guarantees. For households this creates extensive opportunities to adjust working time to various situations over the life-course without substantial loss of income. In contrast, in the Mediterranean countries and to a lesser extent also in France public childcare facilities and flexible working time arrangements are less well developed. Hence, in those countries there is a sharp decline of labour market participation of women after childbirth, as we have seen already. In the in-between countries (The Netherlands, Germany and the UK) the only option is to choose between full-time or part-time work and consequently, women tend to move from full-time to part-time work after childbirth.

Some attempts are under way to guarantee by law the right of employees to adjust their working hours to their needs. Early indications are that such legislation does not, by itself, lead to a significant increase in flexible-hour schemes. Thus, in The Netherlands for instance, surveys show that a substantial part of the workforce (about one quarter) is dissatisfied with respect to hours worked per week and would like to work more or fewer hours but is, for one reason or another, unable to do so (see Baaijens and Schippers 2005) in spite of the country's already very high level of working time flexibility. Moreover, the Adjustment of Working Hours Act passed in 2000 does not appear to have had the intended effect, as only a small proportion of the dissatisfied workers succeeded in adjusting their working time, even after the implementation of the new legislation. Thus, the evidence suggests that the new legislation is not very effective in meeting the problem of widespread dissatisfaction with time constraints (Fouarge and Baaijens 2005; also Baaijens and Schippers 2005). Evidence from Germany seems to point in the same direction (Munz 2004).

While there is some evidence confirming the potentially positive effects of labour market transitions in permitting preferences and actual working hours to converge over time (or to reduce discrepancies between them; see de Koning et al. 2004), there does not seem to have been a recent structural increase in such transitions in labour markets, not even under improving labour market conditions, which presumably permit more 'integrative' transitions of this kind. The proportion of workers experiencing significant discrepancies between desired and actual working hours appears to have remained surprisingly stable (Bijwaard et al. 2004). At the same time, preliminary evidence of the uses made by employees of the opportunities to trade working time, earnings and other benefits under so-called 'flexible benefit plans' suggests that these do have the potential to meet the needs of an increasingly differentiated labour force (Hillebrink et al. 2005).

Thus, legislation alleviating or mitigating working time constraints by itself does not necessarily produce greater flexibility of working hours, as experiences in various EU countries show. The most successful policies to increase working time flexibility appear to individual life-course-oriented programmes such as those in existence in the Nordic countries and close cooperation between the social partners in negotiating and helping to legitimize flexible working hours arrangements (Anxo et al. 2005, Boyer 2004, Debacker 2005, van der Meer and Leijnse 2005, Hillebrink et al. 2004).

Active Retirement: New Solutions to Demographic Needs and Individual Preferences

Until recently, early retirement incentive programmes were a popular approach with politicians and social partners alike because it seemed a relatively painless way to relieve supply pressures on labour markets with high levels of unemployment. They appear to have been quite popular with the eligible workers as well (Herremans 2005). However, as the future costs of the rising ratio of retired to working-age populations have become more and more apparent, these schemes have lost much of their appeal. Policy-makers have gradually come around to the position that it will become increasingly necessary to keep older workers in the labour force rather than pushing them out. Thus, recent policy reforms with respect to the employment–retirement transition in almost all Member States converge in attempting to restrict alternative (early) retirement options, such as the use of some unemployment and disability benefits and early retirement arrangements (Courtioux and Erhel 2004). These restrictions mainly affect financial (dis-)incentives. To a certain extent these instruments really work (Putman 2005). However, as several TLM studies suggest, there are a number of issues that are not likely to be resolved by financial (dis-)incentives alone.

One important consideration is that the quality of jobs is likely to have a powerful influence on the attractiveness of the retirement option. There is much evidence showing that the likelihood of older workers staying in the labour force is strongly related to earnings and education and, thus, quality of the job (Davoine 2005). It would seem to follow from this finding that financial incentives for (early) retirement are likely to have the strongest effect on the labour force behaviour of older workers with relatively low-quality jobs while being less effective in modifying the behaviour of workers with higher-quality jobs. Alternative policy implications can be drawn from this. Policies affecting the financial side of (early) retirement might be differentiated according to the skill/quality level of the job so as to try and elicit the optimal mix of activity and inactivity within the eligible population. Alternatively, more resources may be devoted to training facilities for older workers so as to render them able, and presumably more willing, to take on more engaging, high-quality jobs. It is also important in this respect for policy-makers to take more explicitly into account a lifelong perspective, as the quality of jobs held over the course of one's career affect both one's ability to obtain or retain a high-quality job and, as a result, the likelihood of (early) retirement. All these considerations relate quite closely to the major EES target of improving the quality of jobs, of course.

Several TLM research contributions have addressed the problems involved in re-training older workers, both from the point of view of cost-benefit-conscious employers as well as of older workers anticipating relatively short periods of remaining in employment, and also in view of rapidly advancing ICT with the attendant changes in required skills. For The Netherlands de Koning and Gelderblom (2004) specifically analyse the position of older workers vis-à-vis the use of ICT in the printing sector. They show that older workers make less use of ICT in their jobs than younger workers, and that they also use less complicated applications and have more difficulties in using ICT. This result becomes all the more striking when one takes into account that in The Netherlands only 40 per cent of the age cohorts of 50 years of age and older is still working. Thus, de Koning and Gelderblom conclude, ICT may well disadvantage older workers and contribute to (early) retirement as their lesser use of ICT puts them at a (further) disadvantage, compared to their younger colleagues. De Koning and Gelderblom believe that the validity of their results is not restricted to the Dutch printing industry, but that it holds for other industries in which ICT plays an important role as well.

Another factor possibly contributing to early retirement may be the relatively unfavourable wage-productivity relationship for older workers, as predicted, for instance, by 'implicit contract theory'. Correlating several measures of productivity and wages with age for a sample of Dutch employees, Gelderblom et al. (2005) find some evidence to support this theory, in spite of employers' assurances to the contrary in interviews. Clearly, if this finding turns out to be generalizable, the resulting incentive to replace older by younger workers will have to be counteracted somehow if older workers are to be kept active longer.

One proposed way of trying to keep more older workers active in the labour force is by enabling and encouraging such workers to take part-time retirement instead. But there is some evidence suggesting the possibility of perverse effects of (part-time) early retirement programmes. Thus, Courtioux (2005b) finds that, in particular, large firms appear to have availed themselves of the possibilities of sending some of their older workers into early and/or part-time retirement as a way to selectively retain their most desirable older employees while getting rid of the others. Also, where several programmes are in place offering different kinds of early and/or part-time retirement, there exists the possibility of unintended cannibalization of one programme by the others, resulting in changes of the clientele away from the originally targeted population. In addition, there is quite a bit of experimentation going on within firms with respect to various (early or partial) retirement schemes (Tros 2004; also Tielens 2004), a factor which will have to be carefully taken into account in the design of public policies.

Undoubtedly, the reasons why people decide to retire (early) differ considerably between countries and their different institutional settings, which goes a long way towards explaining the large observed inter-country differences in the labour force participation rates of older (55–64-year-old) workers (Leombruni and Villosio 2004). In view of these various complexities several researchers recommend the use of alternative approaches, containing both supply- and demand-side aspects, rather than relying on financial incentives alone, in order to more effectively neutralize the age effect on the labour market (Courtioux et al. 2005). Examples of such alternatives are given by Gazier, and contain (for instance) the following proposals: to calculate retirement pension benefits on the basis of overall career earnings, and not only with reference to the last years of employment; to create adapted transition jobs for senior workers (so-called bridging jobs and part-time jobs); and to maintain retirement rights during career breaks (Gazier 2003). In her comprehensive survey of the research on both employers' and employees' motives and attitudes with respect to (early) retirement in The Netherlands, Putman (2005), too, comes to the conclusion that only a combination of a range of financial and other incentives and adjustments are likely to stem the tide towards earlier retirement. In sum, then, as Anxo and Erhel conclude, the pattern of retirement transitions is the result of a complex institutional system, of which financial incentives or disincentives to work are but one part (Anxo and Erhel 2005).

Improving Labour Market Matching Policies

The need to improve the efficiency of the matching process of supply and demand in the labour market has become increasingly prominent in successive formulations of the main targets and guidelines of the EES as stubborn pockets of (long-term) unemployment and mounting evidence of skills and labour mismatches have preoccupied policy-makers. Improved matching in the labour market is not just a matter of greater efficiency but also an additional instrument in the struggle against social exclusion and for greater equity as the workers most negatively affected by structural mismatches in the labour market are also most likely to become marginalized. Thus, policies to improve the matching process in the labour market form a central aspect of the EES's general aim to promote both efficiency and equity in the economies of the EU.

Experiments in Labour Market Policy Delivery Reforms

While labour market training services are routinely delegated to private agencies in many countries, the outsourcing of the 'core' functions of public employment services (PES), in particular placement and reintegration services, especially for the long-term unemployed, is a relatively new phenomenon. A number of countries are currently experimenting with various forms of such outsourcing, and have effectively created 'quasi-markets' for these services (Struyven 2004). A general concern with the outsourcing of such services is the problem of controlling the behaviour of the private subcontractors so as to produce the desired outcome in a manner that is more efficient than the public equivalent would have been. This is essentially a classic 'principal-agent' problem as defined by participants in the study of the 'new institutional economics' (Williamson 1975, 1985; see Bruttel 2004). The main problem in the area of employment services, which is already well-documented in the existing labour market policy evaluation literature, is that it is exceedingly difficult to design the incentives facing the private agencies in question in such a way as to prevent so-called ‘creaming’ or ‘cherry-picking’, and ‘parking’: private agencies tend to specialize in finding employment and training only for those workers who already have the best prospects of finding jobs and benefiting from training, leaving the more problematic cases for the public agencies to deal with.

Several papers have looked at the preliminary results of such reform experiments in a number of countries. In The Netherlands and Australia, and in a more limited fashion in the UK, much of their former PES has now been contracted out to private, profit-making firms. In all three countries, however, the public agencies doing the outsourcing (the ‘principal’) are struggling to find mechanisms to ensure the proper alignment of incentives with effective outcomes and techniques to monitor actual performance by the private subcontractors. These efforts are fraught with complications having to do with the difficulty of assessing the net effect (that is, over and beyond what would have occurred without them) of the services provided by the subcontractors. But certain advances have been made in this area, in particular in designing incentive schemes that combine fixed with outcome-related forms of payment and monitoring techniques such as benchmarking subcontractors (Mosley and Müller 2004; Bijwaard et al. 2004) against one another, profiling client target groups in order to assign weights to various forms of successful outcomes which are in turn tied to differential rates of payment, and so on. However, such instruments are still in their infancy and thus too crude to provide reliable evidence on the actual net effects of providers’ services (Bruttel 2004; Struyven 2004; de Koning 2004; Sol and Brodkin 2004).

Early findings of comparative work on the privatization of placement services in Australia and The Netherlands do not appear to support the contention that private services are more efficient than public ones (Struyven and Steurs 2005). Delander et al. (2004a) conducted a carefully controlled study of a Swedish experiment involving the contracting out of placement services for 100 unemployed immigrant workers to an existing private temporary employment agency. They found that the private agency did significantly worse than the experimentally comparable public agency. They attribute this negative result to the fact that the private agency simply had no tradition of serving unemployed workers rather than the employers whom it considered its real clients.

The field of labour market policy evaluation remains fraught with technical difficulties, however, so that all inferences from such evaluation results should be drawn with caution. This is shown by Mosley and Müller’s (2004) study of successful reintegration rates for different labour market programmes and public employment offices across East and West Germany. They found large differences in these rates between programmes, regions and individual public employment offices. But upon closer examination, the bulk of these differences turned out to be explicable by contextual (local labour market conditions) and individual client characteristics rather than by the quality of public employment office intervention.

This raises important questions about resource allocation in the field of active labour market policy as well, particularly about the current vogue for linking funding to measures of efficacy and efficiency, as offices and regions with the lowest success rates may well be the ones most deserving of additional funding.

From Unemployment to Employment Insurance?

The general idea behind the various 'activating' measures that are currently being tested in different jurisdictions is that rather than passively subsidize the temporary inactivity of workers who have lost their jobs, government policy should aim at helping them acquire the skills and motivation to find new jobs where they are available. Thus, labour market policy should aim at maintaining or restoring unemployed workers' employability rather than serving merely as a passive way of tiding them over a difficult period. This general idea is currently often presented as a shift from unemployment insurance to employment insurance (see, for example, Schmid 2002). But while the rhetoric of employment insurance is catching on fast, the political practice is often rather more mundane. Thus, for instance, the much-celebrated major overhaul of the Canadian Unemployment Insurance system of 1996, hailed as 'the most fundamental restructuring of the Unemployment Insurance program in 25 years' (Canada Employment Insurance Commission, cited in van den Berg et al. 2004, 1) turns out, upon closer inspection, to be not much more than a disguised cost-cutting exercise. There is no question that recent governmental enthusiasm for 'activating' policies elsewhere has also been to a considerable extent fuelled by hopes of being able drastically to cut the high costs of current earnings support programmes, particularly where large numbers of long-term unemployed are involved.

At the same time, there has always been a more fundamental as well as more subtle motivation behind much advocacy of 'active' rather than 'passive' labour market policy, one that corresponds rather closely to some of the reasoning underlying the idea of transitional labour markets, 'flexicurity' as well as the Lisbon Strategy. This is the idea that ensuring the employability of workers who have lost their previous jobs or are in danger of losing their present ones − as opposed to trying somehow to protect those jobs − is a way of securing protection against social risks and effective labour market (re-allocation at the same time). It is worth noting in this context that this was already the reasoning underlying the older emphasis on 'active' labour market policies as originally advocated in the Swedish Rehn-Meidner plan of the 1950s. Moreover, at least in the classical Swedish case, such active measures have been explicitly advocated as a way to reconcile otherwise fearful and possibly − given strong unions − recalcitrant workers with the need for continuous restructuring that characterizes a dynamic capitalist economy (see van den Berg et al. 1997, Chapter 4).

In a fascinating inversion, it appears that in the Danish case it is the employers who have come to accept the desirability of relatively generous and high unemployment insurance benefits as a way to stave off otherwise predictable demands for greater (current) job protection. Moreover, the Danish system of continuous re-training through readily accessible trades colleges appears to function as just the kind of employability guarantee that the current advocates of flexicurity and employment insurance are calling for. But as we have noted above already, one should not lose sight of the peculiarities of the Danish case which have ironically made it into the sole and quite unintended (see Madsen 2004; Larsen 2004) executor of what once was touted as the 'Swedish model'.

A further caveat is in order at this point. There is by now a large body of literature evaluating the effect, or lack thereof, of various 'active' labour market policies. It is a rather sobering literature in that it only provides sporadic and highly qualified support for some of these policies under some circumstances (see our discussions above of the TLM findings in this respect). But there is one finding about such policies that is quite unambiguous: they are not cheap. Thus, Denmark spends close to 1.6 per cent of its GDP on active labour market policies alone; Sweden spends about 1.4 per cent while the comparable figure for the UK is about 0.4 per cent (Madsen 2004, 5). This may, of course, be the price one is prepared to pay for the sake of solidarity and equity and the prevention of social exclusion, the basic principles underlying the ESM. But such an argument would be all the more convincing, of course, if it could also be shown that the policies in question actually are effective in fighting social exclusion and sustaining equity.

To be sure, improvements in evaluation techniques are beginning to show that behind the general picture of rather modest results lies a much more complex reality. A better, more differentiated understanding of this reality, in turn, may do much to improve our ability to design more effective policies and programs (see, for example, de Koning and van Dijk 2005). Thus, according to one recent study (Aho 2005), while the overall average net effect of the well-developed Finnish system of active labour market programmes looks to be about zero, this gross figure covers a quite heterogeneous set of outcomes. On the basis of advanced matched sampling methods, the study estimates that some 40 per cent of participants in these programmes may represent 'deadweight losses' in the sense that they would have done equally well in the open labour market without participation in these programmes, while perhaps another 20 per cent may not have been capable of benefiting sufficiently from existing programmes to raise their employability significantly. Although they may sound rather discouraging, such findings may actually provide some reason for optimism. Not only do they suggest that a substantial proportion of participants, around 40 per cent, do benefit significantly from these programmes, they also point to how we might begin to identify which kinds of potential participants are likely to benefit from which kinds of programmes, which could eventually lead to significant increases in the efficacy and efficiency of various active labour market policies.

Conclusion

The close kinship between the TLM approach and the EES should be obvious from the ease with which the research results of the former can be presented according to the policy aims of the latter, as we have done here. Moreover, as we have seen, our findings are replete with concrete implications for policy-makers and researchers interested in furthering the aims of the EES. This is not the place to repeat all the possible policy implications and caveats with respect to the EES's guidelines and targets that have emerged from TLM-inspired research thus far. They are many and varied and easily identified in the above survey (see also Reçi and de Bruijn 2006). What we to want to do in closing is to draw out some of the more general implications that we think the body of TLM-inspired research has for those aims. We will do this following the same five general guidelines of the EES that we have used so far.

Combining Flexibility with Employment Security

As the Danish example shows, there are ways of combining flexibility, for both employees and employers, with employment and income security for employees, without resorting to the minimal levels of social protection characteristic of the Anglo-Saxon 'liberal' welfare states. But the Danish system is the more or less accidental outcome of a very peculiar history and constellation of institutions. It will not be easy for Continental and Southern European countries that are now characterized by a system of job protection for those in full-time, permanent jobs only, to find their way towards some version of the Danish system. Most efforts at systematic reform will run up against the fact that for the social partners the initial losses loom very large indeed while the long-term payoffs remain dubious, as we have seen recently in France.[3] Consequently, we suggest that policy-makers and researchers should concentrate on searching for arrangements and institutional configurations conducive to constructive dialogue in which social partners and policy-makers are able to justify and accept initial concessions for clearly visible, tangible and more than equivalent benefits in the near future. This will not be easy but in the long run there do not appear to exist any more palatable options.

Combating Unemployment and Social Exclusion

The trend towards greater emphasis on 'activation' in the design and execution of labour market policies appears to be almost universal. Activation usually

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3 The initial reaction of a representative of the European Trade Union Institute (ETUI) to our suggestion that unions might be persuaded to relax job protection (as opposed to employment security) of the Southern European variety in exchange for greater earnings and (re-)training support (de Gier and van den Berg 2005, 73–4), discussed at the final TLM.NET conference in Budapest, 19–21 May 2005, was far from encouraging.

means stronger enforcement of the ‘willingness-to-work’ condition for benefit recipients, closer monitoring and more extensive support for job searching activities, restrictions on maximum benefit levels and periods, and a plethora of financial incentives to overcome so-called ‘unemployment traps’. While some of the increased monitoring and enforcement probably has had the intended effect at least on ‘ordinary’ benefits recipients, the results of experiments with financial incentives have been disappointing, particularly with respect to the target groups of long-term unemployed. Having been imported from the Anglo-Saxon countries where they appear to have been effective, they do not seem to fit very well with the universalistic, relatively generous welfare systems of the Continental Europe. The challenge for policy-makers and researchers here is to try and devise programmes that are sufficiently differentiated to reach and help the most vulnerable groups of workers while at the same time avoiding the stigmatizing and marginalizing effects that are often said to accompany ‘targeted’ and means-tested labour market and welfare policies.

Education and Training: Meeting New Competence Requirements

Two general conclusions can be drawn from the research on education and training. First, while general education appears to be becoming increasingly important in ensuring the future ‘trainability’ of the workforce in the knowledge-based economy, close coordination between training and existing jobs is a major factor in improving the transition from education to work. Further research will have to examine whether this apparent paradox is an indication of the emergence of a certain degree of differentiation between different kinds of education-to-employment paths. Second, a real divide appears to be opening up between those already well-established workers who have ready access to the facilities necessary to update their present skills and acquire new ones as skill demands keep changing, on the one hand, and those, mostly less educated and less skilled to begin with, or older workers who do not have such access, on the other. As employers apparently do not have sufficient economic incentives to train the latter, there is a clear case for government intervention to prevent them from becoming ever more firmly excluded from the core labour markets of the knowledge economy.

Supporting Life-Course-Related Transitions

The institutional settings that make it possible and desirable for women of child-bearing age to join the labour force are well known and understood: affordable daycare, parental leaves with return-to-the-job guarantees, etc. Whatever the original cultural attitudes towards women working and the domestic division of labour might have been, such programmes seem to draw women of child-bearing age into the labour force sooner or later, with favourable effects from both an economic and a gender equity point of view. Trying to influence the domestic division of labour by encouraging fathers to take parental leave as well is considerably more difficult. Policies aiming to do so will have to take account of the overall context of economic incentives which still generally favour mothers' over fathers' leaves.

With respect to the aim of raising the labour force participation of older workers, the available evidence appears to suggest that, in keeping with the EES's aspiration of raising the overall quality of jobs, raising the quality of jobs for older workers, and in particular adapting the jobs to their specific capacities and limitations, possibly combined with financial incentives, could well help to stem the tide of early retirement and raise the labour force participation rates of workers aged 55 and older quite considerably.

Improving Labour-Market-Matching Policies

As experiments with activating policies proliferate, so do attempts at reorganizing the systems of labour market policy delivery. One widespread current trend is experimentation with the outsourcing of formerly core public employment office tasks to private firms. However, the evidence so far does not appear to support the assumption that private firms are more efficient and effective in placing unemployed workers in jobs, particularly when hard-to-place categories are concerned. Generally, the literature evaluating active labour market policies tends to show that such policies have only modestly positive effects. However, improvements in evaluation techniques are beginning to produce more nuanced results. We expect that with the further improvement of those techniques it will become possible to draw far more differentiated conclusions about what policies work and which ones do not, for whom they work or not, and why.

Let us, finally, reiterate here the ultimate overarching assumption that animates the ESM, the EES as well as TLM: that economic prosperity and social inclusion can be and should be jointly pursued. They share the ultimate belief that policies that are carefully designed, based on the best available scientific understanding of the general as well as the institutionally specific forces affecting the functioning of labour markets, stand the best chance of producing societies in which social inclusion becomes a condition for economic prosperity as well as vice versa. Many of the research results reported here give us reasons to think that this is not just an academic pipedream. Others are rather more sobering. This is to be expected in a world of great complexity that serious policy-makers and social scientists alike need to confront head on.

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Chapter 4

The European Employment Strategy, Macroeconomic Policies, Institutional Regimes and Transitional Labour Markets

Bernard Gazier and Arnaud Lechevalier

Introduction

European integration in the field of social and employment policies has recently accelerated and become more complex. The European Employment Strategy (EES), based on the open method of coordination (OMC), was introduced in 1997. In 2002, the initiative was extended to include the war on poverty and social inclusion. Member States are now expected to adopt a ‘National Plan for Social Inclusion’ as well as a ‘National Action Plan for Employment’, to be submitted for peer evaluation. Retirement policies have also been targeted by this ‘soft’ coordination effort. Employment policies are expected to grow and to be integrated into a common, multi-annual agenda without, however, abandoning the subsidiarity principle according to which each Member State retains control of its own policies, and only final or intermediate results of these policies are evaluated.

The following contribution is meant to add to the ongoing debate surrounding the long-term effects of development in European social and employment policy. This will be demonstrated in discussing one or several ‘social models’, either current or still under construction in Europe. Many critiques have pointed out that, in the absence of mandatory or voluntary policies, the simple calibration of performance in the relevant social fields is nothing more than wishful thinking, despite common trends to liberalize welfare models.

This global diagnosis of a worldwide trend towards liberalization calls for a discussion on two levels. The first of these remains positive and addresses the reasons of the evolutionary processes. Above all, the diagnosis must be precise and specific, and analyse the macroeconomic and institutional channels of these economic tendencies and pressures. The appraisal must focus attention on important national nuances, take into account the great diversity of national situations and trajectories as well as the existence of various national systems of social and employment protection. In order to do justice to the complexity of the situation and not to neglect national institutional dynamics or, conversely, to avoid an underestimation of the macroeconomic processes in play, a simultaneous examination of two sets of parameters (macroeconomic and institutional) is necessary. This implies certain methodological considerations that address the ways in which macroeconomic and socio-institutional perspectives can be combined without causing the study of the complex benefits of one perspective to lead to a caricature of the benefits of the other.

On a normative level (that is, discussing not what exists, but what should exist) it could be questioned whether the ongoing strengthening of European coordination in the social field progressively modifies the perception of the goals and priorities of the original statements of 1997. This leads to an investigation of the diversity of actual European experiences and of other European social model(s) which are currently at work. To understand these complexities, we have to place ourselves at the level of the basic agreements present in a given society, the 'social pact' itself, while keeping in mind the requirements for reforming of the labour market and welfare systems in the context of a 'knowledge-based society'. Two options can be delineated: the first seeks to 'prepare people for the market' and corresponds to a rationalization of dominant neoliberal tendencies, while the second views reforms as part of a far-reaching collective project that seeks to 'prepare the labour market for people'. The second option extends and systematizes projects dealing with 'transitional labour markets' (Schmid 1995a and 1995b; Schmid and Gazier 2002; Gazier 2003) and 'social drawing rights' (Supiot 1999/2001). It has to be said that the opportunities and conditions of these two options have not yet been comprehensively evaluated.

This chapter is organized into two sections. The first considers the nature of the constraints that frame the European Employment Strategy from two perspectives: one that focuses on macroeconomic factors, and the other which evaluates the diversity and resilience of various national welfare and employment systems (NWESs). The second section reflects on the notion of a liberal model and a renewed social-democratic model, and contrasts both models at the European level with respect to the various NWESs at Member State level.

The EES: between Common Economic Constraints and National Diversity

The European Employment Strategy collides with at least two issues that restrain its design, content and application. The first issue is related to the current logic behind macroeconomic regulation in the Euro zone, which seeks to promote growth by privileging structural reforms of labour markets. The second issue is related to the diversity of national welfare and employment systems (NWESs) with regard to institutions, crisis factors and the policies that are used to solve crises more generally. Despite the inherent resistance of NWESs to harmonization, due to their embeddedness in 'welfare regimes', we can still see a partial convergence among EU countries. This convergence or integration, which the European Employment Strategy (EES) selectively tries to promote, is noticeable most of all in a trend towards 'recommodification' of social protection, specifically in relation to the link between social protection and employment.

European Macroeconomic Constraints and Competition between National Labour Markets

Since the Treaty of Rome, European integration has been marred by a split between its economic and social objectives. While at the European level there is an attempt to create a competitive common market for goods and services, Member States retain their control over social policies. This schism appears especially problematic in the case of employment policies, which cut across these two areas (Freyssinet 2004). As a result, a segmented vision of the employment issue has emerged, which is marked by expectations of benefits following from the increasing merger of markets and by limiting direct intervention to creating conditions necessary for this integration (free movement, fight against discrimination). From this perspective, the Amsterdam Treaty and the Luxembourg process constituted a rupture, because they simultaneously introduced a judicial base and methods for coordinating employment policies on a European scale.

There is an increasing pressure exerted by broad economic policy guidelines (BEPGs) on the EES within the context of poor performances in growth and employment within the Euro zone, notably in the case of the largest countries, which contradict the objectives set forth in Lisbon. Economic governance of the Euro zone rests on three constitutional elements that derive from the so-called 'Brussels-Frankfurt-Washington' consensus: macroeconomic policies should focus on stability, structural reforms should focus on increasing the ability to compete successfully, and there should be no trade-off between present and future growth (Fitoussi and Saraceno 2004; Le Cacheux and Sterdyniak 2003). From this perspective, the reform of labour markets, in conjunction with that of goods and services, plays a crucial role in adjusting the economic and institutional structure currently dominant in the EU, which logically constrains the EES.

The Euro zone deprives concerned Member States of handling monetary parities and raises the question of concurrent adjustment modalities. The optimal monetary zone approach – which in general questions the relevance of the European framework – assumes that the flexibility of the labour market serves as a substitute adjustment mechanism for the flexibility of rates in cases of asymmetric shock. Since labour mobility is considered poor in Europe according to this US-inspired view, adjustment through price variations and relative costs on the labour market is considered the optimal alternative. This logic is widely accepted despite the limited capacity of the European labour market to absorb asymmetrical macroeconomic shocks (that is, rapid economic changes such as an inflation outburst or a fall in aggregate demand, affecting one nation but not others). It also can be criticized by remarking that labour market adjustments are not tied univocally to existing institutions and adopted regulations (Mazier et al. 2002). In the European context, the call for 'structural reforms' and 'flexibilization' leads to the promotion of non-cooperative strategies between the national socio-fiscal and labour allocation areas.

Two paths that have evolved can only be briefly mentioned here: one relates to increased tax competition and the other recognizes a growing convergence in coordinated wage restraint. The first is highlighted in the evolution of tax policies that focus on easing the fiscal burden on the most mobile factors (capital and highly skilled work). However, in order to compensate for the subsequent rises in the level of taxation of labour, policies tend to focus on decreasing social contributions of the unskilled labour force, which is in accordance with recommendations repeatedly put forward by the European Commission.

At the same time, due to the fact that macroeconomic dialogue at the European level has remained rudimentary, there has been an increase in coordinated wage negotiations at the national level. This can be shown by coverage rates of collective agreements or by the reduction of the gap between actual wages and negotiated wages (wage-drift), although the mode of coordination varies depending on national constellations. Evidence also indicates that homogeneity in terms of slower growth rates of wages and labour costs has increased. These coordination efforts have led to a partial convergence of actual wages and in general to moderation of salary claims.

EES and the Diversity of National Welfare and Employment Systems: Which Dynamics?

The design and implementation of the EES is not only constrained by the economic and institutional framework in which it is found on a European scale; it also has to cope with the diversity of national welfare and employment systems.

The notion of a social welfare system refers to stable institutional arrangements. To paraphrase Esping-Andersen, author of the famous *Three Worlds of Welfare Capitalism*, the level of decommodification in social policy,[1] the class structure and the public/private ratio in the supply of social goods constitute three major dimensions of comparison. On the basis of these three criteria and associated indicators, Esping-Andersen distinguishes between liberal, corporatist and social-democratic welfare regimes. In comparing the regimes he operates with three types of factors: the nature of class mobilization; the structure of the political class coalition; and the institutional heritage of the regime. Following and furthering his work (Esping-Andersen 1990, Chapter 6) we can expand the notion of social welfare systems by including another source of societal differences: specific employment systems. Table 4.1 represents a synthesis of the major characteristics of NWESs and their components as well as crisis factors and the 'path-depending' responses they offer:

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1 The idea of 'decommodification' refers to a collective process of limiting the area of private market adjustments by delivering numerous public services financed by taxation. Childcare organized by municipalities is a key example of such a process.

Table 4.1 National welfare and employment systems (NWES) in the EU

	Bismarckian model – 'corporatist'	Universalist model	Liberal model
Countries concerned	Germany, Austria, Belgium, Netherlands, Southern Europe (with specifics)	Denmark, Finland, Sweden, Norway	UK, Ireland
Key persons' abilities	Industry-oriented (productive efficiency)	Strongly civic-oriented	Market-oriented; residual civic orientation
Social welfare systems			
Social welfare objectives	Insurance against wage loss (or loss of the capacity to earn a wage)	Redistribution as insurance (contingent on specified constraints)	Avoidance of poverty and unemployment
Functioning principle	Contribution	Universality	Selectivity
Rules for resource allocation (degree of stratification)	Status, employment (strong)	Citizenship, residency (weak)	Need, poverty (weak)
Degree of 'decom-modification'[1]	Medium–strong	Strong	Weak
Principle of distribution	Proportional (principle of relative equivalence)	Contractual	Dependent on resources
Financing	Contributions	Taxes and contributions	Taxes
Management	Social partnerships	Decentralized government	Centralized government
Employment systems			
Degree of centralization	Medium	High (decreasing)	Low
Coordination	Medium	High	Low
Wage determination	Collective agreement (branch)	Collective agreement	Enterprise (Ireland: social pact)
Level of unionization	Medium	High	Low
Unemployment compensation	Medium–high	High	Low
Tax wedges (ratio of wage costs and income)	High	High	Low

Work/family relations			
Family 'convention'[2]	Domestic/industrial compromise	Domestic/civic compromise	Domestic/ market-oriented compromise
Building principles	'Male breadwinner' and derived rights	Jobs for all	Welfare to work/ fight against poverty
Crisis factors and 'path-dependent' reasons			
Crisis factors	Strong pressure on the NWES. Labour cost, importance of labour market withdrawal mechanisms, social exclusion, limited access for women	Moderate pressure. International opening (socioeconomic competition, mobility of the capital), size of the public sector, and global costs of the system	Moderate pressure. Efficiency and global costs, 'culture of dependence' (low-income households, low activity among single mothers), and disincentives to work
Responses: social protection/ employment	Reduction of tax wedges and cost of unskilled work, recalibration,[3] and demands for returns from beneficiaries	Fiscal system reform, generalized reduction in levels of financial assistance (cost containment), rationalization	Recommodification targeting and negative income tax rules, welfare to work
Responses: the labour market	Greater coordination ('social pact'), 'salary moderation', reduced job protection, and development of part-time work (women)	Development of personal services, reduced job protection, active employment policies	Increased labour market flexibility, salary adjustments, opening of the salary hierarchy, low-skilled service jobs

Notes:

1 The idea of 'recommodification' refers to a collective process of limiting the area of private market adjustment by delivering numerous public services financed by taxation. Childcare organized by municipalities is a key example of such a process.

2 The concept of 'convention' as used here has been elaborated by Boltanski and Thévenot (1989) and refers to different sets of moral and political principles organizing different 'worlds' or 'cities'.

3 'Recalibration' refers to important changes in the levies and the transfer rights, changes affecting some groups; 'cost containment' refers to an equally distributed limitation of transfers, while 'recommodification' refers to an extension of the area of market adjustments.

NWESs respond to various crises and reforms in ways specific to their institutional configurations. Furthermore, they are in crisis because they face a multitude of challenges, some common to all (for example, entering the post-industrial society, globalization, transformation of family structures, and ageing), others specific to each system. There are a number of political and institutional factors within the framework of each system that constrain or frustrate the progress of reforms. The systems have been resilient due to the phenomena of ‘path dependence’ based on inherited policies and institutions. NWESs, depending on the regime type from which they originate, give rise to different reform agendas, which are in turn shaped by political coalitions and contrasting reform dynamics (that is, ‘recommodification’, cost control, recalibration – see Table 4.1). In accordance with Esping-Andersen’s thesis, the comparative studies show that large social welfare systems are not only characterized by crises but also by reform efforts specific to their regime type.

The theoretical approach of Esping-Andersen has encountered strong criticisms. In the following, two of these criticisms will be discussed in some detail. First, the idea of decommodification, which is the central feature in Esping-Andersen’s conceptualization of welfare regimes, is problematic in many ways. It leads to a uni-dimensional definition of social rights, while ignoring the complexity and dynamics of the institutional arrangements faced by the NWESs. It also underestimates distributive and conflictual aspects (Rieger 1998) and is based on a reductionist dichotomy of the state and the market. Esping-Andersen seems to envisage a mere substitute for market relationships. A richer perspective, in the Polanyian tradition (Offe 2003), is based on the idea of a statutory order as a precondition of contracts and transactions. This way of thinking suggests a distinction between different degrees of collective intervention, and most importantly makes it possible to consider a variety in the joint functioning of a controlled market and any collective protective measures that surround it.

The second question relates to institutional change, its concrete forms and its internal and external sources. Unfortunately, Esping-Andersen is not explicit in this matter because he is constrained by his ideal-type models. We can, however, re-examine the logic of his concept in terms of path dependence (Borchert 1998). The neo-institutionalist studies that build on his concept use the approach in terms of institutional veto, or different versions in a more-or-less flexible fashion arguing for path-dependence. In general they underestimate the degree to which existing institutional arrangements are called into question (Merrien 2002). Nevertheless, approaches can be distinguished with respect to factors that are directly related to change (Ebbinghaus 2005); these are suggested in Table 4.2.

In a context where ‘globalisation renews the sources of institutional change as well as the level of co-ordination’ (Boyer 2004, 185; coordination referring here to economic as well as political coordination), two main factors of institutional change can be highlighted: ‘hybridization’ and ‘political change’. Hybridization can be defined as the result of a confrontation of national institutional sets at the international level that occurs during attempts to implement institutional schemes, which seem efficient in one country, in other national contexts. The export of institutions can never be an imitation because it takes place within national frameworks with specific institutional complementarities. From this point of view, the European Employment Strategy creates an arena of harmonization of cognitive

Table 4.2 Principles and factors of institutional change

	Utilitarian paradigm	Political institutionalism	Functionalist theory	Cultural institutionalism
Principle of institutional inertia (actor-institution relations)	Problem of coordination between individuals (collective action)	Political conflicts of interest (actor-institution interactions)	Complementary nature of institutional forms	Normative functions of institutions (toward actors)
Factors of institutional change	Effects of learning, decreasing economy of scales	Shift in power relations and appearance of new interest groups	Endogenous weakening of complementary aspects, or external shock	Delegitimization of norms and paradigm shifts

Source: Ebbinghaus 2005.

processes and representations. It helps to rationalize 'selective hybridization' that gives rise to interaction between countries and between the European level and national policies.

The second factor of institutional change relates to the role of politics, supported by statutory law and case law. In establishing institutional rules and forms, politics attempts to codify fundamental social relationships, particularly through rules of distribution. In times of crisis, politics can also renew the hierarchy of 'institutionalized compromises' through the definition of new rules of the game (Amable 2005). The EU has encountered many conflicts in relation to the distribution of responsibilities across levels of government, recently highlighted by differences over the draft constitutional treaty. This seems still a largely unexplored field of research (Beaud et al. 2004).

By studying the policies which govern the NWESs it is possible to emphasize certain tendencies that are common to EU countries, such as a reduction in coverage of public transfers, a reinforcement of the equivalency principle between contribution and benefits (within public systems or by reducing their reach), the restrictions that are imposed by the compensatory systems, and the ways in which appropriate employment is defined and the conditions under which it is accepted (Lechevalier 2003a). At the same time, due to an increase in the number of beneficiaries of minimal social benefits and of the working poor, the theme of 'poverty traps' has gained importance. In response, an active employment strategy has been developed with more stringent qualifying conditions for social welfare benefits, some 'motivating' mechanisms, and different income tax credit plans aimed at modest-income households and/or at family-related expenses. However, these common tendencies must be considered in light of the resilience factors of NWESs that affect how they are defined and if they are implemented in systematic or specific ways.

How can we understand the role of the EU and the EES in this respect? The 'federal pact' which prevails in Europe already plays a regulatory role. As we have seen, two factors are determinant in its present configuration: first, the prevalence of a certain asymmetry between the policies that create the market on a European scale and those that regulate it and remain essentially in the realm of national jurisdiction; second, the (non-)driving macroeconomic methods that exert pressure on salary income and tax structures, and thus on certain central aspects of national work allocation areas. We should therefore not overestimate the role played by the EES in this context, since it merely fosters interaction between selection and hierarchization of objectives at the European level and national employment policies. However, the EES plays a significant role in the process of developing priorities and formulating the agenda for implementing policies. By employing 'political change' and 'hybridization', the EES can be seen to play a 'selectively amplifying role for national reform strategies' (Visser 2004) through 'recommodification' of links between social protection systems and employment in the politico-institutional context shaped by the treaties of Maastricht and Nice.

Which Social Model for Europe?

The preceding section has emphasized flexibility and constraint factors that affect the building of a social Europe. It also stressed the necessity of making explicit the underlying assumptions, both macroeconomic and politico-institutional, on which it is founded. In this context, the normative issue of identifying a European social model that should be promoted (or one of the many from which we should choose) becomes relevant. In the next section, our analysis will proceed in three steps. First we will briefly distinguish a liberal from a renewed social-democratic welfare-state reform model. Then we will specify their respective contents in the context of European strategies for employment and social inclusion. Finally we will examine the dynamics of national welfare and employment systems in order to examine which types of European social projects they imply.

'Asset-Based Welfare' versus 'Transitional Labour Markets'

The early 1990s witnessed a number of new socio-political assessments of welfare policies which came to be labelled 'social liberalism', the 'third way' or 'asset-based welfare' (see Giddens 1998, 2000 and 2001; Myles and Quadagno 2000). These diagnoses and propositions argue that the existing welfare systems do not leave adequate room for individual responsibility and initiative. At the same time, however, the adjustments required according to these approaches should not constitute a simple return to the discipline exercised by the market, as promoted by the neoliberals. They call for a new form of public intervention that combines the traditional functions of redistribution and control with the new role of the state as an investor making 'social investments'. The state should offer extensive access to employment opportunities through professional training. It should no longer compensate for the effects of inequality or poverty, but rather invest in human capital, thereby enabling individuals, through the use of their skills and abilities, to become responsible for their own career path. These approaches promote policies of ‘social drawing rights’ and ‘individual learning accounts’ to which every citizen is entitled. Furthermore, a collective mission is advocated to develop and normalize professional certificates, thereby maximizing the transferability of professional skills in cases where individuals have not achieved national diplomas.

What emerges from these new policies is a model of ‘asset-based welfare’ which replaces existing social protection systems with a notion of ‘welfare’ based on the granting of ‘new’ rights that will be assets usable at every stage of a person’s life. The goal is to ‘prepare people for the market’. The new typical employee is no longer a ‘Fordist’ worker, but a professional equipped with a portfolio of multiple evolving skills that enable them to switch careers or reinvent themselves by making the best of changing conditions as a result of success or failure of companies. Paul Osterman (1999, 185) has characterized this model ironically as a type of ‘pack your own parachute’ strategy.

However, it should be emphasized that from the perspective of successful labour market policies it is only necessary, but not sufficient, to ‘prepare people for the market’. Thus these initiatives have to be complemented by policies that ‘prepare the market for the people’. These policies are advocated by the approach known as ‘transitional labour market’ (TLM) and its recent developments.

The initial formulation of the TLM approach (Schmid 1995a and 1995b; Schmid and Auer 1998) focused on a systematic account of movements in and around the labour market. ‘Transitions’ were defined as any departure from full-time employment, and the argument is that it could be collectively advantageous to organize them as a whole. The goal is not only to return the initiative in career management to the employees, by giving them additional rights, but to organize the implementation of these rights collectively. The well-known example of the Danish-style leave scheme is a good illustration of such policy: it consists of a large-scale employment-sharing device that creates for the unemployed opportunities to return to work by replacing employees who are on leave.

The system was abandoned by the end of the 1990s in Denmark not only because of a remarkable improvement in the employment situation but also because the linking of leave time-slots with replacements proved too complex. Nevertheless, Denmark continued to develop strong active labour market policies that have resulted in 10 per cent of workers going through annual training programmes and reclassification. It proves the central point that all transitions are linked and their regulation requires large-scale planning and the involvement of collective actors.

So this first formulation advocated a radical reform of labour market policies reintegrating them into a wider set of ‘social drawing rights’. But subsequent TLM studies have included employment trajectories within enterprises. The rights granted to workers are intended to give them autonomous management of the risks and opportunities that one is faced with when working within a ‘knowledge-based society'. Thus, salary relations inside firms also seem suitable for reform (see Gazier and Schmid 2001; Gazier 2003 and 2004). It is suggested that the predominant role of financial considerations in the running of companies should be re-balanced in order to benefit workers. Instruments, such as income insurance and time-saving accounts, which complement the mobility rights outlined above, are central for this reorientation.

These reforms of employment and salary policies indicate a reconfiguration of social relations not captured by the liberal model. The development of an 'activating' employment policy as proposed by the TLM concept is not limited to improving market fluidity or concentrating efforts on training and on the control of living conditions of children in their early years. Instead the aim is to create a rich variety of sophisticated and tailored services, with stable and well-developed infrastructures, that allow for the development of professional as well as family and personal plans. Included are new institutional arrangements of training and social activities that enable the collaboration of many actors in defining and implementing new opportunities. Finally, in accordance with the perspective outlined by Alain Supiot (1999/2001), the concrete application of social drawing rights grants individuals access to a series of human rights related to work. In short, measures that are designed to guarantee employment stability should be transferred from the job to the employee. In this sense TLMs constitute the core of a renewed model of social democracy.

Policies and Scenarios of a Social Europe

It is easy to see that the dividing line traced above generally reiterates the separation of the liberal Anglo-Saxon type, on one hand, and those of the Nordic or continental type on the other. It also suggests that this divide is relevant when one tries to go beyond the existing arrangements and look for new projects. However, the symmetry between the social models can be questioned.

To a certain extent recommendations of the liberal model converge with those of the European Employment Strategy. The EES adds the integration of labour markets to European integration, and its aim is explicitly to 'adapt people to the market'. For example, the first of the four 'pillars' set forth by the EES during the Luxembourg Summit of 1997 concerned employability. Its recommendations, although they were many in number, are copied from Tony Blair's main innovative labour market policy programme, the 'New Deal'. However, despite these liberal leanings, the EES consists first and foremost of policies that affect labour supply, thereby assuming as given the conditions of labour demand originating from companies.

Granted all this, things are still far from being simple. First, there are numerous interpretations of the EES, and many observers have noted that this ambiguity renders it acceptable by a large number of countries with different employment policies, thereby hampering its efficiency. Second, there is the paradox that, on one hand, there is pressure on a European scale in favour of 'recommodification', stemming from national adaptations in response to the broad economic policy guidelines (BEPGs) and, on the other, many proclamations and political projects that are in favour of a liberal model but have encountered vivid political opposition within continental Europe and have not led to their legitimation.

In contrast to the contested alignment of the liberal with the European social model, the normative links between the TLM model and European social policy are more challenging. TLM policies enjoy only ambivalent support from political actors. They demand (1) a strong reorientation of the EES, and (2) an ambitious federal perspective on integration.

(1) TLM research is international in nature and its recommendations naturally aim at influencing developments on the European-wide level in the areas of labour market policies (Schmid 2002) as well as industrial relations and collective bargaining (Gazier and Schmid 2001). The TLM perspective helps to reject misconceptions of the EES, for example that it can and should replace macroeconomic policies or innovation policies pursued at the European level. It suggests instead that labour market policies devised under the EES should be seen as a complement rather than a substitute for macroeconomic policies.

Although the TLM approach insists strongly on strengthening individual responsibilities and employability (see Gazier 1999), it is also suspicious of private market adjustments. The objective of TLM policies is not only to enlarge the range of individual activation measures by adding collective measures, but more importantly to modify the conditions for the use of the first through the intervention of the latter. According to the logic of TLM policies, it is appropriate to allow the most vulnerable employees access to networks that exist in and between companies, in addition to creating jobs that are likely to 'put them back in the saddle'. The overall target is a new equilibrium in internal as well as external labour markets.

(2) This leaves the question of which type of federalism should be promoted within a European framework. While studying the socio-political methods of elaborating European 'strategies' and presenting four scenarios, Théret (2002a) comes to the following conclusion: European integration, in spite of the worries presented by authors who deplore trends towards federal integration, stands a good chance of advancing a Canadian type of logic that promotes social initiatives at the federal level.

If we discard the 'stalled Europe' perspective (scenario a), which is not really feasible, scenarios b) and c) appear to be supported by strong actors. However, the scenario of an Americanized Europe (b) has met staunch resistance because it condones submission to the market order and acceptance of inequality and thus reinforces social tensions. The German model (c) also has its problems since it tends to be too constraining in social matters, especially when the diversity of models and trajectories which we have highlighted are kept in mind. Therefore the 'Canadian-style' scenario (d) appears to be the most realistic. This seems to be supported by the fact that the EES extols the virtues of the OMC and of benchmarking, which prepare federal interventions while preserving national specificities.

Diversity of National Social Welfare and Employment, and the Surfacing of a Variety of European Social Models

TLM perspectives collide not only with the actual prioritization of objectives under the current BEPGs and EES but also with other dimensions of social Europe resulting from national systems of social welfare and employment previously discussed in the first section. An interesting 'regulationist' perspective on these conflicts and convergences has been provided in the recent work of Amable (2005) who emphasizes the complementary nature of the labour market and social welfare as well as financial and productive areas. In his analysis he distinguishes five types of capitalism ('neoliberal', 'continental-European', 'social-democratic', 'Mediterranean' and 'Asian') and he observes that their resilience during the 1990s is based on different sources of competitiveness, adaptation and legitimacy. In particular, the text focuses on the resistance of 'continental' capitalisms to imports and changes from the 'social-liberal' side, even if the liberal pressures are strong and reinforcing. However, in focusing his effort on the channels of creation and diffusion of innovation, he identifies factors that render each model of capitalism open to change.

Amable's specific trajectories of resistance or reform, depending on the type of capitalism, can be assessed from a TLM perspective.

For lack of space, we leave aside the 'Asian' model, even if the common points and differences between Japan and China define a fascinating field of research; we remain focused on Europe and we limit our comments to a few remarks.

In the case of the 'neoliberal capitalism', Amable shows how the 'asset-based welfare' perspective (incomplete and individualistic version of transitions management) is in line with the domination of a strong financial sector in the case of the UK. In the case of Nordic social democracy, the TLM perspective provides a possible unifying interpretation of diverse national experiences because these countries have a rather well-developed collective management of transitions that converge with Amable's emphasis on their great training and innovation capacities.

In continental Europe, on the other hand, a 'rapid structural change' of the labour market is necessary but also almost excluded because of strong employment protection, and this has a retarding effect. Furthermore, the diversification of individual risks is limited by the constraint that in order to make the risks acceptable to workers social contributions cannot be increased. TLMs are nevertheless attractive, in particular because they introduce opportunities of co-financing of training and recycling efforts, and take advantage of them. These tangible policies enjoy credibility; workers are willing to participate, and even contribute financially. TLM policies strengthen this perspective by complementary reforms in two directions. First, they may emphasize and utilize the support of non-profit and associative segments of the economy. And an instrument such as the Danish-style leave scheme may also be relevant in these capitalisms because it helps to create favourable conditions for small businesses, which are particularly burdened when employees wish to participate in leave schemes. This may foster a needed adaptation of the workforce. So the picture is both at risk of a blockage and not too gloomy at the same time.

As for ‘Mediterranean’ capitalism, one may recall the general opposition of the TLM theory to labour market segmentation (see Schmid and Gazier 2002). So in this context the main task remains to create paths for progress in a setting of acute segmentation between protected and non-protected workers. According to Amable, there are three central issues: the unblocking of under-investment in education, while avoiding the proliferation of hopeless candidates in the small overprotected sector, and the activation of the informal sector, at least in part. The TLM perspective suggests that these policies have to rely on existing networks and family solidarity, in order to achieve innovation as in the ‘industrial districts’ experience.

So this analysis shows how the introduction of new dimensions and constraints may end up in opening some new avenues for policy. At the same time, it must be said that all the policies sketched here in the case of ‘continental’ or ‘Mediterranean’ capitalism demand strong powers of coordination and negotiation.

Conclusion

This chapter has analysed the contents of the ‘European Social Model’ by focusing on the constraints that limit or shape its success. It has reviewed links that it establishes or can establish between access to employment and social welfare, and has reached two important conclusions.

The first addresses the present situation, which is marked by the emergence of an open confrontation between the necessity of deepening European social integration and the dynamics of market unification. We note both the pursuit of more global and ambitious projects and their subordination to the logic of present macroeconomic regulation. In reality very few long-term projects have been achieved that transcend the plurality of existing systems of employment and social welfare and budgetary discipline. However, there are a few, in a still embryonic debate, whose major traits we have tried to characterize by opposing two possible paths for renewal: the liberal path and the social-democratic path. The latter perspective depends on political initiatives that may or may not yet be on the agenda in the field of macroeconomic governance of the EMU. There is nevertheless hope that the EU may finally benefit in this area from the advantages that a common currency bestows upon it.

The second is of a methodological nature. An approach is needed that links a macroeconomic and a politico-institutional analysis. This has to be a continuous work in progress. How does one take into account macrodynamics without freezing structures and, conversely, not overestimate the inertia of trajectories and social harmonization? Three particular issues and concepts deserve attention in this respect.

The first is the concept of 're-appropriated hybridization'. It allows one not only to demystify certain current integration tendencies, which combine actual movements with superficial adjustments, but also to locate the most resilient parts of existing systems.

Second, there are important 'nuances' that must be added to the concept of 'decommodification' in order to avoid simplistic and static implications. Returning to the concept of embeddedness would allow us to emphasize the *a priori* nature of collective market control, instead of its delimitation.

Finally, an accurate definition of the links between types of federalism, coordination methods and the social model is needed. The important question is how the choice of a federal structure can guarantee that the dynamic of multiple regimes of employment and social welfare remain 'inclusive'.

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Chapter 5
Temporary Agency Working and the European Employment Strategy

Patricia Leighton

Introduction

The nature and role of temporary agency working (TAW) is changing. Three context factors that contribute to this change can be identified: transformations in the labour market, the changing needs of employing organizations and the evolution of new policies, especially the European Employment Strategy (EES) of the European Union (de Gier and van den Berg 2005). In its analysis of TAW this chapter focuses on the third level, the EU, though relevant material from other developed economies will be drawn on, as appropriate.

TAW is defined as the provision of skills by an agency to a client, usually for a defined period of time. This process is often referred to as intermediation, creating a unique 'triangular' employment relationship. The skills involved range from unskilled manual labour to highly skilled and highly paid professionals. Amongst highly skilled temporary staff, or 'temps', are interim managers, often critical to change management in employing organizations. Less skilled temps are typically found in the hospitality industry, agriculture, administration and manufacturing (Eurofound 2007). Generally across the EU, the primary employment relationship of the temporary worker is with the agency, but day-to-day management is with the client. It is this 'triangular' nature of the relationship that both distinguishes it from other forms of temporary working (fixed-term, fixed task, seasonal, casual work, etc.) and gives it interest and challenge for policy-making, law and human resource management (HRM).

The chapter argues that although temporary agencies and TAW create a variable, complex and often controversial form of working, this can have a key role in supporting some of the main objectives of the EES. To achieve these positive effects there will likely need to be changes to labour law and further development of the processes that are constitutive of the social dialogue. The argument is developed in four steps. First, key arguments in the debate over TAW will be presented. The chapter then considers the nature, priorities and processes of the EES and reflects on the relevance or otherwise of TAW for the EES. Third, it explores the incidence and nature of TAW across the EU and, where appropriate, beyond. This focuses on agencies and their clients but also on the experience of the temps themselves. And fourth, it assesses whether the EES could benefit from specific initiatives for TAW and considers strategies that might need to be in place to achieve this.

The Debate over TAW

TAW frequently encounters hostility and there are few employment topics that generate such debate and controversy as TAW. Some consider that any form of temporary working, whether through an agency or not, is unacceptable, as only the employment contract of indefinite length can provide for stability, security and effective human capital investment. Others consider that agencies undermine the public employment services and yet others that TAW is alien to traditional labour relations and social dialogue (Clauwaert 2000). Although some of these views may be modifying, they still pervade debates and policy development and provide a necessary backdrop to this chapter. This hostility has meant that there has been limited research into TAW and even less analysis of the practices of agencies themselves.

Critiques tend to focus on macro and global labour market data. Analyses of the motivations, aspirations and needs of the individuals involved in TAW, especially those typically disadvantaged in labour market transitions, are only a recent feature. This emerging research indicates an increasingly cogent and coherent approach to TAW by employers, coupled with recognition of the role of agencies in employment change and labour market transitions. There is also research, especially from the UK, highlighting the value of TAW to workers; for example, those with caring responsibilities, with disabilities, older and younger workers and migrant workers.

In the context of the EES, this chapter joins the calls for active labour market initiatives and the use of the open method of coordination (OMC) in order to instigate learning from the best practices of agencies, especially at the local level. This would encourage and further develop initiatives to integrate agencies into the standard labour market. Furthermore the dissemination of best practices is likely to lead to review and enhancement of employment norms and benchmarks for TAW.

However, it can also be argued that the discourse on active labour market policies, especially to encourage effective labour market transitions within the context of flexicurity (Schmidt and Gazier 2002; European Commission 2006b), has neglected the key role of intermediation. Analyses of public employment services (PESs) should recognize the supplementary contribution of TAW agencies. In this context, there needs to be recognition that the TAW workforce contains two distinctive groups of workers. The first are the involuntary temps, who, in truth, seek permanent work and who are often both non-standard as well as precarious workers. The second group is of voluntary, professional intermittent workers, ranging from senior managers and medical staff to engineers and IT experts, who bring a distinct and unique set of experiences. People in this group are often well rewarded and have high status.

The debates around TAW have raged most strongly over EU attempts to regulate TAW and to provide protections for the temps. The 2002 draft Directive of the European Parliament and the Council on working conditions for temporary workers (European Commission 2002, hereafter TAW Directive) is still open to debate though at this moment agreement appears unlikely. One of the draft's core provisions has generated most of the controversy. This is to require comparability in key terms of work between a temp and an equivalent worker at the client enterprise, already a requirement in many Member States. Agreement on this has proved impossible. There were many other grounds for opposition (Busby and Christie 2005) but the 'comparability'/non-discrimination requirement was probably the major one. It also has to be borne in mind that one of the obstacles to agreement on the regulation of TAW is that existing legislation in Member States varies considerably regarding the law's aims, scope and impact, reflecting diverse attitudes in various Member States towards intermediation itself (Nienhueser and Matiaske 2006).

In November 2006 the European Commission published its long-awaited Green Paper, *Modernising Labour Law for the 21st Century* (European Commission 2006a). Within this wide-ranging document regarding the role and scope of labour regulation, Section 4c is devoted to 'three-way relationships' where the growth in TAW, along with subcontracting/outsourcing is recognized. The Green Paper seeks views on whether regulation should clarify the employment status of temps and whether 'the client or the agency should be accountable for compliance with employment rights'.

Within the UK, where opposition to the 2002 draft TAW Directive has been very strong, case law of domestic courts has created its own controversy. In a surprising decision the key employment relationship of temps was found to be with the agency's client, *not* with the agency itself (*Muscat v. Cable and Wireless* 2006). The driver for this appears to be the ensuring of access by temps to employment rights, such as freedom from unfair dismissal. However, the irony is that this intervention has only occurred because UK courts have consistently rejected arguments that the temp is properly the employee of the agency and would thereby get access to employment rights. Although this is clearly a legal issue particular to the UK, this body of case law illustrates one of the central tensions of agency working. This is the question raised by the European Commission's Green Paper about who should properly have the legal and other responsibilities for temps and the nature of those responsibilities in this triangular relationship (Wynn and Leighton 2006).

This body of case law, unsurprisingly, caused consternation among agency clients in the UK. The case law is, to them, counter-intuitive. They argued that if they had wanted permanent staff they would have recruited permanent staff, but they did not. It is postulated that the driver for legal intervention – just as it was for the draft TAW Directive, is that temps are, essentially, victims of labour markets and require explicit legal protections. During 2007 UK courts reassessed this move to client responsibility for agency temps and have indicated a willingness to accept arguments that agencies should properly be the employers of temps.

TAW and the EES

Before evidence on the reality of TAW is discussed, a few words on the EES should be added, not least because it drives EU labour market policy. The EES sets future agendas and therefore its priorities and parameters are important for all labour markets and labour market initiatives.

The EES has evolved over a decade and during this period has been subject to many changes. The radical aspect of the EES is the OMC that seeks to establish a set of autonomous national decision-making arenas, coordinated by best-practice models (Szyszczak 2006). In the arena of employment, Guidelines were established in order to improve the performance and competitiveness of the EU, Member States and individual employing organizations. The original Guidelines of 1997 were grouped around four pillars – employability, entrepreneurism, adaptability and equal opportunities. The requirement that Member States responded to the Guidelines and reported their progress (that was itself assessed by the Commission) has led to a considerable number of initiatives at a national or local level (for example in Hungary, see Katjár and Rogowski 2005).

The emphasis in the early years was on encouragement, innovation and on positive moves to increase labour market participation and vocational skills (employability), including by disadvantaged groups (equal opportunities) and to make employing organizations more responsive to change, including technological change (adaptability).

Much of the critique offered by lawyers and others was concerned with the processes and legitimacy of the EES (Senden 2004), especially the bypassing of both the European Parliament and national Parliaments and fears of excessive centralization. However, crucially, there has been less emphasis on assessing the impact of the EES at the level of local economies and the practices of individual employing organizations. Indeed, because of the bureaucratic nature of the EES and lack of political involvement, the EES has fairly low visibility and therefore correlating change at local level with the EES itself can be difficult.

It is not coincidental that agency working has grown during the period of the EES, but, of course, there is no explicit reference to TAW in EES documentation. There is, though, a sense that insofar as the EES calls for responsiveness, flexibility, efficient and effective employment policies and creative policies and practices, TAW is intrinsically consistent with the EES.

With the Lisbon Summit in 2000 and the introduction of the Lisbon Process a greater urgency was injected. There was a strong sense that without major changes the EU would lose market share to emerging economies within global markets. The setting of targets, linking employment policy with economic policy and, significantly, reviewing the burden of regulation, contributed to increased opportunities for flexibility in employment practices and, potentially, major challenge to traditional EU labour market policies.

The current Employment Guidelines (Council of the European Union 2005), which form part of the Integrated Economic and Employment Guidelines for Jobs and Growth for 2005–2008, contain Guideline 17 (concerned with increased labour market participation and skills enhancement) and Guidelines 18 and 19 which reflect on the importance of labour market transitions over a lifetime. They specifically refer to the need to have measures to assist young people and women, along with other disadvantaged groups, to move into employment and be better rewarded, along with support for active ageing. EU labour market data clearly indicate that in many EU states older people, sometimes following restructuring and job loss have particular problems in re-entering employment. Guideline 18 refers to the need for 'job search assistance' and 'new sources of jobs in services, notably at local level'.

However, it is Guideline 19 that appears the most pertinent in our context. In the introduction to the Guideline we find the following statement:

> … in today's increasingly global economy with markets opening and the continual introduction of new technologies both enterprises and workers are confronted with the need, and, indeed, the opportunity, to adapt. While the process of structured change is overall beneficial to growth and employment, it also brings about transformations which are disruptive to some workers and enterprises. Enterprises must become more flexible to respond to sudden changes in demand for their goods and services, adapt to new technologies and be in a position to innovate constantly in order to remain competitive. They must also respond to the increasing demand for job quality which is related to workers' personal preferences and family changes … working life is becoming more complex as working patterns become more diverse and irregular and as an increasing number of transitions need to be managed successfully throughout the lifecycle.

Guideline 21 aims to 'promote flexibility', though with safeguards, through the promotion and dissemination of innovative forms of work organization and 'support for transitions in occupational status, including training, self-employment, business creation and geographic mobility'. Central to the calls for flexibility, mobility, adaptability and innovation is the notion of flexicurity. This requires balance between flexibility on the part of both the employing organization and the worker, with sufficient security in terms of job security, social security and support for employability. The avoidance of the much-foretold 'race to the bottom' in order to compete with emerging economies is also a key driver. Overall, it can be observed that the 2005 Guidelines are compatible with or even encouraging TAW, insofar as flexibility, innovation and effective transitions are called for. Indeed, the reference in Guideline 19 to 'worker's personal preferences' is particularly appropriate for the 'professional temps' referred to earlier. Nonetheless, the issues around the precariousness and poor working conditions that do, indeed, characterize some types of TAW are implicit if the calls for increased flexibility are not balanced by appropriate protections.

Temporary Agency Working: What is Known?

There is considerable and growing interest in intermediation through agencies, not just in the EU but in other developed economies (OECD 2005; 2006). It is the fastest-growing form of atypical employment within the EU (Storrie 2002; European Commission 2006b; Manpower 2007).

The origins of TAW lie in the US in the 1920s. However, it is only fairly recently that agencies have moved beyond the US and the UK. Even today there are still relatively few countries where agency working is well established. In Europe they are The Netherlands, France, Belgium, Ireland, Switzerland, the UK and Cyprus. Although the numbers are not high, Portugal saw a 50 per cent increase in TAW between 1997 and 2002; in Luxembourg numbers doubled in the same period.

There are emerging markets within the EU, including in new Member States where only recently in some states has TAW been lawful. There has been significant growth in Poland, the Czech Republic and Hungary, with services provided mainly by the well-known multinational agencies. Markets have grown significantly in Japan and Australia and there are expectations that market penetration will grow in India, China and South America (Manpower 2007). Interestingly, some of the fastest-growing markets are in the EU. The reasons for this are debated. Many argue that the major cause has been de-regulation or re-regulation that facilitates both the setting-up of agencies and the ability of employers to use them (*Personnel Review* 2006). This process has probably been aided by a general, albeit uneven, movement towards more liberal, decentralized and individualized patterns of employment regulation.

Others see a key growth factor in the shift from directly employed fixed-term workers to agency working as a consequence of the tighter regulation brought about by the Fixed-Term Directive of 1999 (Council of the European Union 1999). Yet others see relevance in changing attitudes of trade unions towards agency working where there is a growing move to acceptance of TAW as a legitimate form of working (Heery 2006).

Some writers see labour market regulation as less relevant. They point to the aggressive and proactive policies of the leading global agencies that are consciously creating markets (McKinsey 2003). The oligopoly that dominates temporary working has developed business strategies that focus on acquisitions of local agencies and wider application of tried and tested management techniques (Peck et al. 2005).

However, it is also important to note evidence that identifies other factors. Globally, most leading employing organizations are actively seeking more efficient and effective ways of utilizing their resources (Goldman Sachs 2003). In competitive environments, enterprise performance is increasingly associated with an organization's ability to respond in a flexible manner. In the move to a service- and knowledge-based economy in most developed countries, there is emphasis on levering the most from the human resources available to the employing organization (Hecker and Grimmer 2005).

Many employers respond through developing integrated internal and external patterns of work (Sparrow and Marchington 1998). Internally, there has been growth in part-time, flexi-hours/time account working and increased flexibility in the employment contracts of all staff. Externally, there has been growth in outsourcing and, relevantly, strategic use of intermediation, especially agency working.

Many commentators also note another trend in the behaviour and attitudes of workers themselves. This is a trend not confined to the EU. Recent research indicates that some, often highly skilled people, are rejecting employment in bureaucratic organizations and reflecting on the declining benefits of standard employment, especially in terms of occupational benefits such as pensions (Lammiman and Syrett 2004). They recognize the imperative or preference of being self-reliant and find temping attractive. Managers often find such staff rewarding and accept that they have made a 'lifestyle choice' by temping (Leighton et al. 2007, 33–4). Those that have less choice (such as those with disabilities, migrants and, say, older people) often find that temping is their only means of finding work (Casey and Alach 2004). The study of both groups is key to understanding temping and, it will be argued, important for the success of the EES.

Guest and Clinton (2006), reporting on the position in the UK for a wider EU study of temporary contracts (wider than simply agency temporary contracts) found that irrespective of skill level, irrespective of type of temporary contract and irrespective of whether they willingly or reluctantly entered temporary work, such workers report generally more positive outcomes than those with permanent contracts. They suggest that the reason for this may be because permanent work has become more demanding, inflexible and less attractive.

The 'Legitimacy' of TAW

To a greater or lesser extent, the growth in agency working has been affected by regulation, much of which had presented TAW with major obstacles or even bans until fairly recently. The process of liberalizing labour markets for temporary work agencies was given a particular boost in 1997 through the ILO Convention No.181 on Private Employment Agencies that recognizes the contribution of agencies in 'well-functioning labour markets' (Preamble). Relying on this, the international body representing agencies (the *Confederation Internationale des Enterprises de Travail Temporaire*, hereafter CIETT) frequently refers to their role in 'well-functioning labour markets' for its policy and lobbying purposes.

By the late 1990s, all EU Member States tolerated agency working to a greater or lesser extent. Despite lawfulness, it appears that socio-cultural dynamics have impacted on labour market growth and sometimes also the nature and form of legislation. Some countries appear still reluctant to see TAW as legitimate (Koene et al. 2004; Hofstede 2001). This explains why TAW is still rare in some states with a long-standing liberal regulatory regime, such as Sweden, but relatively developed in some states with either strong collective traditions (The Netherlands) or more recently permissive regimes such as France. These deep-seated national work-related values not only have direct impact on the development of agency working, the type of work undertaken and the type of client involved but also explain the extent of continuing controversies over agency working itself.

The growth, acceptance and institutionalization of TAW in certain EU states clearly reflects normative change in their labour markets, especially where TAW was rare until recently. In The Netherlands, TAW represents 4.5 per cent of the labour market; in the UK it is 4 per cent and it is 2.7 per cent in France (Eurofound 2007). It is important also to note the recent changes in the agencies themselves. The major agencies that operate in the EU have grown both in size and influence through mergers and acquisitions. The major agencies are Adecco, Manpower, Vedior-Bis, Randstadt and Kelly, together comprising 33 per cent of the global market and a similar proportion of the EU market (Manpower 2007, 2). Nonetheless, there are still many small 'high street' agencies, both generalized and specialist. Increasingly, they are, though, prone to be acquired by the major companies.

New Strategies, New Expectations?

The downturn in the TAW market in the early 2000s caused a radical rethink of what and how agencies should respond (Goldman Sachs 2003). The assessment was that although there were still profits to be made in providing low-skilled workers, the opportunities for growth lay in providing higher-skilled staff, such as medical, technical and professional staff and interim managers. The leading agencies have adopted a higher profile and have developed dual strategies for growth that generally involve maintaining their traditional supply of large numbers of temporary staff to regular clients, with developing new skills areas, new relationships with the temps and new business arrangements with clients, such as partnering. There are risks in this, as high value arrangements with clients are prone to both 'poaching' of staff by the client and the more economically mobile temps that take their distinctive and particular skills elsewhere (Peck et al. 2004).

It has to be borne in mind that the agencies do not themselves see 'success' in terms of temps obtaining permanent jobs with their clients. They look to sustained demand for temporary skills and a strong synergy and an active professional relationship with regular clients as their success indicators.

Within the UK there is clear evidence of new models of agency/client relationships emerging (Stanworth and Drucker 2006). Most leading employers not only systematically and extensively use temps and have transparent policy documents on the use of agencies but also have a preferred supplier or approved list of suppliers. Quality assurance processes are applied to the agencies and most clients report improved professional standards from agencies (Leighton et al. 2007). Some employing organizations have formalized the relationship with an agency whereby all their contingent skills need are provided by one agency, a representative of the agency is regularly or even permanently at the client's workplace, and key HR functions such as induction, training and career management are undertaken by them also. This integration model is especially attractive to clients with fluctuating skills needs or skills shortages.

Many leading agencies are also in partnerships with the public sector in regeneration and restructuring initiatives. They provide training, develop employability skills and, crucially, provide genuine employment opportunities for, say, young unemployed people. For example, within the UK, virtually all parts of Wales were designated Objective 1 areas for EU funding purposes. Manpower worked in partnership with local government in west Wales on a programme to provide training and work experience for long-term unemployed young people (Leighton 2002).

Agencies also work in partnership with employers in many developed economies, dealing with restructuring or job losses. They play an active role as outplacement specialists and, again, provide training, retraining and work experience or, ideally, new jobs. Agencies can act as a conduit in moving people whose skills are surplus in one place to another where there are skills shortages or new opportunities. In the UK they are playing a key role in supporting the entry or re-entry to work of those claiming Incapacity Benefit (DWP 2006). The large and successful agencies are multinational and can also assist in effective migration of workers.

These activities are only possible if agencies are lawful and legitimate and if agencies themselves are forward-thinking and committed to the relevant values and policies of the European notion of flexicurity. This is the challenge. In this context it is important to note two other trends. The first is the move towards professionalization of agencies through the emergence and growth of professional/trade bodies. These set standards and publish voluntary codes of practice and are now a feature of most EU states. The second is the increase in collective bargaining and collective agreements involving agencies. Such developments lead Arrowsmith to conclude: 'The experience of most countries with more mature TAW demonstrates the importance of self-regulation and the need for both law and collective agreements to achieve an effective balance between employment flexibility, equality and security' (Arrowsmith 2006, 38). He also notes that countries with mature markets are tending to shift from regulation of TAW to self-regulation. Regulation, though, remains the norm in less developed markets.

But what of employers? Are they using agencies in a strategic way and seeing temping as a legitimate and valued way of working? The evidence on this is more limited. From the UK there is a recent study that indicates a mixed picture (Stanworth and Drucker 2006). Employers were questioned as to whether they used agency temps to 'supplement' labour, in other words, to respond to fluctuating or short-term needs, or to 'substitute' labour, in other words, temps become a regular and institutionalized feature of their workforce. They were also asked whether they acted in an ad hoc way or had workplace strategies regarding skills needs.

It is clear that some employers continue to act on an ad hoc basis. They are 'fire-fighting', in that they are using temps as a simple measure to deal with an immediate problem. The problem includes that of a parent company setting head-count figures that are unrealistic. Temps can provide skills but they do not 'count'. However, the researchers identified some trends that match the evidence from studies provided by agencies themselves. More employers are setting up preferred or single supplier deals, have in-house agencies and, most relevant, are developing strategies to increase the skills and commitment of the temps themselves.

The research also identified several anomalies and tensions, not least with what appears to be the increasing commodification of agency working. HR managers are often marginalized in the contracting process with agencies (see also Leighton et al. 2007, 52–4). This raises important issues for the temps themselves, whose interests may not be adequately safeguarded. Second, the research also highlighted some of the tensions that can arise between the client's permanent staff and the temps. The question of training also emerged as critical. Who pays for and undertakes the training of temps? If agencies are to play a role in the EES, this is perhaps the single most important issue that requires responses. Where legislation requires comparability of terms of work between workers at the client organization and the temps, questions of training are not necessarily addressed. Agencies are often well placed to provide training but where there is no requirement or incentive for agencies to undertake this role, problems will remain (Drucker and Stanworth 2004).

There is also interesting evidence from Australia regarding employer responses to agency working. Agency working grew at 7.5 per cent throughout the 1990s and the agencies in Australia are both the usual multinationals and local agencies, such as SKILLED. This is a large agency that provides a range of skills but specializes in engineering and medical skills. As with the UK data, SKILLED provides training, has representatives at client premises and generally complies with the partnership model described earlier (Leighton et al. 2007, 119). It is unsurprising that temping has become more attractive to individuals in Australia, given the recent weakening of statutory employment rights (Murray 2006).

The Temps

The final part of the triangle is the temps themselves. As considered earlier, there are two basic groups within the TAW sector. The first, and most researched, are those who work in this way on an involuntary and/or limited basis. They are people who seek permanent work and, typically, see opportunities of gaining experience and skills and thereby becoming more employable through working for an agency. Most regulatory interventions have aimed to provide protections for this group.

The second group are those who can loosely be described as the 'professional temps'. These are people, typically working for a particular agency over a period of time, who are deployed to various clients and who consider the agency their employer and who look to the agency for career advancement and rewards. They have professional skills but also skills of flexibility and adaptability. This is in terms of responding the facilities, structures and culture of the various clients they are allocated to. Their commitment and loyalty is to their skills and the agency.

Temping generally is attractive to many who have health, domestic or other responsibilities or who traditionally face disadvantage in the labour market. They welcome the flexibility that agency working provides. Some agencies are consciously developing the second group (Leighton et al. 2007, 127–9). This is likely to be the case where the agency provides highly skilled or specialized temps. The agencies are faced with the same issues as other employers in terms of skills development, rewards and retention of staff.

Recent research provides data on the experience and aspirations of temps in the EU. Research on temporary workers in the EU – clearly, a wider group than agency temps – indicates that a high percentage (48 per cent) are in temporary work because they cannot find permanent work. There are few differences as between men and women, or as between the EU15 and EU25. Around 10 per cent indicate they do not want a permanent job, though here slightly more women than men reported this (European Commission 2005a). This data suggests that for the majority in temporary employment of all sorts the intrinsic insecurity, associated financial and other problems and sometimes poor working conditions make it unattractive. It might be noted that one in five responding to the survey gave no reason for being in temporary work.

Turning to agency work, surveys tend to show that the most frequently cited reason for temporary work is also the failure to find permanent work. However, there are significant numbers who report they value the opportunity to gain diverse work experience and to achieve work/life balance (CIETT 2002). It is important to note national variations. In The Netherlands, 60 per cent report the motivation for temping as gaining work experience, compared with only 15 per cent in Finland. In The Netherlands, over 75 per cent report they had voluntarily chosen temping and 27 per cent report that they are better able to combine work and family life (Eurofound 2004). This seems consistent with research findings generally that temping is especially attractive to women, older people, and less experienced people who find obtaining standard employment especially difficult. It might be noted that these are the self-same target groups for increased labour market participation in the Lisbon Strategy.

Recent qualitative research provides more evidence on the motivation for temping. This tends to confirm the attraction of temping for certain labour market groups. A study of women temps in New Zealand revealed that: 'Some women are trying to practise their own preferential employment arrangements in ways that challenge conventional economic assumptions of employment behaviour and traditional trajectories of women's lives' (Casey and Alach 2004, 1).

Drucker and Stanworth (2004) conducted a not dissimilar study in the UK, focusing on the mutual expectations of the temp and the client organization. The temps report generally high levels of satisfaction with the agencies, whom they see as their employers. They welcome the flexibility of temping but complained about the lack of pay progression. Where the temps are ‘professional temps’ the problem is acute. The general practice in agency work is to link the pay of a temp with the value of the contract to supply skills with the client. These contracts tend to lead to standardization of the terms of work of temps, with little or no recognition of individual skills quality and experience.[1] This is an important tension in temporary work and one that is in no way assisted by notions of comparability/non-discrimination with a comparable worker at the client organization.

Interestingly, the temps complained about poor management of their work by client organizations. This is borne out by recent case studies in the UK, where temps reported unprofessional or even hostile attitudes in some client organizations (Leighton et al. 2007, 109–11, 132). The experience of temps is therefore clearly conditioned by the conduct and practices of the agency and the client. If agency working is to be supported under the EES to create more and better jobs it is important to focus on standards at both the agency and the agency’s client.

Although the evidence is not extensive, it suggests that agency working can make a significant contribution to those faced with labour market transitions, especially traditionally disadvantaged individuals who do not easily sit within the policies and culture of EU employing organizations. Unfortunately, the data sometimes fails to differentiate between temporary work and agency work but, more importantly, it fails to differentiate between those who are involuntary temps and those who see temping as a career. In this regard, the leading agencies report significant numbers who have worked for them in excess of ten years (Leighton et al. 2007, 34) and who have cogent, articulated reasons for so doing.

At the same time, there remains evidence that working conditions for some in TAW are poor and that exploitation can occur. Regulation can address some of the issues, but there is inadequate data to determine the extent to which legislation is enforced and leading to improved standards. From a regulatory perspective, the central issue remains that TAW is not a homogeneous form of work. There are ‘good’ and ‘bad’ agencies and variable experiences for workers.

There are also intrinsic legal and management problems in the nature of the triangular relationship itself. TAW would benefit from a wider analysis (and recognition?) of the valid reasons for TAW. These include the role they can play in redeploying skills in shortage (or indeed, surplus) skills areas; their role is reducing costs where skills are required on an intermittent or short-term basis, their role in training and development and their role in sharing best practice with clients within partnership arrangements.

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1 Some leading agencies are addressing this and setting pay for temps based on their individual skills (Kelly Services, UK, in Leighton et al. 2007, 140–41).

Back to the EES

Although the EES, according to many, has not achieved its objectives as quickly as hoped (European Commission 2003) there can be no doubt that it has made major contributions to national policy-making, especially in the areas of dealing with long-term and youth unemployment, employability, encouraging increased labour market participation (especially by women) and in supporting equal opportunities. Insofar as the OMC was designed to encourage the sharing and development of best practice from different Member States, including at a local level, the evidence is more mixed. Developments, perhaps unsurprisingly, are more marked at governmental level than at employing organization level. There is little research evidence of the changes to employment practices generated by the EES, other than through governmental action.

Most relevantly, research, though not extensive, appears to indicate that the major problem with active labour market initiatives is their sustainability. This is in terms of, say, the survival rate of businesses set up by young people and measures to encourage single parents to enter the labour market or the long-term unemployed to return to it. It is suggested that an important factor is the lack of longer-term work relationships, such as that which might be provided by an agency. A relationship with an agency not only opens up choice but also access to a support structure.

Future Developments

In terms of labour market participation recent evidence indicates the value of the public employment services across the EU working in partnership with agencies. The 2005 Commission report, *Approaches of Public Employment Services (PES) to Long-Term Unemployment* (European Commission 2005b), notes the role of private providers. It refers to ‘smart buying’ in Finland, and comments that the JobCentre Plus scheme in the UK works often effectively with private partners and that in Italy there has been ‘greater involvement of private players’ (European Commission 2005b, 14). The report confirms the lack of research data on schemes, but concludes that the PESs should remain in control of schemes.

How might such schemes be made more effective and, in particular, aid labour market transitions? The relationships could often be reinforced with wider use of support and subsidies to agencies, not so much to provide work and work experience but, importantly, training and personal development.

Agencies can also work in partnership with their clients, not only to absorb staff who are redundant or likely to be so but to support them during change and restructuring, especially in access to shortage skills.

The experience to date is of limited or localized interventions by agencies, but relatively little analysis or dissemination of positive outcomes. There is still reluctance to use the skills and facilities of agencies. Why?

In a recent and interesting presentation to the World Employment Conference in Berlin, May 2006, organized by CIETT and BZA, David Arkless, Senior Vice-President of Manpower, lamented the fact that the EU has no real job creation policies. The policies aim to bring people into existing jobs. Agencies, he argues, have a good record in creating jobs as they can be very flexible and innovative. He also criticizes the EU commitment to flexicurity. He argues that this represses change and growth. The real balance should *not* be between flexibility and security but flexibility with responsibility. He argues that we have to identify the balance between personal responsibility and that of the employer or agency or others and the balance should be between talent retention and access to talent (Arkless 2006).

A Forward Agenda

There is emerging evidence that temporary agencies can perform an important role in labour market transitions, especially for some members of traditionally disadvantaged groups. Clearly, how effective their role is depends on the quality of the agency itself but also the extent to which it is embedded in labour market and social dialogue structures and processes. This, in turn, depends on the extent to which there is recognition of the role that agencies can play in training, re-skilling, enhancing employability and confidence-building in the individuals concerned. Agencies can provide a sustained relationship both with temps and with clients suggest that describing such relationships as merely transactional is incorrect (Rousseau 1995; Meyer and Smith 2000; Marchington et al. 2004). There is an important emerging literature on analysis of multi-foci and complex work relationships.

For there to be a significant role for agencies there has not only to be recognition of their legitimacy, but a close understanding of the needs of a growing number of people in the EU labour market. This includes people who are disadvantaged but also those disillusioned with standard employment, who are often highly skilled and mobile.

However, all of this is predicated on developing criteria to differentiate the professional, well-run agency from the rest. There is also the critical need to find structures and processes that differentiate the efficient and successful agencies from the rest. Regulation that applies a ‘broad-brush’ approach is unhelpful and counterproductive to sound labour market policies by agencies.

What of the role of regulation, now firmly subject of debate since the publication of the European Commission’s Green Paper on labour law in 2006? The questions posed in the consultation are very wide-ranging and broadly based. They are not only part of the discourse about deregulation or better regulation, the questions are about the nature of and the enforcement of labour law.

TAW presents unique challenges to policy-makers for a number of reasons. First, it resonates with the long-running saga of defining employment relationships as between employees and others; second, there is the triangular nature of the work relationship; third, the fact that existing regulation and practices vary dramatically across the EU; and fourth, the agencies themselves are a heterogeneous group. How, then, to encourage and support the 'good' agencies and eradicate the 'bad'?

It is suggested that the approach of the 2002 draft Directive is wholly inappropriate, with its focus on the client-temp relationship. This, at best, can only provide basic and non-developmental protections for temps and would be a bureaucratic and managerial nightmare. It is self-evident that regulation should aim to provide relevant protections for the temps.

Regulation, though, should recognize the distinct needs and aspirations of the temps, including the 'professional' temps. Regulation of agencies is to be preferred, a matter that is already a feature of several EU Member States.

The legal responsibility for temps should be with the agency, including the responsibility for pay, benefits and protective rights. There should also be effective career management of the temps, thereby increasing the attraction of such work. This would build on the best practices of agencies, would be clear and could be effectively enforced.

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Chapter 6

Employability Through Covenants: Taking External Effects Seriously

Ton Korver and Peter R.A. Oeij

Introduction

In March 2000, the European Council in Lisbon set out a ten-year strategy to make the EU the world's most dynamic and competitive economy. This so-called Lisbon Strategy is a commitment to bring about economic, social and environmental renewal in the EU. Under the strategy, a stronger economy will drive job creation along with social and environmental policies that ensure sustainable development and social inclusion. Lisbon stands out as the first occasion where quantifiable targets were integrated into the strategic employment aims of the Union.

The idea was to transform Europe into 'the most competitive and dynamic knowledge-driven economy by 2010'. In particular, it was agreed that to achieve this goal, an overall strategy should be applied, aimed at:

- preparing the transition to a knowledge-based economy and society through better policies for the information society and R & D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
- modernising the European social model, investing in people, and combating social exclusion;
- sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix (European Council 2000).

The Lisbon Summit was designed to mark a turning point for EU enterprise and innovation policy: it saw the high-level integration of social and economic policy with practical initiatives to strengthen the EU's research capacity, promote entrepreneurship, and facilitate the take-up of information society technologies. In relation to employment policies, the main issue for realizing the Lisbon agenda became the target of achieving an employment rate of 70 per cent (60 per cent for women) by 2010.

However, many critics[1] complain that not much progress has been made towards achieving these ambitious goals. After the global economic downturn, governments seem to have been reluctant to push through difficult and unpopular economic reforms or to focus on increasing their national budgets for research and innovation. Many economists claim that, as a result, the EU has lost valuable ground to its main competitors, the US and Japan.

In response to such criticism, at their meeting in Brussels on 25–26 March 2004 the EU leaders adopted conclusions for strategies to meet the Lisbon targets and appointed the former Dutch Prime Minister Wim Kok to head a high-level expert group (also known as the Employment Taskforce) to give new impetus to the Lisbon strategy. The group's mission was to assess the instruments and methods used to date and to involve Member States and stakeholders more closely in order to ensure that the Lisbon objectives could be delivered. The high-level expert group presented its review of the Lisbon Strategy to the European Commission on 3 November 2004 (Kok 2004), based on earlier research (the 'first' Kok report, Kok 2003).

The 'second' Kok report (2004) paints a gloomy picture of the state of the EU's economy and analyses the reasons behind the lack of progress on the Lisbon agenda. However, it rejects proposals for the 2010 deadline target to be lifted. It states that the EU should not become a 'copy-cat of the US'. It highlights the external challenges (US and Asian growing economies), describes the overwhelming internal challenge of a 'greying' or ageing Europe, and points to the EU10 enlargement as another source of concerns and opportunities.

The report was adopted by the Commission and served the European Spring Council in March 2005 as a basis for its mid-term review of the Lisbon Strategy. It states that the 'disappointing delivery' is due to 'an overloaded agenda, poor co-ordination, and conflicting priorities' but in large part it blames the lack of political will by the Member States. It paints a mixed picture. Some progress was made: the employment rate rose from 62.5 per cent in 1999 to 64.3 per cent in 2003 and overall female employment rose considerably too. But 'net job creation' stopped in 2001 and the target of 70 per cent employment rate by 2010 will be difficult to reach.

The mid-term review accepted the major conclusions of the Kok committee and its reports. The ambitions were scaled down and 'nationalized' at the same time.[2] A combination of economic and policy goals was achieved, leading to integrated economic and employment guidelines for the period 2005 to 2008. However, no major new initiatives were proposed and the imbalances the stakeholders pointed out at earlier occasions were not corrected, at least not in their view, leading anew to some harsh criticisms.[3] Lisbon is not dead and in view of better economic prospects it may hope for a better future. The question remains, however, whether

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1 See the critical comments documented at <http://www.euractiv.com>.

2 See the Commission staff working paper, European Commission 2006.

3 See again comments documented at <http://www.euractiv.com>.

such is to the credit of the European Employment Strategy (EES), the open method of coordination (OMC), the rudimentary European Social Model (ESM), the caption of the Lisbon Strategy, or, simply, to changing economic tides.

Employability in Europe

Issues of employment and social security are relatively recent priorities on the European agenda. They are characterized by medium to low national capacities to determine outcomes, and contrast starkly with other European issues. The scheme drawn up several years ago by Fritz Scharpf still holds today (Figure 6.1).

According to Scharpf's scheme, employment, industrial relations and social policy are more national than European. On the other hand, the national capacity to manage such domains and get them to comply (for instance, with the EES and the ESM) is limited. And indeed, such is recognized in the constant plea by the European Commission to invest in a social dialogue and the construction of enduring relationships between social partners and governments 'at all levels'. At the same time, the very distance between the high aims of the Lisbon targets and the sketched limited capacities should warn us not to expect too much too soon.

However, a central concept of the ESM in which the European Commission has invested more than just aspirations is the policy of employability. The reasoning is simple: employment follows employability (Korver 2000). Employability for every person is a crucial condition of social and economic participation. As such, employability is social security at the individual level: the ability to provide for one's income. Policies aiming at participation, employment and social security from a life-course perspective should therefore focus on employability enhancement. Too often, initiatives for life-course arrangements threaten to become limited to salary-saving schemes instead of long-term investments in our knowledge economy through investing in people (Schippers 2004). Employability simply means that a person has skills that keep him or her employed in present and future jobs. If people's employment is not at risk, we can speak of sustainable employability. Employability can be reached by enhancing individual competencies, and by policies that improve the fit between individual competencies and jobs in a continuously changing economy with changing work organizations.

In the following we shall analyse the concept of employability by focusing on training. In our view the market for training does not work well. On one hand, it suffers from the Mattheus principle – the higher-educated get trained more – solidifying already existing frontiers and barriers in the labour market. On the other, the shift from firm-specific skills to more general skills may be a cause of abandoning training initiatives, due to the 'hold-up phenomenon'. We will try to illustrate that the mechanism for enhancing employability though training is not working properly. Our argument's main empirical evidence stems from OECD data on continuous vocational training (CVT). We will support our point that employability is insufficiently enhanced by showing that a lack of training affects

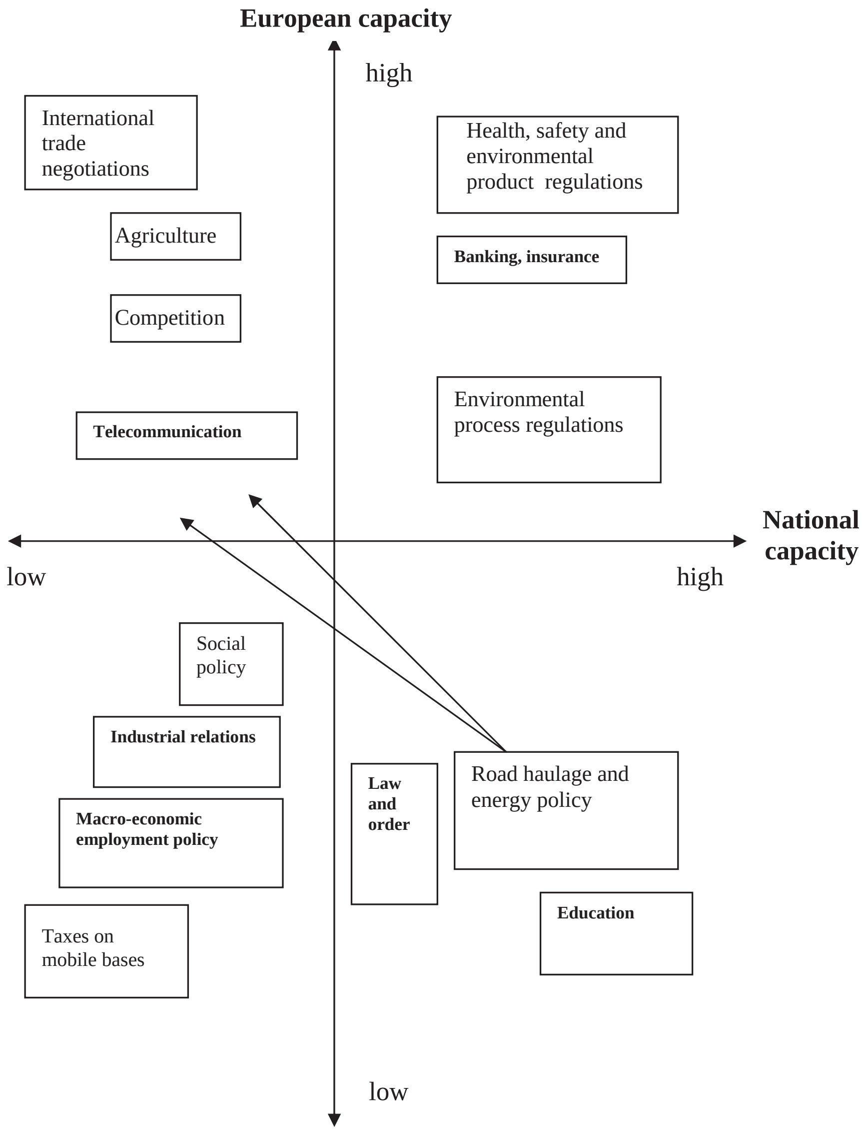

Figure 6.1 National and European problem-solving capacities

Source: Scharpf 1999, 117.

weak labour market groups the hardest, while these groups represent the largest reservoirs of underused labour potential.

Improving Employability by Training

One way of improving employability is by improving labour force skills and competencies through education and training systems. Two questions will be addressed: are workers' skills upgraded by training? and, if so, does it affect their labour market performance?

Upgrading skills is part of a comprehensive lifelong learning strategy. The OECD Employment Outlook of 2003 has gathered and analysed data on formal continuous vocational training (CVT) in OECD countries (OECD 2003, 237–76). CVT accounts for at least 60 per cent of adult education and training in almost all OECD countries. On average, two-thirds of total CVT is (partially) provided or paid for by the employer. However, training participation and intensity vary considerably from one country to another and from one group to another.

The data show that the supply of CVT falls behind the demand. Partly in consequence, certain groups cannot improve their labour market position. Eventually, this threatens to slow down the Lisbon ambitions on participation and productivity. Some data will illustrate the point (OECD 2003):

- Men receive 17 per cent more hours of training than women.
- The average training participation rate of workers aged 56 to 65 years (about 12 hours of CVT courses per year) is about three quarters of that of prime-aged workers (36 to 45 years) (about 18 hours per year). Workers aged 26 to 35 years receive most hours (21 per year).
- Participation in low-skilled occupations (13 per cent) is about one third of the participation in highly skilled occupations (38 per cent). Participation for workers with less than upper secondary education is less than one half (16 per cent) of those having a tertiary degree (35 per cent).
- Employees with a high degree of supervisory responsibility are twice as likely to participate in training as are employees without any supervisory role and they spend twice as many hours on training as compared to non-supervisors.
- Immigrants participate about 5 percentage points lower than natives.
- Finally, workers in small firms receive less training than workers in large firms, who receive almost twice as many hours as workers in small firms.

Firms pay for more than 70 per cent of CVT courses. Most of the skills provided through training are not firm-specific and can be considered as transferable. This inconsistency between theory – that is, the optimal amount of investment in firm-specific human capital can be obtained only if costs and returns can be shared by the worker and the firm – and evidence suggests that labour markets are not perfectly competitive because firms pay for a significant share of training courses which are in fact general or transferable. This market imperfection may lead to underinvestment, because current employers cannot internalize the benefits from training that will accrue to future employers, due to the external effect of 'poaching' – that is, a firm can freeride other firms' investment in training by making better wage offers to trained employees. Empirical evidence shows that underprovision is likely to occur in all OECD countries, which, eventually, might disproportionately reduce the training opportunities for low-educated workers (OECD 2003, 248).

Beyond market failures, training outcomes will depend on employers' and employees' incentives to invest in human capital. Underinvestment and inequalities can be due to employers' and employees' behaviour. OECD data provide the following picture (OECD 2003, 249–56).

- Women and immigrants are less likely to be included in employer-paid training, possibly reflecting lower expected benefits for the employer.
- There are fewer employer-paid training opportunities for most part-time and temporary workers, while their demand is not lower than the demand of full-timers and those with permanent contracts. Plausible explanations can be statistical discrimination, tenure effects and the higher probability of (voluntary) quitting.
- The amount of training by employers is higher for highly skilled workers and supervisors than for low-skilled occupations or tasks, suggesting that employers tend to direct more able employees into better career and training opportunities simultaneously.
- Finally, training supply increases with firm size while training demand does not, which is consistent with the idea that larger internal labour markets offer greater opportunities to reap the benefits of training and have lower unit costs of training.

About a quarter of non-trained workers (23 per cent) and almost one third of trained workers (32 per cent) would like to take more training. Reasons why workers show a limited demand for training include lack of time, financial factors (especially for the low-skilled) and family constraints (more often for women than for men).

To foster training, the OECD suggests co-financing arrangements. One example is the sharing of training costs between employers and individuals to be fostered by joint CVT agreements, to the extent that unions and work councils are in a better position to monitor training content and quality (OECD 2004, 274–5). Such joint CVT agreements are part of collective bargaining agreements and play an important role in ensuring an equitable distribution of training. The point is well taken, although it should not be forgotten that the scope of collective bargaining is heavily biased towards inside workers and that its scale reflects company boundaries and/or sectoral or industry boundaries; while the promotion of training for transferable skills and competencies may well need to go beyond the company and the industry or sector to encompass intersectoral and interindustrial movements, for which the regional scale is a better and more likely candidate. To promote such a new development, covenants might just be the thing needed.

Our second question is concerned with labour market performance. The OECD Employment Outlook of 2004 makes the following observations:

- The importance of education and training for labour market performance is likely to increase. Global demand shifts associated with the growth-enhancing role of human capital suggest a positive impact of education and training on aggregate employment.
- There is empirical evidence for links between training and aggregate employment, such as between employment performance and initial education and adult training. Such investments 'make training pay'.
- At the individual level there is a strong association between training histories and employment outcomes. On average, a 10 per cent increase in time spent on adult education or training is associated with an increase in the probability of being active and a fall in the probability of being unemployed.
- Employee training has a clear impact on wage growth in the case of young and highly educated employees, and on attaining and maintaining the competencies required for sustainable employment prospects for older and low-educated employees (OECD 2004, 183–209).

Training has a positive impact on labour market performance, and thus on employability. Trained workers feel more secure about their employment security. They have better chances to find and keep a permanent job, enabling them to be both more voluntarily mobile and less frequently dismissed than non-trained workers. And when jobless the unemployment duration tends to be reduced due to training. Training increases the probability of re-employment after a job loss (European Commission 2004, esp. Ch. 4). Much can be gained here, since more than half of the employees in the EU still has no access to training at the workplace nor participate in any training programme.[4]

The OECD (2004, 207–9) recommends investments in continued training that enable workers to alternate between working and off-the-job training, by implementing a training levy/grant scheme, and by making the value of skills transparent like other factor inputs and treating them as long-term assets. Such investments preferably include arrangements for mobilizing private resources from employers and employees, with public co-financing, which are further supported by policy measures that favour the establishment of training consortia pooling together resources from different enterprises. Such cooperation, which crosses the boundaries of firm, industry, and sector, is what we have in mind (Korver and Oeij 2003) and why we will recommend the use of covenants hereafter.

4 Weiler 2003, and, with detailed attention for the differences between permanent and non-permanent workers, Weiler 2005.

The Labour Market for Target Groups

Labour market participation needs to be fostered, especially among groups that tend to be underrepresented in employment (OECD 2003, 68–155). Important reservoirs of underutilized labour potential are population groups like women, older workers and less-educated workers (see also European Commission 2004), and to a smaller extent, youths, single parents, immigrants and persons with disabilities. Estimates of potential labour supply from OECD indicate that policies to expand participation could increase employment by between 7 per cent and 12 per cent of the working-age population.

Among the groups mentioned, women, older and less-skilled workers represent the largest pools of underutilized labour potential. Since there is a considerable overlap from one population group to another, some, if not many, individuals face multiple barriers to participating in the labour market. Some groups show a strong persistence in non-employment. For many persons in low-paid-jobs there is evidence of so-called ‘low-pay-traps’, that call for policies broadening access to job improvement for them. However, intentions for labour mobilization may be hampered by excluding vulnerable groups as a result of rising skill requirements due to the application of new (information) technologies and forms of work organization (see Oeij and Wiezer 2002). Again this emphasizes the need to promote training opportunities from a life-cycle perspective; that is, at every stage of a person’s career, inside and outside the labour market (OECD 2003, 152).

Improving the Quality of Work

Another indicator of employability is the quality of jobs. Jobs that offer opportunities for learning may enhance employee competencies. Many subjects can be connected to this topic, such as (professional) autonomy (decision latitude), functional flexibility, participation in decision-making, career opportunities, safety and health effects. The *Employment in Europe 2003* report distinguishes four types of jobs: dead-end jobs, low pay/low productivity jobs, jobs of reasonable quality, and jobs of good quality. It observes that three quarters of all jobs are of good or reasonable quality at EU level, leaving a considerable share of jobs of low quality (European Commission 2003, 127).

The overall picture of trends in job quality is mixed. Changes in working conditions also give a mixed picture. The number of serious work accidents has decreased, and so has the number of fatal work accidents in Europe between 1994 and 2001 (Weiler 2003). Exposure to health and safety risks at work among European workers has fallen, but reports indicate that working at very high speed or to tight deadlines is on the rise. Those working long hours or at an intense work pace also report more stress-related health problems and greater difficulty in reconciling work and family life. In addition, perceptions of employment insecurity are rising (OECD 2003, 18–20). Let us take a closer look at some risks.

Although exposure to health and safety risks fell about 3 percentage points to 27 per cent in 2000/01, exposure to physical hazards, such as intense noise, painful and tiring positions and handling heavy loads, had risen. Working at very high speed and to tight deadlines rose to 56 per cent and 60 per cent, indicating a high work intensity. Increasing numbers of workers reported headaches, backaches, muscular pains in the neck and shoulders, overall fatigue and stress. Slightly fewer, 31 per cent of workers, reported performing repetitive movements on a continuous basis, whereas job autonomy is rather high: worker autonomy on order of tasks (64 per cent), pace of work (70 per cent), methods of work (70 per cent). But there is a growing number of individuals who work very long hours (more than 45 hours per week) in some countries. Working conditions overall may seem to have improved slightly, but some hazards and stress-related illnesses are more common than a decade ago. The nature of tasks carried out present a rising work intensity and job autonomy. (See also Oeij et al. 2006; Weiler 2003.)

In sum, some progress has been achieved in generating more and better jobs, but many improvements remain to be realized (OECD 2003, 45–7, 55). Besides human suffering there is also an economic price with work-related health problems and work accidents, costing the equivalent of 3–4 per cent of European Gross National Product (European Commission 2002, 79).

Another indicator of job quality is flexibility, and how this affects job security and quality (European Commission 2003, Ch. 4; Weiler 2005). Europe has a wealth of flexible working arrangements, such as transitions between various labour market states, contractual flexibility and working time arrangements. At the same time, there is very little evidence that quality of work and employment stability improved over the second half of the 1990s. No significant changes in subjective job satisfaction and objective job quality took place either. Despite all that, transition rates into unemployment and persistence in low-quality employment remained high. The balance between flexibility and security, in combination with the need to improve the functioning of labour markets and quality of work, seems delicate. Relatively high degrees of labour market flexibility seem to be consistent with major shares of employees in insecure employment relationships. These are employees at higher risk of job loss, in low-paying jobs, in low-productivity employment, and without access to training or further career development opportunities, according to *Employment in Europe 2003* (European Commission 2003, 152). It is the very connectedness of these facts that points to the urgency of alleviating them and at the same time to the difficulties of finding the appropriate means.

The importance of job quality can be deduced from the fact that quality of work and subjective job satisfaction are found to be positively correlated with employment performance and labour market participation. Furthermore, higher productivity goes hand in hand with higher job quality, subjective job satisfaction and training. Training in particular is shown to have a strong positive impact on labour productivity. This highlights the need for creating high-quality jobs and promoting transitions to such jobs, which are also more stable. Improved upward ‘quality dynamics’ can increase not only quality but also quantity of employment. This once again stresses the risks of a lack of access to training and insecure contract status (European Commission 2003, Ch. 5; Weiler 2005). In order to achieve the targets of the European Employment Strategy improvements are needed, including investment in human capital and promoting a culture of lifelong learning. Another way to improve employability and productivity is by redesigning work organizations. Weiler (2003, 33) observes that, although the design and dissemination of innovative and sustainable forms of work organizations empirically support labour productivity and quality of work – also a political goal in the Employment Guidelines 2003 – work organizations (beyond working time) are *not* an issue in the recent EU policy documents.[5]

Concluding Comments

Based on different sources we conclude that training in CVT and training in general are beneficial to the labour market position of employees because training enhances their employability. From the information presented we find support for our position that the market for training is not perfect. Individuals and groups already with the best labour market positions receive more training than others. Weaker groups, which are an important labour potential, are underutilized and remain so if they are denied access to training opportunities. Employability will be further hampered by the absence of measures to improve job quality. On the one hand, there are still old and new risks for healthy work. On the other, the lack of possibilities of combining work with nonworking situations negatively affect both labour market positions of employees and participation and productivity rates of firms.

Covenants[6]

Covenants are agreements between two or more parties, at least one that is (represents) a public authority.[7] They combine the public interest and one or more collective (for example, trade unions and employer organizations) and/or private (for example, companies) interests. They signal the new synthesis, emerging between the classical public role in the shape of 'government' and the newer public role in the shape of 'governance'. Consequently, there is no one format

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5 The same holds for most research on this issue; see Oeij and Wiezer 2002, 73.

6 This section is derived from Korver and Oeij 2006 and mainly based on the practice of covenants in The Netherlands (Louwers 2004; Ministerie van Sociale Zaken en Werkgelegenheid 2004; Tweede Kamer der Staten-Generaal 1995).

7 A covenant can be defined as an undersigned written agreement, or a system of agreements, between one or more parties or partners, at least meant to effectuate governmental policy (Tweede Kamer der Staten-Generaal 1995, 8). How covenants make governance instrumental as an example of soft law is elaborated in Korver and Oeij 2005.

for covenants. There are many, and they reflect different balances and blends of public/private forms of cooperation. Covenants signal a farewell to both an interventionist and prescriptive style of government and to a retreating government. Today's governments do not retreat; they 'govern' by inserting themselves into society's cares and interests. Covenants are a good example because they promote and direct self-regulation of societal organizations and partners. They regulate self-regulation, as in principle all forms of soft law do, and form part of a new type of reflexive labour law (Rogowski and Wilthagen 1994). In this respect, covenants fit in with the OMC, advocated for the EES and the EMS alike. Indeed, covenants – however far a cry that may seem today – can potentially bridge the aims of EES and EMS.

Function and Potential of Covenants

Covenants are neither laws nor contracts. They resemble a 'gentlemen's agreement' rather than a legally binding document, a 'promise' rather than a contract. Participation in a covenant is voluntary but hardly free-floating. The main features of covenants are:

- The interests of the participants show enough overlap to allow for the defining and achieving of shared ground or 'goals'.
- The covenant is the mechanism for bringing about both the definition and the machinery for achievement.
- Parties cooperate in order to reach better results through commonly agreed activities that they cannot achieve if they act independently.
- Formal sanctions are absent. Since promises and expectations always carry their effects for all parties involved, these parties have the opportunity to go to court in case of another party's default. Therefore, even though the covenant is a voluntary agreement, the actions it leads to represent true commitments that cannot simply be discarded. To prevent legal actions, covenants usually provide for agreed procedures in the event of broken commitments.

Covenants have advantages and disadvantages. Among the advantages is the fact that the parties involved have substantial influence on the agreements that are made. It is obvious that this enhances their commitment. Their somewhat contradictory legal status makes covenants in actual practice far more flexible than the issuing of rules, for reasons roughly comparable to the transformation of 'markets' into 'hierarchies' or, more particularly, into hybrid forms of governance, in the style of transaction cost economics.

Covenants are a growing phenomenon in The Netherlands. No such agreements were made before the 1970s. In the 1980s governments initiated this instrument. At the end of the 1980s about 100 covenants were negotiated. Today there are several hundred of them and almost every ministry has concluded one or more covenants with other parties. Examples of topics on which negotiations are taken into effect through covenants are environmental issues, energy saving, educational matters, health care, traffic and transport, housing, working conditions and labour market issues. Other countries, such as the US, Belgium, Germany and Japan also work with covenant-like agreements, although these differ in voluntariness and legal status. Yet all point to the necessity and expediency of finding ways and means for discovering new common grounds in otherwise distinct and separate interests and goals.

Two examples, based on Dutch practices, may serve to illustrate the potentiality of covenants. First, let us consider *covenants on working conditions*, which are mainly a development since the previous decade. During the 1980s and 1990s the Dutch government succeeded, by changing relevant legislation, in pushing back the burden of social risks and costs (sickness leave and disability) to the industry and organizational level (it transformed social risks into organizational risks). Public risks were transformed into collective and private ones. In itself, however, this did not achieve very much in terms of improved working conditions or reduced sickness absence and disability. Many companies simply compared costs: costs of improving working conditions and costs of higher insurance premiums for sickness and disability risks. Often the latter costs were lower and more predictable, and working conditions did not improve. A change in prescriptive law and the emergence of new and private markets for insuring risks that were heretofore publicly insured did not achieve the end of reducing sickness and disability. Nonetheless, the goal of reducing these risks was, for different reasons and out of different interests of course, shared by the public authorities, the employers and the employees. Absence from work is costly for the company involved. It hampers the further employability of the employee (a goal establishing common ground between the totality of employers and the interests of employees), and it raises wage costs and constitutes therefore a threat to the competitive position of the Dutch economy as a whole. Consequentially, the major difficulty was not so much the discovery of this common ground, since all parties stood to gain from a reduction of absence from work. The difficulty was in finding ways to construe and implement new knowledge, new methods and new instruments valid for the problem at hand and for the huge variety of players in the field, and to distribute costs and benefits in an equitable manner. Since neither the ways nor the costs and benefits were known beforehand, the usual bargaining solutions could not work. Into this void stepped the covenant. Many covenants on working conditions were introduced to reduce absence and disability. And they worked. The gains have been substantial, and the machinery of the covenant was adjusted and improved along the way as well.[8]

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8 Two phases have been discerned: the first phase, characteristic of the major part of the 1990s, and the 'new style' covenant since 1998/99. The difference is mainly in a better translation of targets into performance standards and timetables. See Popma 1999, 178–82; and Popma 2003, 96–8.

Our second example concerns *covenants on labour market problems*, with the enhancement of employability as a common focus. In some covenants on working conditions aspects of employability have been included, mainly with respect to the career perspectives of employees in dead-end jobs. The idea was that absence from work is not just the product of inadequate workings conditions. Absence is the end-product of a variety of factors, including the quality of work, the perspective of forging a career, the type of employment relation, and so on. Soon, however, labour market covenants came into their own. In most cases the actual trigger was the weak position of new entrants into the labour market (like the young), or the weakening position of workers already present (such as older workers or poorly qualified workers). If their interests in employability could be connected to a shortage of labour in one sector or another, a covenant might mean business. More or less successful examples have been set in the care sector, in education, and, more generally, in SMEs.

In the past few years the economic tides have been low. With shortages of labour disappearing, the accent has moved to the employability of older workers. The accent has not changed, now that the Dutch economy is in good shape again and the labour market is becoming tighter than in many years. In fact, in view of an ageing occupational population and the imminent departure from the labour market of the first wave of the 'baby boomers', the emphasis on the employability of the older worker is taken more seriously than ever before. In this the government has taken the lead, followed by an innovative project for the building trades. The lead of the government comes as no surprise. For a variety of reasons governmental policies in the Member States of the EU tend to discount early exit from the labour market, as for example in the case of early retirement schemes. These schemes are seen as too costly and they are considered as eroding the tax and/or premium base of welfare state arrangements, both now and in the future. The problem of ageing became doubly acute because within the governmental sectors the demise of the traditional internal labour market structures is becoming just as pronounced as within the private, competitive sector. The upshot is, in very mundane words, a growing series of careers coming to a standstill and the waning of internal opportunities to pursue a career. Finding useful exits from present employment but still within the labour market is thus swiftly becoming the major labour market issue of our time. The trick is to combine the loss of job security with the gain of work security. And indeed, is that not what employability is all about?

Recent covenants attempt to cover these issues. Prime movers have been the ministries of Defence and Justice, with the Home Office following behind. Intentions to the same effect have been formulated for the governmental employment sector as whole. Moreover, initiatives to broaden the scope so as to include other sectors as well are underway (for example, projects to institute 'branch bridges' and 'intersectoral mobility'). The covenants concluded in this respect cover new ground and define new common goals. Of course, much of all this is still 'in the making' and definitive results are yet to be registered. On the other hand, the very fact that employability is taken up under the umbrella of the covenant is a sign that traditional modes of consultation, bargaining and negotiation no longer suffice. Let us see why.

Covenants and Employability

Market Failure and the Usefulness of Covenants

The recognition of shared goals may lead to the discovery of common problems, and the latter may lead to the identification of bottlenecks that stand in the way of solving the problem. In fact, it is likely that problems and bottlenecks will emerge not just at the start of the trajectory towards achieving the shared goal. The tackling of one bottleneck probably will lead to the discovery of the next one and so on. If, for example, an enhanced level of employability is a shared goal, problems are sure to arise concerning the required scale needed for internalizing the costs and benefits of more investment in training. Given the scale, the next problem may be the level of investment as such, followed by, for example, finding the best instruments to develop adequate training methods, the question of the division of training between on-the-job and off-the-job approaches, the modes of implementing new training in work organizations, the methods of certification, the parties for which the issue is most pertinent, and so on.

Each of these problems may lead to bottlenecks and therefore to a 'hold-up', in the sense of either a postponement of action and/or to the one-sided appropriation of the results of the action ('robbery').[9] In the market for training such bottlenecks are quite likely to emerge, as we argued above. And they are all the more likely to emerge as the proportion of purely firm-specific skills recedes and the proportion of transferable and even general skills rises. On the other hand, employability depends on the strengthening of transferable and general skills. And insofar as the enhancement of employability is a shared goal, the problems of how to get there and how to identify and tackle the inevitable bottlenecks are sure to become urgent.

The problem of 'hold-up' is tantamount to market failure. To a large extent, such failure is due to information problems and information impactedness. These problems loom large in the market for training. What is effective, under what conditions, within what time frame, and for whom, are quite often unknowns at the time decisions on training are to be taken. Also, parties to the training effort (employers, employees, the training professionals) may have different information sources of different quality; sources which they are not willing to share. In fact, the identities of the parties needed to be included in the effort may not be known in advance. Although, therefore, the need for more training may be felt and voiced by many, the difficulties of actually instituting training as a going concern in

9 As in the classic study of Ivar Berg (1973) on education and jobs, subtitled 'The great training robbery'.

all companies and for all workers have often proven prohibitive. The history of decades of pleas for the institutionalization of 'lifelong learning' goes to prove this (see van Lieshout and van Liempt 2001, 101).

These drawbacks, of course, have not gone unnoticed. Since the 1980s the instrument of the so-called 'specific collective bargaining agreement' has gained some popularity in The Netherlands. These agreements are mainly focused on industry-wide problems of early retirement schemes and vocational training. Industry funds for training in development were introduced – and are by now part of the regular results of collective bargaining – and these have contributed to more training overall. However, the record in terms of training for transferable and general skills is not very strong, nor is the record for improving the training options and opportunities for the weaker categories in the labour market (see also Oeij et al. 2004, 163–5).

The instrument of collective bargaining is not enough to correct these biases. The core of collective bargaining concerns the balance of effort and pay. Its main function is to keep wage costs separate from cutthroat competition between companies. And at least in The Netherlands this goal has been reasonably well achieved. It is based on prognoses of relatively short-term developments and experiences, and results in relatively straightforward distribution rules, supplemented by a growing array of more ad hoc ('if–then') distribution rules. Also, collective bargaining affects the national economy as a whole. And the interests of sectoral bargaining and the national economy are balanced, in principle, by the mechanism of the mandatory extension of collective bargaining agreements to include the non-signatories in a sector and the government (by granting tax favours for example).

Collective bargaining has a legal history of almost a full century in The Netherlands. During that period it not only extended its scale but its scope as well. Issues of working conditions, labour market initiatives and training have been integrated, yet with limited success. In our view, the real question is not whether these issues are compatible with collective bargaining. The real question is not 'whether', but 'who', 'how' and 'when'. In more general terms: covenants are needed where issues are at stake in which it is not, or not yet, clear what exactly is required of which participants to achieve commonly set and shared values and targets. And since this is unknown, it is quite premature to invoke the regular processes of bargaining and thus of deciding on the distribution of the eventual net advantages of the joint effort. In fact, what the net advantages are, how they can be achieved by whom, and how they are then to be distributed, can only be clarified along the way. Where as a rule bargaining involves occupations, employee statuses (such as civil servants, managerial personnel and so on), companies, industries and sectors, covenants may and will cross the boundaries and demarcations defining and separating the interests of these categories, which are represented in the collective bargaining process. Indeed, instead of functional lines of representation, geographical lines are gaining new strength, if only for the simple reason that for most employers and employees the local or regional labour market is becoming more relevant than the industry of an occupation. In other words, the same causes that undermine the internal labour market with its associated firm-specific and even dedicated skills, promote employability and thus transferable and more general skills. Combined, they create the need for ‘forms of talk’ beyond collective bargaining. In short, instituting employability defies the regular bargaining situation and calls for ‘learning by monitoring’, of which the covenant is a major working example.[10]

Where the market, even in and possibly also because of its institutional collective bargaining dress, does not perform adequately, two mutually non-exclusive consequences may result. The first consists of negative external effects: the shifting of costs and risks from the micro-level of organizations to the level of sectors or of society at large. The second consists of the underutilization of capacities: the frontier of opportunities and capabilities is not reached. Both may be tackled by covenant: the first is exemplified by covenants on working conditions, sickness absence and disability, the second may be tackled by the covenants on employability. Of course, these are accents only; in actual practice they are intertwined and this, indeed, is progressively recognized as such by the parties involved. The former covenants already have a relatively successful history in The Netherlands, built up over more than a decade; the latter covenants are now well underway.

The Promise of the Covenant: Learning by Monitoring

Learning means acquiring the knowledge to make and do the things that (labour) markets value (and therewith *un*learning the things not so valued). Monitoring means the assessment of the partners-in-learning in order to determine whether the gains from learning are distributed acceptably. This may end up in a dilemma: ‘The dilemma of … development is that learning undermines the stability of relations normally required for monitoring’ (Sabel 1994, 231). Development, then, is not a problem for the underdeveloped world alone. Indeed, it is fast becoming a major problem for the so-called developed world. What we suggest here is that ‘learning by monitoring’ is the way out of the problem, and that the covenant is a helpful format for bringing this about.

It is easy to see that combining learning with monitoring may lead to obstacles. For learning leads to winners and losers. Learning may – and probably will – disrupt existing relations of distribution. On the micro-level new processes will lead to an upgrading of some, and a downgrading of other positions, functions and career options. Moreover, in order to guarantee the progress of learning one may have to enlist the endeavours of both, winners as well as losers. And again, it is rather likely that we do not know in advance where gains are going to accrue and where losses must be incurred. The same holds for the macro-level. On the

10 For a recent summary of the development of Dutch industrial and employment relations, see Korver 2006, 203–55. For a summary of these same relations from the perspective of the company level, see Van Sloten et al. 2005.

macro-level, the present prediction is that the advancing knowledge economy will exacerbate the inequality of incomes, therewith further strengthening the trend of the past two decades. Yet, if uncorrected, this development might very well end in jeopardizing the societal attempt to enhance rates of participation and, through participation, of social inclusion.

If uncorrected, therefore, decision traps are likely to emerge. Where outcomes are uncertain and where the odds are that some will lose and others will win, with the distribution of the odds unknown, conservatism is more likely than innovation. Conservatism, here, means that parties revert to their already established identities ('I am a manager', 'I am a craft worker', and so on) and to the interests associated with those identities, including social hierarchies and rank and ideas of equity. When monitoring is steered by already established identities and vested interests, learning is sure to be hampered, if not immobilized. For learning entails a redefinition of identity and interest.[11]

Learning by monitoring captures the essence of the institutionalization of training efforts with uncertain and unknown outcomes. To this extent, learning by monitoring resembles the debate on development planning, and in particular on the pros and cons of balanced versus unbalanced growth. Let us take a closer look at this.

In the (originally dominant) view of balanced growth, it was argued, bottlenecks are predictable and do not, if identified and placed in a proper perspective for resolution, inexorably lead to decision traps and deadlocks. Indeed, such was the mood of post-Second World War development planning: given the adequate pinpointing of bottlenecks, a strategy of simultaneous investments could remove them and guarantee planned growth. Soon, however, it turned out that the world was not so predictable after all. Development planning arose out of considerations of underemployment and for the purpose of avoiding the danger of getting stuck in underemployment. A series of simultaneous investments in a variety of activities was deemed the most promising way out. Accordingly, the task was to find the optimal combinations for given resources and factors of production (Hirschman 1958, 5; Hirschman 1986, 13, 56). Development projects under this banner thus typically assumed that economies moved from one point of (underemployment) equilibrium to the next with factors better utilized, the economy growing, and so on.

What has been conspicuously lacking in the balanced growth perspective is any serious consideration of time.[12] Going from one equilibrium to the next presupposes

11 Sabel 1994, 267–8, 272–3. See also Hirschman's discussion on 'trait-taking' (with identities and interests given) and 'trait-making' (with identities and interests changing in the course of development). The latter is within the realm of learning by monitoring, the former is not. See Hirschman 1967, 128–39; Hirschman 1995, 130–31; also Toye 1995, 28.

12 Much has changed in development planning and its theory since the 1940s and 1950s. But there are continuities as well. Four continuities are, in the present context, of special importance: (1) the emphasis on 'mono-economics' has remained strong, albeit its focus is on microeconomics and no longer on macroeconomics (in line with the demise of

that sequential moves and effects in between the equilibria do not really matter. They may of course lead to delays and they may complicate the project. But they cannot derail the project, defined as it is by its points of equilibrium. Yet, quite often the strategy of balanced growth failed. One simple reason was, of course, that the strategy assumed that all relevant actors could identify the same roads, trajectories and stations, and that the actors could and would identify with them. Moreover, how an economy could move from one state of equilibrium to the next was left remarkably unspecified. Usually the path taken was just to embark on a journey towards a completely new ('modern') economy, superimposed on an already existing but stagnant 'old' economy. Or instead, the latter was taken as the reservoir of an 'unlimited supply of labor' (Lewis 1955), to be tapped and then to be left to its own devices. The product, dual and segmented economies, was later to become the target of radical critiques *à la* André Gunder Frank's 'development of underdevelopment' thesis and a vast literature on *dependencia*.[13]

In Hirschman's concept of development it was not simultaneity but sequence that assumed centre stage. In other words, instead of a master plan pre-empting all further decisions, the emphasis was shifted to induced decision-making in which one action leads to the next problem (or 'bottleneck'), and where learning by doing is prominent and is continuously fed back into the decisions and planning of new moves and actions.[14] Unbalanced growth, now, is the same as the maximization of such induced decision-making (Hirschman 1995, 86; Hirschman 1958, 24). Induced decision-making, in its turn, refers to learning from bottlenecks, with bottlenecks being shorthand for backward and forward linkages of a variety of sorts. And to close the circle, a linkage is defined as a 'characteristic, more or less compelling sequence of investment decisions occurring in the course of industrialization and, more generally, of economic development' (Hirschman 1986, 56).

Keynesian economics, especially since the 1980s); (2) blue-prints still define the field; (3) the emphasis on equilibria is unabashed; (4) sequencing and time are still residual at best. See Toye 1995, 4–8, 34–5, 71.

13 Hirschman 1958, 50–61; Hirschman 1986, 23, 70–71. Today, the distinction modern/old reads formal/informal *and* tradable/non-tradable (Toye 1995, 44–5). The key issue here is the degree of overlap between formal and tradable on the one hand, informal and non-tradable on the other. For obvious reasons, this issue is of great relevance for developed economies as well.

14 A good example is the Japanese company strategy of 'no supplies' and the sequence of events (just-in-time, single-minute exchange of dies, and so on). See Sabel 1994 and Sabel 1995. See also Hirschman 1995, 129, where the example of Japan ('just-in-time') is explicitly mentioned. See Bovens (1990, 158–9) for a similar image of 'backward policing'; that is, the person accepting some work in progress from someone before her must check the quality of that piece of work, because once accepted she is responsible for it. In checking, however, she may detect errors made before ('backwards' that is) she starts working on it. These errors, therefore, are identified immediately and will lead to corrective measures, especially when the errors reflect a true 'bottleneck'. Hirschman's 'preference' for backward linkages can readily be translated as 'backward policing'.

Instead of given resources and optimal allocation, induced decision-making focuses on 'calling forth and enlisting … resources that are hidden, scattered, or badly utilized' (Hirschman 1958, 5) and on the process of combining them (ibid., 25). Tapping such resources depends on the presence or construction of 'pressure mechanisms' or 'pacing devices'.[15] Resources, then, are not the final constraint. Nor is optimal allocation known in advance. What is optimal and which combinations work is a matter of finding out through a process of 'muddling through' (Hirschman 1971, 63–84; Lindblom 1959, 79–88). Instead of planning we get exploring, and the need for an adequate pacing device. Learning by monitoring is exactly such a device and the covenant is the instrumental format it can assume.[16]

Yet the covenant is not unconditional. For one important aspect in induced decision-making and learning by monitoring is that the economic actors involved are in, and know they are in, 'the kind of high-risk situation where public action can matter most' (Sabel 1995, 14). This, of course, defines the scope of the eventual covenant. The nature of these risks, however, is of decisive importance for the issues at hand. For risks can be of two kinds, depending on the situation they are to characterize. Many labour risks refer to danger: the danger of involuntary unemployment, the danger of work accidents and dangers for health and disability. As a matter of fact, the covenants on working conditions and the reduction of absence and disability are bent on solving these risks and for fairly distributing the associated responsibilities, costs and savings. Essential as coverage for these risks is, these are not the risks we want to emphasize in the present context. We do not emphasize risks we want to avoid; in other words those risks we would not normally choose to take. In the context of transitional labour markets one needs to discuss risks that we take;[17] for instance when moving from one job to the next, from one employer to the next, from one combination of activities in work, care and education to the next, and so forth. Here the counterpart of risk is not danger but trust. We do not want to insure only for accidents, ill-health, unavoidable old age or other undesired mishaps; we want to insure for moves we want to make during our career and, indeed, in our chosen life-course trajectories. And as we make such moves in the expectation that they conform to the general goals of more mobility, more transitions and more training, we want to be able to cash in on our insurance

15 Hirschman 1958, 26. This is exactly what the format of the covenant is meant to do: calling forth resources and instituting a 'pacing device'.

16 In developing the concept of 'learning by monitoring' Sabel explicitly refers to Hirschman's idea of unbalanced growth (Sabel 1994, 265). We prefer the concept of learning by monitoring to the concept of 'policy learning' as developed by Visser and Hemerijck (1997), if only because it implies not just that policy may 'learn' but also that finding the adequate policy as such is a product of a process of learning by monitoring.

17 We describe these risks from the vantage point of the employee. It is not difficult, however, to describe them as well from the vantage point of the employer or the government. On trust, confidence and cooperation see also Korver et al. 2007.

when these expectations are disappointed.[18] The opportunities for covenants within the framework of transitional labour markets are in the transformation of risks: from danger to trust, from external attribution (events that we undergo) to internal attribution (events we bring about). For it is this transformation that needs to be made in order to tackle the opportunities of mobility, transitions and training, and the problems (bottlenecks, linkages) these give rise to. It is the same transformation that underlies the problem of employability, with its emphasis on personal responsibility, as distinct from the collective or public responsibility derived from the traditional case of 'involuntary unemployment'. By this token, the problems are definitely not the equivalent of 'threats'. Of course, covenants may fail, for example because the problems have been underestimated. Indeed, the chances thereof must not be slighted, especially where the transformation we advocate will have to cover and discover a lot of new land. At the same time, the chances are also that the parties may underestimate their ability to overcome these problems if and when they appear. Learning by monitoring is learning by doing: by doing we meet problems and we can test our abilities to overcome them. The two underestimations combined lead to what Hirschman calls the principle of the 'hiding hand'.[19] But the only way of finding out whether we underestimated the magnitude of the problem more than our ability to solve it is by tackling the problem.[20]

The Premise of the Covenant: Trust

Trust is a two-way street. One needs to trust one's partner and the partner has to trust us. In bargaining, trust may be had by binding oneself. Trust is a device for coping with the freedom of others, and for others to cope with our freedom. If our partner believes our 'credible commitment', then s/he may accept their own commitments too. Reputation (and the damage it may suffer) is an instance of commitments, as is a collateral, a confession and a promise. A contractual commitment, of course, is also possible but private contracts have the disadvantage that keeping them depends on a cost/benefit calculation. In other words, in order for contracts to be trusted they depend in their turn on one of the other kinds of commitment (Schelling 1963, 22–8; Frank 1988). In that respect, public contracts, or mixes of private/public contracts (as in three quarters public law, half public law, and so on)

18 On risk, danger and trust, see Luhmann 1988. Applying the risk-trust combination to social security in the context of transitional labour markets see Korver and Oeij 2004 and 2005, and Korver 2003, where we attempt to bring together the threads on, respectively, transitional labour markets (Schmid 2001, 2007) and modern forms of social insurance modelled after the path-breaking work of Dworkin (2000).

19 Hirschman 1967, 9–34. The principle is a play on words as it refers to, and invalidates at the same time, both the 'invisible hand' of the market and the 'visible hand' of the corporate hierarchy.

20 As in the Nike advertisement: 'just do it!'.

will perform better. On the other hand, and for the very same reason, it will prove harder to muster the commitment of parties to enter into such contracts. Contracts, as a form of governing relations, may fall short of the tasks once these tasks cannot be spelled out in advance. This, as stated, is the space for the covenant.

In the learning-by-monitoring example trust is a sort of 'by-product' of cooperating, but that begs the question of the original trust rather than answering it.[21] On the other hand, we may rephrase the quest for the possibility of trust as a question about the conditions for trusting in cooperation. The question then becomes: under what conditions do we need trust in order to achieve and maintain cooperation? Trusting someone means

> … believing that when offered the chance he or she is not likely to behave in a way that is damaging to us, and trust will be typically relevant when at least one party is free to disappoint the other, free enough to avoid a risky relationship, and constrained enough to consider that relationship an attractive option (Gambetta 1988, 219).

That is, trust presupposes exit (avoiding a risky relationship is viable only if functional equivalents for that relationship are available), and it requires for its growth and maintenance both voice (demanding safeguards – monitoring devices for example – against disappointment, otherwise the relationship will not be upheld) and loyalty (combining attractions and constraints). Exit requires competing possibilities, voice requires modes of communication, and loyalty requires binding oneself. In the case of allowing for no latitude in performance standards, Japanese style, exit signifies the possibility of shifting the supplier relationship, voice signifies quality circles, and loyalty signifies long-term employment and supplier relationships.[22] It is from examples such as these that Hirschman and Sabel derived their optimism about trust being generated along the way. Moreover, trust is like knowledge. It grows when used, and depletes when unused.

The covenants on working conditions match the requirements of trusting cooperation. The agreements are not legally binding, the voice of the parties concerned is enlisted, and the performance standards and supporting timetables are included. However, in the scarce covenants on labour market issues things have not yet advanced this far, and in the case of employability the proof of the pudding can only be given by eating it. Again, so far, labour market covenants are not legally binding. But compared to the covenants on working conditions the voice of the parties enlisted is much more restricted, and targets and standards are, at best, intentions rather than criteria. Nevertheless, in one recent evaluation of some of these covenants (on improving the opportunities for ethnic minorities in

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21 The word 'by-product' is actually suggested by Elster and Moene (1989, 4–5). Axelrod's (1984) idea about the evolution of cooperation is also in this train of thought. See also Gambetta 1988, 231.

22 Including, to be sure, the action in 'shifting involvements': going from private to public action or the other way around. See Hirschman 1982.

the labour market) gains are reported in (1) improved relationships between the government and the participating companies; (2) improved cooperation between the enlisted parties; (3) in organizations learning from one another; (4) and in the emergence of networks of organizations.[23]

This improved record in cooperation may in time lead to the production of enough trust for clearer goals and targets, for stronger performance standards, and the enlistment of more partners needed to affect the performance goals (trade unions, for one; works councils and shop representatives, for another). However, our case, concerning the build-up of employability in the context of transitional labour markets, is more complex than the examples presented so far. Exacting performance standards (for example, in the shape of benchmarks) do not as yet exist. What cooperation is needed, with what partners, in which time frame, and for what performances is a series of tangled and simultaneous questions. Learning by monitoring, and developing accurate and acceptable standards along the way, is the only way to proceed here, especially if, as we hypothesize, the development of standards will also produce the trust needed to continue cooperating. We emphasize at this point that cooperation does not and should not exclude competition. The possibility of not joining is important for covenants to work, as is the possibility of opting-out after joining. Competition, so to speak, is its own method of learning and monitoring and it may contribute to better standards (see Baecker 1988). For example, covenants targeted at older workers are more than welcome, particularly when it is not 'age' that is taken to be the problem but 'employability'. And indeed, as we noticed, initiatives in this direction are being undertaken. But they should not exclude or discourage other initiatives and, thus, opportunities to learn. As it stands, the policies of Microsoft for an active and productive deployment of older workers may well lead to new standards that can be rejected, adopted or improved by companies, alone or together, looking for viable policies for older workers as well.[24]

Critical is some common ground. We believe that participation in paid employment constitutes such a common ground. To work that ground, however, governments, employers, employees and citizens face new conditions. We named three: transitions, employability and mobility, with employability as a common core. And we named the bottlenecks (the present employment relationship, the hold-up problem, the insufficiency of present forms of consultation, covenants explicitly excluded of course) that need to be mastered in order for the conditions to become opportunities. None of the opportunities and bottlenecks can be mobilized if the parties have to go at them in isolation. In such a situation the 'task of convening and moderating' falls to the public authorities 'by default' (Sabel 1995, 16). This is not because the government has the better knowledge. It is

23 Ministerie van Sociale Zaken en Werkelegenheid, 24 April 2003 (ABG/DB/03/27296), 2, 5.

24 On Microsoft see Mosner et al. 2003, and Microsoft Press © 2002. See also De Vos 2004.

because it is the task of government to offer an organizational form for taking the issue further, as long as the social partners (trade unions, SMEs and possibly also the larger companies) and the citizens recognize the utility of cooperation but do not have the muscle to bring it about, and as long as cooperation concerns issues of general interest or the 'common ground'.

At the same time, as we saw, there are limits to the public authorities as well (Selznick 1992, 447, 505). Government today is governance rather than directorship. And governmental interventions are reflexive, rather than prescriptive. Again, the format of the covenant expresses this quite clearly, for it is based on voluntary consent and participation on one hand, on equal terms on the other. It is a form of democracy in which democracy is the equivalent of 'reflexive authority': the exercise of authority by those who are subject to it. The covenant concerns the partners, not, however, those who did not sign on or who decline further membership under the covenant (McMahon 1994, 12–13). It is not a democracy of all, but only of all those who will. And provided access is not denied to those not or not yet participating, this formula has the advantage of both flexibility and adaptability.

There is one strong assumption involved though. For however necessary and useful exits are, they are not to be used carelessly. The minimal requirement is that exits are communicated in writing and with the reasons explicitly stated (as, in fact, they must be under the known Dutch covenants). Since all reasons are valid, at least in the Dutch case, it is clear that the value of having exits is not underestimated. This puts a huge premium on the quality of the covenant itself: it will have to prove its worth as it proceeds. A shared common ground, therefore, is a necessary condition for a covenant, but it is not in itself an adequate condition. The latter will have to be generated by the covenant in process. The chances for the process depend on the parties partaking in it. Since the covenant implies many unknowns, the covenant can succeed only if the parties do not stick to their pre-established identities and interests. If something new has to be produced, it stands to reason that identities are only of limited value. They are the baseline, just as socialization is the baseline for the take-off of education (Luhmann 2002). But the success of learning and of educating is in a changed identity at the end of the road. Learning by monitoring is akin to learning to learn. It is learning by conquering bottlenecks and guided by commonly developed goals, targets, timetables and standards of achievement. The premise of the covenant is that in order to ban the dangers of hold-up, no one has the final say, and all are willing to learn. To this extent, it matches the ideals of the open method of coordination (OMC). In our view, it can focus these ideals. Although we do not (yet) advocate a covenant EU-style, we do advocate the covenant as a useful and possibly essential way of improving the national 'ownership' of the ins and outs of the EES and the ESM. We are convinced, moreover, that the covenant and its many functional equivalents in just as many activities, problem areas, regions and countries contain a wealth of insights on how to proceed in charted and uncharted areas alike. That wealth deserves further investigation. The lower-left quadrant in Scharpf's visual representation of national and European problem solving mechanisms (see Figure 6.1, above) is sure to profit. So may, and possibly already have, the others.

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Chapter 7
Social Europe and the Limits of Soft Law: the Example of Flexicurity

Jean-Claude Barbier

Introduction

'Flexicurity' has been on the agenda of the European Employment Strategy (EES) for some time now. At their meeting in July 2006, the employment ministers reported that

> … a good balance of security and flexibility is needed both in the labour market and in working life. Member States can promote the labour market and social protection systems by supporting the smoothest possible transition from one job to another. Expertise and effective labour services increase the opportunities of employees to change quickly to new places of work (Press release of the informal meeting, Council of Ministers, Employment and Social Affairs, 7 July 2006).

Flexicurity was also a theme of the informal Tripartite Social Summit in Finland in October 2006, and the EU Commission is drawing up general principles on flexicurity at the time of writing of this chapter. References to flexicurity are now abundant and pervasive. At the same time, the European Social Model (ESM) has become a constant political reference. The EES is of course part of the ESM – one among many open methods of coordination (OMCs) that are deemed capable of helping to build this ESM.

Yet, despite their extensive use in political discourse, both concepts, flexicurity and the ESM, have remained fuzzy and vague. This chapter therefore starts with a definition of the meaning of both concepts. It will then proceed to assessments of the extent to which soft law methods (in particular the OMC used within the context of the EES) have been able to influence national policies in matters of flexicurity, including a discussion of the methods through which sociological analysis is able to document these influences. The countries under comparison are France, the UK, Germany and Denmark (Barbier and Sylla 2002a; Barbier and Sylla 2002b; Barbier 2004a; Barbier 2006b). And the analysis of these countries will show that before 2005 the impact of the European governance system upon national strategies of 'flexicurity' and for implementing and supporting the ESM has remained in the domain of ideas and conceptions, with limited substantive influence upon actual programmes.

The rejection by Dutch and French voters of the project of a constitutional treaty in 2005 changed the political game. The OMCs had gained effect as discourses held in a de-politicized arena. However, once citizens, through universal suffrage, expressed their dissent, the relative weakness of soft law governance was exposed and hard law had to be considered in a new light.

The European Social Model (ESM) and Flexicurity

The ESM

The notion of an ESM is difficult to grasp because it is intricately linked to a complex international political discourse and policy debate. Even so, we will argue here that, given certain precautions, the concept can be used as a broad analytical tool. The concept is in fact at the same time normative and analytical.

Let us first turn to the normative aspect: the 'mobilizing ESM' (that is, the ESM as a political resource for mobilization). The expression 'European Social Model' was first used while Jacques Delors was president of the Commission during an era when competition between the US and Europe triggered debates among international and especially European elites (Jepsen and Serrano Pascual 2005). The steps leading to the introduction of the European Employment Strategy (EES) in 1997 and the adoption of the 'Lisbon Strategy' in 2000, and the later introduction of various OMCs in social policy and other fields, were influenced both by the debate over a ESM and by competition with the 'US model'.[1] The ESM comprises, more or less explicitly, a set of assumptions as to how the European economy and the European 'social dimension' are interlinked and operate in relation to one another. The notion of an ESM bears similarities, in this respect, to the German concept of a *soziale Marktwirtschaft* (social market economy) which was introduced as an economic doctrine by German economists such as Alfred Müller-Armack; it served, at one and the same time, as a cornerstone of the political project of successive post-war German governments as well as a reference to a specific economic model within and beyond Germany. The normative ESM – if its existence as a common model were to be established – would probably also bear closer affinities with the so-called 'coordinated market economy' (Hall and Soskice 2001) or Rhineland model. In this context it should also be emphasized that the draft Constitution of the EU contained only a reference to the 'social market economy,' in addition to the objective of achieving 'a high level of social protection' (article I-3), but did not mention the ESM.

1 Interviews with European Commission officials confirm the supposition that, when devising the EES, DG Employment (ex-DG V) explicitly compared key features of the 'ESM' to the 'US model'. See Barbier and Sylla 2002a; Barbier and Sylla 2002b; Barbier 2004a.

Secondly, in order to be able to contrast the concept of an ESM analytically with other 'models,' especially the US one, we have to identify the defining characteristics of the 'existing ESM'. For this purpose, we assume an ESM with two 'layers', consisting of an aggregate of the existing national systems of social protection in the 25 Member States, plus an EU-level component. Social protection is thereby defined broadly, including traditional sets of institutions and policies pertaining to the welfare systems such as health, pensions, education and training (Barbier and Théret 2004). These systems also include various sets of actors. Institutions comprise labour law and employment rights, as well as the various norms governing employment relationships (including informal ones). National systems of industrial relations would of course figure in the overall 'system of social protection' as defined here, though they might, alternatively, be considered as a separate element. It should be stressed that all the institutions mentioned here are involved in policies concerned with flexicurity.

In the comparative literature, 'models' (and countries) are commonly compared according to their institutions, actors, systems, or even 'societal coherence'. And a standard research approach is the effort to establish causal relations between, on one hand, institutions and systems and, on the other, 'outcomes'. In accordance with such an approach, the two-layered ESM can be measured by indicators such as security of income, jobs, poverty, inequality, demographic patterns, employment and activity rates, etc. In such a way it would be possible systematically to compare the 'US model' with the 'ESM'.

Thirdly, in order to understand a national social protection system fully it is necessary to establish the structural links with the economy and especially with economic policies. For the ESM, which is characterized by a mix of national systems and a quasi-federal layer of institutions and policies, this means taking into account a complex interaction of four types of policies (Barbier 2004a, 36–42): (1) EU-level economic and monetary policies; (2) national economic policies; (3) EU-level social policies; and (4) national social policies. With respect to the comparison of the 'existing ESM' with the 'US model' this would lead to the question: does the set of empirical relationships that exist between the four types of policies have any similarity with the US model? Such a question is of significant importance in light of the fact that a great deal of the comparative literature on social policies in Europe tends to support the idea that the very existence of the (normatively defined) ESM is threatened by the economic and monetary policies enforced at the EU level, often labelled 'neoliberal', albeit without precise definition of the distinguishing features of this identity.[2]

Finally, there is the proposal to assume two conflicting ESMs, one promoted by 'economically oriented actors' and the other by 'socially oriented actors' (Guillén

2 In contrast, Fitoussi and Saraceno (2004, 2) define the 'neoliberal doctrine' in positive terms as setting two main tasks for policy: reducing the market distortion of government intervention and using the resources thus freed for structural reforms to increase competition.

and Palier 2004). Taking a broad view, flexicurity might even be considered to be the feature most characteristic of the ESM.

The above reflection raises two questions that an analytical perspective on the ESM cannot evade; that is, are national systems currently Europeanized, and are they converging? Both questions are implicit in any comparison of the European and the US models. The specific question in the present context is whether Europeanization helps Member States to converge towards a shared ESM with a strong flexicurity component.

It is important to note, however, that the indication of common features among 15 or 27 EU Member States in no way implies that they are currently converging, because convergence is different from the question of common features. Therefore we have to document the possible empirical convergence in the area of ‘flexicurity’, while being extremely attentive to the content of this potential convergence. We will use a method similar to the one we used in our research on the various OMCs; that is, by distinguishing between procedural and substantial changes resulting from OMCs (Barbier 2005b). Furthermore, ‘Europeanization’ needs to be analysed empirically, and the question ‘Europeanization of what?’ has to be raised (Radaelli 2000). Finally, Europeanization as a process can be seen as consisting of many possible channels contributing to the emergence, consolidation, or even dissolution, of an existing ESM.

In summary, the task can be defined as identifying an existing (and the least normative) ESM. In this chapter we intend to assess the extent to which a substantive influence is attributable to soft law mechanisms in one specific area – namely, the marriage of flexicurity and a distinctive ‘social model’. On the basis of past experience, we seriously doubt that it is going to emerge.

Flexicurity: a Stylized Mechanism without Social Roots?

The term ‘flexicurity’ has had a shorter life than the term ‘ESM’, but it has also had many ‘fathers’. Specialists (such as Wilthagen 2004) generally consider that the Dutch reformers were pioneers in this. Indeed an important law, entitled *Wet Flexibiliteit en Zekerheid* (Flexibility and Security Act, in force since the beginning of 1999), profoundly reformed part-time work, agency work and their associated social protection in The Netherlands. However, Denmark provides the most common example of a country with a strong focus on flexicurity. In our research on flexicurity in Denmark (for further details, see Barbier 2007), we came to the conclusion that ‘flexicurity’ is in fact a stylized mechanism that focuses on the functioning of the labour market but has its very conditions of possibility in deep social roots that involve social actors. The Danish example shows that flexicurity is essentially devoid of any clear, identifiable sociological substance and is reduced to a compensation or trade-off mechanism where actual social actors are absent; that is, a sort of social exchange between the flexibility of the labour market and the security of access to employment and the income derived from it, including income replacement when moving from job to job.

The first formulation of the phenomenon, which was later to be called ‘flexicurity’ in Denmark, is related to the designing of a ‘golden triangle’ (see Figure 7.1) by officials in the Ministry of Employment, one of whom is also the author of a well-known textbook on labour market policy in that country (Jørgensen and Pedersen 2004). They first popularized the chart in a report published by the ministry (Arbejdsministeriet 1999), though they did not call it flexicurity at the time. They also insisted that the effective combination of relationships (between labour legislation, unemployment insurance, employment creation and active labour market policies) that they combined in their ‘triangle’ were linked to the specific Danish social context (ibid., 93–4).

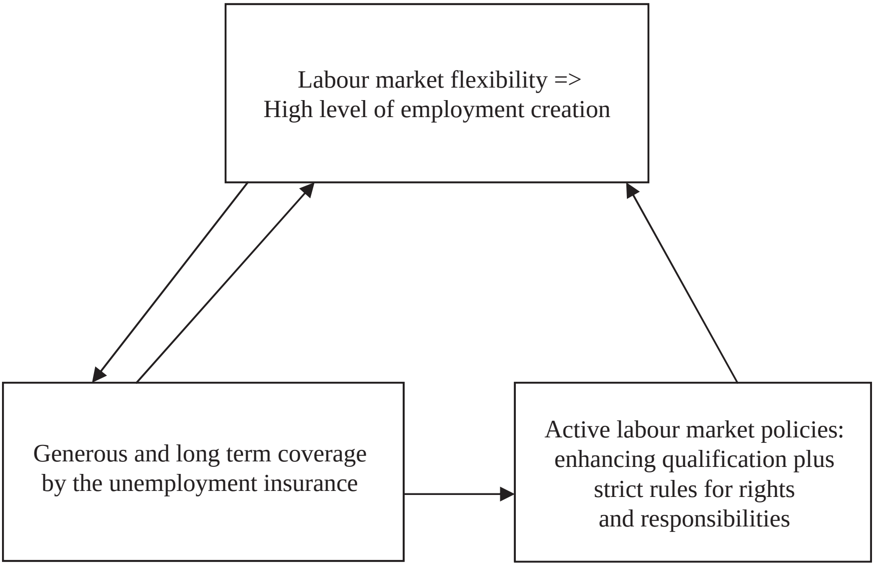

Figure 7.1 Labour market interactions (the ‘golden triangle’)

Source: Jørgensen and Pedersen 2004, 94, with amendments.

At about the same time, researchers and academics were beginning to use the term ‘flexicurity’ to describe the Danish system. Per Kongshøj Madsen was one of the first to make a consistent reference to the combination of flexibility and security, but he only used the term ‘flexicurity’ to describe the ‘Danish model’ from 2002.[3] He provided a list of specific characteristics pertaining to this ‘model’ (Madsen 2003, 60): a flexible labour market with a high level of external flexibility made possible by a low level of employment protection; a generous income replacement

3 Madsen (2003, 101) quoted the ‘golden triangle’ from the 1999 Danish report in his contribution for an ILO study (Auer and Cazes 2003).

for the unemployed; and active labour market policies that allow for enhancing training and qualifications. Later on (Madsen 2006, 349–52), in his list of features of the Danish flexicurity system, he included an item termed 'political environment' that encompassed not only the role of social partners, corporatist structures and political support in society for reforms, but also postulated an 'implicit social contract' underlying the balance between flexibility and security. Other recent analyses concur and attribute to flexicurity an even wider meaning. For some Danish researchers, flexicurity means a global social consensus that encompasses extremely comprehensive, complex, and far-reaching dimensions because it has lasted for the last 75 years (Kristensen 2006, 300) and is intimately related to the nature of the Danish legal system (Rasmussen 2006, 242–3).

Various Danish politicians view it as characterizing their policies. The former social-democratic Prime Minister Poul Nyrup Rasmussen, in power from 1993 to 2001, describes flexicurity in Scandinavian countries in the following terms:

> the combination of the flexible labour markets and individual social security in the Nordic countries is ... based on a) strong social security and broad welfare provisions, b) active labour market and educational policies, and c) a highly mobile labour market, where the social partners (trade unions and employers' associations) are key actors with a high degree of responsibility for competitiveness and social sustainability' (Rasmussen 2005, 51).

It should be noted that this presentation does not limit itself to a description of a mechanism, because it stresses the role of actors and their 'high degree of responsibility'. The current liberal Prime Minister Anders Fogh Rasmussen also claims to be the inventor of the term flexicurity. He did this before a domestic audience, in boasting at his party's congress on 21 November 2004, to be innovative in putting both terms together.[4] From what we know the claim is rather far-fetched.

What can be concluded about the Danish contribution to the diffusion of the term 'flexicurity?' Danish academics stress the fact that there is much more here than the simple mechanism of a 'triangle'.[5] The effectiveness of the triangle lies

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4 *'Vi havde EU topmøde forleden. Der havde jeg lejlighed til at fortælle lidt om det. Den drøftelse forgik jo på engelsk. Jeg kombinerede de to ord og sagde, at vi har "flexibility" og "security", og så kaldte jeg den danske model for "flexicurity". Det er godt, for på fransk hedder det "flexicurité".'* ['The other day, we had a European summit, as I already told you. The discussion was of course held in English. I combined the words "flexibility" and "security", saying that the Danish model represented "flexicurity". It is good because in French they say "*flexicurité*".' Authors' translation.]

5 Flexicurity is often reduced to a wishful simplistic mechanism. In such visions, Danes tend to recall the Britons of whom George Orwell thought, in 1941, that they would welcome socialism. In his book *TheLion and the Unicorn*, he wrote, 'From the moment that all productive goods have been declared the property of the State, the common people will feel, as they cannot feel now, that the State is *themselves* [author's emphasis], they will be

in the intimate fabric of the Danish society. Danish politicians have adopted the term and tend to use it – despite the political differences in their contribution to the establishment of the successful 'Danish model' – as a crucial example of what today's Denmark can contribute to Europe.

In the European debate, and especially in the Commission as well as in international organizations such as the OECD, the emphasis that academics put on social conditions as the prerequisite of an effective connection of social protection and the labour market is generally omitted or downplayed (Jørgensen 2002). This should not be surprising since international organizations look for 'good practices' in the hope of 'transferring' these to other countries. The repeated caution urged by Danish colleagues (for a recent recapitulation, see Bredgaard et al. 2005; see also their chapter in this volume) does not trouble the international organizations. No political document published by the Commission or the OECD has so far been able to present a coherent, comprehensive and detailed economic model of a 'nexus' between flexibility and security.[6] This task has only begun to be addressed by some economists (Boyer 2006; see also Muffels in this volume). Günther Schmid and his colleagues have emphasised the severe limitation of a traditional definition of flexicurity as a mere trade-off. And they have rightly pointed to the fact that a successful marriage is only one of the possibilities of the encounter (Leschke et al. 2006). In a similar manner, it is possible to talk about multiple and diverse internal possibilities inherent in the transitional labour market perspective (Barbier 2005a).

There are a number of reasons for the drive towards greater flexibility, among which the contemporary transformation of the international monetary order and labour cost competition are ultimately the most important. As empirical data amply demonstrate, the gradual flexibilization of jobs and employment has also led to the degradation of working conditions and protection for a significant part of the population in the majority of members of the existing ESM, especially for those with lower qualifications (Barbier and Nadel 2000; 2003). Given this well-known and powerful economic background, it seems highly improbable that institutional arrangements to combine flexibility and security will be easy to introduce, unless social conditions for negotiations, compromise, and redistribution of resources are met, as is the case in Denmark.

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ready to endure the sacrifices that are ahead of us, war or no war' (G. Orwell (1982 [1941]), *The Lion and the Unicorn: Socialism and the English Genius,* Harmondsworth: Penguin, p. 106).

6 Commissioner Spidla declared in 2005 that 'The Nordic "flexicurity", which has quickly become "this month's special offer" in the supermarket of ideas, is primarily this overall coherence between social security systems, the respective roles played by the government and the social parties, between employment policy and the workings of the labour market' (Speech/05/506, 14 September). See now European Commission's Communication *Towards Common Principles of Flexicurity: More and Better Jobs through Flexibility and Securit*y of June 2007.

The Change that OMCs Brought to Flexicurity in Member States

The task of documenting the impact of soft law OMCs on the potential implementation and promotion of 'flexicurity' in EU Member States is daunting. Assessing the influence of OMCs is difficult in general, but we can draw on the methods we have tested in the recent past, especially in the domain of labour market policies, which are a key component (Barbier 2004b; 2005b; 2006a). Because of the vague and complex set of phenomena that are implicitly considered when one speaks of flexicurity, one solution has been to focus on typical programmes in certain countries. We will use the examples of the UK, Germany, and France in order to contrast them with Danish flexicurity.

Methods to Document Change and Influence

Research findings on the use of soft law in the EU indicate that the new administrative and political activities sparked by OMCs have modified national systems and created new rules and institutions at the EU level; they have also led to a common discourse ('flexicurity' certainly features prominently in it, although the term has only been used of late) and altered previous systems of actors. While it may occur at other levels as well, the diffusion of ideas has been documented only at the level of the small elites who are direct actors in the EES and in the 'Brussels' arena (Barbier 2004a). However, there is no evidence that the EES has modified the actual content and distinctive features (and outcomes) of national policies and programmes related to it. It can be suggested that three main mechanisms of influence play a role: the socialization of actors (with learning processes and competition between conceptions), the creation and transformation of resources for actors in power games at the EU level and at national levels, and the introduction of new actors into policy processes, notably social partners (de la Porte and Pochet 2003).

In this context it is important to emphasize that OMCs do not have one-way effects from the European to the national level. In some countries a critical public debate about flexicurity has already begun. Furthermore, a number of processes can be analytically separated: (1) cross-influences, including cross-national influences and those flowing from the EU level to the national and vice versa; (2) interactions within national policy systems, for example between labour markets and social protection systems; and (3) actual transformations in contrast to potential ones, including those that are more 'procedural' than 'substantive'.[7]

In order to assess whether mechanisms fostered by the OMCs – here especially the EES – affect the marriage of flexibility and security in a national setting, we suggest using the grid presented in Table 7.1 and applying it to a small number of countries. This grid lists possible and documented influences and effects. Insofar

7 See also Börzel and Risse (2000) who distinguish between convergence of rules and convergence of outcomes.

Table 7.1 Mapping flexicurity policy changes (documented and potential) in the context of the EES and the ESM

Changes at national level	Types
Procedural	National agendas are altered to include the objective of flexicurity.
Substantive type [1]	The national discourse and public debate incorporate principles of flexicurity into their formulations.
Substantive type [2]	New actors participating in the EES national process are consulted on flexibility strategies. General principles of programmes formally include their prescriptions.
Substantive type [3]	Single programmes/policies are adjusted (rules, values, theories of action) as a result of the change in discourse and debates. Programmes/policies converge in Europe, producing outcomes that can be monitored by indicators. Systems are altered (rules, values, theories of action); systems converge (outcomes). A common European Social Model emerges with a distinctive flexicurity dimension.

as substantive policy changes are concerned, we can distinguish three types. In type [1], transformations are limited to discourse. Type [2] entails impacts on methods, administration and principles of policies, in particular modifications in the systems of actors involved in national policy and their relationships and balance of power. Type [3] envisages a more radical change of rules, programmes, values and theories of action; a final step would lead to a possible convergence in outcomes (the second element of our definition of the 'existing ESM' – see above). Eventually, there is the possibility that the overall systems are significantly altered and converge towards a unified 'European model' with a distinctive flexicurity dimension.

If we use the grid in Table 7.1, it is easy to spot the changes in discourse (procedural; substantive type [1]) in most EU Member States. But to our knowledge no clear evidence presently exists of the other types of changes.

Identifying Specific Programmes and Strategies

Only a few studies have addressed the difficult question of monitoring changes in national systems as a result of flexicurity policies. For the German case Leschke et al. (2006) have assessed employment programmes introduced by the Hartz reform package (2002–04) in relation to their contribution to introducing more flexicurity in Germany.[8] They identified the *JobAqtiv Gesetz* of 2002 as a first 'flexicurity-oriented' approach that could be linked to influences from the EES in terms of discourse; however, this Act was hardly implemented when it was already superseded by the Hartz reforms, which also emphasized the theme of flexicurity. Within the wider Hartz group of reforms, Leschke et al. (2006) identified a number of programmes that explicitly fostered an 'equitable flexibility-security nexus'; namely, the *Ich-AG* (grant to promote self-employment), the PSA (*Personal-Service-Agentur*) and 'wage insurance' for older workers. These reforms have partly contributed to more flexible patterns of work, and at the same time enhanced security during 'transitions' (Leschke et al. 2006, 19–20). However, their remarkably documented exercise is limited and only able to evaluate the selected programmes, not the entire German 'flexicurity' situation.

The PSA and *Ich-AG*, as well as wage insurance for older workers, have featured prominently in the German National Action Plans for Employment. It is however difficult to assess whether the EES had a crucial effect on the reforms (now the National Reform Programmes) and their adoption. There was a diffusion of ideas that had an impact on some dimensions of the Hartz programmes and on the German 'flexicurity' situation in general. However, the basic structural features of the German labour market and social protection system were altered as a result of national institutions and national compromises after extended bargaining (Barbier 2006b). Consequently it would be wrong to ascribe these reforms to any particular EES impact. Recently, Germany received regular recommendations from the EES to adapt its systems of benefits and to reform its employment service. But there was no explicit mentioning of 'flexicurity' in these recommendations because one of the basic assumptions, which is also valid in the French case, was that work had to be rewarded with more incentives, and that security of income was considered too high, notably for the long-term unemployed.

In the French case of 2004–05 there was much ado about the 'Danish model' and flexicurity in the public debate and in the government's political communication (Barbier 2005c). Apart from various reforms described in the French National Reform Programme, which space does not allow us to review here in detail, two recent measures were presented by the government as examples of emulating the Danish model. And it is fair to assess them from this perspective. The first measure concerns a new type of employment contract[9] called the *Contrat Nouvelle Embauche* (CNE). It was introduced in 2005 and aims specifically at recruitment in firms with less than 20 staff members. The second measure also concerned a new type of employment contract, called the *Contrat Première Embauche* (CPE). This contract was aimed at employees under 25 years of age. The French government

8 See also Keller and Seifert (2004, 227) who contrast flexicurity with 'pure flexibilization'.

9 It has been an enduring feature of the French system of labour law to diversify the types of employment contract to a level that is only matched by other Mediterranean countries (Barbier 2005d).

advertised CNE's features in the 2005 Reform programme (under the heading 'Increasing labour market adaptability, ensuring safe career paths'):

> Labour market segmentation, especially the low rate of fixed-term contracts switching to open-ended contracts, is a problem of France's labour market. … The government's action gives priority to small enterprises for which the inflexibility of current contract options may be a major hurdle to recruitment. ... The plan provides for *contrats nouvelles embauches*, new recruitment contracts that are better adapted to the constraints of small enterprises. These contracts will motivate companies with up to 20 wage earners to hire new employees. Relaxed rules allow the small companies to dismiss the new recruits during the first two years. The wage earners will receive higher compensation if the contract is broken during the first two years (compensation equal to 8 per cent of the amounts paid during the contract) and support in their job search. Under certain conditions, the wage earners who are not entitled to unemployment benefits may receive a special allowance during a period equal to the time spent on the job.[10]

It is too early for a comprehensive assessment of the consequences of the introduction of the CNE into the French system. Governmental evaluation studies have shown that the flexibilization element far from compensated high windfall effects (DARES 2006). Moreover, for employees employed under such contracts, and despite the government's emphasis on the additional compensation, security was lowered vis-à-vis the mainstream open-ended contract. At the beginning of 2006 the government was forced to withdraw its CPE proposal because of mass demonstrations. The main rationale for demonstrations led by student activists and supported by unions was the rejection of this special contract for young people (in particular the less-qualified), in terms of social protection and security. Although the government claimed that it was translating the 'Danish model' into a French one, it only intended to import the flexibility element, and only for the less-qualified young, with the danger of increasing the already highly segmented French labour market. These form part of reforms introduced 'by stealth' over the last two decades, in Italy and France, as well as in Spain, that have increased the flexibility of the labour market at the expense of the less-protected segments of the workforce (Barbier 2005d; Barbier and Théret 2004; Barbier and Fargion 2004). Altogether, the regular EES recommendations in recent years to reform French labour market rules, which are, as in Germany, considered too rigid, have led to reforms in France, in which the flexibility recommendation was always emphasized more than the security aspect. However, as exemplified by the latest 2005–06 developments, a properly balanced flexicurity arrangement has not yet been found.

The UK provides a contrasting example. The low regard in which flexicurity was held was emphasized when it was once equated by the current Prime Minister and former Chancellor, Gordon Brown, with the childcare provision in the Nordic

10 National reform programme, France, 2005, posted on the website <http://www.sgae.gouv.fr/actualites/index.html>.

countries.[11] EES recommendations for the UK have regularly emphasized the need to increase the security of income for the working poor. Security of income was increased through the introduction of the minimum wage by the Labour government, which also instigated a significant change in the UK system of social protection through the generalization of tax credits (Barbier 2002). However, it is doubtful that the system of complementing low wages through credits has increased the compatibility of flexibility and security in the UK. The UK government's claim to have made work pay has been assessed as only partially successful at best (Brewer and Shepard 2004), while comparative indicators measuring income inequality put the UK at the top of the countries of Europe. And, most of all, it is very difficult to describe the EES as the cause of these reforms, which were decided and designed by Labour think-tanks well before the EES existed at all.

The Politicization of the ESM Debate and the Future of Soft Law in Social Matters

Altogether, the chances for the EES to have a decisive impact on the promotion or support of national flexicurity strategies seem limited. When flexicurity is at stake, one has to note – as has been demonstrated here in the Danish case – that there is much more than simply a triangle – even if this is a golden one. The special balance the Danes have achieved over a long period of their history has its social roots in their particular matching of institutions, values and ways of adapting to economic changes. In any country, in France and The Netherlands for that matter, the balance between what is acceptable and desirable in terms of flexibility of labour and employment on one side, and what is seen as necessary security on the other, depends on such social coherences built up over years within national polities. Such preferences are reinforced by institutions and are the result of the *regulation*[12] of societies. In democratic societies, voters are able to sanction this through elections. And in the democratic process, the soft law coordination of any OMC has little meaning precisely because the success of the coordination depends upon de-politicization (Radaelli 2003).

The chances of EES-promoted flexicurity policies are even more limited after the politicization of the debate as a result of the negative votes on the constitutional treaty in France and The Netherlands in 2005. Explanations remain to be found for this double rejection. In the French case, many different sub-groups of the electorate voted 'no', which increased an already existing polarization between

11 'Britain, for example, has led the way in one aspect of the labour market reform, with the tax credit system, while the Scandinavian countries – as part of what they call flexicurity – have pioneered childcare support and parenting services' (*Global Europe: Full-Employment Europe*, October 2005, HM Treasury, London, 12).

12 *Regulation* is here used to denote the process of making society's functioning possible, not restricted to legal regulation.

classes. At the same time, the ‘social question’ (‘*le modèle social français*’) and its defence played a key role. Findings from French surveys in this respect are confirmed by Eurobarometer results (Eurobarometer 2005a; 2005b; 2005c). As many as 40 per cent of the voters rejected the constitutional project because they deemed it ‘too liberal’,[13] while, at the same time, the voters did not develop a particular hostility to French participation in the EU.[14] In The Netherlands, the main reason for voting ‘no’ was the fear of losing the country’s sovereignty (Eurobarometer 2005b). Social protection (the ‘social model’) is at the heart of this sovereignty and ‘closure’. ‘Europe’ tends to appear as a danger to protections, especially for segments of the working population most exposed to the negative consequences of flexibility (Barbier and Nadel 2000; 2003). Even in countries often presented as the best performers in terms of economic success and welfare, voters are still averse to the EU and its social model, as can be witnessed in the UK (Eurobarometer 2005c, 11) and in the Scandinavian countries. These facts elude evaluation studies of the EES and other OMCs.

Conclusion

OMCs display a structural weakness in stimulating substantive changes in institutional flexicurity arrangements. However, they have been efficient in the propagation of flexicurity discourses. If the politicization of the European debate follows the pattern of the 2005 referendums, the OMCs are likely once again to lose some of their importance. This is a general statement that applies obviously not only to their ability to promote flexicurity, but also to the entire question of the European social model and its insertion into the EU edifice.

Since the initiation of the various OMCs, ‘hard’ European law has been kept virtually separate from soft law mechanisms. The link is very tenuous between both types of law. This is not the case in national systems and this has evidently an important consequence. In matters of flexicurity at the national level hard law prevails. Might it be the case that OMCs would regain more importance if they were somehow coupled with EU-level hard law? In order for this to happen, strong actors and coalitions would be required, and in the present situation their appearance seems very unlikely.

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13 IPSOS-Le Figaro Survey (29 May 2005) and analysis (2 June 2005): at <www.ipsos.fr>.

14 The Eurobarometer no. 64 survey (2005c, 12) showed that the share of French interviewees who considered Europe a good thing fell from 51 to 46 per cent in the six months to the autumn of 2005; in the no. 65 survey, the proportion increased slightly. For the previous five years it had been under 50 per cent.

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PART III
National Transitional Labour Market Policies in Europe

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Chapter 8

Transitional Labour Market and Flexicurity Arrangements in Denmark: What Can Europe Learn?

Thomas Bredgaard, Flemming Larsen and Per Kongshøj Madsen

There has been a great deal of discussion about a special 'European Way' that combines economic growth and competitiveness with social protection. As a result of these debates, political expectations have emerged based on the belief that it is possible to develop a European policy strategy as an alternative to the 'American Way' (see Wim Kok reports). The concept of 'transitional labour markets' (TLMs) has emerged in these debates about a European social and economic model. It offers a broad theoretical and policy framework for developing a qualitative growth strategy (Schmid 1998). In addition, the notion of 'flexicurity' (Wilthagen 1998; Wilthagen and Tros 2004) as a possible policy strategy and analytical perspective for bridging flexibility and security has become a top issue in this debate. However, while these concepts have been propelled to the forefront of debates in both academic and legislative circles, understanding and testing strategies in practice is a different issue altogether. These being the case, certain recurring questions need to be addressed. Specifically, how can an understanding of the need to balance economic and social considerations be created and, more importantly, is it actually possible to construct a transitional labour market in the real world? In other words, can considerations for economic growth and social protection really go hand in hand?

These questions naturally lead to a search for examples (preferably positive) of TLMs and flexicurity arrangements. One of the cases often mentioned in this context (and rightfully so, to a certain extent) is Denmark, and the special labour market policy it developed over the course of the 1990s (Schmid and Gazier 2002; Wilthagen and Rogowski 2002). In Denmark, the mid-1990s saw the introduction of a number of TLM arrangements, including job rotation and leave schemes, geared towards improving the employability of the unemployed. In general, Danish labour market policy during this period was based on a combination of low job security and high levels of social protection in terms of the level of unemployment benefits available and the right to upgrade skills in order to improve employability. At the same time Danish labour market policy from the mid-1990s on has been very successful. For instance, unemployment fell from 12 per cent to 5 per cent, serious inflation problems and bottlenecks in the labour market have been avoided, and important welfare-political elements were maintained, despite significant pressure for their removal (Larsen 2005).

The positive shifts in Denmark's labour market policy which led to the so-called 'Danish job miracle' (Madsen 1999; 2003) constitute in our view an example of TLM and flexicurity strategies that have stood the test of practicability. There are indeed good reasons to investigate and evaluate what can be learned from the Danish experience and which of the experiences are transferable to other countries. Our chapter deals with this 'learning' aspect in order to determine if the Danish experience can be used as a successful and transferable example of TLM and flexicurity arrangements, and in that respect act as an inspiration in the development of a European Social Model. It first asks to what extent the Danish TLM and flexicurity arrangements[1] have their roots in specific national institutions and traditions. It then assesses the options and barriers for policy learning and policy transfer.

The Danish Success Story

The period since 1993 has been a 'golden age' for the Danish labour market. Unemployment levels have fallen to the lowest levels since the first oil crisis of the 1970s and the employment rate is among the highest in the EU. The development in the Danish labour market has attracted a good deal of international attention. In several reports, the UN's international labour organization, ILO, has pointed out Denmark as a good example (Auer 2000; Auer and Cazes 2003; Egger and Sengenberger 2003). The OECD has also mentioned the Danish combination of a flexible labour market and high social security as a medicine that might help cure the German and the French diseases. The cure probably implies that in order to maintain a relatively generous – and expensive – income security system, it is necessary to reduce job protection and introduce a more active labour market policy (ALMP) (see OECD 2004, Chapter 2). In connection with the EU's employment strategy, and in individual EU countries such as Germany and France, Denmark has been used as a textbook example of how a member country can combine a dynamic economy, high employment and social security. In the international debate on flexicurity – or ways of combining labour market flexibility and social security – references to Denmark abound (Wilthagen 1998; Wilthagen and Tros 2004; Madsen 2003, 2004; OECD 2004, Chapter 2).

The combination of skilful macroeconomic management, reforms of labour market policy, high flexibility, a well-educated labour force and well-functioning tripartite cooperation based on social and political consensus has won the Danish

1 Flexicurity arrangements can be established through different modes of regulation (legislation, collective agreements or individual contracts). They may also differ in their coverage with respect to sectors or groups of workers. In the present chapter, focus is on flexicurity arrangements that are created and financed by the public sector.

labour market model high renown – at home and abroad. Despite threats of labour shortages, the high level of public spending and taxation, and xenophobic anti-immigration policies, Denmark was recently ranked as the best place in the world to conduct business over the next five years (*The Economist* 2005).

The Danish labour market model can be described in terms of a 'golden triangle' (see Figure 8.1). The model combines high mobility between jobs with a comprehensive social safety net for the unemployed and an ALMP (active labour market policy), which is supplemented by other policies like educational policy and a developed childcare system. In fact the mobility (measured by job mobility, job creation, job destruction and average tenure) is remarkable high in an international comparison (Bingley et al. 2000; Auer and Cazes 2003; Madsen 2005). The high degree of mobility from employer to employer is linked to the relatively modest level of job protection in the Danish labour market. Another reason could also be higher risk willingness among workers related to the comprehensive social safety net. Despite one of the lowest levels of job protection among OECD countries (OECD 2004; Madsen 2005), Danish workers have a strong feeling of high job security among all subgroups of workers (OECD 1997; Auer and Cazes 2003).

The arrows between the corners of the triangle in Figure 8.1 illustrate flows of people. Even if the unemployment rate is low in an international perspective (5.4 per cent in 2004), Denmark almost has a European record in the percentage of employed which are each year affected by unemployment and receive unemployment benefits or social assistance (around 20 per cent). But the majority of these unemployed persons manage to find their own way back into a new job. As an indication, the incidence of long-term unemployment as a percentage of total unemployment (6+ months, 12+ months) was in 2004 respectively 45 per cent and 22.6 per cent in Denmark compared to 60.4 per cent and 42.4 per cent in

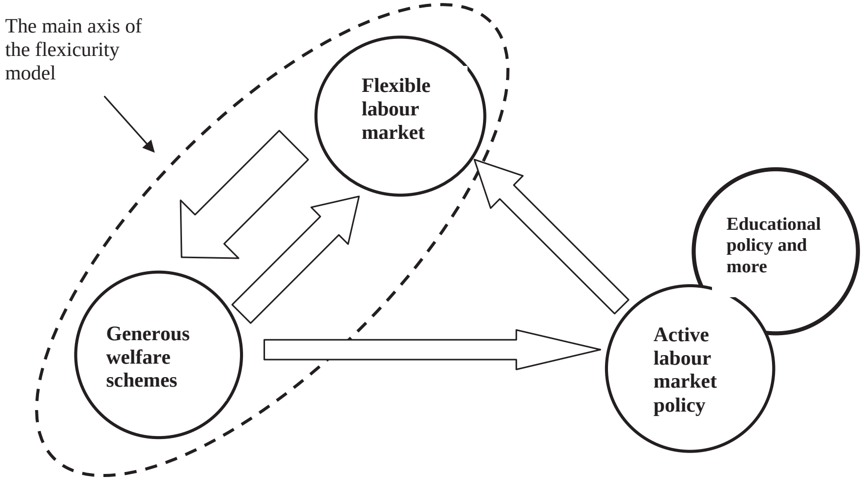

Figure 8.1 The Danish flexicurity model

the EU15 (OECD 2005a, 258). Those who become long-term unemployed end up in the target group for the ALMP, which – ideally – helps them find employment again.

The Danish flexicurity model is often used as an example of well-functioning TLM arrangements, despite the fact that the term ‘transitional labour market’ was first introduced in Denmark in 1997. The best-known (and best-used examples) of Danish TLMs (leave schemes, job rotation and similar programmes) have been minimized during the late 1990s but, after all, transitions on the Danish labour market are still of a considerable magnitude.

An Overview of TLMs in Denmark

In the classic typology of TLMs developed by Günther Schmid and his associates, several forms of transitional arrangements are identified. Such arrangements may act as stepping-stones between various positions out of work (like unemployment, education, family obligations and retirement) on the one hand and ordinary full-time employment on the other.

As shown in Table 8.1, a large number of such arrangements can be identified on the Danish labour market. They cover a substantial share of the workforce and include the following:

- Transitions between *short-time and full-time* work or between dependent work and self-employment: part-time work in Denmark is generally considered as a standard form of job and regulated by the same laws and collective agreements as full-time work. However, support to part-time work does take the form of part-time unemployment benefits, which are paid to unemployed persons who take a part-time job (generally with the purpose of a transition to full-time work). In the survey, we have therefore not included part-time workers in general (about 643,000 persons or 25 per cent of adult persons in employment), but only those who receive part-time unemployment benefits.
- Transitions between *unemployment and employment* are facilitated by a number of schemes under the umbrella of active labour market programmes, like temporary wage subsidies for mostly long-term unemployed and permanent subsidies for the employment of persons with a enduring reduction of their employability. Also voluntary social work for unemployed and vocational rehabilitation can be included here, the latter often involving a mix of education and on-the-job training.
- Concerning transitions between *education and employment*, one again finds examples among the programmes of ALMP in the form of labour market training and education for the unemployed. Under this heading one can also identify the special programme for adult apprenticeships and the general programme for support for adult education for employed persons.

- The Danish system of TLMs also includes a number of arrangements that support transitions between *work and family life*, the most important ones being maternal leave (for both parents of newborn children) and the parental leave scheme, which was introduced in 1993 and is now being phased out. This latter scheme allowed parents with children under the age of eight to take leave with a subsidy equal to 60 per cent of unemployment benefits. One can further add unemployment benefits during sickness; that is, a temporary benefit transfer for up to 52 weeks that combines with active measures aimed at a return to the labour market.
- Looking at transitions between *working life and retirement* the largest example is the Voluntary Early Retirement Pension (VERP), which under certain conditions allows members of unemployment insurance funds to retire at the age of 60 years and receive a benefit equal to unemployment benefits until the age of 65. They will also be allowed to have a supplementary work income, albeit with a reduction in the benefits. Another related scheme is the so-called 'part-time pension', which is a public support to persons aged 60 to 65 years who are not eligible for the VERP.

In Table 8.1 we have calculated the size of TLMs in Denmark by using official statistics (2004 figures). To be included as a TLM arrangement, the schemes or programmes should satisfy two requirements: (1) having full or partial public financing, (2) having the purpose of creating transitions into, out of or within the labour market. As is evident from Table 8.1, the Danish TLMs are of a considerable magnitude and in total equal 594,827 full-time participants in 2004 or about 21 per cent of the workforce.[2] This is more than three times the registered unemployment rate. The number of persons who in shorter or longer periods have participated in transitional arrangements is more than 1.4 million people or about 50 per cent of the workforce. It is, moreover, interesting to observe that over time the number of transitions have increased slightly despite the rapidly decreasing unemployment rate and increasing employment rates since the mid-1990s. A cautious conclusion seems to be that the size of the transitional labour markets in Denmark seems inversely connected to the business cycle; as registered unemployment falls, the size of the TLMs increases, and vice versa.

The Danish TLMs have a long and varied history. In their present form most of the arrangements that are part of ALMP date back to the labour market reforms initiated from 1993 and onwards (Jørgensen and Larsen 2002). The same goes for the leave schemes, while for instance the VERP was introduced as early as 1979 (Compston and Madsen 2001).

2 As a technical point one should mention that some of the persons classified as being in a TLM are counted also as part of the workforce (for instance persons employed with a wage subsidy), while others are excluded from the statistical definition of the workforce (like persons in a training programme and on leave).

Table 8.1 Transitions on the Danish labour market, 2004

	Full-time participants	Participants
I. Between part-time and full-time employment, total	**133,727**	
Unemployment insurance benefits	137,727	392,141
II. Between unemployment and employment, total	**114,600**	
Wage subsidy schemes	30,900	86,000
Activation schemes, other	17,600	108,000
Unemployment subsidies	8,100	12,200
Flexible and soft jobs	35,300	42,900
Vocational rehabilitation	22,800	33,600
III. Between education and employment, total	**31,000**	
Ordinary education measures for unemployed	15,900	74,400
Special education measures for unemployed	4,200	20,700
Adult apprenticeships	6,100	8,900
Education on adult education support	–	300
Integration training for refugees	2,800	8,300
Job rotation*	1,900	N/a
IV. Between private, unpaid activities and employment, total	**127,000**	
Parental leave (phased out since 2002)	3,500	10,200
Maternal leave (on unemployment benefits)	54,900	124,900
Unemployment benefits during sickness	68,600	293,000
V. Between employment and retirement, total	188,500	
Voluntary Early Retirement Pension (incl. transitional benefit scheme)	187,200	222,000
Part-time pension	1,200	1,200
TLM, total	**594,827**	**1,438,648**
TLM, % of workforce	20.9 %	
Registered unemployment	176,000	
Registered unemployment, % of workforce	6.4 %	

Note: *Figures for job rotation provided by Arbejdsmarkedsstyrelsen, AF's produktionsstatistik [Central Labour Market Administration].

Source: Statistics Denmark 2006.

The different elements of the Danish system of TLMs are of course interesting in themselves and provide an example of a labour market with a number of arrangements that give it a 'comprehensive' nature in the sense that it provides options for employment and transitions between employment and non-employment that differ from the standard 37 hours per week from leaving school to retirement.

The Background to the Danish Flexicurity and TLM Arrangements[3]

The Danish development of the welfare state and labour market points towards an interesting hybrid between the flexible, liberal welfare states characterized by high numerical flexibility (liberal hiring-and-firing rules) and the generous Scandinavian welfare regimes of high social security (relatively high benefit levels) (Madsen 1999; 2003; 2005; 2006). The hybrid model manages to reconcile the dynamic forces of the free market economy with the social security of the Scandinavian welfare states. Some writers may be inclined to call this hybrid unstable and bound to eventually head off in one or other direction (Hall and Soskice 2001). However, when we have outlined the historical-institutional conditions behind the Danish model, it should be evident that this model is a result of a long evolutionary development, and is supported by relatively stable institutions and class compromises.

Both in the international as well as in the Danish debate there has, from time to time, been a tendency to jump to the conclusion that the success of the last decade is a result of the flexicurity and TLM arrangements just described. It is, however, essential to point out that the positive development in the Danish labour market since the early 1990s is not attributable exclusively to these arrangements. Without a successful balancing of the macroeconomic policy and the trends in the international business cycle, the growth in employment and the falling unemployment would not have been possible. The coinciding of low inflation and a halving of registered unemployment rates is also a by-product of a new agenda for collective bargaining and wage formation, which helped the labour market adjust to the shift from high unemployment to full employment while keeping wage increases at a moderate level and not departing from the international trend towards low inflation.

In Denmark it is difficult to find examples of flexicurity and TLM arrangements as a result of deliberate strategies, even though various labour market political schemes can be interpreted in both perspectives (for example, the early retirement scheme as a combination of numerical flexibility and social security, or the job rotation scheme as an example of TLM and functional flexibility and employment security). It is important to stress that we describe a particular state of the Danish labour market, which has been achieved gradually through social compromises between the social partners and in interaction with the political system. In a Danish context, it therefore makes most sense to talk about flexicurity or TLM as a stylized description of some fundamental characteristics of the Danish labour

3 The following is largely based on Bredgaard et al. 2006.

market model. One should emphasize both the complex interplay between the various elements of the Danish model and the long historical perspective. The combination of high mobility between jobs and a well-developed social safety net has characterized the Danish labour market for decades, and has been an important factor in the successful shift from an agricultural to an industrial and service economy, which Denmark has completed since the Second World War. Even though the terms 'flexicurity' and 'TLM' are new, they are in fact only trying to describe and rephrase some deep-rooted characteristics of the Danish labour market (Madsen 2006). Therefore the causalities involved are intricate and must be understood as mutual interrelations with a strong element of path dependency. Thus the positive outcomes of the Danish model are not just related to a simple causality from, for instance, a low level of employment protection to economic success. Without the security elements, which support the willingness to accept structural change and risk-taking both by employees and employers, the Danish model would probably not been able to achieve the level of employment and competitiveness that it has reached. In the following sections we take a closer look at these complex interrelations and their historical foundations.

Historical Preconditions for the Danish Model

The historical-institutional conditions can be described by focusing on each of the three corners of the flexicurity triangle (see Figure 8.1), even though they are also interdependent.

Starting with the flexible labour market, the high job mobility (numerical flexibility) found on the Danish labour market is a structural pattern consistent with the Danish industrial structure, with its predominance of small and medium-sized enterprises (in other words, small internal labour markets).

The low job protection is in line with the long liberal tradition of the Danish welfare state (Madsen 1999; 2005) which, among other things, is attributable to the tradition that the social partners have been left to regulate most of the terms and conditions important to the labour market themselves, as opposed to the state regulation found in other countries. So, an important precondition for this Danish labour market model is a tradition for corporatist labour market regulation (see Andersen and Mailand 2005). This tradition dates back to the September Compromise of 1899, in which the employees recognized the employers' management prerogative in return for the employers recognizing the employees' freedom of association. The 1899 September Compromise laid the groundwork for how to resolve disputes on the Danish labour market, and for the social partners negotiating wages and conditions of work without state intervention, which has helped create a labour market model based on voluntarism (Jørgensen 2002). It is a self-regulatory and agreement-based arrangement, which the partners incidentally leap to defend at the first sign of political intervention. Even when one of the parties potentially stands to win from political intervention, the social partners have generally seen voluntary agreements as the most beneficial solution. This is not to imply that conflicts do not exist, only that the system is based on mutual trust. It is one which is essentially difficult to copy, when discussing the potential for other countries to import elements from the Danish labour market model (Larsen 2005).

The high level of job *in*security, which would naturally be the effect for employees of this self-regulatory labour market, has been rendered acceptable (especially for the trade union movement) through the development of a primarily state-financed unemployment benefit system, supplemented with social assistance for the non-insured unemployed. The unemployment benefit system is administered not by the state, but by the independent unemployment insurance funds (*arbejdsløshedskasserne*), which are de facto affiliated to the trade unions. In its present form, this basic trade-off between flexibility and security dates back to the unemployment benefit reform and the establishment of the public employment service in the late 1960s, whereby the state financially assumed the marginal risk of unemployment (Jørgensen and Larsen 2003). An aspect of this arrangement not to be underestimated is that it allows the employers to dismiss employees at no extra cost. As a result of this, both employers and employees have a common interest in protecting the predominantly state-financed social security system. A clear-cut example of this common interest is the united front against the liberal-conservative government's attempt to cut unemployment benefit for high-income earners in 2003, and the clause subsequently included in the collective agreement on renegotiation in case of any substantial changes to unemployment benefits.

It was not until the mid-1980s, and particularly the early 1990s, that the third corner of the 'golden triangle' was fully developed, in the form of an active labour market and social policy; both elements aim at motivating the unemployed to seek and take work, and strive to upgrade the skills of those among the unemployed who are unable to find their way back into employment on their own; in other words it is a policy comprising both social disciplining and social integration (Larsen et al. 2001). The labour market reform of 1994 marked a significant shift, from a passive to an active labour market and social policy. In this case, especially the trade unions had to give some ground, accepting activation policy at the cost of shortening the length of eligibility for unemployment benefits, and not least losing the right to regain eligibility by participating in activation measures. In return, a more qualified and individually tailored activation policy was supposed to increase the chances of the individual unemployed person of returning to employment. It could be argued that the trade unions thus accepted that the state shifted the focus away from lifelong income security to a higher degree of employment security, the latter combined with motivational elements such as tightening the rules for work availability and the duty of activation. However, combining a focus on improved employability and work capacity with the disciplining elements is not always easy, and in recent years the focus has been shifting towards disciplining, in line with the recovery and the rapidly falling unemployment rate.

However, due to the tradition of involving the labour market organizations in the policy formulation as well as implementation of labour market policy, the social partners (and in particular the trade unions) have had a major influence on the efforts to preserve the balance between the human capital approach (skills upgrading) and work first approach (motivation). It is an important institutional characteristic of the Danish model that, via consultation and administrative corporatism, the social partners are also involved on the policy side of the labour market policy. This is, however, a situation that is being challenged severely at present as a result of structural changes to the labour market policy (such as the institutional reforms of local authorities and the development of a one-tier labour market system).

Besides the employment security provided by ALMP, education policy also plays an important role in the functioning of the Danish flexicurity model. Again, the social partners are highly involved and institutionally committed to the planning and implementation of education policies, in particular continuing vocational training (CVT) policies. A specific institutional characteristic of the Danish CVT policy is that it provides services and training for both the employed and the unemployed (and thus cuts across the two corners of the flexicurity model; the flexible labour market and the active labour market policy). Under the formal responsibility of the Ministry of Labour (now Ministry of Education) but administered by the social partners, CVT of unskilled workers was established in 1960, and a similar system established for skilled workers in 1965 (*arbejdsmarkedsuddannelser*).

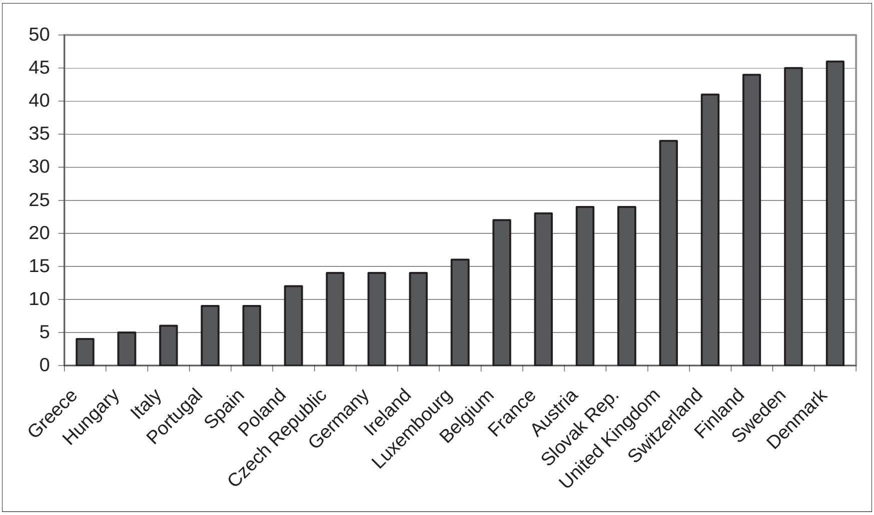

Figure 8.2 Rate of participation of the Danish labour force (25–64 years) in continuing education, for all levels of education (2003)

Source: OECD 2005b, 323, Table C6.2.

From the late 1980s collective agreements also included agreements on education, usually entitling the employees to two weeks' leave per year to participate in job-relevant education (Lassen 2002) (Figure 8.2). And in 1994, the government improved possibilities for publicly financed job rotation and introduced an educational leave scheme giving employees the right to up to one year's leave of absence for specified types of education on 80 per cent of the maximum unemployment benefit level (the scheme was abolished in the late 1990s due to fear of labour shortages). Even if the social partners are planning and administering the system of CVT, the state is the main financer of the system, just as the case of the unemployment benefit system. This financing system externalizes the costs of training and education from the firms, and indirectly serves as a government subsidy to the competitiveness of Danish industry. Partly as a result of this financing arrangement and the extensive rights of participation in CVT, Denmark has for a number of years ranked consistently among the top performers in Europe in relation to participation in CVT activities (OECD 2005b; Eurostat 2005).

The share of unemployed in Denmark who participate in non-formal job-related continuing education and training is also the highest among the OECD countries (35 per cent compared to 47 per cent of the employed). Using a broader measure, Eurostat data also show a high participation in lifelong learning activities in Denmark. In 2003, 42 per cent of the EU25 population aged 25–64 had participated in at least one form of education, training or learning activity (formal, non-formal or informal) over the previous twelve months, compared to 80 per cent in Denmark. And again, the highest participation rates of the unemployed in non-formal education were registered in Denmark (41 per cent), compared to 14 per cent at the EU25 level (Eurostat 2005).

Since the CVT system is predominantly financed by the public budget, CVT activities are more likely to provide general rather than firm-specific skills, which are transferable on the external labour market, and improve the functional flexibility of internal labour markets. Also, by allowing unemployed workers to improve their general skills during economic downturns, firms are in a better position to compete once the economy improves (Campbell and Pedersen 2005).

Although there are indications that the participation in CVT activities has declined slightly in recent years (LO 2004), Denmark seems to have realized what the EU and the OECD, among others, have been preaching for decades; that it is essential to ensure adequate and high-quality training and education of the workforce. This feature of the Danish model is certainly an institutional advantage, which should be preserved, in an age of globalization, outsourcing of low-skilled and low-productivity jobs, where formal qualifications are becoming obsolete faster and faster.

Thus, the unemployment benefit and adult vocational training system seems to be enhancing mobility by creating numerical and functional flexibility in the labour market. In this case, welfare benefits and services can actually be perceived not as impediments or barriers, but as investments in a mobile and flexible labour market.

The Danish combination of numerical flexibility, social security and employment security is, however, not the product of a carefully deliberated and designed strategy, but the by-product of a long historical-institutional evolution and social compromises in a number of different policy areas. Exactly because it is rooted in historical preconditions, it is difficult to copy or export the Danish flexicurity and TLM arrangements. The question is, however, whether the compromises and the preconditions the model is based on are stable and sustainable enough to withstand the challenges presently facing the Danish labour market and welfare system.

A Model Worth Preserving

In recent years, Denmark has ranked high on international lists of countries able to achieve macroeconomic goals and labour market functionality. And these two elements are increasingly seen as closely interlinked, in the sense that a well-functioning labour market is crucial for macroeconomic success in a world where a number of the traditional macroeconomic tools have become increasingly difficult to use.

The overall message of this chapter is that the positive international attention lavished on Denmark in recent years is in fact justified. Measured on a number of different dimensions, the Danish labour market does indeed demonstrate a high degree of flexibility and security. Above all the extraordinary Danish combination of high mobility between jobs, low job security and high rates of unemployment benefit deserves attention, and makes it possible to interpret the Danish labour market model as a unique variety of flexicurity and TLM. On top of this comes a highly developed active labour market policy and (in general) a well-developed (continuous) educational system, which add an element of employment security by strengthening the labour market competences of both the unemployed and people in employment, creating the right conditions for good and desirable transitions.

This extraordinary Danish model is not the result of a deliberate plan carried out over a short period in the 1990s. Essential parts of the model date way back to the September Compromise in 1899 and to welfare reforms in the 1960s. But there are also indications that the labour market reforms of the 1990s have contributed to the present success story. However, it is these specific historical conditions that make it difficult to transfer Danish experiences directly to other contexts. An important message, though, is that imposing strong restrictions on the freedom of employers to hire and fire employees is not the only way to provide security for the individual in the labour market. Quite the contrary, it is possible to combine a dynamic labour market with a high degree of income and social security.

Assuming that this unique model is considered worth preserving, it must be realized that it makes certain demands on the dominant labour market political actors. The trade unions must accept employment security rather than job security. That can be difficult, particularly in times of increasing employment insecurity due to outsourcing of jobs. The best response in this situation is probably not increased job protection, but more likely demands for improved employment security for exposed or vulnerable groups, such as massive investments in adult vocational education and training. For their part, the employers must come to terms with the fact that a precondition for the low degree of job protection not to result in increasing employment insecurity is a well-functioning, generous and relatively expensive unemployment and social assistance system. By implication, the political decision-makers must realize that substantial changes at any of the corners of the 'golden triangle' are not possible without serious repercussions for the other corners of the triangle. Any political intervention in the labour market must therefore be based on a holistic understanding.

Lessons to be Learned?

The booming literature on policy transfer and Europeanization illustrates the options for, but also the barriers to policy learning either directly from the neighbours or from policies advocated by supranational bodies like the EU (Dolowitz and Marsh 2000; Olsen 2001). Inspired by Schmidt (2002) one can list a number of factors which determine the transferability of policies into a given country. These include its *economic vulnerability*, exemplified by presence or absence of economic crisis, and the *political institutional capacity*, which is inherent in the principal policy actor's ability to impose or negotiate change. Important factors are also *policy legacies and preferences*, which determine the 'fit' of potential policies with long-standing policies and institutions and with existing preferences. Related to the latter is also the *flexibility or robustness of the national policy discourse*, determining the ability to change preferences by altering perceptions of, for instance, economic vulnerabilities and policy legacies.

With direct reference to the transferability of flexicurity and TLM policies, Wilthagen (2005, 265) has also stressed the importance of political institutional capacity in the form of mutual trust between the social partners and the government, when it comes to developing flexicurity policies. Adequate central- and non-central-level platforms and channels for coordination, consultation and negotiation are also highly important.

The importance of these points is, of course, related to the core of the flexicurity concept: moving from one configuration of levels of flexibility and security to another will mean that one of the parties (typically the employees) must accept some form of increased flexibility (and thus uncertainty) in their working life in order to get compensation in the form of improved security arrangements provided by the employers or the state. For the employees this implies obviously the risk of being cheated by accepting more flexibility, but never getting the reward in the form of increased security. Trust, created by historical experiences with bargaining processes and maybe supported by some form of state guarantee, is necessary.

The issue of economic vulnerability enters the bargaining process around flexicurity and TLM arrangements as a double-edged sword. On the one hand, economic crisis can be the factor, which changes political preferences and puts the need for labour market reform high on the political agenda. On the other hand, an economic crisis is rarely a situation where economic resources for improving workers' security are abundant. Higher public spending on income security or policies providing more employment security will, for instance, be hampered by fear of increasing deficits on the public budgets. Such worries can be argued against by pointing to the fact that this public spending must be conceived of as investment and will be repaid through the longer-term growth stimuli from a more flexible and competitive labour market. However, as illustrated by the recent German experience, the rules of the EMU may inhibit increased spending for security arrangements and thus transform labour market policies into pure policies of flexibilization.

Finally, one can point to the fact that the pre-existence of a certain institutional infrastructure will facilitate specific flexicurity and TLM arrangements. For instance, a comprehensive public system for adult education and training will make it easier to develop flexicurity and TLM arrangements, which involves employment security upgrading the skills of unemployed workers or workers at risk of unemployment. Also a well-developed system of childcare is indispensable for creating security for working parents and thus for a flexible supply of younger women in particular on the labour market.

These more general points are all of crucial importance when considering the options for policy learning from best-practice policies in other countries. Obviously they are also relevant when considering the transferability of the lessons from the specific Danish model. Here one important, albeit rather general message is evidently that a sizeable welfare state with high levels of both taxes and social benefits is not incompatible with a dynamic and well-functioning labour market.

The high degree of flexibility on the Danish labour market is thus supported indirectly through a number of welfare state services such as a comprehensive educational system, including adult vocational training and education, a well-developed childcare system, (relatively) well-functioning and publicly financed health care, etc. In a labour market perspective, many of these welfare schemes can be viewed as investments in well-functioning structures, rather than costs. This lesson from the Danish experiences can hopefully serve as inspiration for the development of the ESM.

A further observation from the flexicurity literature, which is fully illustrated by the success of the Danish employment system in recent decades, is that a system of employment security, rather than job security, combined with enhanced levels of external and internal flexibility could be taken as a best practice for Europe (Wilthagen 2005, 265). This message emphasizes the positive correlation between low employment protection, generous unemployment benefits and ALMP.

Translated into a direct policy prescription to be used in times of rising unemployment, the main message is that the first handle to pull should not be the one labelled 'more job protection'. By doing so, policy-makers will only hamper the restructuring of production and employment, which is necessary in order to regain growth and low unemployment. But both in order to support reallocation of workers to firms and sectors with growth potential and in order to combine restructuring with economic and social equality, security arrangements must be in place. Income support to the unemployed is a minimum requirement. But apart from income security, the security arrangements must focus on assisting the unemployed and those in risk of unemployment to get back to employment.

During Denmark's specific historical development, this simple message has been turned into a nationwide flexicurity model. As discussed above, the degree to which the Danish lessons can be applied in other countries will depend on their political and institutional legacy and on the specific circumstances, which trigger the call for reforms. Given that the Danish model is embedded in a Scandinavian-type welfare state, policy transfer seems most obvious with respect to the other Scandinavian countries and less relevant to, for instance, Southern European countries. Thus the Scandinavian-type welfare state provides both several of the supportive elements for the model and also entails the high level of social capital in the form of trust necessary to make negotiated trade-offs between flexibility and security.

For countries with already low levels of job protection like the UK, the most important lesson from the Danish model could be its positive experiences with employment protection in the form of extensive active labour market policies and adult education. In the German case, learning could focus on establishing the political and discursive preconditions for having negotiations about changing the present configuration of job protection on the one hand and income and employment protection on the other hand.

However, the aim of this chapter is not to provide detailed prescriptions on how to implement policies in specific national contexts. This is a complex task, better left to national analysts and policy-makers in the respective countries. In this process supranational actors like the EU will, of course, play an important role by creating mechanisms for and facilitating the exchange of policy lessons between countries. A better comprehension of best practices with respect to flexicurity and TLM arrangements from other countries, including Denmark, can in this context act as an important source of inspiration and can lay the ground for shifts in national discourses, which over time may lead to a 'subtle transformation of states' (Jacobsson 2004). The main attraction of Denmark is its uniqueness as a European country which has implemented an encompassing version of a specific form of flexicurity and TLM arrangements. And as any teacher will know, one real-life example tells more than a torrent of abstractions.

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Chapter 9

Making Work Pay and Social Security Reform in The Netherlands

G.J.A. Nekkers, W.B. Roorda and J.H.L. van der Waart

Introduction

In the last three decades labour market policy in The Netherlands, as in many other countries, has considerably changed its outlook. In the 1970s, policy focused on providing sufficient income support for the unemployed and other benefit recipients. Incentives for (accepting) work played only a minor part in policy design. As a result social expenditures increased sharply. The first half of the 1980s saw a severe economic recession. Benefit levels were frozen and budgetary outlays were cut in order to reduce the high government deficit. Because unemployment was high, increasing labour demand became the main policy goal. This was achieved by decreasing labour costs (for example, by subsidizing low-wage employment). Special attention was paid to groups with participation rates below average. By the end of the century, shortages on the labour market were becoming clearer and the policy focus changed again, this time towards increasing labour supply, thereby stressing the importance of adequate financial incentives. This was accompanied by a change in social security, which became more activating in character.

This chapter deals with both recent changes. It gives an overview of the current state of affairs with regard to financial incentives for making work pay as well as social security reform and discusses both topics from a comparative perspective with special emphasis on The Netherlands. It starts by presenting a simple transitional labour market model plus some statistics on making work pay, which leads to a discussion of issues of optimal policy design. The chapter then describes recent advances in making work pay and social security reform in The Netherlands, followed by concluding remarks.

Making Work Pay

The labour market situation has changed considerably in The Netherlands over the past two decades. The 1980s were characterized by high unemployment and a shortage of jobs. This situation changed during the 1990s. The turn of the century saw a dramatic increase in vacancies that appeared hard to fill. As a result, labour market tensions emerged in many sectors and regions. The recession that followed caused unemployment to rise again. Now that economic conditions are improving, employment is growing rapidly. At the same time, however, there still are a considerable number of people receiving benefits. They seem to be either unfit for a job, due to their low skill level, or uninterested in finding one at the going wage.

Of importance is the financial aspect[1] of work attractiveness for employees; that is, the supply side of the labour market. Especially for those with low earnings capacity, market wages may be too low to escape poverty or the income increase relative to the benefit level may be too small.[2] Thus they may be trapped in a benefit situation. A low-paid job often offers hardly any prospect of improving the income situation. Figure 9.1 shows possible transitions on the labour market.[3] These transitions are influenced and possibly caused by the financial consequences they might have. Transition 1 is usually termed 'the unemployment trap', transitions 2A and 2B 'the inactivity trap' and transition 3 'the low wage trap'.

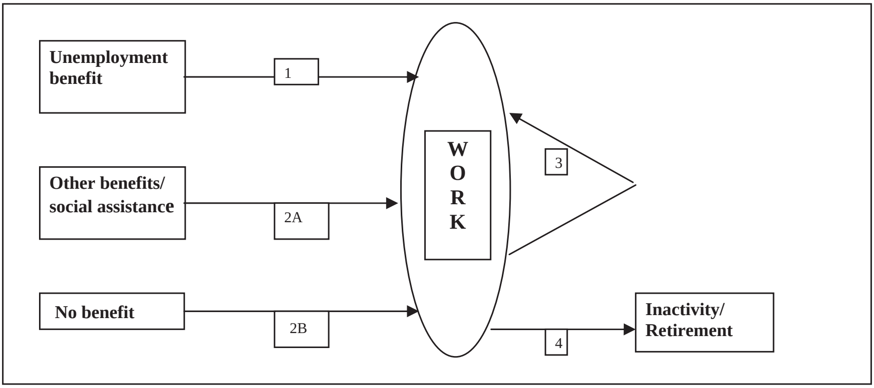

Figure 9.1 Transitions on the labour market in The Netherlands

Source: Group of Experts on Making Work Pay 2003.

1 Obviously non-financial incentives such as the quality of work, career prospects or the availability (and affordability) of childcare facilities play a role as well. Both types of incentives can reinforce each other. In the end, the distinction between financial and non-financial incentives is blurred, as non-financial incentives often have to do with work-related costs and career prospects, the latter leading to improved earnings capacity and higher wages. In this paper, we do not explicitly deal with the issue of non-financial incentives. Another important aspect not covered concerns social norms; that is, individuals' attitudes towards work. Social norms – as long as they are in favour of work – can reinforce MWP policies. For a brief discussion on social norms in relation to social security, see (for example) Einerhand and Nekkers 2004.

2 Antonides and Van Raaij (2000) estimate that on average benefit claimants demand a 5 per cent net income increase before being willing to accept a job.

3 More types of transitions may be distinguished, such as from school to work or from work to unemployment, but they do not matter for the discussion in this chapter.

The income effect of each transition can be calculated by using the marginal effective tax rate (METR). Table 9.1 shows how METRs are calculated and which income components are taken into account when the different traps are considered. The METR measures the degree to which any gross income gain would not be received by the employee (or 'taxed away'). It starts with the (change in) gross income from which taxes and employee social security contributions are subtracted. Next the loss of social benefits is included. In most cases benefits are lost (almost) completely by moving to a full-time job. Also income dependent benefits are usually phased out rapidly when moving to a slightly higher income level. Finally in-work benefits (IWBs) are added, as many countries have introduced (often through the tax system) special benefits for low wage workers. In Table 9.1 the METR is calculated as the part of the gross income gain that is lost (components A, B and C minus D).[4]

Table 9.1 Factors behind the various traps for calculating METRs

		Unemployment trap	Inactivity trap (social assistance)	Inactivity trap (secondary earner)	Low wage trap
O	Gross income	X	X	X	X
A	Tax rates and/or employee social security contribution rates	(X)	(X)	X	X
B	Social security benefits	X	X		
C	Income-dependent schemes	X	X	X	X
D	In-work benefits	X	X	X	(X)

Source: Group of Experts on Making Work Pay 2003.

In a joint project, the European Commission and the OECD have calculated METRs for different household categories in the former EU15, the US, Japan and four new EU Member States.[5] Figures 9.2a and 9.2b show the size of the unemployment trap and the inactivity trap at an income level of 67 per cent of that of an average production worker (APW).

4 In the case of the low-wage trap, in-work benefits are phased out beyond a certain income level and must be added to calculate the METR.

5 These are the Czech Republic (CZ), Hungary (HU), Poland (PL) and Slovakia (SK).

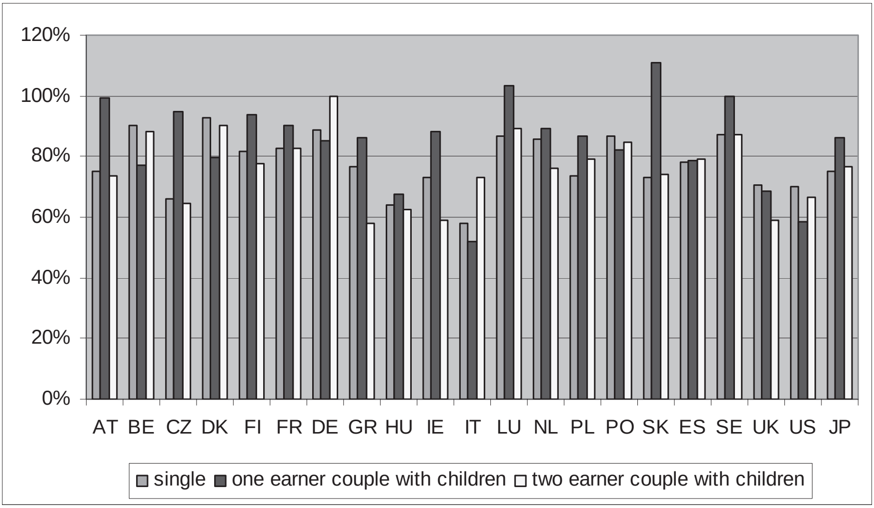

Figure 9.2a Unemployment trap, returning to full-time work at 67 per cent of the APW (2003)

Source: European Commission/OECD 2003.

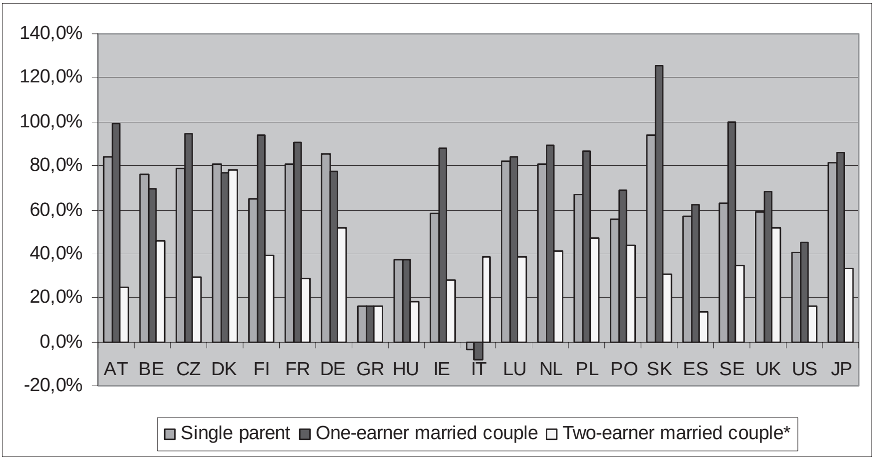

Figure 9.2b Inactivity trap indicators, at 67 per cent of the APW (2003)

Note: *The wage level of the second earner is fixed at 67 per cent of the APW.
Source: European Commission/OECD 2003.

Figure 9.2c shows the indicator for the low wage trap. This indicator is calculated stepwise as the income loss resulting from a 1 percentage point increase in gross income, using the median marginal effective tax rate over the income range 33 to 67 per cent APW. Above 67 per cent of the APW the traps relate entirely to the

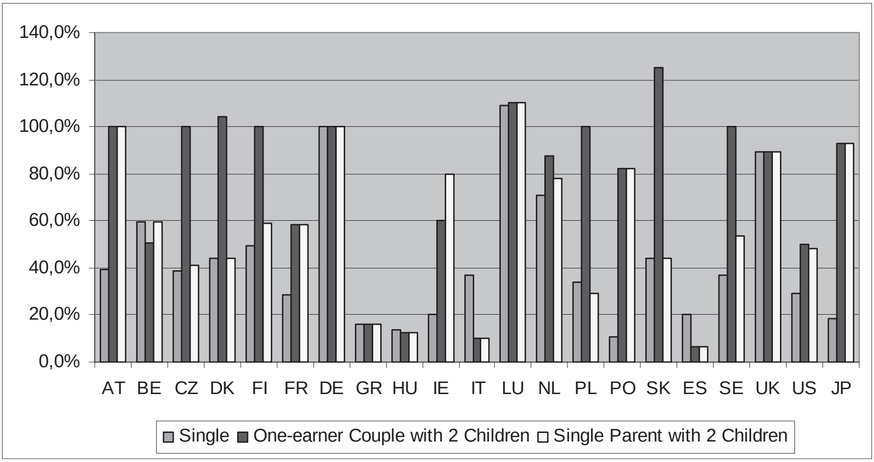

Figure 9.2c Low-wage trap indicators, income range 33 to 67 per cent of the APW (2003)

Source: European Commission/OECD 2003.

progressiveness of the tax system in most countries and are therefore not shown in the figures.[6]

From the figures, the following conclusions can be drawn:

- Marginal effective tax rates are high in almost all EU Member States and Japan. In some household categories they are above 100 per cent, which means that households actually lose money when moving to a job.
- There are more differences between states where it concerns the low wage and inactivity trap than the unemployment trap. This is often a matter of social assistance schemes that do not cover the total population (for example, Greece, Italy). In these cases no benefit is lost when accepting a job.
- In the unemployment trap case often more than 80 per cent of a gross income increase is lost in most countries shown in Figure 9.2a.
- In the low wage and inactivity trap cases the evidence is more mixed, ranging from totally taxing away a gross income increase in some countries to less than half in other countries. METRs can even be negative, due to in-work tax credits.

6 This is not true for some household situations in the US and the UK. Due to the existence of in-work benefits that are phased out at these higher income levels, METRs can be very high, reaching 50 to 90 per cent in the income range up to 100 per cent APW (see European Commission and OECD 2003).

Figure 9.3 shows additional figures for The Netherlands.[7] The net income out of work is plotted against the gross income. The former is defined as gross income minus taxes and social security contributions but including the main income-dependent child subsidy. It follows from the figure that a single person has to earn an income of about 75 per cent of the gross minimum wage to reach an income as high as the minimum benefit for this category (the solid horizontal line on the vertical axis). For single parents and one-earner couples with two children the corresponding figures are 89 per cent and 97 per cent of the gross minimum wage respectively.

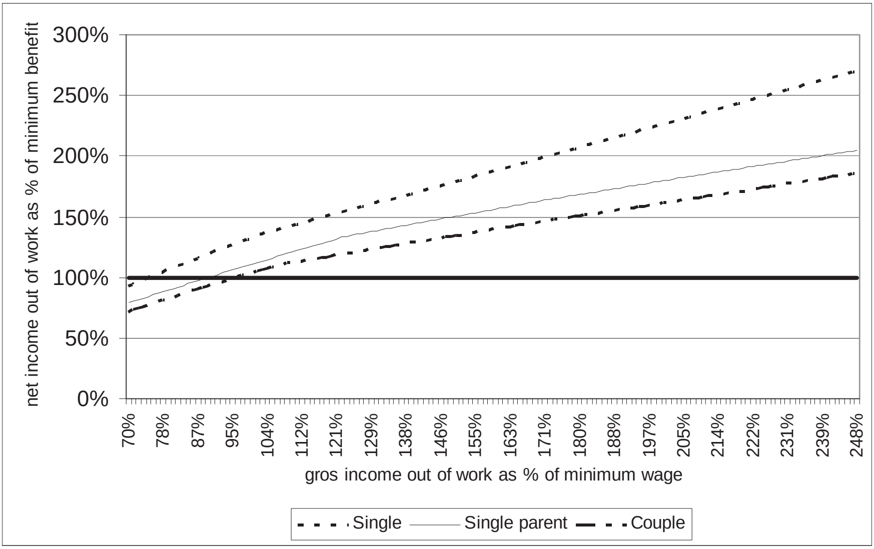

Figure 9.3 Comparing income from work and from benefit (excluding income-dependent schemes) in The Netherlands (2006)

Source: Dutch Ministry of Social Affairs and Employment, own calculations.

Figure 9.4 shows the impact of income-dependent schemes such as rent subsidy, as well as municipal arrangements. It is found that a single person must now earn an income of 82 per cent of the gross minimum wage to reach an income as high as the minimum benefit for this category. For single parents and one-earner couples with two children the corresponding figures are 99 per cent and 103 per

7 It should be noted that the minimum benefit in The Netherlands is defined as a percentage of the net minimum wage. Single persons receive a benefit of 70 per cent of the net minimum wage, single parents 90 per cent and couples 100 per cent. In most cases each euro earned is deducted from the benefit. This means that getting a job is only financially rewarding if one earns at least the amount of the benefit.

cent respectively.[8] Note that the lines in Figure 9.4 are flatter than in Figure 9.3, showing the effect of income-dependent schemes on the METR. Figure 9.5 shows the METR of (1) taxes and social security contributions and (2) income-dependent schemes for the income range between 70 and 245 per cent of the minimum wage for three household categories. When considering only taxes and social security contributions it is found that in 2006 the METR does not exceed the 60 per cent threshold for any household category. Note that in 2005 the METR for both couples and single parents was still characterized by several peaks caused by income-dependent child-related tax credits and the transition from public to private health insurance (at an income of about 195 per cent of the minimum wage). In 2006 these peaks have disappeared; the child-related tax credits are phased out more smoothly (at a rate of 5.75 per cent instead of at once) and the difference between public and private health insurance no longer exists from 1 January 2006.

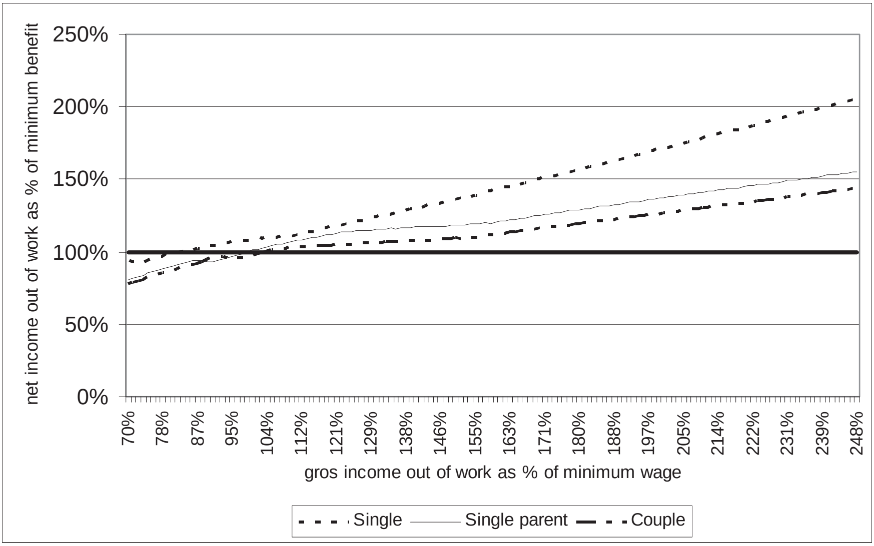

Figure 9.4 Comparing income from work and from benefit (including income-dependent schemes) in The Netherlands (2006)

Source: Dutch Ministry of Social Affairs and Employment, own calculations.

Taking account of income-dependent schemes increases the METR considerably. A single person with a minimum benefit is entitled to rent subsidy and often to some additional municipal benefits. At the level of the minimum benefit, these subsidies reach their maximum. At the minimum wage level, these subsidies

8 It should be noted that these results may not be representative for individual cases. This is because non-use of income-dependent schemes is in some cases considerable.

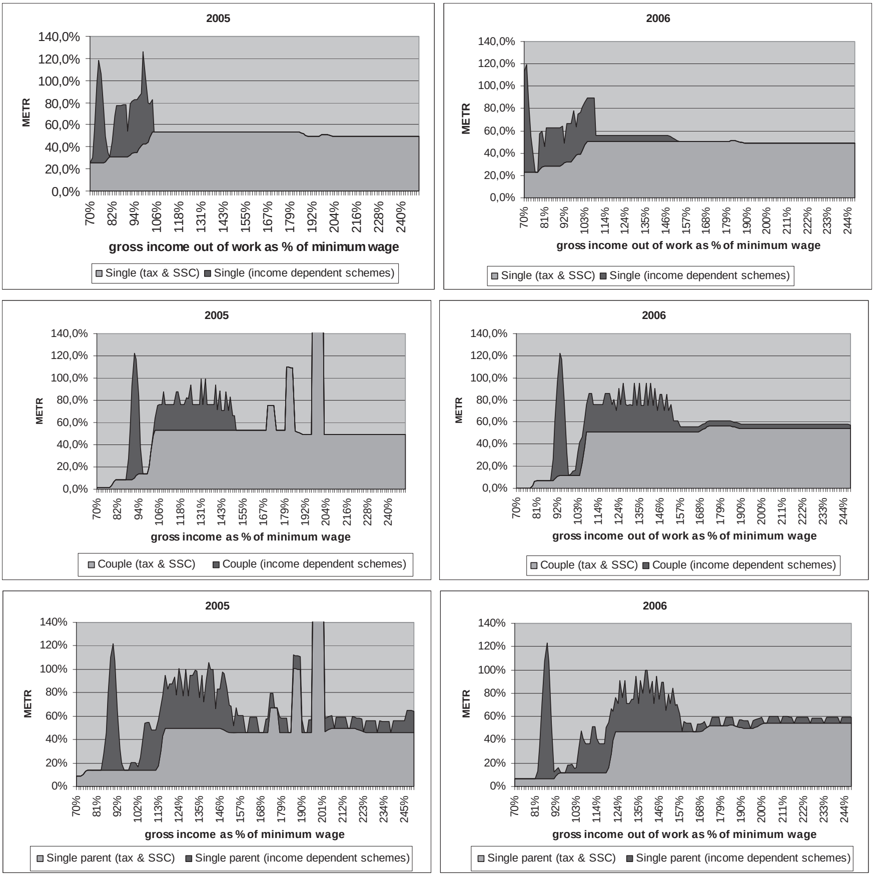

Figure 9.5 Marginal effective tax rates (METRs) for different household categories in The Netherlands (2005/06)

Source: Dutch Ministry of Social Affairs and Employment, own calculations.

have been phased out almost completely. For couples and single parents the local benefits decrease rapidly between the level of the minimum benefit and the minimum wage. The rent subsidy for these two categories, however, remains at its maximum at the minimum wage and decreases between the minimum wage and 150 per cent of the minimum wage. Finally, because of the introduction of an income-dependent healthcare allowance in 2006, the METR increases by about 5 per cent. Figure 9.5 shows that, as a result, the METR in some cases exceeds the 80 per cent threshold, especially for lower incomes.

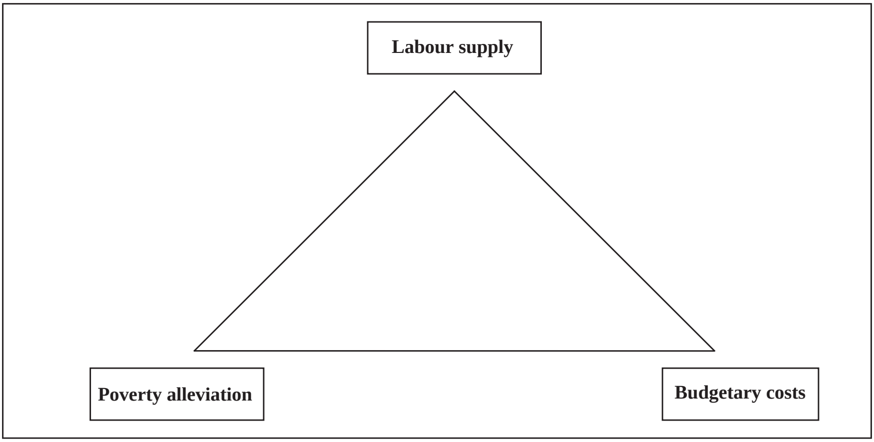

Figure 9.6 The challenging triangle

Optimal Policy Design

In designing making-work-pay (MWP) policies, three aspects should be taken into account:

- Labour supply: unemployment, inactivity and low-wage traps have an adverse influence on total labour supply. In order to increase labour participation, employment growth and reduce benefit dependency, these negative incentives must be diminished.
- Income support: social security systems and income-dependent schemes play an important role in supporting low-income families and people with high costs (for example, for housing, healthcare or childcare) and insufficient means.
- Budgetary cost implications: MWP policies should be cost-effective and consistent with a broader budgetary framework. Since these policies target low-income groups, the decision to make the schemes income-dependent reduces budgetary costs.

These aspects form a 'challenging triangle' (Figure 9.6), because they can lead to trade-offs. Measures that reduce one or more traps increase labour supply, but may at the same time be costly or weaken income protection. For example, reducing the number of people receiving some income-dependent subsidy may increase labour supply and lower budgetary costs. The level of income protection is lower though. As a general rule MWP policies have to find a proper balance within this challenging triangle in order to be 'successful'. By referring back to Table 9.1 we can identify the parameters that play a role in designing MWP policies:[9]

- Reducing *tax rates or social security contributions for employees* increases incentives for labour supply and contributes to alleviating poverty. However, these measures are hard to target and involve high budgetary costs.
- In reforming *social security systems* the challenge is to balance income protection motives with labour supply incentives. Social security reform is discussed in more detail below.
- The prime goal of *income-dependent benefit schemes* is poverty alleviation. These schemes are cost-effective because they are well targeted and only cover certain specific costs, for example for housing or childcare. The level, income range and marginal deduction rate are important design parameters, with effects on labour market performance and budgetary costs. Making income-dependent schemes temporary, can reduce adverse labour market effects and budgetary costs, but seems to be at odds with the goal of poverty alleviation. This is the case if they are meant to counter specific costs. For income-dependent schemes that actually serve more general income support purposes this is different. For achieving this goal, the tax system or the social security system seems to be more suitable. In targeting income-dependent schemes, it seems better to use labour market neutral parameters instead of income or employment status in order to prevent adverse labour market effects.
- There often are two motives for introducing or increasing *in-work benefits* (IWBs): increasing financial incentives and poverty alleviation. Levels and design of IWBs differ substantially across countries. An important distinction is whether IWBs are individually or household based.[10] In the first case the deadweight loss is higher, because the IWB is also paid to members of households that in some cases cannot be considered poor. On the other hand this increases the work incentive for a non-working spouse. The prime goal of household-based IWBs is poverty alleviation;

9 The parameters mentioned here are the ones government has control over. Of course, higher gross wages can also make work more financially attractive. The earnings capacity of low-income workers can be raised through training and work experience. Alternatively, raising the minimum wage can increase pay directly, but may also increase the unemployment risk and decrease labour demand. We will not discuss these options in this chapter.

10 The Earned Income Tax Credit (EITC) in the US is the most prominent example of a household-based IWB. The expansion of the EITC in the 1990s has been found to increase employment, especially among single parents (OECD 2003). The increase in overall employment has not been substantial though, due to offsetting decreases in the participation of spouses. With respect to the UK Working Family Tax Credit (WFTC) Blundell and Hoynes (2001) report significant increases in the employment rates of lone parents, which are partially offset by a decrease in the participation of married women. As with the EITC, the overall effect on employment is positive.

Table 9.2 Policy parameters and goals

	Labour supply	Income support	Budgetary costs
Reduce tax rates/ SSC	+	+	+
Reform social security system	+	–	–
Reform income dependent benefit schemes	+	+/–	+/–
In-work benefits	+	+/–	+

*Note*s:
+ = increase; – = decrease; +/– = effect inconclusive, depending on design.
Column budgetary costs takes into account direct outlays only (not considering labour supply effects).

the prime goal of individually based IWBs is increasing labour supply. Phasing out IWBs may be cost-effective, but increases the low-wage trap. More generally, targeting to low-income households is more successful if METRs are low and the wage distribution is wide. It may, however, lead to stigma effects and hamper family formation.

The relations between these parameters and the policy goals are summarized in Table 9.2.

It may be concluded from the previous analysis that there exists no simple solution for making work pay. This is due to the existence of interdependencies and trade-offs. Taking these considerations into account, the following guiding principles for the design and implementation of MWP policies – based on the conclusions of the Group of Experts on Making Work Pay (2003) – may be discerned:

- Develop a comprehensive strategy. There is no single instrument or recipe for every country in any situation. Also take into account the demand side of the labour market and non-financial factors influencing the supply of labour.
- Aim for mainstreaming of policies. Lack of financial incentives often is the result of the interaction of schemes primarily designed for other purposes.
- Take specific labour market situations into account (wage distribution, labour elasticities, minimum wage level). Solutions should be tailor-made. Take into account the specific problem: unemployment, inactivity or low wage trap.
- Targeting policies on groups can be highly cost-effective, but consider the upward effect on METRs in advance. Use labour market neutral characteristics. Single parents often have little incentives for (increasing) participation, which can easily be raised through IWBs targeted at these groups.

- Consider temporary measures and time limits. The duration of social benefits should strike a balance between finding a new job, which is efficient from a perspective of allocation, and insurance protection. Income-dependent benefits that cover specific costs should not be temporary since their prime goal is poverty alleviation. The design should take care to prevent adverse labour market consequences. IWBs can be temporary if upward wage mobility is high.

Recent Developments in The Netherlands

Figures 9.2 to 9.5 make it clear that in The Netherlands there is still room for improving financial incentives for accepting work. Recently, new policy measures have been taken that may contribute to further improving these incentives. In this section we discuss MWP and social security reform.

Making Work Pay (MWP)

In recent years in The Netherlands several measures have been taken to improve MWP:

- An employment tax credit (ETC; *arbeidskorting*) was introduced in 2001 (see Figure 9.7). As a result, the unemployment trap, though still present, has become less of a problem; whereas in 2001 a single person had to earn 109 per cent of the minimum wage to get a net income above the minimum benefit level, this percentage has fallen to 82 per cent in 2006.
- A tax credit for working parents was also introduced in 2001. Working parents with children up to 12 years of age are entitled to this new tax credit. As of 2004 working single parents and households in which both parents are working receive an additional tax credit.
- In the area of childcare, in 2005 a complicated system of tax credits, employer contributions and municipal subsidies was replaced by an income-dependent childcare subsidy based on a household's taxable income. In 2006 and 2007 this subsidy has been increased, lowering the METR. As of 2007, the voluntary contributions made by the employer will be replaced by obligatory contributions.
- The scope and budget of municipal income-dependent schemes have been decreased as a result of a major overhaul of the social assistance scheme (see below).
- As of 2006 child-related tax credits are phased out more smoothly (at a rate of 5.75 per cent instead of at once).

Figure 9.7 Employment tax credit in The Netherlands (2006)

Source: Dutch Ministry of Social Affairs and Employment, own calculations.

Employment Tax Credit (ETC)

We now discuss one policy option in some more detail – the ETC. Figure 9.7 shows the design of the ETC in 2006. Up to a level of 50 per cent of the minimum wage the tax credit increases slightly. Between 50 per cent and 100 per cent of the minimum wage the increase is much larger. The maximum ETC, which is reached at the level of the minimum wage, amounts to €1,357, and is a constant amount above that level.

During the last few years, there has been some discussion on the optimal design of the ETC. The debate focuses on the following two aspects:

- The present ETC is based on individual income. An alternative approach would be to base the ETC on household income. However, since (in The Netherlands) the prime policy goal of the ETC is increasing work incentives and not income support, we will not discuss this option any further.
- The present ETC is a fixed amount for wage levels above the minimum wage. An alternative approach would be to make the scheme income dependent; that is, decreasing the amount of the ETC at higher income levels. It should be noted that such a design would increase the METR at higher income levels. Calculations by CPB (Netherlands Bureau for Economic Policy Analysis) (see CPB 2000; CPB 2002) show that the effects of such a reform in the present situation depend on the size of two groups of employees – those earning an income below and those earning an income above the minimum wage. By lowering the ETC at income levels above the minimum wage, the ETC may be increased at income levels

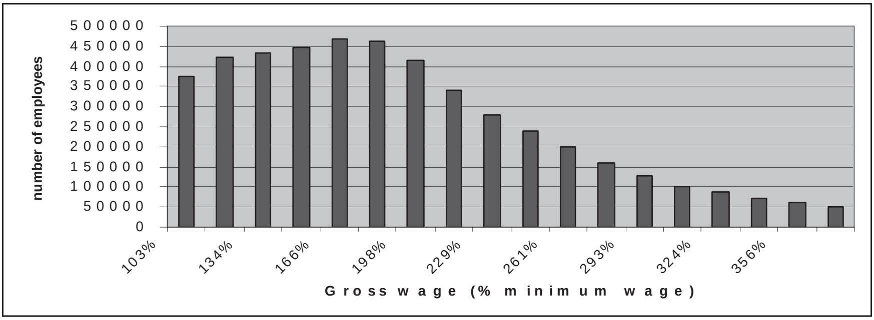

Figure 9.8 Frequency distribution of gross wages as a percentage of the minimum wage in The Netherlands (2002)

Source: CBS 2003.

below the minimum wage without making the scheme more expensive. As a result, the latter group has stronger work incentives. However, as noted, the increased METR at higher income levels reduces the work incentives for persons earning more than the minimum wage. The net effect on labour supply obviously depends on the relative size of both groups. Figure 9.8 shows that an increase of the METR for wages up to 200 per cent of the minimum wage will affect many workers. So it would seem that an increase in the METR is only acceptable at an income level above 200 per cent of the minimum wage (even more so because the METR is already high at income levels below 200 per cent of the minimum wage, see Figure 9.5). Phasing out the ETC between 220 per cent and 300 per cent of the minimum wage would reduce the budgetary costs of the ETC by 40 per cent. The METR in this income range would increase by 0.75 per cent for every €100 decrease of the ETC.

Social Security Reform

We now turn our attention briefly to social security reform. Making work more attractive and making unemployment (or non-participation) less attractive are two sides of the same coin. The attractiveness of work may be enhanced by using MWP policies, as we have already shown. An alternative approach would be to discourage benefit dependency more directly by reforming social security schemes.

During the last few years the social security system in The Netherlands has been subject to several reforms. The overarching goal of these reforms has been to lead people back to work more effectively, mainly by striking a new balance between individual and collective responsibility (that is, maintaining ‘adequate’ income support while reducing moral hazard). The following changes are worth mentioning:

- As of 1 January 2004 reintegration services for Social Assistance (SA) claimants have been decentralized to the local level. Municipalities now bear full financial responsibility for both reintegration services and SA benefits. As a consequence, there is a stronger incentive for municipalities to lead SA claimants back to work. Despite a major increase in unemployment in the past years, the number of people on SA has remained more or less stable. CPB (2006) estimates that during the first year of existence (2004), the new law has resulted in a drop of the number of benefit claimants by 2 per cent (8,000 people). According to CPB, this is caused by the shift in financial responsibility from the central government to the municipalities.
- The sickness and disability schemes have been reformed. Under the sickness scheme the period during which employers bear responsibility for paying the wages of their sick employees has been lengthened from one to two years. As a consequence, employers are more likely to promote the reintegration of their sick employees (adapting work conditions, etc.). As far as the inability scheme is concerned, entitlement conditions have been strengthened. The new scheme has shifted the focus away from what workers are unable to do towards what they still are able to do and tries to keep them in work as much as possible. As a consequence, inflow levels into the scheme decrease.
- The Unemployment Insurance scheme was reformed in two steps in 2006 and 2007. The main changes include strengthening entitlement conditions and further shortening the maximum benefit period. This will reduce inflow and promote outflow at the same time.

From the Dutch experience important lessons may be learned for the timing and sequence of policy changes. Structural reforms are most important for improving the employment situation. These should be accompanied by sound macroeconomic policies (a balanced budget, non-inflationary policies, etc.). Ideally, major reforms should be introduced during favourable economic circumstances. Because of the existence of political business cycles this is often easier said than done. Finally, turning from the macro to the micro level, one has to make sure that incentives are right.

Conclusion

In this chapter we have described policy reform in the areas of making work pay and social security. MWP is an important issue, since METRs are found to be high not only in The Netherlands but in many other countries as well. High METRs are caused by the accumulation of tax rates, social security contributions and the phasing out of income-dependent benefit schemes. They are partially offset by IWBs. We have shown that The Netherlands has gone some way in improving MWP during the last few years. The same holds true for social security reform, mainly by strengthening entitlement conditions and reducing maximum benefit durations. This has lead to reduced inflow as well as higher outflow rates.

It should be stressed that in designing policy a balance has to be found between different – often competing – goals, such as between improving work incentives, maintaining the level of income support and containing budgetary outlays. It is recommendable that solutions be tailor-made, depending on country-specific circumstances. Furthermore, strategies should be comprehensive in character. Targeting measures, temporary measures and time limits can be useful.

From the Dutch experience important lessons may be learned for the timing and sequence of policy changes. A comprehensive approach of policy measures can be discerned, ranging from structural reform as a first priority, through sound macroeconomic policies and further to establishing the right (microeconomic) incentives. Ideally, (major) policy changes are taken when economic circumstances are favourable.

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Chapter 10

Making Work Pay, Making Transitions Flexible: the Case of Belgium in a Comparative Perspective

Lieve De Lathouwer

Introduction

In the European Employment Strategy, 'making-work-pay' policies are a key issue for reducing benefit dependency and increasing labour market participation. The importance of making-work-pay policies (MWPs) is underlined by the specific Guideline 18 of the *Integrated Guidelines for Growth and Jobs 2005–2008*. This guideline mainly addresses financial incentives to encourage men and women to seek, take up and remain in work (European Commission 2005). Several welfare states have introduced income arrangements aimed at 'making work pay'. In principle, two policy answers to increase financial incentives are possible: either benefits are lowered or net income from low-paid work is increased. In particular since the 1990s we see in various continental welfare states the emergence of the latter policy line by directly subsidising low-wage earners. Such a policy of 'in-work' arrangements can take various forms, such as complementary social benefits to work, reductions of employees' social contributions or tax credits. These new income arrangements entail a stronger integration between social, employment and fiscal policies. The underlying rationale is that it is better to take an active approach to income arrangements; that is, to pay people for working rather than for inactivity.

This chapter investigates both the theoretical and empirical consequences of making-work-pay policies for continental countries, taking the Belgian welfare state as a case study. It provides a short outline of the labour market performance and poverty outcomes in the Belgian and other welfare states based on comparative employment and poverty data. It then makes an institutional analysis of the Belgian social protection model against unemployment in a comparative perspective. In a further section the developments in relation to making-work-pay policies in Belgium are considered by illustrating the effects of these policies on net incomes for low-wage earners and on net replacement rates for the unemployed by using a tax-benefit model for hypothetical household situations. The rational to introduce in-work support in continental European welfare states is discussed as well as the cost-effectiveness of making-work-pay policies in Belgium by relating findings on in-work benefits in the US and in the UK to the specific conditions of the Belgian welfare state. A final section summarizes the discussion and draws conclusions for further research and policy considerations.

Labour Market Performance and Poverty Outcomes in Welfare States

Gøsta Esping-Andersen's well-known typology of welfare states (Esping-Andersen 1990) distinguishes three types: the continental European or corporatist model, the liberal model of the Anglo-Saxon world, and the social democratic model of the Scandinavian countries. The continental European welfare state has developed generous passive income transfers within a social insurance system that is primarily work-related and financed through social contributions on labour, with a marginal role for private social provisions, a high-wage strategy and strongly developed labour relations (Belgium, Germany, France). The liberal welfare state has more limited public income protection schemes, with a dominant role for social assistance, a greater weight on private social provisions, a low-wage strategy and less-developed labour relations (UK, US). The social democratic type has developed generous universal social protection, based more on citizenship (and less on work), but strongly linked with active employment policies such as training and publicly subsidized job creation (Sweden, Denmark).

These three types of welfare state have produced different results in the labour markets and in relation to income protection (that is, different poverty and inequality rates). The continental European welfare state has succeeded in 'addressing' the income-related consequences of unemployment and non-employment mainly through a broad (expensive) but passive social security system. The downside is that benefit dependency is high and employment rates are relatively low. Social expenditure levels are relatively elevated, but poverty and inequality are low.

Low Employment Levels

Continental Europe (Benelux, France and Germany) is confronted with low employment levels. Relative employment growth since the 1980s has varied from country to country, but the proportion of employed persons in the active population (15–64 years) remained comparatively low by the end of the 1990s. Employment rates were between 60 per cent (Belgium, France) and 66 per cent (Germany). While this was higher than in Southern Europe, it was still significantly lower than in the Anglo-Saxon and Scandinavian countries, where employment rates were 70 per cent or higher (see Table 10.1). Only The Netherlands has succeeded in realizing a substantial net employment growth since the early 1990s and has reached an employment rate that is comparable to the UK and Sweden.

Table 10.1 Employment rate (persons in work between 15 and 64 years), 1985–2002

	1985	1990	2002
Belgium	53.1	54.4	59.7
France	62.0	59.9	61.1
Germany	63.1	64.1	65.3
Netherlands	57.7	61.1	73.2
UK	66.2	72.4	72.7
Denmark	77.4	75.4	76.4
Sweden	80.3	83.1	74.9
Ireland	51.4	52.3	65.0
Italy	53.0	53.9	55.6
Spain	44.1	51.1	59.5
Greece	57.3	54.8	56.9
European Union	59.8	61.6	64.3

Source: OECD Employment Outlook 2003.

Outsiders on the Labour Market

Underemployment in continental Europe is concentrated in certain subgroups of the active population: it is high among women, younger and older persons, particularly if they are lower-skilled (Table 10.2). Among the high-skilled, underemployment is actually low, with employment rates approximating to the Scandinavian and the Anglo-Saxon figures. Structural underemployment is, however, manifest among

Table 10.2 Employment rates according to educational attainment and gender, persons between 25 and 64 years, 2001

Educational attainment	All High	Middle	Low	Men High	Middle	Low	Women High	Middle	Low
Belgium	84	74	49	89	83	63	80	64	34
Germany	83	70	52	87	77	65	78	64	44
France	84	76	58	88	84	69	78	64	44
Netherlands	86	80	59	90	88	75	81	72	45
Denmark	87	81	62	90	85	72	85	76	54
Sweden	87	82	69	88	84	75	86	80	62
UK	88	79	54	91	84	61	85	74	48
US	84	76	58	90	82	70	79	71	47

Note: Low = less than upper secondary education; middle = upper secondary education; high = tertiary education.

Source: OECD Employment Outlook 2003.

the lower-skilled, particularly if they are women or older men. In the Benelux and Germany, 40 per cent or less of the low-skilled women are in work. In the Scandinavian countries, particularly Sweden, a considerably higher percentage of low-skilled are employed (60 per cent). Older men (a considerable proportion of whom are low-skilled) are very much excluded from the continental European labour market.

High Benefit Dependency

The continental European welfare state has succeeded in 'addressing' the income-related consequences of unemployment and non-employment mainly through a broad, but passive, social security system. The downside is that benefit dependency is high. Besides a high prevalence of non-working pensioners, benefit dependency is also high among the active generation in Belgium, France and in Germany (Table 10.3). The Netherlands succeeded in bringing down benefit dependency. In Belgium the number of benefit recipients of working age as a proportion of the working-age population grew from 17 per cent in 1980 to almost 24 per cent in the mid-1990s, with a slight decrease occurring in the second half of the decade. In comparative perspective, Belgium's high benefit dependency is due mainly to the high proportion of female benefit recipients (NEI 2002). Apart from the fact that the eligibility period for unemployment benefits is long in Belgium there are various schemes that allow people to combine work and care. Often, the beneficiaries are women. Maybe surprisingly, given the high employment rates, benefit dependency is also high in the Scandinavian countries. The Danish benefit dependency levels are comparable with Belgian levels (respectively 23.1 per cent and 23.6 per cent of the working-age population). An important difference from Belgium, however, is the financial sustainability. The same high level of

Table 10.3 Benefit dependency: benefit recipients of working age as a % of the working age population (15–64 years) in full-time employment, 1980–1999

	1980	1990	1999
Belgium	17.4	24.4	23.6
Netherlands	15.9	19.9	17.8
Germany	15.2	18.1	22.4
France	13.9	20.2	24.2
Denmark	20.1	23.2	23.1
Sweden	16.1	17.0	20.0
UK	15.2	18.5	18.9
Spain	8.3	12.3	11.2

Source: OECD Employment Outlook 2003; figures for The Netherlands based on NEI, 2002.

benefit dependency in both countries is 'sustained' in Denmark by an employment rate of 76 per cent compared to only 60 per cent in Belgium (see Table 10.4). In the Anglo-Saxon and Southern European countries benefit dependency is lower because social protection arrangements are less generous.

Table 10.4 Proportion of persons receiving a replacement income at an active age,[1] by skill level,[2] Belgium 1985–97

		1985	1988	1992	1997
All		17.2	19.2	22.1	21.4
Low-skilled		23.5	26.3	31.5	34.3
High-skilled		7.2	9.2	10.5	10.9
Low-skilled men	– 45 years	16.3	19.3	17.2	21.1
	+ 45 years	43.3	42.9	53.5	54.6
Low-skilled women	– 45 years	16.3	23.5	31.2	33.5
	+ 45 years	17.9	19.3	24.5	26.3

Notes:

1 'Active' is defined as men aged 25–65 and women aged 25–60; persons under the age of 25 who either work or are benefit-dependent are also considered to be professionally active.

2 'Low-skilled' means less than upper secondary education; 'high-skilled' means tertiary education.

Source: Centre for Social Policy (CSB) Surveys.

An important question is the function of benefit dependency: do social benefits support the employability of people and hence function as an economic and social force or are they used simply to withdraw groups from the labour market? The high and increasing benefit dependency levels among the low-skilled, as illustrated for Belgium, suggest the latter. In Belgium, the low-skilled – especially older men and young adult women – saw their likelihood of benefit dependency continue to increase in the 1990s, despite job growth. By the end of the decade, one in three low-skilled persons were benefit recipients.

Low Poverty and High Social Expenditure Levels

Despite their comparatively low employment rates, the continental European welfare states also rank among the countries with low (financial) poverty rates and low degrees of income inequality (Förster 2000; Cantillon et al. 1997; Cantillon et al. 2002; Atkinson 2003). Together with the Scandinavian countries, the Benelux countries appear to have achieved low poverty rates, while the Anglo-Saxon nations (US, UK) and the Southern European countries tend to have high poverty rates. Comparative poverty research indicates that there is an inverse relationship

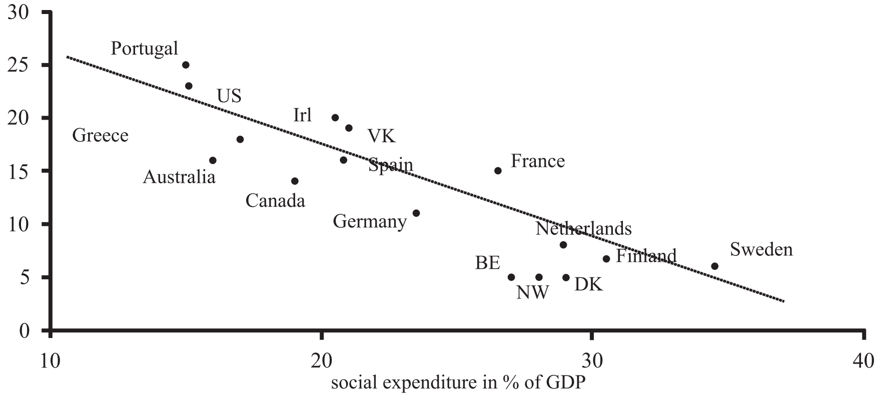


Figure 10.1 Poverty and social expenditures, early 1990s

Note: Poverty line <50% of average equivalent disposable household income.

Source: LIS (Luxembourg Income Study for poverty figures), OECD (for social expenditures).

between levels of social spending and poverty (Figure 10.1). As the regression line in Figure 10.1 shows, countries with high levels of social expenditure enjoy low poverty levels and vice versa (see also Mitchell 1991; Beblo and Knaus 2001).

The importance of high social expenditure levels is also apparent from poverty rates among the non-working population at working age. Poverty is low in continental European welfare states, in part because of high wages (unlike in the US, where one is confronted with the problem of the 'working poor'), but it is, first and foremost, among the non-working that poverty levels between different countries diverge quite strongly (see Figure 10.2). In the Scandinavian and Benelux countries, poverty among the non-working population is kept comparatively low thanks to a broad social security system. In the Anglo-Saxon world, on the other hand, more limited social security systems result in exceptionally high poverty risks among groups with few labour market opportunities.

Welfare Institutions and Disincentives for Employment

Institutional Characteristics of the Continental Social Model

Weak labour market performance and high benefit dependency are the result of a complex combination of factors (Ferrera et al. 2000). The long-term increase in benefit dependency can be explained in terms of a process of de-industrialization, with massive (male) job loss in manufacturing and a significant rise in the female labour supply. Job growth in services has been insufficient to absorb the effects of both these processes. Technological developments and globalization trends often

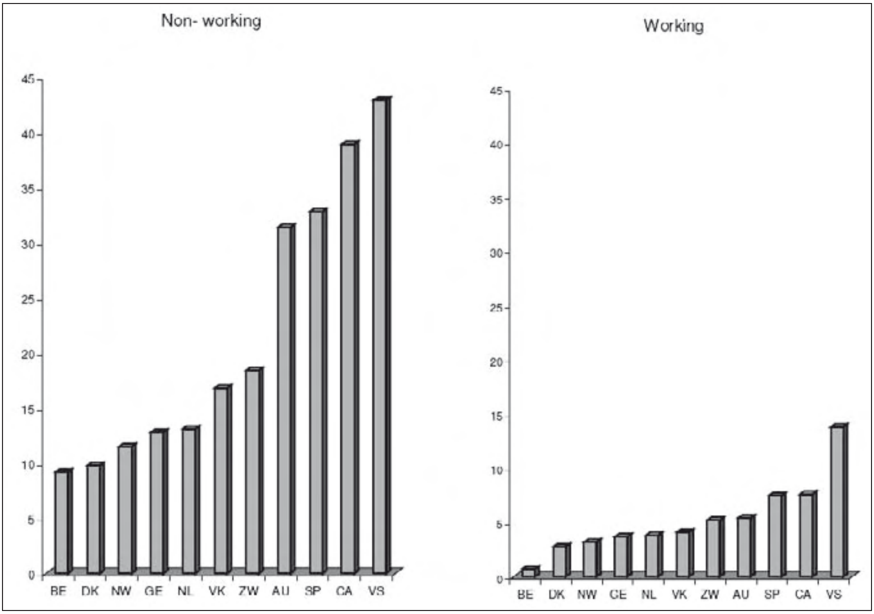


Figure 10.2 Proportion of working-age persons (15–64 years) in poverty, early 1990s

Note: Poor = household income less than 50% of average equivalent disposable income.

Source: LIS (Luxembourg Income Study for poverty figures), OECD (for social expenditures).

imply more stringent requirements in terms of knowledge, skills and intellectual flexibility, combined with lower demand for low-skilled labour.

However, concerns have also been raised about the possibly negative impact of welfare institutions (minimum wages, social security, taxes). These tend to affect the employment of the lower-skilled in particular. High labour costs make the recruitment of low-productive workers problematic. The ‘productivity trap’ (that is, an imbalance between high labour costs and low market productivity) results in a weak demand for less-skilled or less-productive workers. On the other hand, the combination of a generous social security system, a high fiscal burden on wages (including low wages) and labour-related costs (such as childcare) creates a situation where low-skilled labour is not very rewarding, neither financially nor in terms of job satisfaction. The ‘unemployment trap’ (that is, an imbalance between net income from low-paid work and social benefits) is said to discourage labour supply.

Concerns about the negative impact of welfare institutions on the labour supply and on long-term unemployment are based on a combination of three distinct institutional characteristics, as examined below.

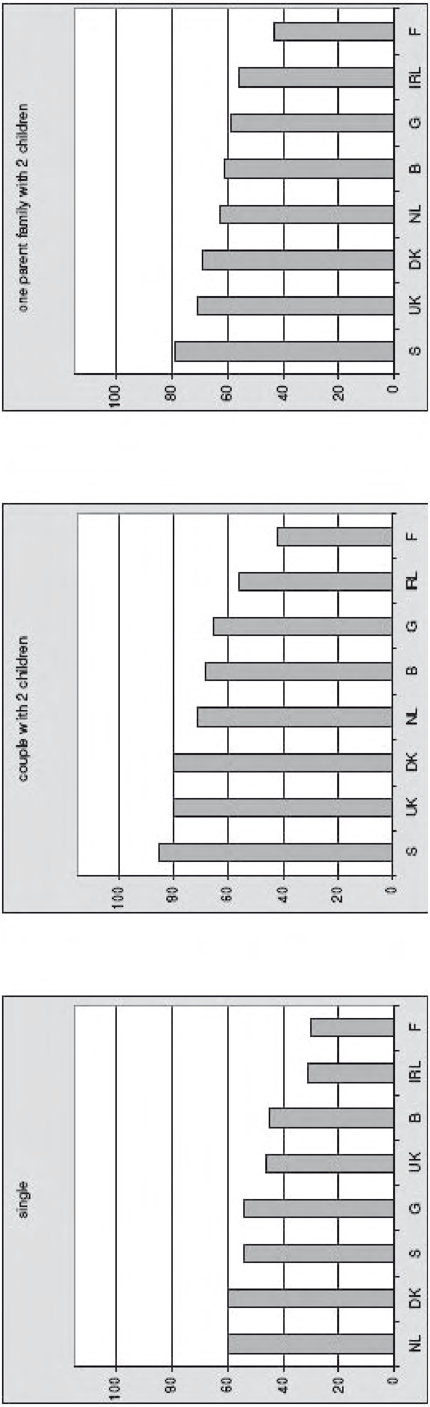


Figure 10.3a Net replacement rates on average wages (APW level), for long-term unemployment

Source: OECD, Benefits and Wages, 2002.

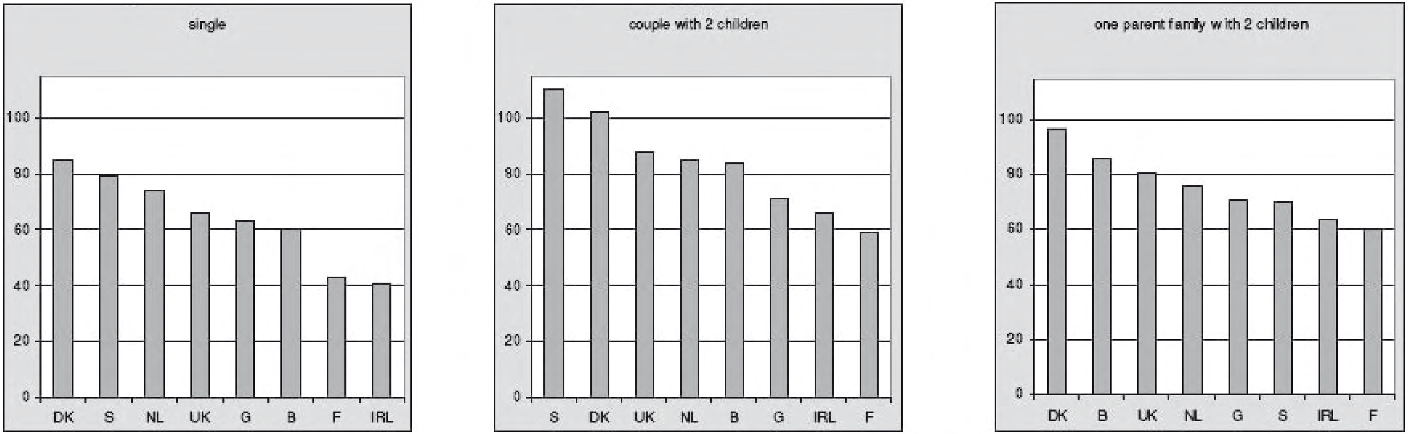


Figure 10.3b Net replacement rates on ⅔ APW level (low wages), for long-term unemployment

Source: OECD, Benefits and Wages, 2002.

Generous Benefit Levels and the Issue of the Unemployment Trap

A first characteristic is the *relative generosity* of social insurance systems offering relatively high net replacement rates. In particular for persons with a low earning potential, decent benefit levels might create a financial trap, as they can make the transition from welfare to work financially unrewarding. Net replacement rates, based on a tax/benefit model for various household types, provide an accurate but theoretical picture of the relationship between total net (household) income in unemployment and in work, allowing in principle the taking into account of taxation and social security contributions, child benefits, housing allowances and various welfare provisions (OECD 1999).

OECD calculations for the 1990s show that, in the case of short-term unemployment for average wages, net replacement rates vary substantially between countries, reflecting differences in, for example, the insurance nature of unemployment benefits and supplementary social benefits. Generally speaking, net replacement rates are the highest in The Netherlands and in the Scandinavian countries and the lowest in the UK, with Belgium occupying a middle position. But it is in case of long-term unemployment and low wages that net replacement rates are reaching the highest level everywhere, particularly for breadwinners and lone-parent households. Due to the high fiscal burden, the loss of selective provisions (including increased child benefit) and the additional costs associated with work (especially childcare), low-paid work (below two thirds of the average wage) is made financially less attractive. According to OECD calculations for the 1990s, the net replacement rates for these categories were 80 per cent or higher in several countries (see Figures 10.3a and 10.3b). Belgium again occupies a middle position; the highest replacement rates again occur in the Scandinavian countries, while relative benefit levels are the lowest in France.

Calculations based on a tax-benefit model for Belgium show that the OECD calculations underestimate the potential unemployment trap (as outlined in the previous two paragraphs). For example, in the OECD calculations no childcare costs, part-time labour, double-income households or benefit levels for elderly unemployed persons, people in early retirement or partial work incapacity are taken into account.

Recently more attention in academic and policy literature has been given to work and flexibility disincentives in a more dynamic perspective. For example in the framework of 'transitional labour markets' (Schmid and Schömann 2004) it is argued that social security is not providing satisfactory security of trajectories. Transitions from unemployment benefits to non-standard work such as temporary, part-time or self-employed jobs can be penalized in terms of future income losses by losing benefit entitlements to unemployment or pension rights or by worse opportunities for participation in activation programmes. The high level of insecurity of temporary jobs can discourage the unemployed to take up an uncertain job compared to a stable benefit situation. Schmid and Schömann argue that in order to encourage people to take flexibility risks, institutions should

Table 10.5 Total tax wedge and employees' tax burden for a single full-time production worker (APW), average and low wages 1999

	Total tax wedge[1]		Employees' tax burden[2]	
	Average wage	Low wage[3]	Average wage	Low wage[3]
Belgium	57.0	51.2	42.0	34.2
Germany	51.9	47.0	42.0	36.1
Sweden	50.5	48.8	34.2	31.8
France	47.9	40.4	27.6	23.4
Netherlands	44.4	4.03	27.6	23.4
Denmark	44.0	40.9	44.0	40.6
UK	31.0	26.2	24.6	20.4

Notes:

1 Income tax plus employee and employer contributions as a % of labour costs.
2 Income tax plus employee contributions as a % of gross wages.
3 67% of the average wage.

Source: OECD, Taxing Wages 1998–1999.

protect the income risks related to mobility. The high level of taxation and social security contributions are important contributing factors in making low-paid jobs (at minimum wage) unrewarding compared to a situation of benefit dependency. Comparative figures show that, in continental European and Scandinavian welfare states, there is a considerable burden of taxation on labour, with Belgium having one of the highest total tax wedges (see Table 10.5). This not only results in a high labour cost, but often also means that the employee retains less of his/her gross wages. In Belgium, for example, the employee's tax burden by the end of the 1990s was as high as 42 per cent of the average gross wage. The proportion paid in taxes and workers' social security contributions was also substantial for low wages (34 per cent).

Benefit Entitlement and Long Benefit Duration Period

Secondly, financial disincentives can, moreover, persist for a very long time because of the lengthy benefit entitlement period. For example, the entitlement period for the unemployed in Belgium is atypically long. Benefits awarded under the insurance scheme are, in principle, unrestricted in time for unemployed persons without other sources of household income (breadwinners, lone parents, single persons). For unemployed persons belonging to households with other earners (so-called 'cohabitees', mostly married women and children living at home), benefits may also continue for a long time, though the maximum entitlement period for this group has been reduced (De Lathouwer 1997).[1] Women in particular may endure long entitlement periods under the Belgian system, unlike under foreign regimes. In many countries unemployment insurance benefits are limited in time, followed by an (often income-tested) welfare allowance. Under such schemes, more unemployed persons, particularly married women, lose their benefit rights more quickly. Due to the length of the entitlement period, the (financial) disincentive for seeking employment may persist for a long time in Belgium. Duration figures suggest that unemployment has a self-enhancing effect. The longer one remains (or can remain) entitled to benefit, the more difficult it seems to become to re-enter into the labour market (Commission for Social Affairs 1997). Moreover, a significant proportion of the unemployed in Belgium have not worked much in the past. This is partly due to the fact that entitlement conditions for unemployment benefit are not very strict: they take account not only of past employment, but also of studies. One third of the unemployed women, for example, have never worked (RVA 2001).

The Passive Nature of Benefits

Finally, benefits can be passive in nature. Consequently, social security used to serve as a kind of collective safety net that made it possible to drain off the 'economically redundant' from the labour market in a socially acceptable manner. There are several indications that Belgian unemployment benefits were for a long time passive benefits. The passivity of the system manifested itself in a weak link between benefits and training. According to OECD statistics, Belgium scored comparatively low in the early 1990s with expenditures for training amounting to 0.22 per cent of GDP in 1991, compared to, for example, 0.47 per cent in Germany and 1.01 per cent in Sweden. In the course of the decade, expenditures on training in Belgium increased only slowly (up to 0.26 per cent) in comparison to, for example, Denmark where they increased from 0.36 per cent to 0.83 per cent (Table 10.6). There is also evidence that counselling and guidance is weak in Belgium. As social investment in human capital is inadequate, one may expect knowledge, skills, competences and work attitudes to erode. The passive nature of the Belgian system is also apparent from the low incidence of controls on the job-seeking behaviour of the unemployed (for example, to check whether they are willing to work or to ascertain that they are not performing illicit work). Although comparative figures on effective controls and sanctions are limited, an OECD comparison suggests that Belgium performs weakly in relation to sanctions. The

1 The benefit entitlement period for unemployed cohabitees (with an income above a certain income threshold), was restricted during the 1990s (Article 80). This group loses the benefit if the unemployment period is longer than 1.5 times the average unemployment period (2 times up until 1996), taking into account age, sex and region. The maximum entitlement period for women, for example, varies between 2.5 years (Ostend, for women under the age of 36) and over 8 years (Mons, for women aged over 46).

Table 10.6 Expenditure on passive and active labour market policies as % of GDP, 1991–2000, selected countries

	Belgium		Germany		France		Netherlands		UK		Sweden		Denmark	
	1991	2000	1991	2000	1991	2000	1991	2000	1991	2000	1991	2000	1991	2000
Passive	2.75	2.18	1.80	1.90	1.94	1.65	2.49	2.05	1.14	0.56	1.65	1.33	4.73	3.00
Active	1.21	1.30	1.33	1.24	0.89	1.31	1.09	1.55	0.57	0.36	2.46	1.37	1.46	1.56
Training	0.22	0.26	0.47	0.34	0.35	0.25	0.22	0.30	0.15	0.05	1.01	0.31	0.36	0.85
Subsidies	0.63	0.77	0.22	0.23	0.13	0.18	0.14	0.25	0.20	0.13	0.21	0.25	0.10	0.12
Public employment service	0.19	0.17	0.22	0.23	0.13	0.18	0.14	0.25	0.20	0.13	0.21	0.25	0.10	0.12
Target groups[1]	0.16	0.13	0.30	0.35	0.29	0.51	0.68	0.61	0.19	0.17	0.97	0.54	0.63	0.43

Note:

1 This category includes expenditure for special programmes targeted towards young workers and the disabled.

Source: OECD Employment Outlook 2002, Expenditure on passive and active labour market policies.

number of sanctions for insufficient willingness to work (refusal of job offer, unavailability, failure to present oneself at job mediation or employment office, or refusal of a subsidized position such as work in a Local Employment Agency) as a percentage of all unemployed beneficiaries was about 1 per cent in Belgium, compared to 2 per cent in Denmark, 5.5 per cent in the UK, 7.3 per cent in Norway, 10.2 per cent in Finland and 35 per cent in the US (OECD 2000c). Recently (end 2003), the Belgian federal and regional governments have launched a reform plan on guidance and control for the unemployed.

The Development of MWP Policies in Continental European Welfare States: the Example of Policy Reform in Belgium

Policy Developments

The disappointing performance of the Belgian labour market and the issue of the sustainability of the welfare state resulted in the 1990s in a more explicit discourse on benefit and employment policies. A consensus was reached that benefit dependency needed to be reduced urgently, both from an economic perspective (pressures on sustainability of the system, in particularly due to population ageing), from the perspective of the legitimacy of the welfare state and from a social point of view (poverty and personal well-being of those concerned) (for an extensive analysis, see De Lathouwer 2005). Moreover, the EU Employment Strategy has put considerable pressure on European governments to increase their employment rates and to reach an agreement on employment-friendly reforms of social security and taxation. By 2010, average employment rates should have reached 70 per cent. As at 2008, with 60 per cent of the population aged 15 to 64 in work, Belgium is still far removed from this objective.

A strong consensus has been reached in the Belgian welfare state that structural underemployment should be alleviated without allowing poverty to increase. Hence, activation and making-work-pay (MWP) policies are combined with work subsidizing. MWP can, of course, also be achieved by reducing the generosity of social protection (deregulation) and, in doing so, boosting the financial incentives to accept a regular low-paid job. But the argument against such a policy is that it would have severe consequences in terms of poverty. Although in the 1980s and the 1990s benefit levels stagnated under pressure of the worse public finance situation, unemployment traps were above all combated with employment subsidies, in order to combat structural underemployment without increasing poverty. In the course of the 1990s, demand-driven policies were complemented with more supply-oriented policies.

Demand-Driven Policies: Reducing Indirect Labour Costs

Subsidizing in continental Europe has been primarily demand-driven, by reducing employers' social contributions in order to reduce the (indirect) wage cost of hiring workers. In Belgium, for example, this policy direction has been followed since the 1980s and it became particularly prevalent in the second half of 1990s. Total reduction of employers' social contributions rose from €1 billion in 1995 to €3.4 billion in 2001 (Conseil Superieur de l'Emploi 2000; National Bank 2001). Moreover, there has been a trend towards more generic regulations (general cuts in social security contributions, aimed at large groups of workers and without obligations regarding the recruitment of certain categories of unemployed people) and away from the more selective and conditional regulations of the past (with recruitment obligation; in other words, an employer would only receive a particular subsidy on recruitment of an unemployed worker). The proportion of generic measures increased from 65.8 per cent to 77.3 per cent between 1995 and 2000.

There is a big debate going on regarding the net employment effects and the concrete modalities of reduced employers' social contributions. Evaluation literature on the impact of subsidized job creation on aggregate employment suggests that the net employment effects are much weaker than what one might expect theoretically. This is due to possible displacement, substitution and deadweight effects (Marx 2001; Koning and Mosley 2001).

Activation of Social Benefits: a Combination of Supply and Demand-Oriented Policies

Since the early 1990s, a more supply-oriented policy has been pursued, although demand-driven policies were never abandoned. The focus has shifted to the necessity for the unemployed to gain work experience and the need to provide greater financial incentives. In Belgium, this is reflected in the strategy of 'activation of benefits'. Social security benefits (that is, unemployment benefits or welfare) are used directly as an employment subsidy, at the same time reducing labour costs and increasing financial incentives for the unemployed to take up work.

By the end of the 1990s, about 90,000 unemployed persons had been employed under various 'activation-of-benefit' schemes (figures for 1999). The bulk of activated benefits was taken up by the 'Local Employment Agencies' (PWAs) and by the 'guaranteed-income benefit'. The PWA scheme, which was launched in 1994, is an alternative employment circuit, but is actually in reform. It consists of local employment agencies established by municipal authorities, creating jobs which hardly exist on the regular labour market, such as domestic help, care for sick people or children, administrative assistance. The idea is to redirect benefits towards wage subsidies in order to create additional jobs in services, because many latent social needs remain unfulfilled in the market due to high labour costs. Under the scheme, long-term unemployed persons (minimum 24 months if under 45 years of age, 6 months if over 44) and subsistence welfare recipients can enter into a labour contract, albeit for a limited number of working hours (45 hours per month), and perform activities for individuals, non-profit organizations, local governments and – in the case of certain strictly defined tasks – private companies. The unemployed person who has taken up such a small part-time job receives unemployment benefit as a wage subsidy, complemented with a modest part-time wage. Employment under the scheme is not restricted in time. The wages paid are tax-deductible for the employer. The PWA scheme has proven very popular among women, as it provides small part-time and flexible jobs that match the needs of the unemployed (about 40,000 beneficiaries). The PWA is to be replaced by the new system of 'service cheques', which stimulate the creation of 'service companies'. The system is restricted to domestic and household services. Again, the aim of the measure is to create jobs in the services sector by stimulating demand. The user of services pays the supplier (that is, private companies or non-profit organizations who are required to employ unemployed persons) with a special service cheque. The suppliers, for their part, are able to offer the services at cheaper rates because they are subsidized by unemployment benefits. Activation of unemployment benefits has also been created by the *Activa* jobs. The latter combine a reduction of employers' social contributions with wage subsidies in the case of employment of a registered long-term unemployed person, with increasing advantages with age (stimulating employment of the elderly) and duration of unemployment. A specific *Activa* plan for temporary work and temporary labour contracts was introduced.

The 'guaranteed-income benefit' is a good example of an employee subsidy. It is a direct cash transfer under unemployment insurance that is intended to make relatively low-paid part-time work financially more attractive. The unemployed person making the transition to part-time work receives the subsidy as a benefit, but remains registered as searching for a full-time job (they are not, however, included in the official unemployment statistics), assuming that the scheme is for involuntary part-time unemployment. Such transfers have proven to be very successful in terms of take-up. The initial scheme, which was very advantageous for unemployed women from households with children, resulted in a sharp increase in the number of beneficiaries to 200,000 by 1990. But due to budgetary constraints, the scheme was cut back and consequently the number of beneficiaries dropped to 35,000 by the end of the decade.

One of the criticisms of these carefully targeted categorical subsidy schemes is that they create a dual economy, with certain groups of benefit-entitled unemployed persons being eligible for subsidies if they take up low-paid work and other non-subsidized workers having to perform the same work for a lower (non-subsidized) income. Moreover, these selective schemes might become 'dead-end jobs', certainly when these benefits are unlimited in time and not really coupled with training, as is the case in many Belgian programmes. Hence, 'vertical mobility', that is to say the transition from a subsidized to a non-subsidized low-paid job, is hampered (this is known as the low-wage trap). Moreover, in order to boost employment rates sufficiently, as is the stated objective in the European Employment Strategy, it will not suffice to direct policies towards the formally unemployed only; a more general supply-oriented policy is required (for example, towards other non-working groups). Therefore, policies have shifted more recently towards more generic and less-targeted measures.

Universalizing Employee Subsidies through the Reduction of Employees' Social Contributions

In the late 1990s, the debate on the unemployment trap was high on the political agenda in Belgium. Measures were taken to create greater financial incentives for the unemployed, but the broader objective was to make work more financially attractive in general. Hence policies became more universal.

An important strategy to increase net wages is the reduction of employees' social contributions on low wages. This scheme started in January 2000 and consists of a fixed sum (95 euros since June 2003) that is gradually decreased as the wage increases, up to a maximum level. At minimum wage level, the employee's social contribution is cut from 13.07 per cent to about 6 per cent. In June 2003, the scope of this measure was further extended and further extension is being planned. The initial maximum (gross) wage limit was increased from €1,394 to €1,539 per month. According to estimates, about 630,000 workers are benefiting from this measure. The budgetary cost is substantial: it increased from an estimated €96 million in 2001 (before the extension) to €165 million in 2003 (after the extension) (Ministry of Social Affairs, 2003). This cost implies an income loss for the social security system. Moreover, it has caused a shift from proportional social contributions to progressive social contributions. This enhances the solidarity principle of social security and weakens the insurance nature of the system. Trade unions are, however, opposed to such reforms, arguing that under an insurance-based scheme all employees should pay contributions (even if the link between benefits and contributions has become weak). Clearly, social contributions legitimize the important role that trade unions play within the social security system.

Besides this general policy, a number of selective 'back-to-work bonuses' have been introduced since 2000, albeit under very restrictive entitlement conditions. Measures have been launched to reduce specific work-related costs for unemployed persons making the transition to work. Lump-sum annual bonuses were introduced in unemployment insurance to partly compensate for childcare costs (only for lone-parent households) and mobility costs for unemployed persons who have taken up work. The number of beneficiaries under these latter measures is, however, still extremely low (in 2001, only 41 persons received the mobility bonus and 79 claimed the childcare cost bonus). In addition to the aforementioned measures, certain selective benefits for the long-term unemployed (such as increased child benefit) can now be temporarily retained after re-employment.

From Social Security towards Tax Credits: a Closer Integration between Social and Fiscal Policies

As the approach of reducing employees' contributions has its limits, due to the insurance principle and the lack of alternative financing, increasing net wages for low-wage earners has been an explicit objective since the general tax reform of 2002. Besides a general tax reduction for all income groups, an individual refundable income tax credit was introduced for low-paid individuals. Eligible low-wage earners should earn a yearly (taxable) wage of no less than €3,850 and no more than €16,680. The maximum yearly amount in basic tax credit is now €440 (incremental introduction of €78 in 2002, €266 in 2003 and €440 in 2004). The cost has been estimated at €450 million (Valenduc 2002). This basic tax credit can actually be complemented with tax credits for children (tax exemptions for children were also reformed into a refundable tax credit; these tax credits are however universal, in other words they are applicable to all citizens and not low-wage earners only). Compared to tax credits such as the Working Families Tax Credit (WFTC) in the UK and the Earned Income Tax Credit (EITC) in the US, the Belgian basic tax credit plus the tax credit for children is lower. For example, the maximum tax credit in Belgium amounts to €440 for a single person, €1,530 for a family with one child, €2,150 for a family with two children and higher amounts for large families, compared to about €350 for a single person, €2,400 for a family with one child, up to about €4,000 for a family with two or more children under EITC. Likewise, the earned income threshold is lower in Belgium (around €17,000 compared to €30,000 under EITC; see Blundell and Hoynes 2001). The limited nature of the Belgian scheme is due mainly to the very recent (experimental) status of the measure. Another reason is that it is an individual measure (not means-tested) and thus more expensive than schemes such as the WFTC in the UK and EITC in the US, which grant a means-tested tax credit to low-income households. One of the problems with tax credits is that the effects are only felt at the moment taxes are calculated definitively. In Belgium this is two years later and it is assumed that this delay is not favourable to encourage labour supply. The new reform of the 'workbonus', which is planned for the end of 2004, intends to solve this problem and will replace the existing tax credit and the reduction of employees' social contributions on low wages.

The reduction of taxes and of the employees' social contributions have substantially reduced the fiscal burden on wages, in particular for the lowest (minimum) wages. For couple breadwinners working at minimum wage, the employees' tax burden remains very small (see Table 10.7).

Beyond Tax-Benefit Policies: Reforming Childcare

Childcare costs are often the most substantial in-work expense and they are commonly identified as a barrier to taking up employment, in particular for low-

Table 10.7 Tax burden for employees: taxes and social contributions as % of gross wages, Belgium 1992–2003

	1992	1999	2001	2003
Minimum wage				
Single	27	29	24	21
One parent, 2 children	19	19	15	12
Couple breadwinner, 2 children	13	13	8	5
Average wage[1]				
Single	39	42	41	40
One parent	35	37	37	36
Couple breadwinner	29	31	30	29

Note:

1 The average wage (approx. €30,425 gross annual wage) is about 200% of the minimum wage.

Source: Centre for Social Policy, 2002, STASIM (Tax-Benefit Model).

income households (OECD 1996). In 2002, childcare was reformed, resulting in a significant decrease in childcare costs for lower-income groups, while higher-income groups are now paying more. The reform was intended to be budget-neutral. It meant, for example, that childcare costs for a lone-parent family with two (small) children working at minimum wage were reduced by half, thus making low-paid work financially more rewarding. Besides reducing the financial cost, the government also increased the number of public child day-care centres and stimulated private childcare services, for example by improving the social-protection status of this group.

The Impact of Recent Belgian Reforms on Net Low Wages and Unemployment Traps

Tax-benefit based calculations show that the reforms introduced in Belgium since 2000 have had a significant impact on the net disposable income of low-wage earners (working at minimum wage) (Table 10.8). Consequently, existing unemployment traps have been reduced (Table 10.9). Traps were mainly associated with a transition from maximum unemployment benefit to full-time minimum wage, particularly in the case of single parents. After the reforms, lone parents no longer lose money in the transition from maximum unemployment benefit to full-time minimum wage. However, net replacement rates for lone parents and couple breadwinners (on maximum benefit) remain high (90 per cent). Breadwinners

Table 10.8 Net disposable household income* for low-paid workers (minimum wage), Belgium, 1999–2003

	1999	2000	2001	2002	2003
Single	100	107	110	114	120
Lone parent, 2 children	100	105	108	114	122
Couple breadwinner, 2 children	100	106	109	112	117
Married partner (second partner working), 2 children	100	104	107	110	115

Note: 1999 = 100.

* Net disposable income after payment (and fiscal transfers) for daycare.

Source: Centre for Social Policy, 2002, STASIM (Tax-Benefit Model).

(including couples and lone-parent families) constitute approximately one third of the unemployed population (about one third of this group receive maximum benefit – see RVA 2001). Likewise, for women who are living with an (earning) partner (so-called cohabitees), the financial rewards of the transition from unemployment to low-paid part-time work remain weak (net replacement rate of 92 per cent). The latter is a considerable group among the unemployed in Belgium (almost 50 per cent of the total unemployed population) and survey evidence indicates that there is a strong preference for part-time work among this group (De Lathouwer and Bogaerts 2004).

Pressures for Continental European Welfare States to Introduce Direct Wage Subsidies for Low-Wage Earners

The introduction of MWP policies, directly subsidizing the net income from work, has resulted in a certain convergence between the continental European welfare states and the Anglo-Saxon liberal welfare states. In the Anglo-Saxon countries, where labour markets are highly deregulated, low-wage jobs are common. Instead of improving the incomes of low-wage earners through minimum wages, wage subsidies for families on a low earned income has been the main strategy. For example in Canada, 'back to work bonuses', such as the Canadian Self-Sufficiency Project (SSP), target an earning supplement for working single parents who have been on welfare. Tax credits such as the Working Families Tax Credit (WFTC) in the UK and the Earned Income Tax Credit (EITC) in the US have developed into the principal tools for social policy in these countries (Pearson and Scarpetta 2000).

Arrangements whereby the net wages of low-paid workers are subsidized are 'alien' to the traditional continental and Scandinavian European welfare state.

Table 10.9 Net disposable household income for long-term unemployed as % of net disposable household income in minimum wage work, Belgium, 1999–2003 (1 January)

	Full-time minimum wage					Half-time minimum wage				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Maximum unemployment benefit										
Single	71	69	71	83	81	85	82	83	89	86
Lone parent, 2 children	104	96	96	99	97	92	86	86	88	88
Couple breadwinner, 2 children	91	88	87	90	90	88	86	86	87	86
Minimum unemployment benefit										
Single	64	62	66	72	70	82	79	82	85	83
Lone parent, 2 children	94	87	89	88	86	89	83	84	85	85
Couple breadwinner, 2 children	83	79	81	84	82	87	87	84	87	85
Married partner (second partner working), 2 children	85	82	81	81	73	73	96	94	94	83
Welfare benefit (social assistance)										
Single	61	58	58	59	59	72	73	73	73	74
Lone parent, 2 children	88	84	84	86	83	88	89	89	84	85
Couple breadwinner, 2 children	77	74	74	76	75	87	87	87	83	85

Note: Simulated reforms: reduction of employees' social contributions, tax credit, work-related 'back-to-work bonuses' and childcare costs.

Source: Centre for Social Policy, 2002, STASIM (Tax-Benefit Model).

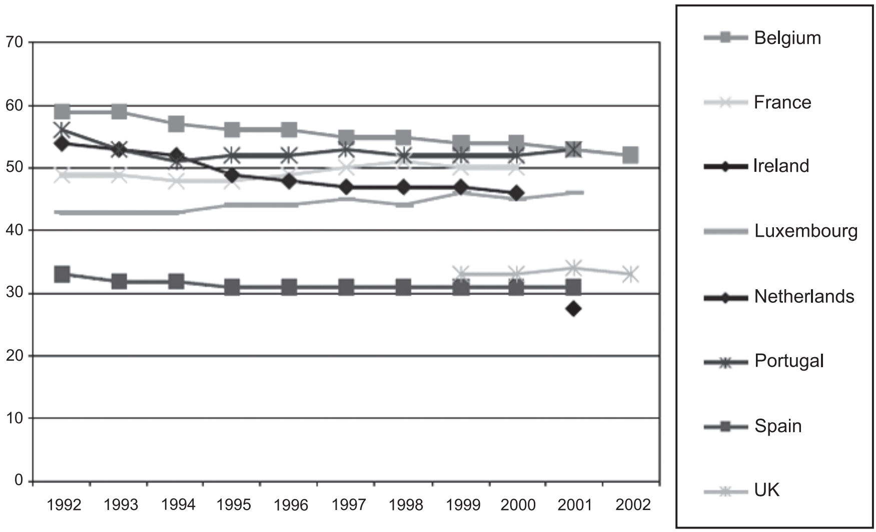


Figure 10.4 Evolution of relative gross minimum wage in % of gross average wage, 1992–2001

Source: Van Mechelen and Cantillon, 2004.

An important objective has always been to guarantee decent (minimum) wage levels, with fairly universal coverage often determined through collective wage bargaining. Historically two important goals of the minimum wage have been to provide workers with a 'fair' compensation for their work effort and to raise the standard of living of low-paid workers and their family. The advantages of high minimum wages are that they avert the danger of unemployment traps and working poverty by guaranteeing that even low-paid jobs are financially more attractive than unemployment.

In recent years, however, several European countries introduced MWP policies, which raised net incomes for low-wage earners in order to raise work incentives at the bottom of the labour market. There is no single instrument to make work pay (European Commission 2003), which was also illustrated by Belgian policies. Work incentives can be stimulated by combining a (partly) unemployment benefit/social assistance benefit with a work income (for example, France, Belgium, Portugal). Another instrument is the reduction of social security employee contributions for low wages in order to raise net wages (such as in Germany the 'mini-job' and the 'midi-job', and in Belgium). Other countries introduced tax reductions, often for low and moderate work income (for example Denmark). Several countries introduced tax credits, which were mostly part of a broader tax reform (France, the *Prime Pour l'Emploi* or PPE in 2001; The Netherlands, the Employment Tax credit (ETC) in 2001; Finland and Belgium a 'Tax credit for low-wage earners' in 2002).

These developments suggest that the traditional role of decent minimum wages as an instrument of wage solidarity is weakening. We formulate at least four developments putting traditional minimum wages under pressures.

Declining Earning Capacity and Limits to Minimum Wages?

Through collective bargaining, strong trade unions were able to realize relatively high (breadwinner) minimum wages in continental and Scandinavian countries, reducing earnings inequality and low pay (OECD 1998) and easing unemployment traps. However, raising minimum wages seems to run into limits. Although there is no firm empirical evidence that wage inequality has risen rapidly in continental Europe, contrary to countries like the UK and the US, there are several indications that minimum wages have fallen behind average wages in several European countries, in particular since the 1990s (see also OECD 1998; see also OECD website, Labour Market Statistics Indicators). Figure 10.4 shows the evolution of relative (gross) minimum wages for a set of European countries. Particularly in Belgium and The Netherlands minimum wage levels have fallen significantly behind average wages. These were precisely the countries with the most generous minimum wage level in the early 1990s. Calculations for Belgium over a longer time period show that the minimum wage has fallen 20 per cent behind average wages since 1975. Dolado (2000) also shows some long-term time series (although only till 1995) for countries where there is no national wage but a collective bargained minimum wage, such as Denmark, Sweden, Italy and Germany. Also in most of these countries there has been a decline in relative minimum wage floors as they fall behind average wages. France and Luxemburg follow, however, a different pattern. In France the minimum wage remained stable and in Luxemburg relative minimum wages even increased. The figures show that we can not talk about a universal pattern of wage erosion for minimum wages; nevertheless several countries were under strong downward pressures.

These developments raise the following challenging question: are continental European labour markets still able to provide decent wages for low-productive and/or low-skilled workers? The literature provides various explanations for a relatively deteriorating position of low-wage workers (for an overview see Snower 1998). A frequently heard hypothesis is that market productivity of the low-skilled has decreased due to a shift in demand from unskilled to skilled labour. This is both a result of skill-based technological innovation and of globalization as there is growing competition from low labour cost economies. In other words the downward pressure on minimum wages is a reflection of the 'economic deterioration of low-skilled work'. Another hypothesis is the changing production structure of post-industrial societies, shifting from highly productive industrial activity with high wage levels to a service economy with lower wages, in particular for low-productivity labour-intensive personal services, often suitable for low-skilled jobs. Of course wages are not only the result of market productivity and thus of 'inexorable economic forces', but they are also the product of labour market

Table 10.10 Indicators of minimum wages, 1992–2001

	Minimum wage[1] as % of average wage		Employee tax burden[2]		Net minimum wage for a couple in % of the poverty line[3]	% Minimum wage earners[4]
	1992	2001	1992	2001	2001	Early 1990s
Belgium	59	53	22	17	92	4.0
Netherlands	54	46[7]	28	5	105	3.5
France	49	50[7]	23	24	90	12.0
Luxembourg	43	46	12	14	–	–
Germany[5]	–	–	18	20	–	–
Sweden[5]	–	–	24	33	–	0.2
Denmark	–	52	–	32	79	6.0
UK	([6])	34	–	11	89	8.3
Spain	33	31	8	9	58	5.0
Greece	52	51	14	15	93	20.0
Portugal	56	53	11	11	66	8.0

Notes:

1 National minimum wage: Belgium (GGMI); France (SMIC); The Netherlands (Minimumloon); Portugal (SMN); Greece (KBM); Spain (SMI); UK (Statutory Minimum Wage). Collective bargained low wage: Denmark (low wage supermarket checkout).
2 Taxes, social contributions and local taxes as a % of the gross minimum wage for a couple without children.
3 Couple without children; poverty line = 60% of the median equivalent household income (this line is used by the European Commission in the National Plans Social Inclusion).
4 Dolado, 2000.
5 Tax burden calculated for a fictive low wage (Sweden 50% of average wage; Germany 130% of poverty line).
6 The Statutory Minimum Wage was only introduced in 1999.
7 2000.

Source: Van Mechelen and Cantillon, 2004.

institutions such as the power of trade unions and collective wage bargaining and of values relating to solidarity and equality (the pay norm) (Atkinson 2003). For example the case of France shows that (at the time of writing) this country has so far ‘refused’ an erosion of minimum wages. One could assume that if a high minimum wage reflects what society wants to provide for low-paid work, the minimum wage establishes the ‘right’ social cost of this kind of labour (Dolado 2000). There is also no empirical evidence on changes in the ‘pay norm’, comparatively speaking.

The major answer of the European social model on the reduced labour demand of the low-skilled has been a sharp increase in (long-term) unemployment and benefit dependency, rather than accepting large wage inequalities such as in the

UK and the US. But some will argue that continental Europe is precisely in need of more wage flexibility. Although the relation between the level of minimum or low wages and job creation remains a very controversial issue (Nickell and Bell 1995; OECD 1996; Card and Kruger 1995; Dolado 2000), it is often assumed that lowering wages will increase job opportunities for the low-skilled. In particular, in labour-intensive service economies it is argued that wage costs should be brought more in balance with market productivity. Subsidizing net wages is then considered as a tool for 'flexicurity', fostering wage flexibility (for which read 'slow down of low wages'), while at the same time providing decent levels of income for low-wage earners (social security). Yet from a social policy perspective such a strategy should be taken with prudence. There is clear evidence that even a very high degree of wage flexibility does not guarantee high employment and low unemployment among the most vulnerable; even countries with highly flexible labour markets and comparatively non-generous 'passive' benefits for the unemployed, such as the US, remain confronted with significant non-employment among the least skilled (see Marx 2007; see also Table 10.2 for employment rates among the low-skilled in the US).

A High Tax Burden on Low Wages Increasing Productivity Traps

The relation between market productivity and labour costs is not only a matter of gross wages. High indirect labour costs by fiscal charges and social contributions have a strong upward pressure on the total labour cost (see Table 10.5). A frequently heard thesis in academic and policy literature is that high social charges have blocked the expansion of private (labour-intensive) service employment in continental Europe, while there was little room for expanding public service employment because under pressure of the Maastricht Treaty governments had to bring down budget deficits (Ferrera et al. 2000, who cite the 'service trilemma' of Iversen and Wren 1998). Also minimum wages could not escape from high social charges in large welfare states. Table 10.10 shows the employee part of the tax burden on minimum wages as a percentage of gross minimum wages for several European countries. In the early 1990s total employee taxes and social contributions on minimum wages amounted to around 20 per cent or even higher (28 per cent in The Netherlands) in most continental and Scandinavian countries. During the 1990s countries such as The Netherlands and Belgium reduced the employee tax wedge on low wages significantly. However, in most of the countries the tax burden remained more or less stable and in Sweden it even increased substantially.

Because net wages for low-wage earners are significantly lower compared to gross minimum, this increases the danger of unemployment traps and working poverty. As is shown in Table 10.10 the net income for minimum wage earner families is hardly or not at all sufficient to be out of poverty in all countries. Taking into account supplementary income transfers for low-wage earners, such as (in many countries) housing subsidies or (in some countries) in-work benefits, the net income of a couple living on the minimum wage is approximating to the poverty line in France, Belgium and The Netherlands. In Denmark these households are substantially below the poverty line, due to an excessively high tax burden. In Spain and Portugal minimum wage earner families fall far below the poverty line.

Of course the impact of (net) minimum wages on financial disincentives and poverty depends on the number of families affected. According to estimates for the early 1990s brought together by Dolado (2000), the number of minimum wage earners is very small in countries such as The Netherlands and Belgium and very high in Greece. Also in France the number of minimum wage earners is substantial (see Table 10.10).

Financial Incentives, Changed Preferences and Part-Time Work

A development which has certainly increased the concerns about the limits of full-time minimum wages to avert unemployment traps and working poverty is the rise of part-time work. Over the past decade(s) there has been a trend increase in part-time relative to full-time employment in many countries. For example in Belgium, the proportion of part-time employees rose from 9 per cent in 1985 to 21 per cent in 2000. The rise in part-time work is partly demand-driven. For employers it can permit not only greater flexibility in responding to market requirements (for example, by increasing capacity utilization or extending opening hours) but also productivity gains. But the development of part-time work is first and foremost supply-driven (Bollé 1997). For workers it offers the chance of a better balance between working life and family responsibilities, training and leisure. Part-time work today is highly gendered. In all countries the majority of part-time workers are women. The European labour force survey shows that the first motive to take up a part-time job for women are family reasons. The potential preferences for part-time work are not clear yet. Part-time jobs may offer also possibilities for the elderly to retire more gradually or younger people to combine study and work at the start of their career. It can also make it easier for persons who have been out of work for a long time progressively to (re-)enter the labour market, because it gives opportunities to re-adapt to working life. And it may create job opportunities for partially disabled persons.

Because part-time jobs are mostly low-paid jobs, not necessarily because of low hourly wages, but because of reduced working hours, they can create financial disincentives and they can also endanger working poverty. A high level of minimum wages, which was historically based on a full-time breadwinner model, cannot prevent these threats. Even with a high minimum wage level, there is a significant risk that the transition from a (full-time) benefit to a part-time job is not financially rewarding. With regards to the poverty threat of part-time jobs, such a threat is limited as most part-time workers (married women, younger workers living in the parental home) live in a household with more than one earner. Comparative research shows that there is a limited overlap between low pay and financial poverty in most countries (Marx and Verbist 1998; De Lathouwer and Marx 2005). But it is plausible that there is a significant preference among certain groups for part-time work (for example, one-parent families), which is not fulfilled because of financial constraints. Low-wage subsidies complementing net earnings from part-time work would come to meet these preferences and would financially encourage the transition from benefit dependency to part-time work.

Direct Low-Wage Subsidies as a Condition to Safeguard (Minimum) Social Protection?

If the thesis of growing limits on minimum wages is justified, there would be a rationale for direct low-wage subsidies, not only to avoid unemployment traps and working poverty, but also to safeguard (minimum) social protection '*tout court*'. It is generally accepted that minimum wages put a floor level on minimum income protection, precisely to avoid unemployment traps. When minimum wages are stagnating or eroding, the entire minimum income floor in social protection is 'locked in'. We illustrate the relation between minimum wages and minimum income protection in social security with the case of the Belgian welfare state. The stagnation of the Belgian gross minimum wage in the 1990s hampered the improvement of (minimum) benefit levels. Real benefit levels stagnated, while in relative terms benefits increasingly fell behind household welfare levels. This growing inadequacy of benefits resulted in an, albeit weak, increase in the average poverty risk since the end of the 1980s (by approximately 1 or 2 percentage points since 1988). Especially those living exclusively on benefits, and particularly the unemployed, were confronted with a growing poverty risk. Between 1985 and 1997 the poverty risk for unemployed one-income earners, living exclusively on benefits, increased from 30 to

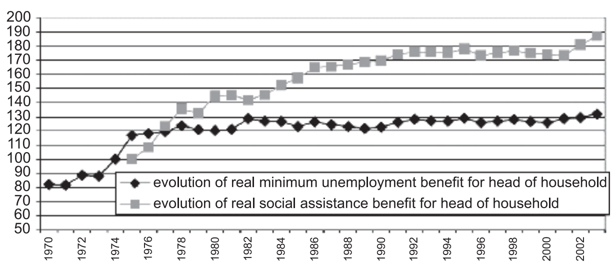


Figure 10.5 Evolution of real minimum unemployment and real social assistance benefit for a head of household, Belgium 1970–2003

Note: 1975 = 100.
Source: Centre for Social Policy, University of Antwerp.

almost 60 per cent, while the poverty risk of unemployed living in households with other available incomes (which is a substantial group in Belgium) remained stable at a very low level (Cantillon et al. 1999). Instantly after the recent Belgian reform policies, which reduced the unemployment trap by low-wage subsidies, benefit levels were substantially increased, as can be observed in Figure 10.5 (Cantillon et al. 2003a). This evaluation suggests that, given the downward pressure on minimum wages, subsidizing net wages has become a necessary condition for safeguarding and improving (minimum) social protection levels.

The Belgian two-fold strategy of subsidizing low wages and increasing benefit levels at the same time is a good illustration of how large welfare states are trying to overcome the dilemma of financial incentives versus income protection. However, such a strategy of combining two objectives simultaneously is expensive. This strategy was financially feasible in the Belgian context of economic recovery and favourable public finances during the late 1990s and early 2000, the period in which most of the measures to fight the unemployment trap have been introduced (see paragraph 3). For example, 2000 was a record year of employment creation (Conseil Superieur de l'Emploi 2000) and since 2000 the Belgian budget deficit is lower than 1 per cent. In periods when economic circumstances are unfavourable, the sustainability of such a policy is unproven. Given the actual low economic growth figures, the rise in unemployment and the increased debate on the long-term negative impact of ageing on public finance, the question remains as to whether this dual strategy of developing in-work support and raising social benefits at the same time will remain feasible for Belgium.

More fundamentally we should raise the question on the relation between wage flexibility and overall poverty (Cantillon et al. 1997, 2002). In countries with large wage flexibility (Anglo-Saxon countries), the poverty impact of the welfare state is low too, suggesting that a strong redistributive welfare state requires modest wage dispersion. In other words in these countries a social correction of rapid growing wage inequalities seems to be difficult, despite the importance of in-work benefits.

An Assessment of the Possibilities and Limits of In-Work Benefits

Subsidies to low-wage earners, for the purpose of raising their net incomes from work, are said to be attractive because they can promote both efficiency and equity by fostering employment and decent levels of (family) income for workers. Yet, in the assessment literature, the cost-effectiveness of in-work benefits (IWBs) remains a much debated point (for an overview, Pearson and Scarpetta 2000). The most evidence on IWBs is available for the Anglo-Saxon countries, where IWBs as EITC in the US and WFTC in the UK have been very extensively studied (for example, Blundell 2000; Blank 2002; Blundell and Hoynes 2001). However the findings for the US and the UK cannot be generalized. The socioeconomic conditions between continental and Anglo-Saxon countries do differ substantially. Compared to continental European countries such as Belgium, wage dispersion is substantially larger in the Anglo-Saxon countries, the number of vulnerable family types such as lone-parent families higher and the level of social expenditure lower. In this section, we present a tentative critical assessment of subsidies for low-wage earners by bringing together the main findings from existing schemes and by trying to related these to the specific conditions of the Belgian welfare state.

Budgetary Implications

MWP policies are not for free (OECD 2000b). For example tax credits, being tax expenditures, imply a loss of tax revenue. A reduction of employees' social contributions implies a loss of social security revenue. Subsidies for low-wage earners are usually financed by increasing revenue elsewhere (in order to compensate the loss) or through cutbacks in public spending. Targeting is one way of keeping the cost down, as not all groups are at risk of falling into an unemployment trap and certainly not all low-wage earners are living in poor families. Many low-paid workers today are second earners (such as part-time working women in couples). Tax credits or IWBs can be more closely targeted at the working poor (compared, for example, with minimum wages), when they are means-tested on family income. This is the case in most existing schemes in Anglo-Saxon countries such as the WFTC in the UK and the EITC in the US. The Belgian experience shows, however, that in universal welfare states, IWBs tend to obtain a more universal character. They are based on individual earnings instead of on family income, which makes them more expensive. In universal welfare states, and particularly in Belgium, targeting through means-testing on family income is 'disliked' as a policy instrument. If it comes to targeting, then preference appears to be given to categorical targeting. Selective systems have a number of important drawbacks. Targeting might discourage upward (income) mobility. Subsidized low-wage earners who want to 'improve' their careers can reach a point where they are trapped in a low-paid job because earning more would actually be punished financially. Thus, the dependency trap is merely replaced with a low-wage trap. If payments are based on household income, some of those already in a job may reduce their working hours or, if both partners are working, one partner may even withdraw from the labour market completely if they are earning relatively little. This disadvantage may be reduced by extending the phase-out zone of the financial benefit to a broader range of incomes, but such a measure will make the scheme much more expensive (Atkinson and Micklewright 1991). In some countries (UK, US, Australia) the phase-out zone of the financial benefit has been extended, so bringing more people into the 'subsidy net'. Moreover the literature mentions other disadvantages of targeting, including the scope for abuse and error, and possible stigma effects (in particular if targeting measures are implemented as a benefit rather than as a tax credit) (OECD 1998).

The degree of earnings inequality is also an important factor. In countries exhibiting a wide wage dispersion, such as the UK and the US, many wages will exceed the phase-out zone of the subsidy and the total cost will be lower. In countries with a very compressed earnings distribution, such as many continental European countries IWBs will be more costly because of the greater number of workers who are entitled to the subsidy. A strategy of IWBs is costly, but the budgetary impact should be judged against the cost of potential job loss due to high (minimum) wages. It should also be judged against the costs of alternative strategies, which have been followed since the 1980s in many continental welfare states. The most widespread strategy was a demand-driven policy approach with far-reaching reductions of employers' social contributions aiming to improve the job prospects of the low-skilled for decently paid jobs, but the net employment effects are far from conclusive (Marx 2001; de Koning and Mosley 2001).

Finally, the literature suggests that for the budgetary implications of extensive schemes of IWBs the existence of an effective wage floor is important. In the absence of an effective wage floor, employers are encouraged to keep wages low by the fact that the subsidizing authority is providing additional household income to low-wage earners. As a matter of fact, the US and the UK, countries with very important IWBs, have increased the statutory minimum wage or have (re)introduced it. Organizations such as the OECD (2000b), which in the past used to defend deregulation, now argue that it makes sense to pursue a combination of a minimum wage and subsidizing of low wages, as this will prevent wage erosion. Hence in-work cash transfers may be seen as complements rather than substitutes for the minimum wage.

The Impact of Financial Incentives and Subsidies for Low-Wage Earners

Economic theory assumes that providing greater financial incentives (by reducing benefit levels or by increasing net wages through subsidizing) has a positive impact on people's job-searching behaviour and on their willingness to accept work. There are many studies (mostly econometric) on the relation between benefits and the labour supply or unemployment (for an overview, see Atkinson and Micklewright 1991; Atkinson and Mogensen 1993; Pedersen and Westergard-Nielsen 1993; Blundell and Macurdy 1999; Schettkat 2003). However, microeconometric studies do not produce conclusive results. They find that net replacement rates have no or very mixed effects on unemployment or unemployment duration (an indicator of willingness to work). Benefit duration periods seem to have a significant effect on unemployment duration, but the causation is not clear. Is it longer benefit duration causing longer unemployment duration or were longer benefit periods introduced because of the increasing difficulty of finding a job?

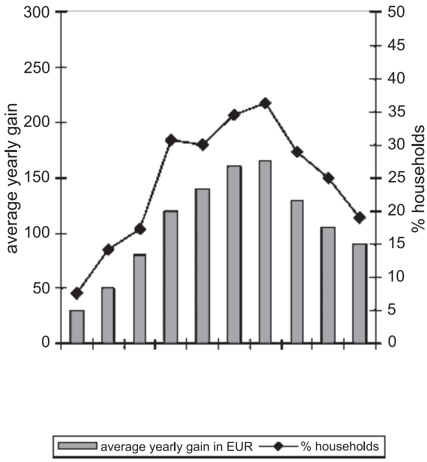
On the impact of wage subsidies, many evaluation studies have been carried out of WFTC in the UK and EITC in the US. In particular the extension and improvements of these programmes over the past decade has given rise to abundant research (such as Blundell 2000; Blank 2002; Meyer and Rosenbaum 2001). These studies provide evidence that the improvements of WFTC and EITC had a substantial impact on labour participation for some groups, in particular single parents and workless married couples with children, but with some offsetting reductions in employment in double-income couples with young children because of the family income test. Overall, the impact seems to be significant but modest. Thus, it would appear that such subsidies, if they are substantial, can have a positive effect on labour participation for certain groups. This again raises the issue of cost-effectiveness of ‘targeting versus universalism’. Relatively universal provisions, such as the in-work support measures in Belgium, mean that the amounts concerned are rather modest due to budgetary considerations. Hence, the potential impact on financial incentives and on the labour supply will be weaker.

Obviously, financial incentives tend to work out differently for various groups. If one chooses to study financial incentives, the heterogeneity of the labour supply must be taken into account. For example, economic theory predicts income elasticities for single-income families to be greater than those for second-income earners, such as women with an earning partner (Blundell and Macurdy 1999). Unfortunately, many of the existing studies on the labour supply effects of financial incentives focus on single-income families. As the number of one-parent families in Belgium tends to remain rather modest compared to the number in (for example) the UK and the US, the overall labour supply effects of IWBs might turn out to be weaker.

The Impact of Low-Wage Subsidies on Poverty

Survey evidence from the UK and the US shows that subsidizing low-wage earners can have a positive impact on in-work poverty. The strong poverty impact of the Anglo-Saxon tax credit schemes is due to the fact that relatively high levels of tax credit are targeted towards working poor families and to a positive employment effect. In the case of the EITC, for example, the programme was found to have taken about 4.3 million Americans out of poverty. Especially, children living in lone-parent families saw their poverty risk decline. Likewise in the UK almost all the WFTC goes to poor households (OECD 2000b).

The poverty impact of the Belgian reforms are not yet clear. However, we may assume that these measures will have a rather modest effect. First the level of subsidies for low-wage earners is, after all, relatively low. Moreover, due to the individualized nature of the subsidies (both the tax credit and the reduction of employees’ social contributions), they are not targeted as clearly towards the poor. Empirical microsimulations of Belgium’s individualized tax credit show that the first-order effect of this measure on poverty was zero (Cantillon et al. 2003a). The poverty impact depends on the overlap between low pay and low family income (Marx and Verbist 1998; OECD 2000b). It is unlikely that an individualized low-wage subsidy will have a strong poverty-reducing impact, given that a substantial proportion of the low-paid in Belgium, namely part-time working women, actually belong to the higher income groups. Moreover, the poorest groups usually have no earnings whatsoever, so they will benefit the least from this type of measure. Therefore the tax credit is mainly at the profit of the middle income groups and of two-earner families, as can be observed in Figure 10.6. Poverty impact studies



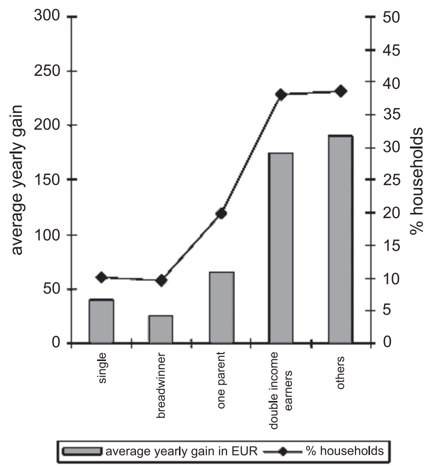


Figure 10.6 Average level of the tax credit and % of households receiving tax credit according to standardized income deciles and family types, Belgium

Source: Micro Simulation Model MISIM, Centre for Social Policy.

of low-wage subsidies should ideally also take into account long-term effects on wage and benefit formation. We need to know more on the relation between wage flexibility, low-wage subsidies, social protection and poverty dynamics in the long run.

The Need for Policies that go beyond Financial Incentives

In recent years, much priority has been given in employment policies in Belgium and other welfare states to providing financial incentives. It would appear, then, that financial tools still provide the 'easiest' route for social and employment policies in welfare states. However, survey evidence suggests that an adequate employment policy directed at reintegration requires more than merely financial incentives. Barriers to getting into work and out of poverty are very much related to individuals' lack of qualifications and work experience and with their familial responsibilities (OECD 2001). There is empirical evidence that the effectiveness of work-oriented policies is very much determined by important framework conditions, such as positive measures to boost the labour supply by providing training and work experience (Blank 2002; Pearson and Scarpetta 2000). Policies that go beyond work and job skills, such as measures that provide good access to childcare and healthcare, seem also to have a positive impact on people's overall employability. Dutch research (de Beer 1996) found evidence that working conditions play a significant role in the choice between benefit and work. For unappealing jobs (long travel times, irregular working hours, physically demanding work), respondents indicated that they expected a 'bonus' of, on average, 50 per cent above the minimum wage and a quarter said they would never accept such a job, even if the financial gains were substantial. Survey evidence also suggests that a combination of 'carrot' and 'stick' measures (checks on willingness to work and sanctions) can be important (Blank 2002). For Belgium, there is survey evidence that the impact of mere financial incentives can be small for some groups. A survey on suspension of unemployment benefit among long-term unemployed women (the so-called suspension article 80) shows that the net impact of benefit withdrawal (compared to a control group) is small, while the majority of these women transit to (unpaid) inactivity. The reason is that many long-term unemployed women in Belgium stopped looking for work a long time ago. They tend to have a negative attitude towards work, and the fact they are providing care is cited as the most important barrier to work. Moreover, they have usually had few contacts with public employment services (De Lathouwer and Bogaerts 2004). Comparative research also seems to indicate that Belgium has a substantially lower proportion of unemployed persons who are committed to finding work (between 50 per cent and 60 per cent) than the Scandinavian countries (Denmark 83 per cent, Sweden 79 per cent), The Netherlands (80 per cent) and the Anglo-Saxon countries (UK 78 per cent, Ireland 71 per cent) (Gallie 2000). These findings suggest that more job search enhancement policies, which are traditionally pursued more strongly in the Scandinavian and the Anglo-Saxon countries than in Belgium, can effectively stimulate people's willingness to work. Moreover, these international figures on the commitment of the unemployed to find work confirm that financial incentives are probably not the most decisive motivating factor for seeking a job. In the Scandinavian countries, where benefits are generally high, the unemployed are equally committed to finding employment as in the UK, where benefits are typically much lower. In other words, a high level of income protection and a high willingness to work can go hand in hand, providing that the welfare institutions accommodate the unemployed with active policies such as counselling, training, work experience, control and sanctions, all of which are typical institutional arrangements of the Scandinavian welfare states (Lødemel and Trickey 2000).

Summary, Research and Policy Considerations

The main challenge for the continental social model is to combat non-employment and benefit dependency without abandoning its most important achievement: a relatively low degree of inequality and poverty. Rather than deregulating labour market institutions and cutting benefits, the policy answer to work disincentives in Belgium and other continental countries has been the introduction of various models of 'making-work-pay policies'. Initially such policies were demand-driven, focusing on 'employers' subsidies' – reducing employers' social security contributions in order to support the creation of decent jobs. In the course of the 1990s, demand-driven policies were complemented with more supply-oriented policies. A combination of various routes into in-work support has been developed. In Belgium a reduction of employee social security contributions, tax credits, back-to-work bonuses and childcare subsidies have been introduced. All these policies have in common that they directly subsidize low-wage earners, helping to make low-wage work more financially attractive compared to benefits, while at the same time improving the income position of these households.

The introduction of IWBs for low-wage earners in European countries on the one hand and the (re)introduction of a minimum wage in Anglo-Saxon countries on the other hand suggest a certain convergence between the continental European welfare states and the Anglo-Saxon liberal welfare states. In continental European welfare states unemployment traps and working poverty were traditionally kept low by a high (minimum) wage strategy. Yet a high minimum wage strategy seems to run into limits because of three developments. First, high minimum wages endanger the job prospects of the low-skilled due to the declining market productivity as a result of shift in demand from unskilled to skilled labour. Secondly, a high tax burden on minimum wages causes net minimum wages to be significantly lower compared to gross minimum wages and this endangers unemployment traps and working poverty. Thirdly, high full-time breadwinner minimum wages cannot avert unemployment traps because of the trend towards part-time work. There is a significant risk that the transition from a (full-time) benefit to a part-time job is not financially rewarding. Hence in-work support can be considered as a tool for ‘flexicurity’ in continental European countries, fostering wage flexibility, while at the same time providing decent levels of income for low-wage earners (social security). Conversely the experiences in the Anglo-Saxon countries with wage deregulation supplemented with extensive IWBs show that a combination of a minimum wage floor and subsidizing of low wages could prevent employers from transferring the wage cost to the subsidizing authority too excessively. This observed convergence suggests that in-work cash transfers may be seen as complements rather than substitutes for the minimum wage.

Is it a good idea for continental Europe to develop a low-wage subsidy strategy and hence to introduce a fundamental new labour market institution of in-work support? To be able to answer this question we need more research on what works for whom and under which conditions. Substantial evidence on the functioning of IWBs is available for the Anglo-Saxon countries, which show that such arrangements can have a significant impact on labour participation and poverty. However, these findings cannot be generalized to Europe. After all, wage dispersion is substantially greater in the Anglo-Saxon countries, the number of vulnerable family types such as lone-parent families higher and the level of social expenditure lower. Yet, the cost-effectiveness of IWBs for continental countries is far from clear today.

Which lessons can we draw so far from the early Belgian experience? First, in generous welfare states, such as Belgium, MWP policies tend to become ‘universal’, providing in-work support for large groups of individual workers instead of low-wage earning households. Because means-testing is something policy-makers want to avoid, these arrangements tend to become expensive and the advantages relatively modest. Secondly, there is as yet no empirical evidence for Belgium available on the impact of low-wage subsidies on labour participation and poverty. Static empirical microsimulation can however provide a first insight into the first-order distributive and budgetary effects of (alternative) in-work support policies, given the existing income (and wage) distribution and household composition in a country. In countries with a very compressed earnings distribution, such as Belgium, IWBs will be more costly because of the greater number of workers that are entitled to the subsidy. Given that a substantial proportion of the low-paid in Belgium, namely part-time working women, actually belong to the higher income groups, it is unlikely that an individualized low-wage subsidy will have a strong poverty-reducing impact. Moreover, the poorest groups usually have no earnings whatsoever, so they will benefit least from this type of measure. Thirdly, the introduction of MWP policies in Belgium has allowed improvements of unemployment benefit levels. The dual strategy of raising financial incentives, while at the same time also raising to a certain extent benefit levels is a good illustration of how large welfare states such as Belgium, are struggling with the difficult trade-off between work incentives and income protection. A decent social safety net remains in Belgium an important priority. Such a dual strategy is costly and feasible in periods of favourable economic and budgetary circumstances; in an unfavourable socioeconomic context the sustainability of such a policy is unproven.

In addition to the study of the cost-effectiveness of alternative in-work support policies we should study the relation between wage flexibility, employment and overall poverty. There is evidence for the Anglo-Saxon countries that even a very high degree of wage flexibility does not guarantee high employment and low unemployment among the most vulnerable. Moreover, in countries with large wage flexibility the poverty impact of the welfare state is low, despite the existence of large IWBs, suggesting that a strong redistributive welfare state requires modest wage dispersion.

Subsidizing wages appears to be the ‘easiest’ active employment policy in passive welfare states. However, an adequate work-oriented policy requires more than a policy of financial incentives. Because barriers to getting into work and out of poverty are very much related to individuals’ lack of qualifications and work experience and with their familial responsibilities, MWP policies need to be complemented with other activation policies. First, low-wage subsidy policies should be linked more strongly with skill-upgrading programmes to increase human capital and earning potentials. By doing so, one might prevent low-wage traps and lack of mobility. Secondly, subsidizing low wages should be combined with job-search enhancement policies, from an early stage of non-employment, in order to prevent individuals from slipping into long-term unemployment. Because joblessness appears not only to be an economic risk but also a life-course risk, a work-oriented policy should also improve the ‘work/life balance’, for example by improving the combination between work and care through better care provisions (such as childcare), more flexible working time arrangements and parental leave.

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Chapter 11

The French Basic Income (RMI) and Transitional Markets: One National Policy, Many Local Realities

Jacques Bouchoux, Yvette Houzel and Jean-Luc Outin

Introduction

Once again, the issue of poverty has arisen in France. A decline in the labour market situation, marked by a rising and persistently high rate of unemployment, combined with deteriorating family patterns, has prompted a renewed interest in the subject. Indeed, the combination of unemployment and poverty affecting new population groups reveals the limits of traditional social assistance policies that aim at target populations defined by age, type of disadvantage, or household (for example single-parent). Moreover, the new measures initiated by local authorities and by charity organizations that deal with new needs for assistance have had a limited effect, and have led to an unequal treatment of traditionally poor social groups. The situation has also been exacerbated by the fact that the return of economic growth at the end of the 1980s affected employment only in some segments of the population, but had limited consequences for long-term unemployment. Finally, it is now feared that the implementation of the EU's social and employment policies and further European economic integration might eventually institutionalize a split bipartite society.

In response, France has introduced a universal basic income, which is funded nationally and administered by public institutions, as an original mechanism of French social policy. Despite mixed feelings and criticism of various political parties and interest groups, a compromise was found that created an allowance called the *Revenu Minimum d'Insertion* (RMI, translating as Minimum Integration Income). This measure addresses the struggle against poverty as a multidimensional and dynamic issue. It guarantees a basic income coupled with the acceptance of a contract aimed at facilitating access to social assistance such as healthcare, housing, professional training, or even help in returning to work. By translating the French word '*insertion*' as 'integration',[1] it can be shown that the real aim

1 It should be noted that translating the word '*insertion*' as 'integration' somewhat distorts its meaning and does not, at least according to Barbier (2000), capture the reality in France.

of the RMI is to integrate beneficiaries by improving their economic and social situation; and, furthermore, that the focus on occupational integration is related to specific sociopolitical considerations that are legitimated by this policy.

The RMI has to be understood as more than merely an instrument to fight poverty. It forms part of labour market programmes that target specific population groups facing economic and social difficulties. Its implementation depends on general and specific socioeconomic conditions, in particular the existence of adequate jobs for the target groups. Furthermore, its implementation is decentralized in order to induce the local agencies administering the programme to become involved in defining and enforcing practical measures adapted to tackle specific problems. Both these aspects of the RMI lead us to examine it as a unique illustration of transitional labour markets. And although the analytic approach adopted in our research has a wider scope, our original perspective and empirical approach can be used to highlight dynamics of transitions. And by emphasizing their diversity a better general idea can be developed of the inequalities that characterize the labour market.

The RMI's Contribution to Defining Transitions

Our first point is to show the distinctive characteristics of the RMI's implementation in France and to study the ways in which it helps to constitute organized socioeconomic mobility and transitions. We then define the notion of the '*Régime Local d'Insertion*' (RLI)[2] that geographically and socially presents the forms these transitions assume. Finally, the RMI's significance is tested against original data.

The Particularities of the RMI

In contrast to other systems of guaranteed income existing in Europe, the recently proposed RMI is the last element in a series of policies aimed at fighting poverty in a number of underprivileged segments of the population.[3] The persistent unemployment and lack of job security observed throughout the 1980s greatly contributed to undermining a system of social protection based on insurance principles and highlighted its failings. This phenomenon revealed that the system was undergoing a crisis, and it profoundly changed social protection measures by defining the principle of a universal income for every individual in need.

2 RLIs are structurally characterized by interaction of variables such as local implementation agents and local socioeconomic situations.

3 Whereas several decades ago some countries had already adopted a policy of basic income for the individuals old enough to hold a job (the UK in 1948, Germany in 1961), others initiated it only recently (Luxembourg in 1988 and the countries of Southern Europe). See Horusitzky et al. 2005.

The introduction of a 'safety net' as the last resort for the most destitute segments of the population is in keeping with developments in other European systems of social protection. If minima are a fundamental component of the systems of social protection, they have been added only more recently and as a complementary device to the social systems based on gainful employment.

A descriptive study of varied types of basic income shows that they are part of a collection of other social margins[4] (ranging from 1 to 9, depending on the country) whose characteristics are connected with the more global framework of the system of social protection.

The specifics of these margins are related to the conditions that determine their attribution, such as age, means test, the rights and duties of the recipients, and the diversity and complementary nature of the local agencies administering the programme. But the differences make sense only when examined from a more general perspective and then compared to all the plans initiated against poverty in any given country.

In this way, the growing number of beneficiaries in the recent period is a logical consequence of the increasing number of jobless workers who do not benefit from unemployment insurance,[5] and who are nevertheless not entitled to the social assistance of the French unemployment benefit system. The different forms of assistance are thus difficult to separate; they affect different population groups and play diverse roles.

Yet, when the RMI programme is viewed separately from other social margins, it proves original in several ways. It combines a financial allowance aimed at ensuring basic needs with associated rights towards an easier access to housing, healthcare, and the existence of a contract negotiated and signed between the local authorities and the beneficiaries for the purpose of re-establishing social status. This system shapes the career options of the beneficiaries, and helps them to leave the programme through the use of a number of public or private services. Here integration is principally concerned with the professional field, but without excluding other social domains that may intervene. This latter aspect of the programme seems to be the most innovative because it goes beyond the sole purpose of assistance and strives to organize the beneficiaries' transitions. Besides, it establishes new values of social action (that is, a more individualized appreciation of the beneficiaries' needs) and more 'place-based' actions that are better adapted to local situations.

An ever-growing number of RMI beneficiaries[6] and fears of excessive financial spending caused by the programme have led government authorities to question

4 1 (Finland); 2 (Finland, Denmark); 3 (Belgium, Italy); 4 (Germany, Spain, Portugal, The Netherlands); 5 (UK); 9 (France).

5 For instance, the reform of unemployment passed at the end of 2002 resulted in shortening the period of compensation.

6 946,000 beneficiaries at the end of 1995, 1,112.000 at the end of 2005 (source, *Caisse Nationale d'Allocations Familiales* (CNAF), the institution in charge of RMI claims).

the procedures of integration and to pass reforms under the assumption that relative failures of integration are due to the programme itself. The authorities have thus singled out two main lines of procedure:

- One deals with the role of incentives and has generated a number of reforms to encourage the active participation of the beneficiaries (*intéressement*).[7] It does this by establishing a stronger link between the access to the allowance and the signing of a contract committing the recipient, or by the more recent creation of the CI-RMA.[8]
- The second line of procedure belongs within the institutional sphere. It initiated a process of decentralization where *départements* were put in charge of the management of the programme in order to clarify the different levels of responsibility and to trigger a greater involvement of local agencies administering the programme.

These reforms are not unrelated to other reforms implemented in Europe since the beginning of the 1990s, and whose aim was to reorganize the systems of social protection. In this respect, common points and objectives can be noted in the different implementation policies,[9] based on a closer conjunction of access to social protection and professional activity (Barbier et al. 2006; Bredgaard et al. 2003).

Similarly, the decentralization of the RMI programme launched in 2004 has brought the means used in fighting poverty closer to those used in other European countries. It thus enhances the advantages it offers, such as administrative coherence, and the liability of the agencies administering the programme, without avoiding the risks inherent to the management of insecure local populations in terms of available material and human means, and in terms of equal access to benefits, rights and treatment (Horusitzky et al. 2005).

Omitting such structural causes as the quantity or quality of the jobs available in the labour market and the developments in the programmes concerned with social protection, we can see that the French debates over the RMI have too often depicted beneficiaries as outcasts or as persons reluctant to take part in professional activities and characterized by apathy, or who choose not to work because wages hardly exceed social protection.

And yet, empirical investigations of the populations that benefit from the RMI, the importance of expenditures and incomes, and the variety of situations and

7 It enables the beneficiaries to add activity income to a percentage of the RMI allowance for a restricted period of time.

8 *Contrat d'Insertion-Revenu Minimum d'Activité* was created in 2004. Its purpose was to encourage beneficiaries to be gainfully employed.

9 For more information about the plurality of meanings of 'activation' and their usage in social policies in Europe see Barbier et al. 2006.

career options, lead us to emphasize the idea that the programme fulfils several functions in terms of social protection in France.

This is the reason why in an earlier paper (Bouchoux et al. 2004) we highlighted the fact that the RMI could pursue three modes of implementation:

- First, as a 'safety net'. Here the allowance, combined perhaps with other social supports or with other incomes such as alimonies, operates on its own or may be associated with a contract whose contents concern social action, and not that of employment and job training. The population group concerned here is the non-active poor.
- The second as 'working benefits'. Here the allowance can be added to the income earned while working. The combination of different financial sources is usually temporary, mainly because of the activation programmes aimed at inciting (*l'intéressement*). It can be made more permanent if the job in question is stable and regular. The beneficiaries here can be defined as the 'working poor'.
- The last as 'unemployment benefits'. Here the almost universal nature of the RMI (for people over 25 years of age) is opposed to the insurance principles prevailing in the benefit regulations that define the insurance system and even in the solidarity system. Given these circumstances, it is not surprising that the RMI has become the third element in unemployment benefits, a kind of substitute or relay. The corresponding population group can be defined as job seekers without benefits.

The RMI and the Organization of Transitions

The RMI plays quite an important role in the practical constitution of organized transitions. Here it is important to recall that the notion of transitional labour markets, understood as an organized body of negotiated mobility, has evolved from two perspectives (Schmid and Gazier 2002). On an analytical level, priority has been given to the examination of market flows in order to identify the diversity of the career options of individuals and their periods of employment, inactivity and unemployment. Each of these situations is considered through the multiplicity of their actual forms. Furthermore, the question of transitions is tackled through the study of the different situations that an individual can face in the course of his/her life, and not only through the particular transitions from one to the other at a given time. What is interesting here is to draw types of transitions by pinpointing the most significant models and the distinctions that characterize the individuals concerned. On the normative level, the notion of a transitional market is useful to account for the institutional arrangements that participate in the organization of the transitions; notably to avoid or reverse those that end up in situations of marked social exclusion.

Based on its principles and its major regulations, the RMI is a mechanism of social protection that aims to unite a guarantee of income, an access to social rights of various kinds, and integrative acts that contribute to an access to employment. Its diverse institutional forms reveal how it is a transitional tool because by participating in the programme beneficiaries at the very least improve their social and economic situation, if not end their poverty. As far as the beneficiaries are concerned, it combines measures and support provided by a contract, which is supposed to assist the recipient households, with other incentives aimed at making it attractive for them to go back to work by enabling them to benefit temporarily from both an allowance and a salary. In addition, the RMI is articulated around the different segments of the labour market, in particular the domain of subsidized jobs reserved in advance for such groups as these beneficiaries. As far as the institutional agencies administering the programmes are concerned, the RMI is characterized by decentralization aimed at encouraging their involvement and the accuracy of integration policies within specific and existing economic and social situations.

*The Notion of a '*Régime Local d'Insertion*'*

Our analysis is based on the admission of regional differences that have been noted in the study mentioned above. On average, the distribution of the recipients into three possible modes of implementation dictated by the RMI varies noticeably from one region to the other, without providing clear explanations determined by socioeconomic factors alone (see Table 11.1). To understand the regional situations, we have singled out three types of explanatory variables.

On one hand, we have taken into account the socioeconomic situation of each particular location. What is at issue here is to evaluate the area in terms of the dynamics of the labour market situation. In addition to the quantitative imbalance between manpower resources and the jobs available, one has to consider the characteristics of the jobs in terms of the stability they offer and the qualifications they require. Due to direct or resulting competition in the labour market, these factors influence the characteristics of the population that benefits from the RMI at

Table 11.1 Modes of implementation of the RMI in different *départements* of France (in percentages)

	In-work benefit	Unemployment benefit	Safety net	Total
A	40.8	41.5	17.7	100
B	30.2	41.1	28.7	100
C	33.4	39.1	27.5	100
D	24.8	36.1	39.1	100
E	30.8	23.9	45.3	100

Sources: Caisse Nationale d'Allocations Familiales (CNAF); Commissions locales d'insertion (CLI). Data processed at MATISSE.

any given time. The effect occurs both before and after the recipients are involved in the programme, and is connected with variations in terms of needs and of the labour market whose multiple connections with the RMI programme have been shown.

On the other, the characteristics of this integrative programme, which focuses on personalization and localization, give the agencies administering the programme a lot of freedom in their choice of action. These actions address the development of job opportunities and of various social supports corresponding to the diversity of needs, just as much as a recourse to more negotiated forms of support for individuals does. These two points are supposed to facilitate the organization of the beneficiaries' transitions. Our approach thus tries to go beyond the individual management of transitions and eventually delineates a more collective dimension through a definition of social services or of the construction and the extension of the different segments of the labour market to which individuals can accede. To a certain extent, our analysis is similar to the methodology adopted in research on transitional labour markets.

Finally, we want to emphasize that these two aspects are interrelated. The socioeconomic situation in particular affects the actions of the agencies administering the programme by determining their own representations of it. This may induce them, for instance, to promote specific activities (subsidized jobs, non-profit jobs, training) and to target larger or smaller categories of the population.

The socioeconomic situation, the efforts of the agencies administering the programme, the type of labour market and the characteristics of the beneficiaries all interact in various ways. For instance, a significant imbalance in the local labour market may increase the use of RMIs as 'unemployment benefits' to compensate for the problems of integration of first-time job seekers over 25 years of age, and for workers who have lost a short-term job and who have resorted only temporarily to unemployment insurance. Conversely, a local situation marked by a new growth of job offers may lead the beneficiaries to use RMIs as a source of 'working benefits' when the jobs concerned are part-time. The involvement of the agencies administering the programme also plays a role in the distribution of the three types in terms of the orientation and selection procedures they employ for the beneficiaries, of the institutional instruments they have at their disposal, of the management constraints they have to deal with, etc. The different types of approaches are at the same time effectively combined and characterized by important exchange flows, which testifies to the permeability of the different categories and to the diversity of transitions. Taking into account the more or less favourable socioeconomic situations and the more or less vigorous efforts of the agencies administering the programme leads us to a multifaceted definition of the RMI's uses and effects. This is what we call *regimes locaux d'insertion* (RLIs), which can be understood as the structural agents of the local integration of RMI recipients into the labour market and into social activities.

We can thus basically distinguish four types of RLI:

- A s*upportive type* when the labour market is unstable but the agencies administering the programme are actively involved in assisting recipients. In addition to a social network of social supports aimed at making it easier for beneficiaries to accede to social rights, it can provide and strengthen individual segments of the labour market thanks to an increasing number of economically integrative jobs, even when these jobs exist in a market sector that is not fully developed. In this case, the transitions evolve in ways that do not necessarily result in helping the recipients pass through the programme because the corresponding transitional markets comprise an almost self-sufficient sphere of activity.
- A *broker type* characterized by a favourable economic situation in which a large number of beneficiaries of the RMI have contract-based connections with it. Regrettably, due to instability in the job market, the additional assistance they benefit from in finding a job does not permit a prediction of their development, even if the proximity of the available jobs is a somewhat protective factor. Besides, seen from a more general perspective, this type of assistance, which focuses on the least privileged active workers, does not necessarily improve the employment rate but helps to reduce the inequalities in terms of unemployment between the active workers within a labour market area.
- A *dual segmentation type* that occurs when the area is characterized by favourable economic conditions and little involvement of the agencies administering the programme in supporting the RMI beneficiaries. Under such conditions, the latter or at least their least privileged elements may encounter great difficulty in finding jobs in the market sector without the offer of other alternatives. Indeed, if qualitative aspects of available jobs are taken into account, they sometimes disclose a lack of training or qualifications of the recipients that reinforces the dual-segmentation phenomena.
- An *exclusionary type* results from an unfavourable economic situation and little involvement of the agencies in charge of administering the programme. In this case the RMI beneficiaries are faced with severe processes of exclusion. The RMI programme is limited to its purely financial dimension and used solely to insure survival. And neither the labour market nor the agencies administering the programme stimulate development towards transitions.

Figure 11.1 illustrates the different scenarios plus a fifth category, called a 'mixed type', whose characteristics are not as definite.

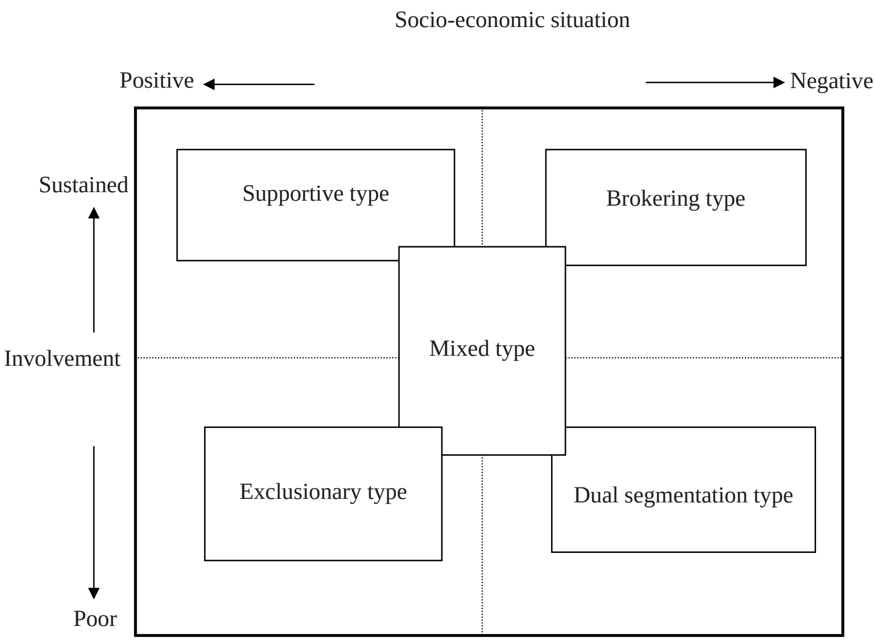

Figure 11.1 Relationships between local economic situations, implementing agents and types of integration

An Empirical Study of the RMI

In the following, an analysis of the RMI is presented that is based on a study of quantitative data of RMI recipients from several local communities.

Study Data

The data result from the comprehensive examination of files collected in February 2000 at five *départements*, two (A and B) of which are located in the *Île de France*, and three (C, D and E) in the provinces. A, B and C differ in geographical and economic characteristics. They also include the entire group of beneficiaries at that date, and provide a large amount of information that deals with their socio-demographic situations and rights. The files were re-examined in October 2000 and February 2001 in order to assess the development over a one-year period. Additional data were collected,[10] which include:

10 The additional data were combined with the original data in a complex interconnection procedure.

- data originating from various local bodies in charge of integrating the beneficiaries: these concern the existence, duration and nature of their contracts over their last period of registration on the RMI lists;
- data originating from employment agencies with which the beneficiaries were in contact between March 1997 and February 2000: these apply to the registration, the types of support, the professional situation as well as the types of unemployment compensation.

Taking all *départements* under examination together, the initial population counts 61,423 households, almost two thirds of which were found in the files of the processing compensatory agencies (listed by member of the households, that is to say, for the beneficiaries and their spouses), amounting to a little less than 60 per cent.

To these individual data have been added a certain number of variables characteristic of the geographical situation. These include:

- *RMI management indicators*: the portion of the beneficiaries within the total population in the *départements*, the local supervision rate of the beneficiaries currently under integration contract, the percentage of contracts having come to an end more than nine months before, the rate of long-term beneficiaries not under contract, the portion of more than six-month contracts, the portion of contracts that only include one type of support (help in finding a job or in obtaining a social support), and the rate of regular interviews with the employment agency.
- *Indicators concerning the links between the RMI and the labour market*: the portion of beneficiaries who left the RMI programme in February 2001, the percentage of long-term recipients, the percentage of active beneficiaries, the percentage of beneficiaries in subsidized jobs, the percentage of unemployed beneficiaries performing short-term jobs, and the percentage of unemployed beneficiaries who receive an allowance. To these variables, originating from the file constituted by MATISSE, there have been added characteristics about the socioeconomic situation principally derived from the census data.
- *Indicators about the local situation*: the unemployment rate, the level of long-term unemployment, the percentage of insecure jobs, the percentage of beneficiaries with a university degree, the percentage of non-salaried workers, the percentage of single, childless RMI recipients, and the percentage of RMI recipients under 30.

These indicators have enabled us to establish, through a multidimensional classification, a collection of summarized variables (indicators concerning management actions, the socioeconomic situation, and the relations with the labour market) that correspond to population groups of beneficiaries differentiated by their socio-demographic characteristics.

Table 11.2 Socioeconomic characteristics of RMI beneficiaries in February 2001 (in percentages)

	Single	Under 30	Recipients >5 years	Integration contract	Interviews and counselling with employment officer	Deleted from the RMI lists in February 2001	%
Unfavourable situation	61.7	24.2	20.6	60.4	61.9	33.0	50.7
Rural situation	64.6	23.4	20.8	60.5	54.2	37.7	5.2
Favourable situation	67.0	24.3	14.8	43.4	57.6	33.8	44.0
Total	64.2	24.2	18.0	53.0	58.3	33.6	100

Note:

N = 61,423. The figures are over a period of three years and only for households whose data were found in the files of the employment agency.

Source: MATISSE.

Influence of the Variables: Classification according to Socioeconomic Situation

We have singled out three groups in relation to their local socioeconomic situations.[11] These are described as 'Unfavourable', 'Rural' and 'Favourable'. None of these distinctions corresponds to any specific division within the *départements*. This very uneven classification of local situations is to some extent arbitrary. But it retains a descriptive and explanatory power clearly shown by the differentiation of the beneficiaries' characteristics (see Table 11.2).

Group 1: 'The unfavourable situation' This includes about 51 per cent of the population studied, and is characterized by a strikingly high unemployment rate. Its long-term unemployment rate is generally one of the highest among the total number of recipients, and the same applies for the figures numbering insecure

11 The Kohonen classification method was applied, giving each local variable the same importance.

jobs. By contrast, the ratio of qualified persons in the total population of these areas is lower than in the others.

The percentage of single RMI recipients listed in February 2000 is lower than the total number of single persons in the total population studied; whereas the percentage of the young is equivalent. Furthermore, support seems of considerable importance: integration contracts and interviews with an employment officer concern about 60 per cent of the households, even if in the second case, this figure has to be balanced because all the households are not registered. Lastly, it is noticeable that one third of the households listed in this group were written out in February 2001. In other words, a number roughly corresponding to the one that can be observed on the whole was lost in this way.

The areas relating to the 'unfavourable situation' type are included within the five *départements* but in different proportions. Under these conditions it is impossible to blame the situation on a factor connected with the *départements* alone. However, the five *départements* in question are not exposed in the same degree to the economic difficulties rated by the indicators under consideration. This situation principally refers to *départements* B and C.

Group 2: 'The rural situation' This includes six areas within the three *départements* outside the *Île de France* region and concerns only about 5 per cent of the population studied. The corresponding areas are characterized by a relatively high proportion of non-salaried workers and a low number of RMI recipients. Apart from these factors, these areas are similar to those belonging to the group 'unfavourable situation', from a socioeconomic point of view.

Group 3: ' The favourable situation' This includes 44 per cent of the population studied (predominantly present in *départements* D and E). The socioeconomic characteristics here are the opposite of what we noted in Group 1 as far as the labour market indicators are concerned. And we see a lower unemployment rate and a smaller proportion of long-term unemployment as well. Among the population group benefiting from the RMI in February 2000, the number of childless, single individuals is appreciably higher while the number of those under 30 years of age is equivalent. Two significant differences from the previous groups can be noted: the lower number in relative terms of long-term recipients and a more limited assistance (integration contracts and counselling with a representative of the employment agency). The first element testifies to a freer flow of the population concerned.

On closer examination of the correlations between the three situational groups and the types of RMI described above we can see, paradoxically enough, that the RMI allowance used as a 'working benefit' is over-represented in the two groups characterized by an unfavourable economic situation (40.8 per cent and 33.1 per cent versus 31.9 per cent on average). While when it plays the role of a 'safety net', it is overrepresented only in the group corresponding to the favourable economic situation (40.7 per cent against 341 per cent on average). In addition to the question of the involvement of the agencies administering the programme, which will be addressed in the next section, we should take the structure of the existing jobs into consideration. We can assume the possibility that a favourable local situation may penalize those poorly qualified or who are separated from the labour market. In this case we can observe the eviction of the less competitive population groups and a marked dual segmentation phenomenon. By contrast, in a labour market area characterized by a more substantial or long-standing but not too pronounced imbalance, there may be an offer of insecure or low-skilled jobs; all the more since possible migrations may have affected a percentage of the active workers and triggered a relative shortage of better-skilled workers.

Table 11.3 Type of agency support in February 2001 (in percentages)

	Single	Under 30	Recipients >5 years	Integration contracts	Interviews with employment agency	Written out February 2001	%
Extensive support	60.3	21.7	24.3	72.0	67.3	31.3	28.4
Partial support	68.4	27.4	19.7	57.1	57.8	38.3	39.9
Distant support	63.1	22.7	10.1	30.2	50.3	29.0	31.7
Total	64.4	24.3	18.0	52.8	58.1	33.3	100

Note: N = 59,472.

Source: MATISSE.

Classification according to the Practices of the Agencies Administering the Programme

The observation of the actions of the integration agencies administering the programme highlights a noteworthy coherence within each *département.* The management patterns are quite clear and enabled us to distinguish three levels of relatively close importance that we called respectively ‘extensive support’, ‘partial support’ and ‘distant support’ (see Table 11.3). For each level, the areas of the *département* are close to one another, which reinforces the assumption of an individual model defining the practices of the agencies administering the programme and actions within each *département*.

Extensive support This includes approximately 28 per cent of the households and is most present in the more rural *départements* B and C. The proportion of young or single and childless beneficiaries is not as large as in the other groups, even though close to a quarter of the households here have received an RMI allowance for at least five years. Integration contracts are quite widespread, with almost three beneficiaries out of four involved. In the same way, two thirds of the households registered at the employment agency have had one or more interviews with an employment officer between 1997 and 2000. In spite of these sustained efforts, only 31 per cent of the beneficiaries, that is to say a little less than for the whole population, have successfully left the programme over the year studied.

Partial support This includes 40 per cent of the households and essentially corresponds to *départements* A and E. Here is where the younger percentage of the population can be found, composed of more than two thirds of single and childless beneficiaries. One fifth of the households belonging to this group have received an RMI allowance for at least five years, and 57 per cent have signed an integration contract at least once. Similarly, 57 per cent of the households studied have been involved at some point in interviews at the employment agency. Therefore there is still 40 per cent of the population for whom support seems to have failed or have remained unofficial. All in all, in comparison with the two other categories, the number of beneficiaries successfully leaving the programme is the highest here. It amounts to 38 per cent between February 2000 and February 2001 compared to 33 per cent on average.

Distant support This includes almost one third of the households and covers the areas within *département* D. The socio-demographic structure of this population group has more points in common with the first category than with the second. But it differs from them in that it includes a smaller number of long-term beneficiaries (about 10 per cent). Not even one third of this population group has access to integration contracts. In the same way, only half the households listed seem to benefit from the actual support and involvement of the employment agency. This is the population group where the fewest beneficiaries manage to leave the programme over the 12-month period of observation (29 per cent of the households in this category). The configuration of the RMI also differs according to the typology of agency practices.

A ‘distant support’ goes along with the highest proportion of households that resort to the allowance as a ‘safety net’. This overlapping is not due solely to the way in which the RMI classification has been organized. It tends to suggest that the fewer the households there are on RMI benefit from the institutional mechanisms set up to support them, the less actively they declare themselves, not counting the consideration of access to a minimum amount of resources. This might be an indication of one aspect of the interactions at work that influence the individuals’ behaviour in their attempts to find a job.

The category ‘partial support’ includes the highest proportion of active individuals, with 34 per cent of the households resorting to the RMI as ‘working benefits’ and 39.5 per cent as ‘unemployment benefits’. The category ‘extensive support’ shows a similar distribution with a higher proportion of recipients using the RMI as a ‘safety net’.

Table 11.4 Labour market links of RMI beneficiaries in February 2001 (in percentages)

	Single	Under 30	Recipients >5 years	Integration contracts	Interviews with employment agency	Written out February 2001	%
Market sector	65.2	24.4	16.0	46.3	56.5	33.4	72.3
Non-market sector	58.8	21.9	24.9	76.3	66.0	31.9	19.1
Mixed	68.1	27.9	19.3	56.9	56.1	39.5	8.5
Total	64.2	24.2	18.0	52.9	58.3	33.3	100

Source: MATISSE.

Classification according to the Links between the RMI and the Labour Market

Our analysis of links between the RMI and the labour market enabled us to distinguish three categories of various importance, identified respectively as ‘market sector oriented’, ‘non-market sector oriented’ or ‘mixed’ (see Table 11.4).

The market sector oriented category This group is characterized by connections predominantly oriented towards market sector jobs. It is made up of 72 per cent of the population’s households and includes in particular the *Île de France* area. Its distinctiveness is its relatively low number of households whose members have held short-term jobs or received unemployment benefits from the insurance system over the preceding period of time. A little more than one third of the households in this category are related to the group using the RMI as a ‘safety net’.

The non-market sector oriented category This includes 19 per cent of the total population and is composed of a large proportion of household members having held short-term jobs or having received unemployment benefits. However, this connection with the labour market tends to be the reflection of a particular situation. In fact, the majority of these areas are among those where ‘subsidized jobs’ are most widespread, while some have one of the lowest numbers of active persons of all. Last, there are few people who leave the programme, which is shown by the proportion of beneficiaries written out and the percentage of recipient households registered for at least five years. In this category, the use of the RMI as 'unemployment benefits' is comparatively more important.

The mixed category This includes 8.5 per cent of the households. Here is where we find the younger elements of the population and the highest number of single and childless households. These areas are characterized by a larger proportion of people who held short-term jobs and previously received unemployment benefits. Moreover, the households referred to here are proportionally more often active, even if they do not always hold subsidized jobs. Under these conditions, the jobs potentially available are a combination of market sector and non-market sector jobs, and this might allow more people than in the other two categories to leave the programme. So here, the beneficiaries resort to the RMI mostly as 'working benefits' and 'unemployment benefits'.

Table 11.5 Types of RMI and local integration (*Régime local d'insertion* or RLI) (in percentages)

	Working benefits	Unemployment benefits	Safety net	Total
Dual segmentation	30.8	23.9	45.4	100
Supportive	33.4	39.2	27.5	100
Brokering	30.6	37.5	32.0	100
Mixed	35.2	43.9	20.8	100
Total	32.3	34.9	32.9	100

Note: N = 59,472.

Source: MATISSE.

An Illustration of the RLI through Empirical Data

The results always show that the influence of the *département* is paramount in the differentiations we have observed. This is due to the fact that most of the categories that have emerged from this study are strongly connected with their individual characteristics. Still, these types enabled us to offer a proper illustration of each local integration type (see Table 11.5). The first three groups correspond to three of the predefined categories. The fourth reflects a combination halfway between two of them. However, the data obtained do not permit us to illustrate the 'exclusionary type'.

'The Dual Segmentation Type'

This applies to a certain number of areas in *département* D. The socioeconomic situation is on average more favourable in those than in the other areas of the *département* but agency assistance of the recipients is more limited. In fact, it includes a smaller proportion of non-salaried individuals than elsewhere, as well as an unemployment and long-term unemployment rate higher than the average figures in the *département*. In terms of management, the local social workers seem to be more deeply involved even if we note that fewer contracts have been signed, in particular very few long-term contracts, and even though we observe that a higher number of contracts ended more than nine months earlier. Finally, the rate of short-term jobs and subsidized jobs is low. In some local areas, there may also be a low rate of exclusion from the RMI registers, but a significant number of contracts coupled with social support alone and associated with a better socioeconomic situation.

In this case, the population groups that benefit from the RMI use it as a 'safety net'. But we can observe two distinct categories. In some areas, the consequences of dual segmentation seem more pronounced: fewer beneficiaries are crossed out of the registers and the number of individuals in need of a 'safety net' is even greater. This is why it is conceivable to conclude that the economic situation reinforces the segmentation effects faced by the recipients of the RMI. In other areas though, a higher number of insecure jobs or a more effective support of the employment agency participate in alleviating the same noticeable trend.

'The Supportive Type'

The areas in this case are characterized by an unfavourable socioeconomic situation combined with the important involvement of the integration agencies administering the programme − which is demonstrated not only by the high number of contracts signed, in particular long-term contracts, but also by the active assistance of the employment agency and the recurrent recourse to subsidized and short-term jobs. Even so, the number of recipients leaving the programme remains limited but still appreciable. An illustration is provided by the majority of areas inside *département* C. Through their active involvement and actions, the agencies administering the programme are able to develop the field of jobs that a significant number of beneficiaries can opt for. Another example can be found in some areas of *département* B which might reflect a somewhat different version of this category; one characterized by a lesser degree of involvement of the agencies administering the programme and a clear preference for social actions − still a high contractual rate, a large proportion of contracts oriented towards social action. But in terms of connections with the labour market, there are fewer subsidized or short-term jobs and cases of previous compensation. Here, the RMI considered as 'unemployment benefits' prevails. One third of the beneficiaries have recourse to it as a source of 'working benefits'. It is nevertheless remarkable to see that, for the households in

B, the proportion considering the RMI as a 'safety net' is higher than in the other areas because of the specific social value with which the managers endow the contracts they set up.

'The Brokering Type'

The characteristics of the socioeconomic situation of the areas in the third group make them similar to those in the first category, but they differ in that support is more extended. This is reflected in the high number of contracts or involvement with the employment agency. This combination of positive conditions is apparently not without effect on the number of recipients leaving the programme, a number proportionally higher than in the other categories.

This type is first observed in *département* E. The economic situation is favourable, with an unemployment rate below that in the other areas. Management is not clearly oriented but constructive connections with the labour market induce a significant rate of recipients who leave the programme. The same situation occurs in six of the areas of A, some of which are quite small. But the situation in A partly explains the better results: a large number of young people, few long-term recipients, and an encouraging number of recipients leaving the programme. The proportion of beneficiaries who take up short-term jobs is important as well. As far as management is concerned, the important aspects are a somewhat less active recourse to social action and the presence of long-term contracts.

'The Mixed Type'

The situations to which this type corresponds are more heterogeneous. This type applies particularly to areas characterized by the large number of beneficiaries monitored. The support they receive is not as sustained as it is in the case of the 'supportive type'. This is demonstrated by the significant percentage of long-term beneficiaries remaining without an integration contract. The rather unfavourable economic situation − when one considers the unemployment rate and significant long-term unemployment – is connected with the expansion of insecure jobs in the market sector. This is why workers come and go between periods of employment and unemployment, and which leads them to resort to the RMI as an unemployment benefit. In order to support the validity of this theory we have also conducted a logistic regression process that shows that for beneficiaries of the same age, family situations, length of time on RMI, and *département* of origin, the chances of being written out of the RMI registers in February 2001 are significantly reduced in the 'dual segmentation type' in contrast to the 'supportive type'. They are also significantly increased, but to a lesser extent, in the other two types.

The inequalities resulting from an implementation of the RMI are therefore structurally dependent on local socioeconomic characteristics that play a fundamental role through their impact on the particularities of the population and the potential for a return to work they generate. Furthermore, the involvement of professionals in a relatively unfavourable economic situation proves the limitations of their action: assistance does not necessarily generate success in leaving the programme. However, the analysis of the data also indicates that a favourable situation alone does not guarantee a swift integration of the RMI beneficiaries into the job market. In fact, because of strong competition in the labour market, it may cause a reinforcement of dual segmentation that is detrimental to that more fragile percentage of the population. From this point of view, the intermediation of institutions and professionals has a visible impact. There seems to be a clear distinction between the households that fall under brokering or dual segmentation types.

Table 11.6 How the RMI and the RLI are perceived (in percentages)

Benefiting from RMI means:	Benefiting from support	Being monitored	Receiving an allowance until able to get by	Equivalent of unemployment benefits
Dual segmentation	58.7	89.2	85.1	38.4
Supportive	67.4	83.9	88.1	40.8
Brokering	58.3	81.3	84.6	36.7
Mixed	60.2	83.5	87.9	40.8
Total	61.0	84.6	86.3	39.1

Source: DREES survey; MATISSE processing.

What the Beneficiaries Think about the RMI and Local Integration Types

Another verification of the theory's relevance can be found in the thorough study of the answers that the beneficiaries provided to subjective questions contained in the inquiry conducted by DREES[12] between September and December 2001.[13] The beneficiaries living in an area associated with a type based on assistance tend to associate the RMI, even more than the others, with monitoring and support. Conversely, they think along the same lines as the others when the RMI is seen as exclusively a financial allowance (see Table 11.6). All agree, however, that the RMI is an allowance that ensures survival; a sort of basic income and not unemployment benefits, for which in fact it is a substitute. The beneficiaries who say they were able to benefit from social assistance (housing benefits, supplementary

12 Direction de la Recherche, des Etudes, de l'Evaluation et des Statistiques.

13 Demailly et al. 2002. An inquiry of beneficiaries in the five *départements* mentioned above was conducted in 2000. Its aim was to evaluate the RMI beneficiaries' situations as revealed through diverse administrative data and compare them with the same persons' perceptions studied through their answers to the inquiry.

aids) thanks to the RMI programme come mostly from areas associated with the type based on support. Of course, these answers are the indication only of a slight overrepresentation. But the illustration offered by the beneficiaries is in keeping with the normative definition suggested (91 per cent of the same beneficiaries declared they have indeed been helped in terms of resources, substantially for 40 per cent of them, compared with 87 per cent and 31 per cent on average). Fifty-four percent of them say the same concerning housing assistance compared

Table 11.7 Appreciation of RMI and the RLI in relation to modes of action (in percentages)

RMI was of no help whatsoever	To obtain a basic income	To find solutions to the problem of housing	To address health problems	To find a job	To get training	To submit adminis-trative applications	To obtain financial support
Dual segmentation	13.4	39.1	22.7	64.4	69.6	62.2	54.3
Supportive	7.3	21.6	14.1	59.0	66.1	51.1	47.8
Brokering	12.2	10.3	21.1	65.0	69.7	62.8	58.8
Mixed	10.2	36.9	24.0	65.1	68.5	61.7	45.2
Total	11.0	36.3	20.6	63.4	68.5	59.6	51.7

Source: DREES survey; MATISSE processing.

with 45 per cent. This is also true of the beneficiaries, who consider that the RMI has enabled them to find a training course, submit administrative applications, or obtain additional financial assistance.

On the other hand, in the 'dual segmentation type', the beneficiaries' perception of the RMI is not as positive. Table 11.7, which sums up the general estimation of the RMI, reflects the distinctions observed between the different types. On average, assistance has been more important in relation to financial resources, healthcare and housing. The beneficiaries surveyed who are involved in the 'supportive type' reply in the positive more often than the others. The most important variations concern the issue of housing.

Conclusion

This study enables us to draw a few conclusions, keeping in mind that the relationships between the labour market and social support are structured around a series of diverse programmes that do not necessarily play a role in relation to transitions on the labour market. Indeed, the overall economic situation and a significant number of programmes that influence transitions in addition to the RMI have not been taken into account here. We refer in particular to local social support programmes,[14] alternative ways of public spending, or an anticipated growth of the job market.

The multifaceted range of roles played by the RMI failed to meet expectations of equality in accordance with its founding principles. The RMI provided a great variety of individual situations and options and a variety of chances of leaving the programme for the recipients, despite its national and centralized regulations[15] – a phenomenon that was reinforced by the practices of the implementing agencies administering the RMI programme. The variable-geometry-type implementation reflects an adjustment to local situations characterized by their diversity, and at least partial compensation. This is why the adaptability of the RMI almost becomes affirmative action capable of addressing the diverse needs and various options of the population groups described. However, at the same time it reinforces inequalities between different areas whose specific dynamics it fails to influence; dynamics we think the decentralization policy launched in 2004 will not be able to thwart. On the other hand, the unevenness of the arrangements is strengthened by current measures resulting from new trends in RMI budget management that tend to develop formal contracts with numerous decentralized partners or associations. This in turn renders dealings even more complex.

From the point of view of beneficiaries, the RMI evens out the differences between population groups noted for the diversity of their characteristics and options by defining them as structurally poor, thus giving them a common status that comes in a variety of forms (that is, ‘non-active poor’, ‘poor job seekers’, ‘working poor’). This common framework is ambivalent. It reflects the twofold aim of the RMI as a tool to promote social and/or professional integration, and takes into account the beneficiaries’ many transitions between inactivity, unemployment and work as well, thus avoiding their open categorization in terms of eligibility for market jobs. In this way, while preventing the most disadvantaged segments of the population from being branded as such, it nevertheless achieves this for the beneficiaries at large. The recurring debates over the alleged failure of the RMI are related to the beneficiaries’ overall negative perception of the programme. The only term eventually used to refer to them is ‘the excluded’.

In assessing the role of the RMI in social support, we can cast a new light on the issue of inequalities. The RMI constitutes a form of ‘safety net’ by providing the inactive poor with a guaranteed minimum income and access to fundamental social rights. Instead of offering social protection benefits depending on a subjective evaluation of the needs or the procedures associated with emergencies, assistance, etc., the RMI defines a universal right for those over 25 years of age

14 Lafore (2004) notes that *départements* are now responsible for the main actions initiated by the state-funded integration policies promoting dependent or vulnerable population groups.

15 It is important to remember that, right from the beginning, both the state and the local authorities were involved in the RMI programme, particularly concerning the co-management of the integration policies.

who are without job earnings or social insurance. It asserts that they are part of the community of citizens. Under these conditions, keeping the beneficiaries in question within the programme on a long-term basis is less a question of their being possibly discouraged from working than of the level of the financial benefit they are likely to receive. The RMI used as ‘unemployment benefits’ generalizes in some ways the unemployment insurance system by offering what can be seen as compensation for a large proportion of job seekers. But this phenomenon demands a drastic transformation of the principles and regulations that encompass more than the RMI alone. The notions of substitute income or inclusive allowance remain, but they now coexist with the differential allowance, which has major consequences on the income levels of the different categories of unemployed workers. One can also see that the *Plan d’Aide au Retour à l’Emploi* (PARE), which aims at helping the unemployed return to work is in many ways related to what was invented with the integration contract. It resulted in some analogous debates dealing with the individuals’ rights and obligations. Finally, considering the RMI as ‘working benefits’ raises the question of its role in the regulation of certain employment fields; that is, whether the corresponding jobs are held temporarily or on a long-term basis. In the first case, the RMI can be seen as a structuring element of a transitional market that involves particular resources, the agencies administering the programme and insecure forms of employment in order to pass from unemployment to employment. In the second case, it confirms the existence of the ‘working poor’, thus revealing new segments of the labour market. In both cases, the point is less a question of a lack of incentive for the beneficiaries to go back to work than the institutionalized instability of the employment offered. In addition, this analysis permits us to draw a parallel between the RMI and the *Prime pour l’Emploi*.[16] In both cases, although not in the same proportions, the financial resources gained through additional activity are mixed.

To sum up, our analysis of the patterns of transitions from poverty to precarious jobs to employment, seen through the many aspects of the RMI, emphasizes the unwanted but weighty effects of the economic situations for which the institutions involved can only superficially manage to compensate. Nevertheless, it seems beneficial to develop and promote compensating strategies while making sure at the same time that local and social inequalities caused by a growing segmentation of the labour market as well as the target populations are not reinforced.

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PART IV
Transitional Labour Market Policies in Comparative and International Perspectives

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Chapter 12
Balancing Labour Market Mobility and Employment Security Across European Welfare Regimes

Ruud Muffels

Introduction

The basic assumption underlying the European Social Model (ESM) is that the economic and social sectors of the economy are so intertwined and interwoven in modern European economies that metaphorically speaking they seem related to each other as 'Siamese twins'. Translated to the labour market the idea of a very close reciprocal relationship between the social and economic spheres means that social and economic policies are presumed to perform better if they try to maintain the balance between labour market flexibility and employment security. But there might be different roads to attain such a balance and there is not necessarily only 'one'. A 'one-size-fits-all' policy approach, as the ESM sometimes is understood, is likely to be ineffective in cases where there is large variation in the way countries are successful in establishing a balance between flexibility and security. In this chapter we examine the relationship between labour market mobility[1] and employment security across Europe from an empirical perspective using the data of the European Community Household Panel (ECHP) for the period 1994–2001. The empirical issue addressed here concerns the role macro-level institutions and welfare state policies or welfare regimes play in affecting the balance between labour market mobility (flexibility) and employment security (see also Muffels and Luijkx, 2006; Booth et al. 2002a and 2002b).

In the first part we will develop some empirical indicators for measuring the attained levels of labour market mobility and employment security in Europe. Then

1 Labour market mobility is the sum of the mobility within (job mobility) and between the various employment statuses: permanent job, flexible contract, self-employed, unemployed, inactive (entry and exit). Since the ECHP has no accurate information on job-to-job changes, we use as a proxy for job mobility the level of occupational mobility, or the mobility between jobs of different professional level. A change in occupational status always involves a job change. But some people remaining in the same occupational status still experience a job change either within or outside the firm. Therefore occupational mobility slightly underestimates the amount of job mobility in society.

we will examine the variation across countries and welfare regimes in the way they try to achieve a balance between labour market mobility and employment security. The main question is: which countries perform better than others? We will look at how countries cluster according to our indicators. In a further step we will look at the way in which they cluster using the information on macro-level institutions as they are available for most of the European countries from other data sources, including an analysis of the overlap between the various clusters.

In the next part we evaluate multinomial logit models in order to explain the labour market mobility patterns we have found. We will use a multi-level approach in order to examine the effects of macro-level institutions, country and regime type in order to explain the variation in mobility patterns across countries. Finally, we will formulate some conclusions and points of discussion.

The Theoretical Relationship between Flexibility and Security at the Macro-Level

In an earlier paper (Muffels and Luijkx 2005) we drew a so-called 'flexicurity' quadrant based on the theoretical relationship between job and contract mobility on one hand and income/employment security on the other (see Figure 12.1). In

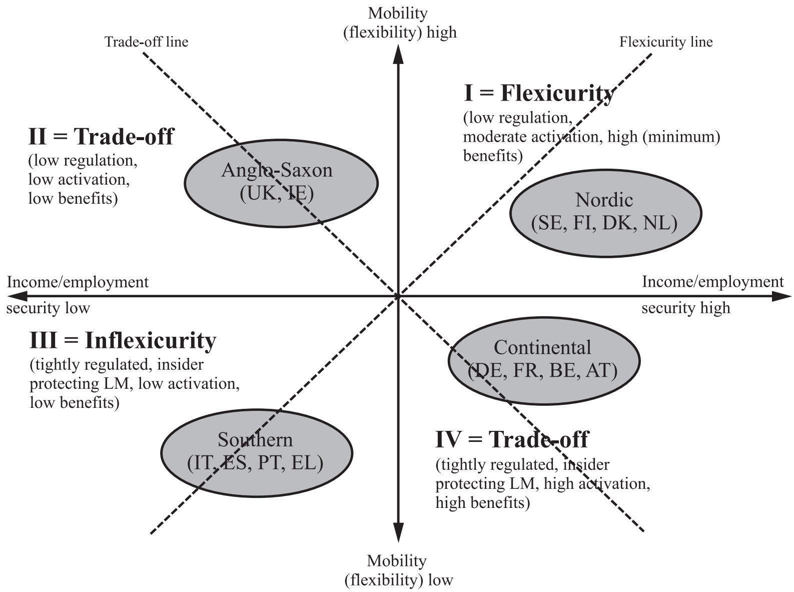

Figure 12.1 Location of regime types in the 'flexicurity' quadrant

two quadrants there existed a kind of 'trade-off' between flexibility and security in which either flexibility is high and security low or vice versa. In the other quadrants the values on the flexibility and security axes are either both high (flexicurity) or low (inflexicurity). The notion of the ESM now seems very similar to the 'flexicurity' notion. If we were to draw a scatter plot of the attained levels of flexibility and security of the various European countries and regimes, we would expect to find that the countries' scatter points would lie around the 45 degree lines drawn in Figure 12.1. Either the points would be around the 'flexicurity' line, signalling a positive association between flexibility and security, or around the 'trade-off' line, signalling a negative association between the two.

The weakly regulated Nordic regime is presumed to attain a high level of institutional flexibility in the labour market (absence of strong employment protection legislation) and at the same time to provide enhanced income/employment security due to collective agreements aimed at maintaining high employment levels and active or activating labour market policies. They might also pay a cost as a result of their efforts to keep their least productive workers at work and as a result of their generous benefit systems. The unregulated Anglo-Saxon regime is presumably strong on the flexibility part (low employment protection), but weak on the income and employment security part (no active labour market policies and little income and employment protection). While the tightly regulated Continental regime might not perform particularly well as regards labour market flexibility (strong employment protection) but fairly well in terms of safeguarding security (high benefits, active labour market policies). Although generalizations are risky, the regulated Southern European regime might combine a low level of flexibility (strong employment protection) with low levels of security (low benefits, segmented labour market aimed at protection of insiders). There is no regime that perfectly fits in the 'flexicurity' quadrant, though the social-democratic and liberal regimes come closest to it. The location of the four welfare regimes on the flexibility/security axes would ideally look like the one drawn in Figure 12.1.

The 'trade-off' thesis presumes that policies aimed at supporting income and employment security by generous benefits and strict employment protection legislation will have a negative effect on efficiency and productivity growth. Strong employment protection will give employers few opportunities to dismiss employees when economic adversity strikes. This will therefore lead to a slowed adjustment process of the labour force to economic shocks, signalling a lack of flexibility in the labour market. The theoretical justification for this is also found in the work of institutional economists who maintain that labour markets that are more tightly regulated (for example, through strong employment protection rules) might not work efficiently owing to the additional transaction costs involved in hiring and firing policies (Addison and Teixeira 2003; Blanchard and Tirole 2004; Blanchard and Wolfers 2000; Nickell et al. 2005).

Another reason for a negative relationship between the two is associated with the knowledge economy. In the economic literature this is known as the process of 'skill-biased technical change'. Due to the more rapid spread of knowledge in the ‘knowledge economy’, the demand for low-skilled labour falls in favour of the demand for higher-educated and highly skilled workers (Wood 1994).

Because of this reduced demand for unskilled labour, their future participation in the labour market is endangered as well as their wages, which are likely to be reduced. Their wages might fall though they cannot fall below the official minimum wage. Due to skill-biased technical change, the unskilled are the losers and the highly skilled the winners (see, for example, Acemoglu 2002, 2003a and 2003b; DiPrete and McManus 1996; Wood 1994). This means that, owing to globalization forces, the unskilled workers face strong barriers to a career, and they might even be expelled from the labour market. The sociological literature also supports the thesis that globalization trends mean that the weakest groups in the labour market, workers in low-status jobs, with low skill levels and human capital endowments, are expected to be exposed to rising employment instability and income insecurity (Blossfeld, Mills and Bernardi 2006; Blossfeld and Mills 2001; Breen 1997; DiPrete et al. 1997; Goldthorpe 2001).

This view that rising flexibility might jeopardize job security is due to the ‘scarring thesis’ which maintains that experiences of non-employment or employment in second-rank jobs has an enduring negative effect on the workers’ future careers in terms of employment stability and earnings (Muffels and Luijkx 2006; Booth, Francesconi and Frank 2002a and 2002b; European Commission 2003; DiPrete and Nonnemaker 1997; Gangl 2002 and 2003; Golsch 2003; Guadalupe 2003; Kalleberg 2000).

The ‘Flexicurity’ Thesis

However, one may cast doubt on whether such ‘trade-offs’ need to exist. The idea that flexibility and security might act as ‘communicating vessels’ has its analogue in the current European policy and academic debate, known as ‘flexicurity’(European Commission 2003; Wilthagen 1998). Starting from an institutional approach, the underlying idea is that institutions matter and that through activation of employers and workers the balance between flexibility and work security can be maintained more effectively. In this view labour markets function better if employers, workers and governments adopt the logic of the ‘knowledge economy’ and invest in human capital over the entire working career of their employees. That will raise their ‘employability’ and ‘flexibility’ and will improve their chances to stay employed and remain in a secure work environment for their lives. Following this reasoning, there is a sort of a ‘double bind’ between the two concepts. Flexibility is required to attain high levels of work security, which in their turn are required to attain high levels of flexibility. This is the positive part of the ‘flexicurity’ thesis. It means that due to the high level of ‘employability’ of workers, a high level of job mobility will coincide with a high level of work security (low exit rates and high entry rates). There is also a negative part of ‘inflexicurity’ (‘inflexibility and insecurity’) that suggests that a low level of flexibility (low job mobility rates) will be accompanied by a low level of work security (high exit and low entry rates). This situation might occur due to a lack of investments in human capital, which in turn leads to low worker 'employability' and hence their job mobility. When this is accompanied by a tightly regulated, segmented labour market excluding particular groups, the attained level of work security is also low.

The Prevalence and Distribution of Flexible Contracts in Europe

The relationship between labour market flexibility and income and job security has been subject to ample academic and policy debate in Europe (OECD 1994, 1995, 1999 and 2004) as well as in the US (Blanchard and Tirole 2004; Blanchard and Wolfers 2000; Freeman 1995, 2004), though most of the evidence is based on aggregate data (Freeman 2005). To date, little evidence in Europe is borne out by empirical research based on comparative micro-level longitudinal data. The few exceptions pertain to the papers of Golsch (2003) and Scherer (2004). These papers show that the more regulated labour markets are, the less able they are to safeguard employment security. Also the evidence in another paper and in various Employment Reports of the European Commission of the relationship between employment protection and job security shows that more protection might jeopardize work security (Clark and Postel-Vinay 2004; European Commission 2003 and 2004). Clark and Postel-Vinay, using the ECHP panel data as well, conclude that the stricter the employment regulations and hence, the less flexible the labour market, the less secure the workers judge their jobs. On the other hand, recent macro-economic research on the issue shows that less protection and more flexibility might lead to more employment security by reducing unemployment through shortening the periods of unemployment (Di Tella and MacCulloch 2005).

Contract Flexibility

In Figure 12.2 we present some descriptive information about the distribution of the various contract types across the EU.[2] A distinction is made between permanent jobs, flexible contracts, self-employment, unemployment and inactivity.[3]

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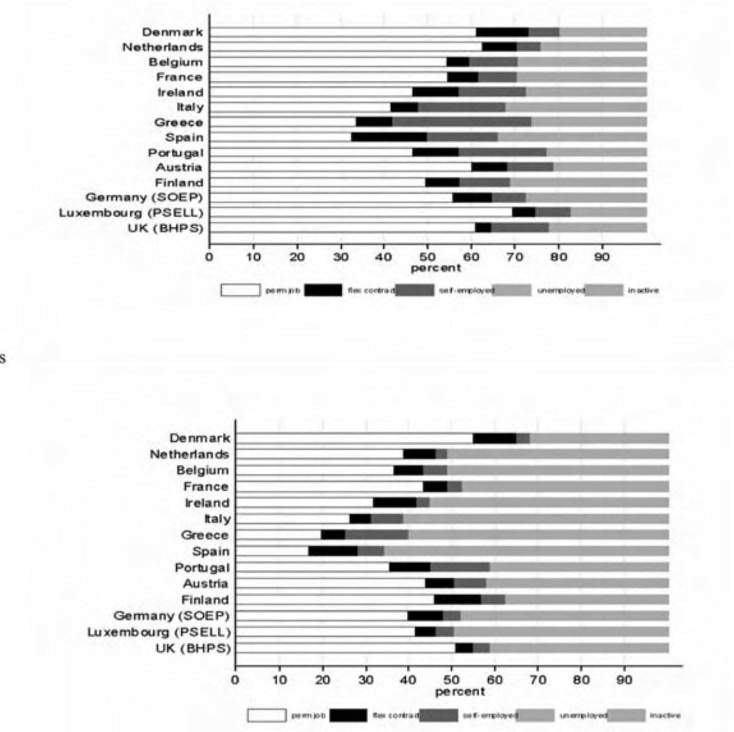
2 The percentages given here cover the working population of 16 to 65 years of age and are averaged over the eight waves of the ECHP stretching over the period 1994–2001.

3 The labour market status variables use the self-defined employment status as provided by the ECHP data. The unemployment figures might therefore differ from the official unemployment figures, which are based on very specific definitions of unemployment depending on the number of hours people are looking for work and whether people are searching for a job and are available to work.



Males

Females

Figure 12.2 Self-defined employment status, averaged over the 1995–2001 period, males/females 16–65 years old, by country

Figure 12.2 Self-defined employment status, averaged over the 1995–2001 period, males/females 16–65 years old, by country

Notes: Self-defined employment status includes permanent jobs, flexible contracts, self-employed, unemployed, inactive.
Source: Eurostat, ECHP 1995–2001, own calculations.

As Figure 12.2 illustrates, the prevalence of flexible contracts is very different across countries of the EU, but not very different between males and females.[4]

4 The ECHP definition includes fixed-term contracts, temporary agency work, casual work and other arrangements such as on-call contracts and seasonal work. In the ECHP data we can also distinguish between an apprenticeship contract and a temporary contract. We have added the apprenticeship contracts to our definition of flexible contracts because in countries with high prevalence of these contracts, such as in Germany, people in these jobs are generally considered as working in temporary employment. The ECHP definition of a 'non-standard' contract seems roughly equivalent to the definition of a 'fixed-term' contract used by Eurostat in the Labour Force Survey (LFS) except for the category 'other arrangements', which seems less restrictive in the ECHP. The LFS definition entails three major types: contracts with a fixed term, contracts with a training clause (such as apprenticeship contracts) and temporary agency contracts. The mention of an end-date of the contract is crucial in the LFS definition (European Commission 2005).

Overall in Europe, 12.5 per cent of all workers aged 16 to 64 years are employed in non-standard contracts (11.6 per cent of men and 13.9 per cent of women), but this percentage varies from as low as 5.6 per cent (4.8 per cent of men; 6.6 per cent of women) in the UK to as much as 28 per cent in Spain (26 per cent of men; 32.4 per cent of women).[5]

The number of permanent jobs also differs extensively across countries, with high percentages in Denmark, the UK, Finland, Austria and Luxembourg, but low ones in the Southern countries. Even greater differences occur for the percentages of people in self-employed jobs: very high percentages in the Southern countries, especially in Greece, but also high ones in the UK and Ireland. These numbers show that across Europe workers are confronted with very different types of contracts depending on the nation's traditions and conditions in the labour market.

The data already suggests that the various countries cluster in different types with respect to the structure of their labour markets. In an earlier paper we used the modified Esping-Andersen typology, consisting of four types: liberal (UK, Ireland), continental or corporatist (Austria, Luxembourg, Belgium, France, Germany), Scandinavian or social-democratic (Denmark, Finland, Netherlands) and Southern (Spain, Italy, Portugal, Greece). Hence, the Southern countries are perceived to belong to a separate familial type of welfare state distinct from the continental ones (Goodin et al. 1999; Heady et al. 2001).

In Figure 12.3 we present these employment status figures once again, but now disaggregated by the modified Esping-Andersen regime typology. We no longer make a distinction between males and females. It is clear from this picture that the incidence of flexible contracts is highest in social-democratic and Southern regimes and lowest in liberal countries with the corporatist countries in between. It suggests that the more regulated labour markets allow employers more flexibility in the hiring of temporary workers in order to offer them more options in adjusting their labour demand to the vicissitudes of the business cycle. The observed differences in the size of the permanent and self-employed labour force across regimes are confirmed by our findings here. It also shows that institutional differences in welfare state policy designs affect people's employment in different forms of contracts depending on their skills, preferences and professional background.

Flexible contracts are very diverse with respect to the particular types of contracts they embody. This ranges from temporary jobs over rather long periods of time (up to five years) or much shorter ones (a few months or even a few days or hours). It involves jobs with a commercial employment office, so-called on-call contracts for a few hours during a particular period, seasonal work for a few months or casual jobs. The ECHP allows us to make such a type of distinction. It distinguishes between fixed-term or short-term contracts, casual work, and other working arrangements. The latter category entails quite a broad number of very distinct forms of fixed-term contracts. We have added to these the training

5 The European Labour Force Survey reports as average for the period 1994–2001 a similar percentage of 12.8 per cent of workers in fixed-term contracts.

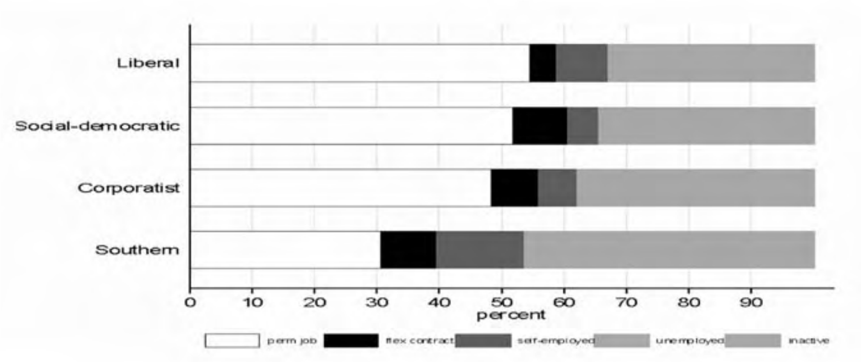


Figure 12.3 Employment status, within the working population aged 16–65 years, averaged over the 1995–2001 period, by regime type

Source: Eurostat, ECHP 1995–2001.

schemes and apprenticeship contracts for people working more than 15 hours. These apprenticeship contracts occur particularly in Germany where the majority of apprenticeship workers are considered as employed in a temporary job (see Figure 12.3). The small jobs of 15 hours or less are not included here. The very dissimilar distribution across the countries reflects the quite distinct traditions in these countries (Figure 12.4). It shows many apprenticeships in Germany and only a few in the UK, a very high share of fixed-term contracts in France, Spain and Finland, a high percentage of other working arrangements in The Netherlands, Portugal, Austria, and many casual jobs in Greece, Ireland and the UK. The extent to which these differences are substantial or merely reflect the different cultural connotations and verbal interpretations attached to these non-standard job types is unknown.

Research Question and Hypotheses

We use the ECHP to record all changes in employment statuses for two consecutive years. We pool these year-to-year changes as defined for the six two-year datasets for the period 1995–2001 and compare the so-called annual transition matrices across countries. We then apply our indicators for occupational mobility, contract mobility (the mobility between contract types) and dynamic employment security (remaining at work between year t and year t+1, plus entry to work minus departure from work for each of the six two-year datasets) and compare the levels across countries and regime types.

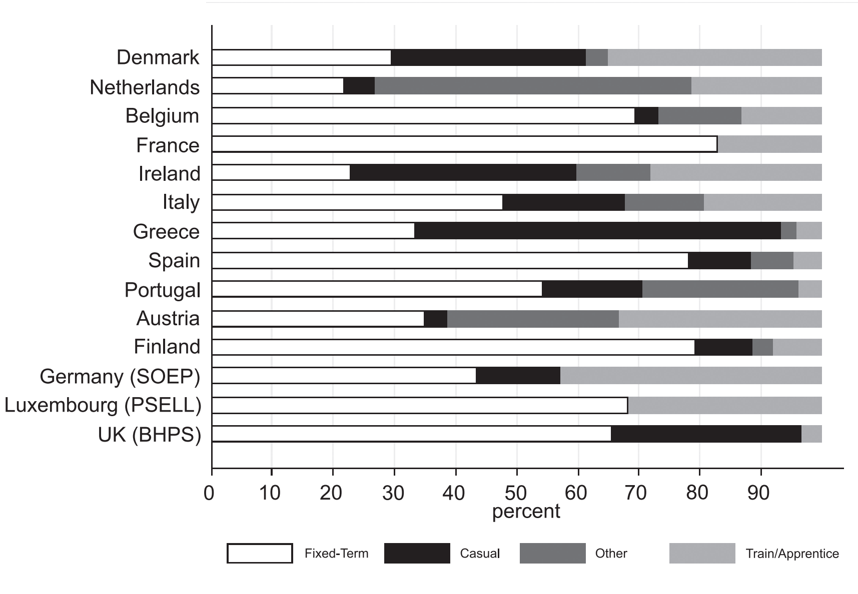


Figure 12.4 Distribution of flexible jobs by type, within the working population aged 16–65 years, averaged over the 1995–2001 period, by country

Source: Eurostat, ECHP, 1995–2001.

Macro-Level Hypotheses

We follow two different research strategies. The first is to apply direct policy measures reflecting the institutional differences across countries and use these in the models to explain job mobility patterns. The second is to use country or regime type variables and examine how they affect the results.

- Following the first strategy, we construct a variety of institutional variables that are expected to affect mobility. Our hypotheses therefore deals directly with the variables included; that is, the level of employment protection legislation (EPL) and the level of employment benefits indicated by the replacement rate (UIB). We use the various EPL indicators for regular and temporary employment (employment protection legislation) as developed by the OECD, which measure the level of institutional flexibility in a country. For the generosity of the social security system we use the OECD overall replacement rates for the year 2000. The main underlying question to be addressed here follows from the 'flexicurity' thesis that the higher the level of flexibility and security in a country, the higher the mobility rates from flexible jobs to permanent ones and the lower the exit mobility out of (non-standard) employment into non-work. In addition, we use two indicators for the employment opportunities workers have. One indicator deals with the availability of arrangements at the company level for working in flexible contracts or flexible working-time arrangements, such as leave and phased retirement schemes. The other measures the performance of the labour market in safeguarding employment security. This indicator is called the static employment security measure since it is based on information for the year 2000 only, the last year for which we have information in the ECHP.[6]

- Following the second strategy our hypotheses therefore deal with the effects of country and regime type characteristics. The performance of the labour market in balancing flexibility and security goals depends to a large degree on the sort of labour market policies governments endorse (Freeman 1995 and 2004). Therefore we expect that country and institutional characteristics have a strong effect on the transition patterns, even after controlling for composition effects caused by a different economic or demographic evolution. For similar reasons we expect that regime type exerts a strong effect on these transition patterns.

We further infer that:

- The liberal and social-democratic regimes perform best in attaining high levels of flexibility and security at the same time (flexicurity), but for the liberal regimes at the cost of income and employment security, and for the social-democratic regimes at the cost of flexibility.
- The Southern countries are expected to perform worse with low levels of flexibility and low levels of attained income and employment security signalling a state of inflex-insecurity.
- The corporatist countries perform expectedly worse with respect to flexibility but rather well with respect to safeguarding income and employment security (trade-off or a state of inflex-security).

Data and Main Definitions

ECHP Data

We use the data from the European Community Household Panel (ECHP) that contains panel data for 14 EU countries.[7] For the UK, Germany and Luxembourg the ECHP contains two sources of information: ECHP-specific panel data, and

6 The company information is derived from the Establishment survey of the European Foundation for the year 2004/05 (see Chung and Muffels 2006).

7 The data included for Sweden are cross-sections and therefore not used here.

panel data from the three national panels.[8] For these countries, we use the latter source. For all but three countries, data are available for the years 1994–2001. For Austria and Luxembourg we have data from 1995, and for Finland the data starts in 1996. Information on contract type, however, is only available in the ECHP from 1995 on, for which reason our sample is limited to the seven-year period 1995–2001.

The data is organized as a pooled person-year file, with one record for each person at each point of time and interview. For the analysis, we retain only people of working age (15–64). Our dataset includes some 105,000 respondents aged 15 to 64 per wave. Data are weighted with the appropriate cross-sectional and longitudinal weights. In addition the weights are adjusted for differences in population sizes across the countries. For examining contract mobility we create six two-year datasets (from 1995 on since we lack information on contract type for 1994) and examine the annual transitions from year t to year t+1. We pool the six datasets and calculate average transition rates for the six two-year periods covering the period 1995–2001.

Flexibility and Security in Europe: Defining Direct and Dynamic Indicators

In the literature the standard approach to measure labour market flexibility and employment security is to use indirect and static measures such as the OECD EPL measures. The OECD made a distinction between protection legislation for temporary workers, for regular workers, and the regulations with respect to dismissal protection. Measures of income and employment security normally deal with information on tenure, unemployment benefits, levels of employment and short and long-term unemployment as they are given in macroeconomic statistics. We use the OECD replacement rates to define income security. For employment security we construct a static employment security measure based on information at the country level on job tenure, employment rate by type of job (permanent, flexible contract, self-employment), and short- and long-term (longer than one year) unemployment rates weighted with the subjective level of job security as given in the ECHP data for the various types of jobs (see Chung and Muffels 2006).

However, our approach is different and departs from the idea of defining direct and dynamic 'outcome-related' measures of flexibility and security using information on individual mobility and career patterns as available in longitudinal datasets such as the ECHP.

This does not imply that the EPL indicators, as they have been developed by the OECD to measure the amount of institutional flexibility of the labour market,

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8 The British Household Panel Study (BHPS) for the UK, the German Socio-Economic Panel (GSOEP) for Germany, and the Panel Socio-économique/Liewen zu Lëtzebuerg (PSELL II) for Luxembourg.

are not very useful in calculating the level of institutional flexibility in society. On the contrary, it shows us the potential room offered by law; that is, the employment protection legislation available to employers and employees to respond in a flexible way to the needs and challenges of the market. However, the extent to which the room offered by law is actually used or how the barriers to flexibility posed by law are avoided or circumvented remains an open question.

For that purpose we need 'outcome' indicators to assess the attained levels of flexibility and security in the labour market. The purpose of this paper is to develop such types of direct outcome measures and to compare them with the indirect ones that are commonly used. To assess the effects of non-standard contracts on the balance between flexibility and security using the longitudinal information in the ECHP we have calculated three such direct dynamic outcome measures, one for occupational class mobility, one for contract mobility and one for dynamic employment security.

Occupational Class Mobility (OM)

Since we do not know in the ECHP whether the job change is in the internal or the external labour market (employers change) we use the information about the transition into a higher (upward) or lower (downward) occupational class across two years. Because workers staying in the same occupational class may still experience a job change, our measure underestimates the amount of job mobility in society. Although we are aware of the caveats to this measure, we still consider the measure meaningful, while we are less interested in the absolute level of job mobility than in the differences across countries and regimes.

Contract Mobility (CM)

The second measure deals with the mobility between different types of contracts, which we label as contract mobility. The ECHP contains information that determines whether people occupy a non-standard job, a permanent job or a self-employed job in year t, and whether they move from one of these types of jobs to another between t and t+1. The measure will also be used to make inferences about mobility differences across countries.

The sum of occupational and contract mobility weighted with the share of people in employment is called the dynamic flexibility or mobility index.

$$M = \rho_e (CM + OM)$$

where Ξ_ϵ is the share of people in employment.

After multiplication with 100 the *M* measure ranges from zero to 100 per cent. If *M* is zero per cent nobody changes occupations or contracts. If it is 100 per cent everybody is at work and has changed either from occupation or from contract.

In our data *M* ranges from 4.3 per cent in France to 15.9 per cent in Spain with a mean of 11.2 per cent.

Dynamic Employment Security (ESD)

Dynamic employment security at the individual level is measured by the employment status of a person and changes thereof, through entry or exit, over two consecutive years. When a person occupies a permanent job he or she is considered employment-secure. People who stay employed for two years (lateral move) are treated as entries in employment security. But people who remain out of work are treated as exits. Likewise, if a person for two consecutive years (re-)enters a permanent job or self-employment from either non-work or from a flexible job, their employment security is increased. And if they leave a permanent job (exit) and move to a flexible job, self-employment or to non-work their employment security is reduced. We define the ESD-measure as the weighted average of the ‘entry’ and ‘exit’ probabilities, weighted with the shares of the different types of workers with respect to their employment statuses in the population of 16 to 65 years (Ξ_c).

$$ESD = \sum_{o=1}^{O} \sum_{d=1}^{D} \rho_o Entry_{od} - \sum_{o=1}^{O} \sum_{d=1}^{D} \rho_o Exit_{od}$$

where: o is the origin state; d is the destination state; O is the number of origin states; D is the number of destination states

o;d: 1 = permanent job; 2 = flexible job; 3 = self-employment; 4 = unemployment; 5 = inactivity

After multiplication by 100 the employment security variable lies between –100 per cent and +100 per cent. If it is –100 per cent it means that nobody has a job and all people have moved out of the labour market. If it is +100 per cent it means that everybody has acquired a job and that no one remains unemployed. In our sample the average score is 39.1 per cent, ranging from 24.3 per cent in Spain to 53.9 per cent in Denmark, and the variation is quite high.

Results of the Descriptive Analysis

In Figure 12.5a we depict the relationship between our flexibility index *M* and our dynamic employment security measure ESD. Furthermore Figure 12.5b shows the relationship between the constructed institutional flexibility index as the inverse of the overall EPL index for the late 1990s and the static employment security measure. Figure 12.5a shows the relationship between labour market mobility or flexibility and dynamic employment security, with Denmark and the UK most at the upper right-hand side of the graph surface, but with Ireland, The Netherlands,

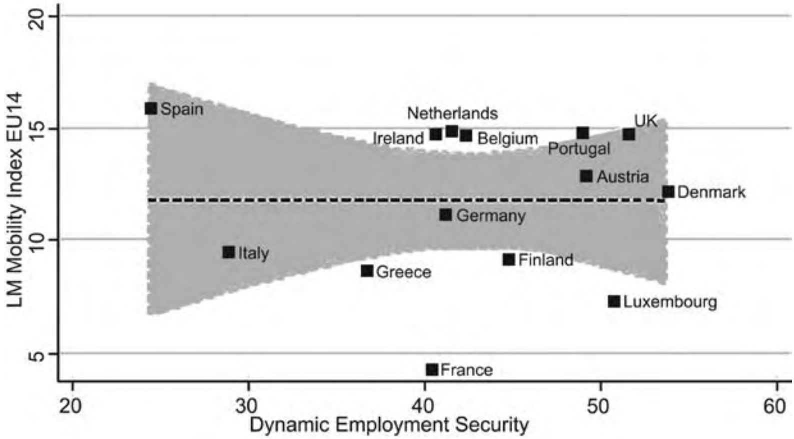

Figure 12.5a Relationship between flexibility (contract mobility + occupational mobility) and dynamic employment security indices

Note: Information for 14 countries, Sweden excluded (EU15 = 100).
Source: ECHP, 1995–2001.

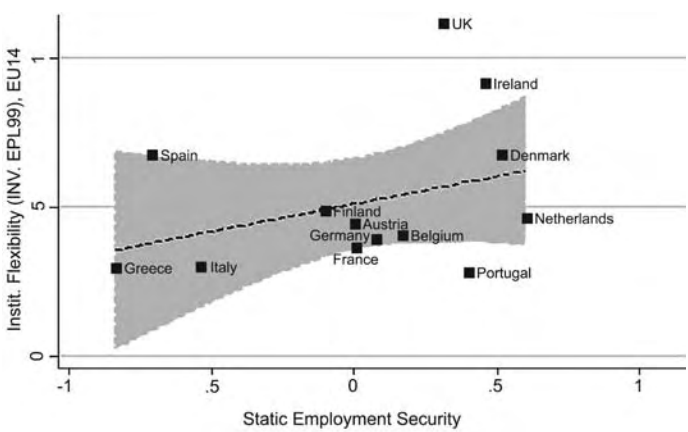

Figure 12.5b Relationship between institutional flexibility and static employment security

Note: Information for 14 countries, Sweden excluded (EU15 = 100).

Source: ECHP, 1995–2001.

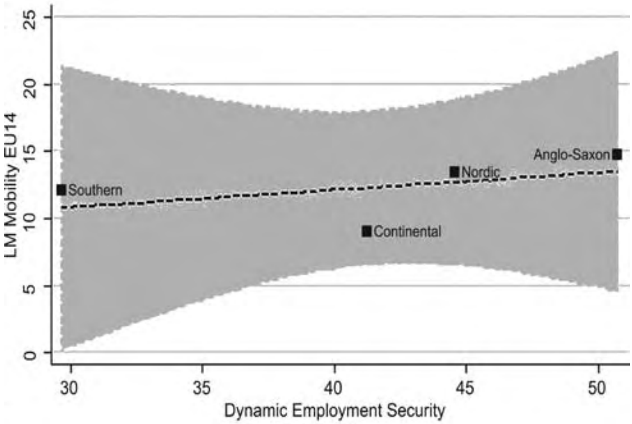

Figure 12.6 Relationship between labour market mobility and dynamic employment security

Source: ECHP, 1995–2001.

Belgium, Austria and Portugal not far away. Denmark scores extremely well with respect to employment security, but for these years not particularly good on labour market mobility. Contract mobility emerges as being high, but the occupational mobility figures for Denmark are rather low. The overall picture is not very different from the picture in Figure 12.5b where we depict the relationship between the constructed institutional flexibility index as the inverse of the overall EPL index for the late 1990s and the static employment security measure, except for a few countries (such as Portugal, The Netherlands, Belgium and Austria), for which the static picture in Figure 12.5b is less favourable.

For the other countries the picture is more or less the same. In Figure 12.5a the Southern countries set themselves clearly apart, except for Portugal for its low levels of occupational and contract mobility and dynamic employment security. In both figures Spain has low employment security levels but relatively high mobility levels. In both figures France has the lowest level of mobility and an average level of employment security. In Figure 12.5a Finland has fairly good levels of employment security but average levels of occupational/contract mobility. In Figure 12.5b Finland scores on both dimensions lower than in Figure 12.5a. A few countries, such as Luxembourg, Finland, Portugal and France, set themselves clearly apart from the other countries.

In Figure 12.6 we depict the levels of mobility and our dynamic employment security measure by regime type. The Southern regimes perform average for labour market flexibility, but far below average for dynamic employment security. Of all the regimes, the Southern performs worst in simultaneously maintaining high levels of labour market mobility and dynamic employment security.

The continental countries do not have a better flexibility record. But they do appear to be capable of keeping their employment security levels at much higher standards. Eventually, the Nordic and Anglo-Saxon countries perform best in maintaining high standards of flexibility/mobility and employment security simultaneously. In the models to be discussed later we have used the various institutional measures such as the EPL as well as the regime-type typology to discover whether each of them contributes significantly in explaining the cross-country differences in occupational and contract mobility.

Models to Test our Main Hypothesis

To test the flexicurity thesis in a multivariate way we have estimated multi-level models to explain the variation in flexibility and security levels across individuals and countries. Flexibility is measured by occupational and contract mobility, and employment security by changes in employment status over time, in particular the exit from work and entry into work.[9]

- Model I deals with job-to-job mobility based on the occupational class variable. This is the mobility from a current occupational class position at t into another position at t+1. We used the following occupational class variable: professional worker; low-level white-collar worker; upper-level manual worker, and lower-level manual or personal service workers. Using this ranking we are able to make a distinction between lateral (staying in the same class), upward and downward job mobility. The reference category is ‘remaining in the same occupational class’.
- Model II on contract mobility examines the mobility from a flexible contract or a temporary job (origin state) to a permanent job, to unemployment/inactivity or to self-employment (destination states). The ECHP contains information on whether workers are occupied in a permanent job or in a temporary job, a casual job or another job with a different kind of contract (such as an on-call or a freelance contract, the so-called other arrangement) as of 1994. The reference category is ‘remaining in a flexible contract across both years’, which we consider a lateral move.

In both models we try to test the effect of institutional characteristics in three different ways:

9 In this chapter, we report only on the results of the models that explain the changes in employment security from t to t+1 for people who occupy a non-standard job at t. It therefore deals only with exit from a flexible contract and (re-)entry from such a job into a permanent job or into self-employment. The models that describe exit from permanent employment and (re-)entry into permanent employment after unemployment or inactivity are reported in Muffels and Luijkx (2006).

- In the first model we used the direct institutional measures such as the EPL indicators, the benefit generosity indicator (replacement rates), our constructed numerical flexibility index and static employment security measures.
- In the second model we used country dummies to test the effect of country-specific factors not covered by the common factors included in the empirical model, such as age, occupational class and education.
- In the third model we used our modified Esping-Andersen regime typology to discover the extent to which it can explain the cross-country variations nearly as well as the country model.

Results of Model Estimation

Model I: Occupational Mobility

The results from the first multinomial model of occupational mobility, which we see as a proxy for job mobility, are reproduced in Table 12.1a. We will not report on the control variables such as age, gender, marital status, education level, sector or firm size but only on the variables where our main interest focused on the year dummies exhibiting the economic cycle effects and the various institutional variables. (A key to the variables applied in this and the second model is shown in Table 12.1b.) Most of the results for the controls confirm our prior assumptions.

First, it is shown that the year effects, signalling the economic cycle effects, are all positive, indicating that the improved economic conditions during the 1990s increase the likelihood of upward, as well as downward mobility. Occupational mobility seems to increase in better economic conditions, although the time trend is not particularly strong.

Institutional Variables

We now turn to the impact of the institutional variables whose effects appear quite strong. The effect is particularly strong for the level of institutional flexibility indicated by the inverse of the strictness of the employment protection legislation (the overall EPL). The greater this is, the greater the chance for upward as well as for downward occupational mobility. The effect for upward mobility is slightly stronger, however, than for downward mobility.

The sign for the level of institutional flexibility for temporary workers is much weaker and also inverse, meaning that the less rigorous the EPL is for temporary workers, the lower the occupational mobility, either upwards or downwards. The more leeway employers have to hire temporary workers, the more they do. But this reduces overall occupational mobility. The fact that both effects have different signs seems to indicate that the stricter the employment regulations for permanent workers, the greater the need to allow employers to hire flexible

Table 12.1a Model I. Occupational mobility, ECHP 1994–2001

Model 1. Occupational class	Institutional model		Country model		Regime model	
	downward	upward	downward	upward	downward	upward
Institutional factors						
Inverse EPL temporary jobs	UK	-0.739**				
Inverse of EPL OECD 1999	3.414***	3.720***				
ESWT-Numerical flexibility index	-0.007	-0.002				
Static employment security index	0.006**	0.007*				
Overall replacement rate (OECD)	-0.007	-0.011				
Denmark (ref.)						
Belgium			1.494***	1.160***		
The Netherlands			0.624***	1.173***		
France			-0.551***	-0.844***		
Italy			0.328***	0.298***		
Germany			0.291***	0.200***		
UK			0.811***	1.125***		
Ireland			1.047***	0.904***		
Portugal			0.697***	0.602***		
Austria			0.758***	0.416***		
Finland			-0.435***	-0.218***		
Spain			1.208***	1.172***		
Greece			-0.625***	-0.650***		
Corporatist (ref.)						

Liberal					0.435***	0.863***
Soc-democratic					0.112	0.645**
Southern					0.301	0.401
Year dummies						
year = 1995	-0.065	-0.124	-0.066	-0.113	-0.043	-0.092
year = 1996	1.380***	1.479***	1.386***	1.496***	1.391***	1.499***
year = 1997	1.018***	1.034***	0.985***	1.006***	1.033***	1.055***
year = 1998	0.896***	0.763***	0.898***	0.755***	0.917***	0.778***
year = 1999	1.122***	1.092***	1.129***	1.084***	1.141***	1.101***
year = 2000	1.163***	1.080***	1.162***	1.069***	1.183***	1.100***
Constant	-6.826***	-1.292	-6.433***	-1.103**	-6.319***	-1.054*
Rsquared	0.142		0.15		0.135	
N	208137		208137		208137	
* p<0.10. ** p<0.05. *** p<0.01						

Table 12.1b Variables included in the models

AGE	Age in years
AGESQ	Age squared
NCHILD	Number of children below 16 years of age in the household
HHTYPE	Couple no child; Couple youngest child 0–5; Couple youngest child 6–16; Single no child; Single youngest child 0–5; Single youngest child 6–16
EDUC	Education level: 1. primary education; 2. lower and medium level of vocational training plus high school (reference category), and 3. higher vocational training and university
CHILDBIRTH	Birth of a child between t and t+1
PREFPT	Preference for working part-time because of caring duties
DLOWEDUC	Dummy for low education (levels 1 or 2)
DHIGHEDUC	Dummy for high education (levels 5 or 6)
UNEHIST5Y	Dummy for whether people experienced an unemployment spell in the five-year period preceding the current job (1 = yes; 0 = no)
TENURE	Number of months employed in the current job, using the information on year and month of start of the current job
DBADHEALTH	We included a dummy for bad health, which is a subjectively assessed measure of one's personal health situation (1 = bad health; 0 = not in bad health)
NETHHLABY	Net household labour income is the summation of the annual net labour incomes of all persons between 25 and 65 years in the household in the calendar year preceding the interview year in €1000 per year
NETPLABY NONLABHHY OTHERHHLABY	Net personal labour income is the person's total labour income earned in the year t–1. Non-labour household income is the income from social security transfers and/or from wealth (excluding income from imputed rent). Other household labour income is the labour income earned by others in the household. Incomes are deflated and made comparable across countries using the purchasing power parities as calculated by Eurostat for the various countries in €1000 per year
WORKHRS	Weekly working hours are the total number of actual working hours a worker usually worked throughout the previous calendar year
DPRIM; DSERV; DINDUS,DPUBLIC	Dummies for industrial sector as derived from the two-digit NACE code, recoded into four dummies for the primary sector, the services/trade sector, the industrial sector and the public sector
FSIZE	Firm size measuring the number of employees in seven classes in the firm (0; 1–4; 5–19; 20–49; 50–99; 100–499; 500+)

OCCCLASS	To take account of bottom and ceiling effects we included the initial occupational class position consisting of either three categories as in Model I, or four categories as in the Models II, III and IV (1 = low, low manual, 4 = high, professional)
INVEPLTEMP99 INSTFLEX99 RR NUMFLEX EMPLSECUR	The inverse of the EPL for temporary workers for the late 1990s, the inverse of the overall EPL index, the OECD overall replacement rate for 2000, the ESWT or company-based contract and working time (numerical) flexibility index and the static employment security variable derived from Eurostat figures for the year 2000.
COUNTRY AND REGIME DUMMIES	Dummies for regime type: Liberal, Social-Democratic, Southern, Corporatist (reference)
DYEAR94 etc.	We included year dummies to account for economic cycle effects. The reference year is the first year of the observation period (1994 for model I, II and IV and 1995 for model III)

contract workers. Both of these effects reduce the level of occupational mobility in the labour market. We also find that the static employment security level has a positive effect on occupational mobility, upwards and downwards. This implies that the better the labour market is at safeguarding high levels of employment security for workers, the greater the occupational mobility. And the coefficient is much stronger for upward than for downward mobility. These results support the ‘flexicurity’ thesis. The numerical flexibility index has no effect on either of the two, not on upward or on downward mobility. The correlation with employment security is however very high (0.60), and so the effect of the numerical (contract and working time) flexibility index is already partly captured in the employment security index. Eventually, we find that the overall replacement rate has no effect on occupational mobility.

The country model reveals that its explanatory power is only slightly better than the first model’s with the direct institutional measures. The results show that many countries exhibit more upward and more downward mobility than the reference country, which is Denmark. This is counterintuitive since Denmark is known for its high flexibility. Our earlier descriptive results already show that contract mobility in Denmark is high, but not job mobility. The exceptions are France and Finland, with much lower mobility rates than Denmark, while Belgium, Spain, Ireland, the UK, The Netherlands and Austria in particular exhibit significantly higher upward and downward mobility rates than Denmark. The regime model performs slightly worse than other two models but shows that liberal regimes perform best in establishing high job mobility rates. At the same time, the social-

Table 12.2 Model II. Exit out of flexible contracts, ECHP 1995–2001

	Institutional model				Country model				Regime model			
	Perm	Self-empl.	Unempl	Inactive	Perm	Self-empl.	Unempl	Inactive	Perm	Self-empl.	Unempl	Inactive
					coeff.	coeff.	coeff.	coeff.	coeff.	coeff.	coeff.	coeff.
Institutional factors												
Inverse EPL temp jobs, OECD 1999	0.066	0.355**	0.193	0.158								
Inverse of EPL overall, OECD 1999	0.545	0.037	-1.255**	0.395								
ESWT-Numerical Flexibility Index	0.005**	-0.007***	0.016***	0.019***								
Static employment security index	0.006***	-0.001	-0.007***	-0.001								
Overall replacement rate (OECD)	-0.013	-0.010***	0.007*	-0.008***								
Country (ref: Denmark)												
Belgium					0.04	0.207***	0.105	-0.976***				
The Netherlands					0.620***	0.889***	0.092	-0.257***				
France					-0.064**	-0.108	0.998***	-0.441***				
Italy					0.042	1.226***	0.338***	-0.431***				

Germany					-0.164**	0.335***	0.686***	-0.436***				
UK					0.956***	1.534***	0.240**	0.500***				
Ireland					0.016	0.935***	-0.225***	-0.451***				
Portugal					-0.108	0.635***	-0.186	-1.353***				
Austria					0.288***	0.231***	0.097	-0.776***				
Finland					-0.046	0.163*	0.857***	0.125***				
Spain					-0.366***	0.783***	0.275***	-0.612***				
Greece					-0.253***	1.292***	-0.006	-0.667***				
Corporatist (ref.)												
Liberal									0.913***	1.168***	-0.549***	0.821***
Soc-Dem.									0.501**	0.28	-0.446**	0.351***
Southern									-0.096	0.718***	-0.463***	-0.141
Year dummies												
year = 1995												
year = 1996	0.053	-0.16	0.123	-0.071	0.055	-0.158	0.127	-0.071	0.043	-0.169	0.138	-0.077
year = 1997	0.18	-0.191	-0.083	-0.114**	0.183	-0.194	-0.069	-0.109**	0.173	-0.194	-0.062	-0.113**
year = 1998	0.009	-0.606***	-0.279***	-0.057	0.015	-0.610***	-0.258**	-0.044	-0.004	-0.615***	-0.255**	-0.061
year = 1999	0.009	-0.331*	-0.302***	-0.328**	0.031	-0.332*	-0.270***	-0.309**	-0.011	-0.345*	-0.270***	-0.330**
year = 2000	-0.09	-0.09	-0.243***	-0.18	-0.067	-0.096	-0.209***	-0.164	-0.119	-0.102	-0.205***	-0.178
Constant	-2.879***	-3.685***	-2.030***	0.075	-2.346***	-5.007***	-1.628**	1.998***	-2.369***	-5.159***	-0.729	1.662*
Rsquared	0.081				0.083				0.078			
N	27319				27319				27319			

* p<0.10, ** p<0.05, *** p<0.01

democratic countries are more likely to exhibit higher upward mobility compared with the corporatist countries.

Model 2: Contract Mobility (exit)

In Table 12.2 we report on mobility in exiting a flexible contract. Again, we do not report on the control variables but only on the effects of the economic cycle or year dummies and the institutional variables.

The year dummies do not exhibit a clear pattern in any of the three models, although most signs for the mobility in exiting work are negative, indicating that the chances of remaining employed (and remaining employment secure) were improving during this period.

With respect to the institutional variables, the EPL indicators show no effect on the transition of a flexible worker to a permanent job. But the EPL-based flexibility indicator for temporary workers has a positive effect for starting one's own business. The overall EPL-based flexibility indicator reduces the chance for workers in flexible contracts to become unemployed in the next year.

The static employment security index increases the chances for workers in flexible contracts to find a permanent job, and reduces the chances for flexible contract workers to become unemployed. The replacement rate, signalling disincentive effects, has no significant effect on the movement to a permanent job, but it reduces the chance to start a business of one's own. It also reduces the chance to become inactive. The numerical, company-based flexibility index has a positive effect on moving to a permanent job, but it significantly reduces the chance of starting a business of one's own. On the other hand, it increases the likelihood of becoming unemployed or inactive. It appears that there is a strong positive correlation between this numerical flexibility index, the replacement rate (0.7) and the static employment security index (0.6), and so it needs more scrutiny to come to final conclusions here.

The country model shows that its explanatory power is about the same as the former model. Compared with Denmark, the UK, The Netherlands and Austria perform better in getting workers with a flexible contract to move to permanent jobs the following year. The same countries, together with Belgium, also perform much better in getting flexible contract workers to move to self-employment. Not only the UK and Ireland, the liberal countries, but surprisingly also Italy, Spain, and Greece show very strong positive effects for the transition to self-employment. For these Southern countries this might in part signal the role of the service sector, and particularly the informal economy.

The results also show that workers in flexible contracts tend to move to unemployment the following year most often in the UK, France, Italy, Spain and Finland. The signs for moving to inactivity are negative for nearly all countries, except for the UK and Finland, indicating that flexible contract workers in all countries are less likely to drop out of the labour market than is the case in Denmark. It seems that if mobility is high, such as in the UK and Denmark, the likelihood of frequent moves between a flexible contract and unemployment or inactivity is also higher. The exception here is Ireland. And this is likely due to the very good employment record Ireland had build up during this period.

The results of the regime model show that the liberal and the social-democratic countries exhibit the highest transition rates to permanent jobs. The liberal countries also perform better in getting flexible contract workers into self-employment. At the same time, Southern countries, including Portugal, have larger percentages of workers in flexible contracts moving to self-employment. The move to inactivity is greater in liberal countries compared with corporatist countries, but the movement to unemployment smaller. The social-democratic countries perform best in getting flexible contract workers to work and preventing them from becoming unemployed, although they can be set at even par with the corporatist countries in terms of movements to self-employment, which more often occur in liberal and southern regimes.

Conclusion

This chapter uses the ECHP data to analyse labour market mobility patterns of regular and non-regular workers in Europe during the 1990s. The main question posed deals with the effect of institutional factors on the various transition or mobility patterns after controlling for a number of common explanatory factors such as human capital, job, personal and household characteristics. Indirectly, the analyses focus on the relationship between flexibility, indicated by occupational mobility, and employment security, indicated by exit and (re)-entry mobility, in the various countries and how this relationship is affected by increasing mobility streams. The main issue boils down to the idea that there is not a necessary trade-off between flexibility and employment security, but that policies aiming at reinforcing both have palpable effects on the nation's economic and social performance. The idea that the concepts are linked to each other as 'Siamese twins' therefore fits nicely into the idea of the ESM. At the same time, it also underscores the notion of 'flexicurity', which has become a prominent metaphor in the current debate on the future of the EES.

The outcomes show that there is a significant positive relationship between attained levels of mobility and employment security in the various countries. Though there is quite some variation across countries, we find that high levels of flexibility can accompany high levels of employment security. The model estimations of occupational and contract mobility generally confirm these findings. They show that institutional measures, country dummies and regime type exert a significant effect for all models in explaining the various forms of mobility. Each of the different models performs nearly as well, though the models with country dummies perform slightly better. The level of occupational as well as contract mobility seems to be affected by the amount of institutional flexibility as measured by the EPL index, but less so by the OECD overall replacement rate and by the level of static employment security. We find evidence that the countries with the greatest flexibility also perform best in safeguarding employment security, thereby supporting the ideas underlying the ESM and the 'flexicurity' thesis. Compared to the more flexible labour markets of the unregulated Anglo-Saxon and Nordic regimes, the more tightly regulated and segmented ones of the continental and the Southern regimes perform worse with respect to maintaining the balance between flexibility and security. The Anglo-Saxon and Nordic regimes outperform the others in attaining high levels of flexibility and security simultaneously; though for the first with a small efficiency loss and for the latter with a small loss in the attained level of security. In terms of labour market structure, institutional set-up and socio-political background, the two regimes are very different but in terms of 'flexicurity' outcomes they appear rather equal.

In the corporatist and Southern regime types the level of institutional regulation, which is far beyond the European average, seem to have distorting effects on the balance attained between flexibility and security. The Southern countries share an insider-oriented, segmented labour market that exhibits a low level of labour market mobility but a high level of non-regular employment, due to the strict employment protection rules for insiders, combined with low levels of employment security. The continental countries exert low levels of labour market mobility or flexibility but at the same time high levels of employment security, thereby exhibiting a trade-off between labour market flexibility and employment security.

The policy lessons we think might be drawn from this are that it is in the interests of countries to remove the regulatory obstacles to the creation of a more flexible labour market, while at the same time improving or maintaining high levels of employment security. In order to do this they need not drastically depart from their historical paths nor radically overhaul their existing institutions. And by gradually shifting their policies and institutions they may ultimately arrive at a better balance between flexibility and security. We do not believe that a 'one-size-fits-all' policy in Europe will work. On the contrary, it seems that each country has to follow its own country-specific path in order to remove the barriers to flexibility and to improve employment security. These outcomes surely entail a warning against facile claims for convergence policies at the EU level or to the adoption of a single, ideal-typical European social model. Though the various regimes have a lot in common in the way that they try to achieve a fair and just society, they also seem to follow very different paths towards this goal with varying degrees of success. In this respect Europe demonstrates 'unity in diversity', showing that there is not one world of welfare, but many.

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Chapter 13

Labour Market Institutions and the European Social Model in a Globalizing World[1]

Peter Auer

Introduction

The effect of globalization on the labour markets of the world – the trend towards a feared erosion of the standard employment relationship and its consequences for the European Social Model (ESM)[2] – has triggered a new interest in the working of institutions in general and in labour market institutions in particular. Major labour market institutions[3] reported in the literature include employment protection regulation, unemployment protection and active labour market policy programmes as well as programmes governing wage formation, including minimum wages. The latter also concern unions and employers' organizations and collective bargaining (and thus the industrial relation system) as another important labour market institution. Major institutions in the sense of policy-making and implementing organizations are the ministries of labour and the labour exchange (public and private employment services, which often also administer unemployment benefits (UBs) and active labour market policies (ALMPs).

This chapter will mainly discuss employment protection regulation and the employment-related parts of the social protection system (UBs and ALMPs) from

1 This chapter is based on an adapted version of a paper presented at the 14th World Congress of the International Industrial Relations Association in Lima, Peru, on 12 September 2006.

2 For a discussion of the various meanings of the ESM, I refer to the chapter by Rogowski in this volume. Labour market institutions, which determine working and employment conditions of European workers, are of course part and parcel of the model and their reforms impact on it.

3 The term 'institution' is ill defined and in the literature 'labour market regulation' is often used synonymously. A current definition would see labour market institutions as a set of rules, regulations (laws and collective bargaining and customs and practices) and organizations that govern the labour market and working and employment conditions of workers. They affect on the way firms do business as well. To qualify as institutions that shape the behaviour of agents in predictable ways, the rules and organizations must have certain longevity. For example, dismissal protection will influence the behaviour of employers and workers in terms of the hiring and firing practices of firms and the voluntary and involuntary exit and entry behaviour of workers.

the perspective of an optimal institutional setting to allow workforce adjustment in relative security without jeopardizing productivity and labour market performance. Insofar as such an optimal system can also be seen as the outcome of bargaining processes between the social partners, including the government, efficient institutions of industrial relations form part of such an optimal setting.

There is a debate about optimal institutional design in labour markets in economic theory (for example, Blanchard 2005; Blanchard and Tirole 2004), and the preliminary conclusion of this work is that high social protection can be provided to workers without large sacrifices in efficiency, provided that generous benefits are combined with active search and job-taking, and are handled by an efficient agency. According to these authors, employment protection should come in the form of layoff taxes instead of judicial intervention. The rationale for the latter is that the firms know their adjustment needs better than judges, but also have to pay the price for negative externalities created through dismissals. There is also a socioeconomic research approach, associated with research around the flexibility/security nexus, which is in search of an institutional setting that adequately responds to the challenges on the labour markets of the 21st century (Wilthagen 1998; Schmid 2002; Gazier 2003). Closely related is the search by scholars for the optimal labour contract (*contrat unique*), which is a sort of variant of those searching for an optimal institutional setting, as they also put the relationship of employment protection and social protection in the centre of their interest (Cahuc and Kramarz 2005). However, a big group of labour economists is concerned by questions such as 'do institutions matter or don't they?' and are investigating the effects of a whole array of labour market institutions and regulations (and lately also product market regulations) governing employment und unemployment (see below).

However, a caveat applies here. There is no one-size-fits-all institutional system, nor is there a long-term institutional model that is superior to all others. As Rodrik (1999, 34) observes, 'an approach that presumes the superiority of a particular model of a capitalist economy is quite restrictive in terms of the range of institutional variation that market economies can (and do) admit.' Freeman (1998) too discusses the varieties of institutional features and settings in his paper on the 'war of the models' that are appropriate labour market institutions for the 21st century. But instead of proclaiming one of these models victorious, he predicts a fusion of institutional elements from a variety of 'models' that will result in a kind of new, country-specific institutional species; but only if we have the tools to permit a more detailed analysis. Blanchard also hints at this variety when he notes that, 'what may be optimal for Sweden may not be optimal for Chile' (Blanchard 2005, 367).

But besides some agreement on the evidence for the variety hypothesis,[4] there is much controversial debate and dispute in the field of labour market institutions. For example, Heckman and Pagés (2000) criticize a tacit 'prevailing view',

4 See also the discussion of systemic varieties of capitalism – Hall and Soskice 2001.

expressed by Abraham and Houseman (1994), Blank (1994) and Freeman (2000), that holds that labour market regulations come at low costs and have no effects for employment, and show instead that job security policies have a substantial impact on the level and the distribution of employment in Latin America. Similarly, the IMF (2003) has found that Europe would gain in both GDP growth and reduced unemployment by adopting the low regulatory level of the US labour market. Other contributors to the debate, for example Layard et al. (1991) reckon some impact, but are more careful with their policy conclusions.[5] The OECD (1999, 2004 and 2006) sees minimal or even a neutral impact on employment and unemployment levels, but some impact on the structure of unemployment. Others, for example Baker et al. (2005) show the limits of studies such as the one done by the IMF and conclude that the effects of institutions on unemployment remain uncertain. Two German studies conclude that changes in German employment protection laws (introducing looser protection in smaller firms) 'had no significant impact on employment or unemployment' with possible (but not yet researched) impacts on the structure of employment/unemployment (IZA, 2005).[6] While one has to be careful in drawing conclusions from this debate, the findings suggest a contradictory view, depending on data, countries and models employed. But in any case, employment protection legislation (EPL) seems to affect the structure of employment/unemployment (protecting insiders) more than their levels; and in settings where there is high coordination in industrial relations across a country, eventual negative effects would be cancelled out. In a way, then, it does what it is supposed to do, namely protect the insiders (that is, make access to jobs more difficult for outsiders) but with weak evidence that the scrapping of protection will result in net gains in employment and unemployment. The reason for this is that an improvement of the labour market performance of outsiders might coincide with a worsening for insiders, at least in developed countries, where insiders still form the majority of workers. Another problem with scrapping the protection of insiders is that in dynamic labour markets the future insiders are past or present outsiders and once the protection is gone, they would never enjoy its benefits again. Nevertheless, many countries have embarked on reforms in the area of employment protection, even though – in the OECD area at least – most of them are marginal (in the sense that they affect the outsiders on temporary contracts and not the insiders on regular contracts) and often restrict instead of loosen such regulations (Boeri 2005).

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5 Their conclusion is that 'on balance, employment protection laws are probably bad for employment … but there are equity arguments in their favour, and the evidence on adverse employment effects is not strong enough to warrant a total abandonment of the practice' (Layard et al. 1991, 108).

6 The IZA study is a particularly negative example of dubious economic assessment because it advocates, despite having found no impact of EPL changes, scrapping existing dismissal protection in Germany and replacing it by severance payments.

For the second element here, employment-related social protection (UBs and assistance and ALMPs), a similar debate exists. Again there are those who find that the 'generosity' of UBs (either the level of wage replacement or some combination of wage replacement rate and benefit duration) does not negatively affect unemployment or employment levels, and there are those who show that they do. The former camp consists again of economists such as Baker et al. (2005), who review a range of studies on the impact of replacement rates on unemployment and conclude that the quantitative effect is quite unclear. Coudouel and Paci (2005) also review some of the same literature and conclude that UB generosity seems to have a mild but statistically significant and negative effect on unemployment levels. The OECD (2006) finds a significant negative impact of replacement levels on unemployment and employment, but finds that the negative effect disappears when generous UBs come together with effective ALMP schemes. Only with rare exceptions do the authors cited seem to be reluctant to jump to strong policy conclusions from their uncertain findings.

The (again heroic) conclusion of this debate would be that the duration of UB payments has some effect on the duration of unemployment,[7] but the replacement levels alone have a marginal effect that depends on policy combinations. Here too, reforms have been many. And it appears that these reforms have altered replacement rates and especially duration of benefits in a restrictive sense.[8]

There is also a debate over the effectiveness of ALMPs with defenders and opponents, and many uncertain results as shown in a review of evaluation literature from around the world. On the macro-level it can be shown that they are effective in mitigating the impact of adverse economic shocks (OECD 2006). On the micro-level, their impact depends on their design and implementation, with narrow targeting, intensive placement schemes and selected supply and demand side schemes showing good results (Martin and Grubb 2001; Betcherman et al. 2004; Auer, Efendioglu and Leschke 2005).

While these studies are instructive, they usually remain uncertain and inconclusive about the right policy conclusions. For example, there is a growing debate over policy combinations and reform packages that implies complex policy coordination,[9] but which should yield better results as isolated policies. For example, at the time when early retirement was still thought to be a solution for workforce adjustment, strict dismissal regulation was offset by the existence of such adjustment schemes. Or possible trade-offs between UB generosity and

7 But no clear causality, because it might well be that unemployment persistence causes benefit persistence: this seems at least clear in countries like the US, where duration is normally restricted to 6 months, but where it is common to prolong the duration of benefits when the recession is deep.

8 This not always directly by reducing the replacement rate, but for example by tightening eligibility and lowering reference wages.

9 Raising complexity in policies, implying policy coordination of many diverging interests, poses an important challenge to policy-making.

the acceptance of work can be mitigated by effective labour market policies. What is often omitted in the debate is the positive contribution that institutions can make if they are rightly designed for a specific function and adapted to context. A short reminder of some of these positive aspects might be helpful. Williamson, for example, acknowledged that institutions reduce transaction costs in the economy and may contribute to effective labour (and product, financial) market functioning (Williamson 1985). In their absence, transaction costs (such as for repeated hiring, screening and firing) are ultimately higher than the costs of employment protection, which occur when firms have to fire tenured workers. In the microeconomic literature, tenure, which among others things is a product of employment protection institutions, can be positive for productivity as it induces firms to select workers carefully and to train them (see below). Marinescu (2006) showed, for example, that the return in UK labour law from a two-year to a one-year 'probation period' with easy dismissal had positive results for job matches and training investments by employers without negative effects on employment. But institutions also have equity goals. For example, UBs should guarantee income for those becoming unemployed and ALMPs should speed reintegration. In its 2006 *Employment Outlook*, the OECD acknowledged that ALMPs significantly reduced the unemployment impact of adverse macroeconomic shocks. The benefits received by the unemployed through such schemes or through the UB system serve in turn to support consumption and therefore growth, and legitimize social spending on economic grounds.

Labour markets are dynamic and characterized by various degrees of labour and job turnover (voluntary and involuntary resignations, job elimination and creation), and labour market dynamics seem to increase when economies become more open. There is a business cycle variation in job creation and job loss, but there is also a structural component. While new jobs are created, other jobs are lost. But loss and creation do not usually occur in the same sectors, firms or regions of a country; and do not occur at the same time. Sometimes jobs are lost in one country and created in another. Jobs destroyed and created usually differ in terms of pay, skills, age, sex, and so on. This structural heterogeneity between jobs created and lost is one of the reasons why, even in the presence of a hypothetical quantity match of supply and demand of labour, painful qualitative adjustments are the outcome for many. The pain increases with the level of inadequacies between demand and supply and the time needed to adjust. This is one of the main causes of structural unemployment, which observers usually attribute to the supply side (when the profiles of job seekers are not well adapted to the profiles of jobs) when in reality it is caused both by the shortage of or ill-adapted supply and by the shortage of or ill-adapted demand. A lack of jobs is still the dominant cause of unemployment.

Globalization is thus said to bring about more flexible labour markets. As adjustment to shocks (such as trade liberalization) becomes more frequent, the labour force has to adapt more quickly and the employment relationship is said to become more volatile and short-term. This calls for new securities. As Rodrik says:

> A modern market economy is one where change is constant and idiosyncratic (i.e., individual-specific) risk to incomes and employment is pervasive. Modern economic growth entails a transition from a static economy to a dynamic one where the tasks that workers perform are in constant evolution … And the risks that have to be insured against become much less manageable in the traditional manner as markets spread (Rodrik 1999, 9).

Most observers see dramatic changes in the employment relationship and some even see the end of (salaried) work (Rifkin and Heilbroner 1995; Beck 2000) or at least a system that evolves 'beyond employment' (Supiot 2001).

The long-term employment relationship (and the employment contract) is seen as being part of the defunct Fordist and industrial model, which is in the process of being replaced by a much more heterogeneous and volatile service sector economy. Given what one hears daily about recession, downsizing, unemployment and precarious jobs, one could be forgiven for believing that holding a longer-term job is the exception rather than the rule, and that (numerical) flexibility has finally gotten the upper hand in this phase of globalization.

The rest of this chapter is organized as follows: a first part is devoted to the question whether the longer-term employment relationship, and with it employment stability, has disappeared and has given way to flexible labour markets. The chapter then briefly discusses the impact of stability/flexibility on productivity and at more length the impact on workers' perception of security, as well as on a series of labour market indicators, mainly for EU15 countries. A third part discusses the need for a new combination of employment security and social security and puts this in the context of the industrial relations systems. The conclusion discusses the implications of these findings for a new framework of protected mobility (or protected labour market transitions), which is one possible form of an optimal institutional setting for a globalizing world, at least for the developed world.

The End of Stable Jobs?

It is commonly assumed that globalization and technological change will erode the long-term employment relationship. However, this assumption has to stand the test of empirical proof. Existing work on the issue (ILO 1996; OECD 1999; Auer and Cazes 2003; Neumark 2000) has already concluded that all OECD countries have a varying, but substantial share of long-term employment relationships and are characterized by a degree of stability in their employment systems that is remarkable in view of the dominant view of a much more volatile labour market. This has recently been confirmed by national and international comparative studies, working with various datasets (Erlinghagen and Knuth 2002; Doogan 2001; Souza-Poza 2004). Stevens shows that even in the US, with markedly lower average tenure,

> … long-term relationships with a single employer are an important feature of the US labour market in 2002, much as they were in 1969. … Just over half of men ending their careers in 1969 had been with a single employer for at least 20 years; the same is true in 2002 (Stevens 2005, 1, 24).

If this is the case in the so-called flexible US labour market this must even be more so in the European labour markets. Indeed, as Figure 13.1 shows, there is some reason for being more optimistic than the 'end of work' prophets and those who think that globalization will lead to the disappearance of all long-term employment relationships. Despite such claims, employment stability, measured by average tenure, has hardly changed over the period 1992 to 2005, confirming earlier findings. There is large variation in tenure from country to country but, apart from Ireland, most countries show stable or increasing values, bringing the unweighted European average to 10.74 years, up from 10.48 in 1992. In fact, the countries with lower average tenure are also those with higher numerical flexibility, as can be seen by the US and the UK, but also Denmark and The Netherlands. In contrast, most countries on the right side of the figure are those known for strict dismissal regulation, a fact confirmed by recent OECD analysis (OECD 2004).

However, while the average remains unchanged, the different elements that comprise it have been subject to change. Changes relate to gender, age, sector composition of the economy, etc. For example, we observe an increase in women's tenure and a decrease in male tenure; a slight increase in the share of shorter-

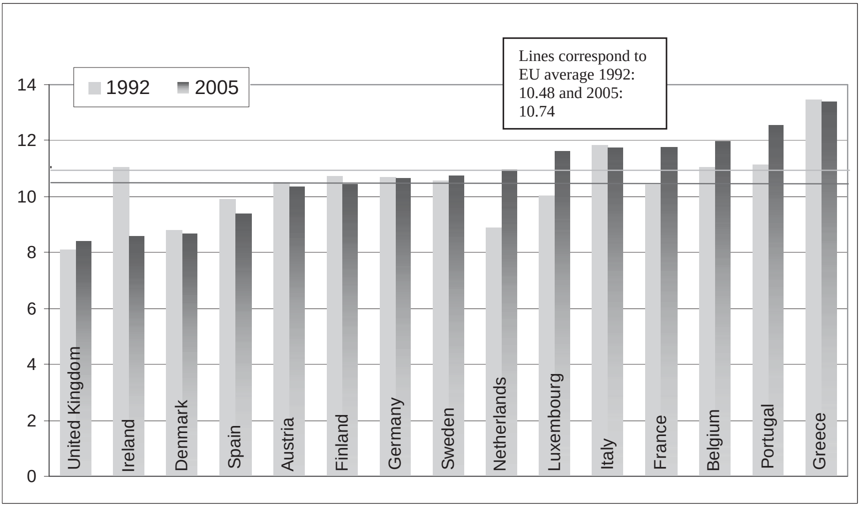

Figure 13.1 Average employment tenure, EU15 1992 and 2005

Note: Ranked by year 2005. Comparable figures for the US are 6.7 for 1992 and 6.9 for 2004. Average tenure in Japan was 12 years in 2000.

Sources: US: Bureau of Labour Statistics; Japan: Ono 2006 and own calculations.

tenured jobs (<1 year) and a slight decrease in longer tenured jobs (>10 years), the decrease in longer-term jobs being particularly strong in Ireland (minus 13 percentage points). There is also a trend towards more heterogeneity in European labour markets, as is shown by an increase in the standard deviation for both short- and long-tenured jobs.

Changes have occurred, and controlling for business cycle and age confirms this: younger workers face systematically shorter employment spells, and flexibility is very much concentrated on them. In 2001, average tenure was only two years for the 15–24 age group, but more than eight years for the 25–44 age group and it stood at 17 years for those older than 45.

Despite these changes, all evidence points to the conclusion that the long-term employment relationship is still the dominant form of employment in many European countries and a long way from disappearing. Yet today it increasingly includes also part-time employment. In fact, the European Labour Force Survey reveals that about 85 per cent of full-time and part-time employment in Europe is of indefinite contractual duration. While the significance of the 'indefinite' or 'permanent' status of contracts depends on the legislation and practice of hiring and firing in countries (see below), the fact of the resilience of the long-term employment relationship in a time of flexibility and globalization is remarkable and hints at the value attached to these forms of contracts.

Bosch (2004) shows that the most significant change that has occurred in the standard employment relationship is the increase in women's participation and a parallel increase in part-time work. But this is not to be understood as a simple erosion of the standard employment relationship because many part-time jobs – especially for women – are in fact voluntary and often become regular jobs in double-earner families, allowing work/family integration, and therefore correspond also to changed preferences on the supply side. One sign of this 'regularization' might be seen in the growth of long-term, part-time jobs. Indeed, Doogan (2001) shows that the remarkable growth of part-time employment in Europe (from 14 per cent of all jobs in the EU in 1992 to more than 19 per cent in 2005) is accompanied by an increase in the share of long-term part-time employment (+10 years).

Are Stable Jobs Good Jobs?

The apparent stability of the longer-term employment relationship does not mean that there are not significant changes. Labour markets are not static, but dynamic: job changes are either voluntary, and then often career-enhancing, but often involuntary. Dismissals and lay-offs are usually dramatic for those affected and their families and for whole localities and regions, when mass-layoffs occur. But there is also a core of stable jobs and the core differs in size by country, sector, etc. There is also a concentration of stable and unstable jobs on different groups of the population.

However, stable jobs are not always equivalent to good jobs: stable jobs can be involuntary part-time jobs, undesirable jobs (such as when people are locked into their jobs without being able to change). And (small) parts of so-called stable jobs are in fact recurrent temporary jobs.[10]

But our empirical observations do not allow us to conclude that there is a general demand-driven erosion of the employment relationship. Employers also value longer-term attachment of their workers and reject a general, supply-side-driven erosion when their workers and unions place a high value on longer-term employment relationships. There is probably a growing mismatch between jobs offered by employers (labour demand) and jobs sought by workers (labour supply) in terms of job quality and tenure expected. And it seems reasonable to believe that the forces of globalization and technological and organizational change will eventually widen the gap between expectations in supply and demand. But the gap is also due to raised expectations that result from a combination of higher education in labour markets and a short supply of higher-qualified, decent jobs. What is to be expected is not a race towards the extremes but to a new 'equilibrium' between flexible and stable jobs, with the former gaining some percentage points at the expense of the latter.

Employment Stability is Beneficial for Productivity … up to a Point

In the discussion of the benefits of flexibility, it is usually assumed that both labour market performance and productivity will benefit from the increased adjustment capacities of the labour markets. The argument is that quicker reallocation from old jobs in less productive sectors to new jobs in more productive areas will increase overall productivity. While this might hold true, it misses one point: not all jobs reallocated are of higher productivity (for example, declining manufacturing usually has higher productivity than many service activities), and not all jobs in the economy are constantly reallocated between sectors. As outlined above there is much stability in the labour markets despite globalization and increased competition. Efficient firms adjust internally as well and use the potential of their labour force. Microeconomic studies thus give much value to tenure both for wage increases and for training investments. Investment in training has to be recouped and logically requires some tenure. It is hard to say where the break-even point between too much and too little is, but our own studies on the issue have revealed that high tenure can go together with high productivity, whereas too much flexibility or too much stability can result in low productivity. Our data are aggregated on the EU level (13 countries and covering all economic sectors) (Figure 13.2). They show that for all workers in these countries taken together a turning point of productivity occurs at almost 14 years. At that point the

10 The OECD shows that about 10 per cent of temporary jobs (that is about 1.5 per cent of all jobs) are long-term temporary jobs with duration of up to five years.

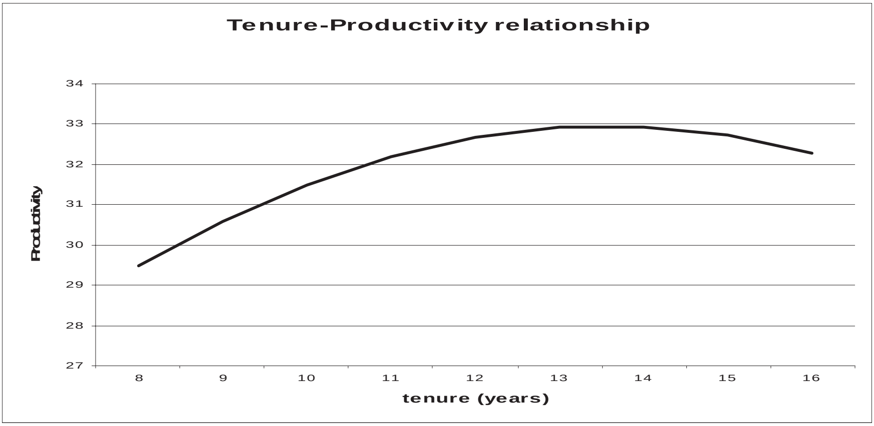

Figure 13.2 Relationship between tenure and productivity

Note: Productivity = output per hour in EUROs; Tenure = average tenure in years.
Source: Data are from Eurostat for the period 1992–2002 and the curve is based on an econometric model developed by Auer, Berg and Coulibaly 2005.

productivity/tenure relationship is optimal and declines thereafter (Auer, Berg and Coulibaly 2004).

It is important to keep in mind, however, that this finding, based on an econometric model, is the average tenure for the 13 European countries between 1992 and 2002. Per sector or country, these estimates would vary; but more importantly, at the individual level, we cannot say that this represents the appropriate length of time to retain a worker. In other words, while an 'optimum tenure' may exist, where that point is cannot be determined precisely. It is evident from the empirical exercises that in general, short tenure (less than one year) and long tenure (particularly above 15 and 20 years) can negatively affect productivity. The productivity-enhancing role of employment security is confirmed in a recent study (Storm and Naastepad 2007).

Studies on the micro-level come to similar conclusions. Kramarz and Roux (1999) find that French firms with high numbers of workers with between 4 and 10 years of tenure are more productive than firms with high shares of shorter tenure or very long tenure.

Pacelli et al. (1998), in a study of 2,800 Italian firms over the period 1985–91, find that workers in innovative industries have a much lower probability of separation than workers in traditional industries, after controlling for other firm and worker characteristics. They argue that this supports the hypothesis that more innovative firms cultivate more resilient employer/employee relationships. Similarly, Michie and Sheehan (2003), using primary data on UK firms, find a negative correlation between innovative firms and a lack of employer commitment to job security, the use of short-term and temporary employment contracts and low levels of training. They find that low labour turnover and functional flexibility are positively correlated with innovation. And they argue that this 'may reflect the importance of employees' tacit knowledge for the successful introduction of process innovations' (Michie and Sheehan 2003, 139).

As seen from the last citation, functional, internal flexibility plays a role here. There is indeed a choice between external and internal adjustment by firms, with consequences on the labour market. While Capelli and Neumark (2004) show that efficient US firms use all forms of flexibility and that there is no clear sign for such a trade-off, in other countries there is evidence for substitution between internal and external forms of adjustment. An example is the arrangements at Volkswagen in Germany, where reductions in working time have been used instead of lay-offs. On a more general level, Abraham and Housemann (1995) compare workforce adjustment in Germany and the US and find evidence that while the magnitude of adjustment in labour volume is comparable, internal adjustment (helped by a short-time work scheme) is preferred to external adjustment in Germany, while in the US external adjustment through lay-offs is preferred.

Employment Stability does not Result in Employment Security: a Paradox

Having observed a certain degree of stability in the employment systems that seems not to be detrimental to productivity, the question remains as to whether such stability also conveys employment security. Many would agree with the statement that stable jobs convey more security than unstable, short-term jobs. And this has been frequently observed. In general, temporary jobs yield less security than stable jobs (Clark and Postel-Vinay 2006). However, the greater protection of stable jobs does not always correspond to greater perceived employment security. In fact, the correlation between average tenure and the perception of employment security shown below does not support the security-enhancing role of stricter protection. The relationship found is weak and not statistically significant, and even pointed in the wrong direction (suggesting at the very least that it is not sufficient to have a long-tenured job to feel secure, see Figure 13.2). One could argue that the share of part-time jobs in an economy increases the perception of insecurity but it does in fact correlate positively and not negatively with perceived employment security. And workers in The Netherlands (highest part-time share among EU countries) feel more secure than workers in Greece, where the part-time share is low. It seems that the subjective feeling of employment security is not only determined by the elapsed length of tenure but is also influenced by the general state of the labour market (for example, job opportunities and probabilities of becoming long-term unemployed) and the economy. For example, security perception correlates quite significantly with the unemployment rate and it seems also that the general state of the economy (in recession or not) has a great impact on subjective feelings. This is the case of Japan, for example, where the perception of employment insecurity is strong, probably because of the long recession, while average tenure is among the longest of all countries surveyed (see Figure 13.3).

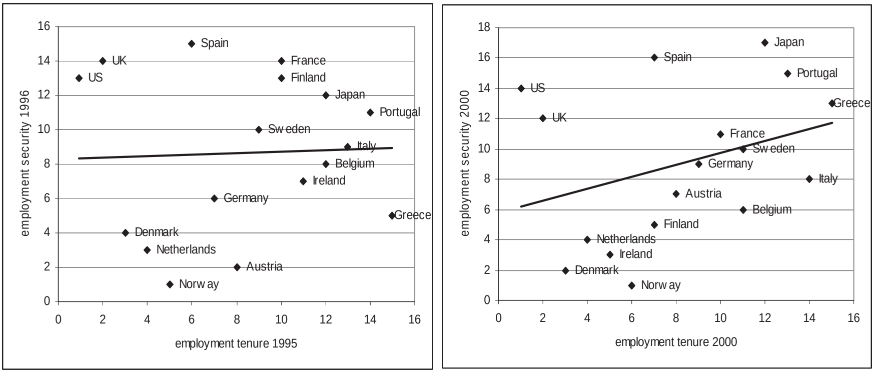

Figure 13.3 Employment insecurity and tenure, 1996 and 2000

Note: Coefficients are not significant (in both graphs the country ranks are shown: Security 1 = highest share of employed with perceived security; Tenure 1 = lowest tenure).
*Source*s: International Survey Research, OECD, Eurostat and national sources.

These results are somewhat puzzling but show that past tenure apparently does not systematically influence future expectations of employment security. While job security plays a quite substantial role in the perception of job satisfaction (see European Commission 2001), if we rank countries according to the three criteria of job quality, employment security and average tenure, no apparent clear-cut pattern emerges (see Table 13.1). We see countries with comparatively low tenure, but high perceived employment security and a high share of good-quality jobs, and countries with high tenure but low-quality and low perceived security.

At first sight this seems to indicate that employment tenure is not a good predictor of perceived employment security, and that maximizing tenure and dismissal protection seems not to lead to the expected results in terms of workers' employment security. Similar findings are reported by the OECD: the overall strictness of employment protection regulation that correlates strongly with tenure does not convey the feeling of security that it is supposed to convey (OECD 2004, 92). In a recent study based on data from the European Community Household Panel, Clark and Postel-Vinay (2006) show that the non-security-enhancing role of employment protection legislation (or tenure in our analysis) holds for private sector, permanent jobs, the bulk of all jobs. However, workers feel most secure in permanent, public jobs and most insecure in temporary jobs. The unexpected negative relationship between tenure and perceived security is also confirmed by using alternative security data, such as those resulting from the Second European Survey on Working Conditions (1995/96) in which the share of insecure jobs for EU15 countries was surveyed.

Table 13.1 Job quality, average tenure and employment security

Ranks in:	Quality	Tenure	Security
	1 = highest	1 = lowest	1 = highest
Norway	n/a	6	1
Denmark	1	3	2
Ireland	8	5	3
Netherlands	3	4	4
Finland	2	7	5
Belgium	6	11	6
Austria	5	8	7
Italy	10	14	8
Germany	4	9	9
Sweden	n/a	11	10
France	n/a	10	11
United Kingdom	7	2	12
Greece	12	15	13
United States	n/a	1	14
Portugal	11	13	15
Spain	9	7	16
Japan	n/a	12	17

Notes:

Quality: Ranking of share of good jobs in a country: good jobs are defined as paying good wages, giving job security, good access to training and good career prospects. Data for 1996 (Source: European Commission 2001).

Tenure: Ranking of average tenure in years. Data for 2000 (Source: ILO 2003).

Security: Ranking of combined indicators of people worried or unsure about their job. Data for 2000.

n/a = not available.

Source: International Survey research, OECD.

Upward Mobility

Besides increasing uncertainty in the face of the globalization that accompanies company restructuring, outsourcing, offshoring, mergers and acquisitions, part of the puzzle of long tenure not conveying the expected feeling of security is that it also needs some (upward) mobility in order to feel more secure. Being locked in a bad-quality job with no chance of change may indeed be one reason for low job satisfaction.

Table 13.2 Different employment systems

	Group A	Group B	Group C
Average tenure**	11.9	10.3	9
Ratio –1year/+10years of tenure**	1:4.2	1:2.2	1:1.6
Employment protection, strictness – regular jobs	2.6*	2.5	1.8
Employment rates for 15–64	63.1	64.2	71.7
Employment rates for 15–24	32.5	35.5	58.4
Employment rates for 55–64	41.4	42.3	52.6
Employment rates women	53.8	56.8	64.5
Share of temporary jobs	11.8	18	8.8
Share of part-time jobs	12	12.9	22.9
Total unemployment rate	6.8	9.8	4.6
Youth unemployment rate	17.6	18.8	8.9
Long-term unemployment rate	3	3.6	1.2
Expenditure on labour market policies+	0.17++	0.3	0.6

Notes:

Countries Group A: Greece, Luxembourg, Italy, Belgium, Portugal, Sweden

Countries Group B: France, Germany, Finland, Spain

Countries Group C: Denmark, The Netherlands, Ireland, UK

* Excluding Austria and Luxembourg due to missing data. ** Data for 2002.

+ Data per 1% point of unemployment (2002/03), except for labour market policies spending in Ireland: data from 2000). ++ Excluding Luxembourg due to missing data.

All data are group averages and refer to 2003, unless otherwise stated.

Source: European Commission 2005; OECD 2004. Tenure data provided by Eurostat, author's calculations.

The upshot of an analysis of this question is that countries with higher numerical flexibility are indeed also those that have better transformation rates of temporary into permanent jobs and also of low-quality jobs into jobs of higher quality (European Commission 2003 and 2004).

Denmark and The Netherlands in particular have good records on both counts. And Ireland and the UK also transform many temporary jobs into permanent jobs and lower-quality jobs into higher-quality jobs. However, the UK does not do much better in transforming bad into good jobs than, for example, Portugal. But the starting levels are different as well: with the exception of The Netherlands, the flexible countries have low temporary job shares (see Table 13.2). In terms of good-quality jobs, we consistently see high shares in Denmark and The Netherlands, but lower shares in the UK.

Different Employment Systems

If we now cluster the 15 'old' European countries by degree of flexibility in the labour market (using average tenure, the distribution of tenure in short and long employment spells and the OECD indicator for employment protection legislation in regular jobs) it appears that all countries in case C, those with a greater share of shorter-tenured jobs and a lower share of long-tenured jobs, shorter average tenure and looser EPL, have – taken together – by far the highest employment rates of all countries and for all groups in the labour markets such as women, older workers and young workers. Group C countries also have the lowest unemployment rates in general, and for selected groups (see Table 13.2).

The simple analysis tells us that low average tenure and a low ratio between short- and long-tenured jobs, suggesting more mobility, goes together with good results in many of the labour market indicators that are used by the European Employment Strategy (EES) to assess a country's success. At this level of analysis, no causal relationship is suggested, only covariance. For example, the higher employment rates for young workers, which are paralleled by low unemployment rates for the same group, could explain tenure distribution instead of tenure distribution explaining employment rates.

However, the more flexible countries spend more on labour market policies and have a much greater share of part-time employment (but a markedly lower share of temporary jobs). The countries in group C also have a much better growth-employment elasticity: the combined gross arc elasticity for the years 1993–2003 is 0.46 for 1 percentage point of growth, whereas it is only 0.25 in the countries of group A.

We also note that in terms of the overall competitiveness index produced by the World Economic Forum, group C countries fare better than the two other groups (WEF 2005). Table 13.3 confirms the results of Table 13.2: the more flexible C countries in Europe perform better and achieve high values on the global competitiveness index. The WEF does not collect indicators on workers' security and welfare or on job quality, so that the full arguments for flexicurity cannot be derived from existing data. But the table also suggests that there is almost no difference in wage determination (fairly centralized in all three groups) across the three groups. However, good performers have cooperative labour relations, which might confirm former work on the generally positive effect of coordination/cooperation on economic outcomes (Elmeskov et al. 1998).

While the tables look like a confirmation of the view that rigid labour market regulation leads to lower labour market and economic performance, the story is much more complicated. There are countries that have good labour market performance with stricter regulation (Sweden and Luxemburg). Also the distance

Table 13.3 WEF indicators and European country clusters

	Group A	Group B	Group C
Global competitiveness	4.86	5.37	5.46
Hiring and firing	2.75	2.80	4.0
Wage setting	3.6	3.7	3.6
Employer/union relations	4.6	4.6	5.5

Notes:

Global competitiveness index: scores from 5.85 (best) to 2.50 (worst), 117 countries.

Hiring and firing index: value 1 = most regulated to value 7 = set by employer.

Wage setting index: value 1 = centralized to value 7 = company-determined.

Employer/union relations: value 1= confrontational to value 7 = cooperative.

Values are for 2005.

Source: WEF 2005.

between the group B and C countries in the WEF's ranking is small, an indication that the roads to prosperity are manifold. Only some of the flexible countries can deliver on job quality and perceived employment security by workers. Indeed, if we go back to our initial ranking of three indicators on job quality, employment security and tenure (Table 13.1) we see that some of the countries in Group C have a higher ranking for the quality and perceived security than others. Denmark, for example, comes in first in the share of good jobs and second in terms of perceived employment security, with the third lowest tenure among the 17 countries ranked. The Netherlands is placed third for quality share and fourth for perceived employment security. However, the UK arrives only in seventh place on the quality ranking and in twelfth place on the perceived security ranking, while it has the second lowest tenure. The US arrives in fourteenth place (high perceived employment insecurity) with the lowest tenure of all countries.

There are countries that have flexible labour markets with good labour market performance but high levels of perceived insecurity and rather bad ranking in terms of job quality, while others are flexible without the negative effects of flexibility for workers' security and job quality. This seems to be the case for Denmark and The Netherlands, for example. However, in general, countries with relatively 'rigid' labour markets, as measured by average tenure and tenure distribution (such as Greece, Italy, Japan and Portugal), rank worse.

Clustering countries along other criteria such as those originally developed by Esping-Andersen (1990 and 1999), modified for example by Visser (2001), would show that results might in fact be determined by country patterns and practice of industrial relations. Cooperative and regulated 'Nordic' countries (Sweden, Denmark, Finland, The Netherlands) would then be best performers with a combined score of 5.6 on the competitiveness index, with the 'deregulated' and less cooperative Anglo-Saxon (UK, Ireland, and for this purpose the US) countries being very close (5.5), but the Southern 'confrontational' countries (Greece, Spain, Portugal, Italy) coming in far behind with a score of only 4.5.[11]

Two 'models' would then be equal performers in terms of overall effectiveness and labour market performance. The choice (if there is such a choice at all) would then be between a model that ranks high for indicators of employment security, job quality and cooperative employment relations with strong actors despite a flexible labour market, and one that values the market rather than institutions with suboptimal outcomes in a series of social indicators such as perceived employment security, job quality, income dispersion and poverty rates.[12] However, the real problem cases seem to lie between these two extremes: the countries with dissatisfying performance both in their labour markets and the economy. Recommendations for these countries would then depend on the choice between the two models: in short, markets with low or high levels of institutional 'framing'.

Flexicurity, an Alternative Organization of the Labour Market?

Only in the case of some of the group C countries can we then speak of flexibility that does not come at the expense of security for workers, because UBs and ALMPs as well as new social rights such as parental and training leaves result in what some call 'flexicurity' (Wilthagen 1998; Madsen 2003) others 'protected mobility' (Auer 2005; Auer and Gazier 2006), 'balancing flexibility and security' (Cazes and Nesporova 2003) or 'transitional labour markets' (Gazier 2003; Schmid 2002). Flexicurity is an important theme in the EU, but the term is also discussed in other parts of the world such as India (Shyam Sundar 2005), China and Latin America.

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11 Visser (2001) identifies four models for Europe: (1) Northern corporatism, (2) Central social partnership, (3) Anglo-Saxon pluralism and (4) Latin confrontation, and highlights their differences regarding the degree of coordination versus confrontation, the role of the State as well as the relationship among the social partners. For example, collective bargaining in the Northern corporatism and Central social partnership models is carried out at the sectoral level with the State acting as a facilitator. In the Anglo-Saxon pluralism model collective bargaining is decentralized at the company level and the State abstains from the process. The relationship between the different industrial relations models and average length of employment tenure is not straightforward, though a generalized grouping gives the impression of longest tenure in the Latin confrontation countries followed by Central social partnership countries, Northern corporatism countries and lastly, Anglo-Saxon pluralism countries. In terms of labour market spending the leaders would be the Northern corporatist countries (average spending of 2.8 per cent of GDP on LMP and 1.20 per cent on ALMP) while Anglo-Saxon countries are usually low spenders (1.3 per cent on LMP and 0.75 per cent on ALMP) with the other two in the middle (Central social partnership SP 2.5 and 1.00 per cent respectively, and Latin confrontation 1.75 and 0.76 per cent respectively).

12 For a similar view, see also OECD 2006.

The flexicurity approach in its simplest form advocates some rearrangement between EPL and social protection (UBs, ALMPs) to allow for labour market adjustment to a more volatile and uncertain economy without jeopardizing employment security. However, some of the 'new' social rights, such as parental or training leave, also play a role as they provide flexibility and security. But can flexicurity arrangements – implying in some cases a shift from (too strict) employment protection at the company level to more social protection at the societal level[13] – result in 'optimal' institutional settings in which necessary workforce adjustments can be made, while workers remain protected but are more rapidly (re)integrated into the labour market? Again, the great diversity of institutional arrangements throughout the world, mentioned at the beginning of this text, makes a straightforward answer difficult and hint at the coexistence of different models and not a 'one-size-fits-all' flexicurity model. Nevertheless, some of the models seem to yield superior performance when both efficiency and equity consideration are taken into account.

And while the variety condition holds, some basic principles should apply. The elements at stake are: (1) EPL and collective bargaining arrangements for employment security, (2) social protection, especially work-related items such as UBs and ALMPs, (3) an array of 'new' social rights such as a right to training, parental leave, reversible part-time/full-time schemes, etc., and (4) the bipartite and tripartite social dialogue as an obligatory element in changes that concern both parties of industry and the government – as the legislator and one of the main providers of social security (Auer and Gazier 2006).

As outlined above, the process of change and a dialogue with the parties concerned are important. Non-observance of this fourth condition may bring about a change that is perceived as imposed and/or might lead to suboptimal outcomes as the social partners are carriers of knowledge. For integrating their views into the change of regulation is a necessary (but not sufficient) condition for all labour market reforms towards flexicurity. The recent experience with the 'first job contract' (CPE in France) and the decision by the government coalition partners in Germany to introduce a two-year probation period into employment contracts (as did the French contracts) serves as an illustration of this. While in the first case the fourth condition was not observed, in the second case there are complaints from both worker and employer organizations that the intended (but not implemented) change is a step towards worsening rather than enhancing working conditions and the conditions for doing business.[14] In low-trust environments, the

13 Optimization implies in some cases also a tightening or at least better enforcement of employment protection at the company level and the building of a better and more generous social protection system with good coverage.

14 Unions complain about the loss in security for workers, and employers point to the fact that the present legislation which allows temporary contracts is better than a regulation that would scrap all temporary contracts and replace them by a two-year probation period.

Table 13.4 Employment security or labour market security?

	High LMP spending	Low LMP spending
High employment protection	France (EPL21 / LMS08) (AT11.1 / S16)	Japan (EPL25* / LMS24) (AT12 / S25)
Low employment protection	Denmark (EPL08 / LMS01) (AT8.3 / S02) PROTECTED MOBILITY (flexicurity)	United States (EPL01 /LMS25) (AT6.6 / S21)

Notes:

Rank 1: EPL = Employment protection legislation strictness, 1 = less strict, 26 = most strict (*Estimation for Japan, as in pure legal terms EPL is not particularly strict but this is compensated by employers' practice).

Rank 2: LMS = Labour market security, expenditures for labour market policy, 1 = highest, 25 = lowest.

Rank 3: S = Perceived employment security, 1 = most secure, 26 = least secure.

AT = Average employment tenure (years).

Ranks among 26 (25 if data missing) OECD countries.

Source: OECD, Eurostat.

sequencing of reforms is crucial, for example introducing the security elements, before adjustment flexibility can be realized.

In conclusion, it seems then that for achieving decent work (illustrated by good ranking in both the quantity and the quality indicators) more is required than just stable or just flexible employment relationships. There are country-specific, optimum combinations of employment protection and labour market institutions and policies that provide income, social and employability protection, which seems to yield more job security than stable jobs alone in an uncertain environment. This may also partially explain why in countries which enjoy such a combination job quality is higher: workers able to quit jobs or who are protected when dismissed might evaluate present jobs held more favourably than those workers which have to stay in their jobs, either because of a lack of other opportunities or the absence of protection, even if they do not appreciate them. Having choices and protection seems to be valued more highly than having protection with few choices.

Complementarity of Employment Protection and Protection by Labour Market Policies?

On a macro-level, these choices are illustrated in Table 13.4. The table shows very schematically the interaction between tenure (or better its proxy, which in this

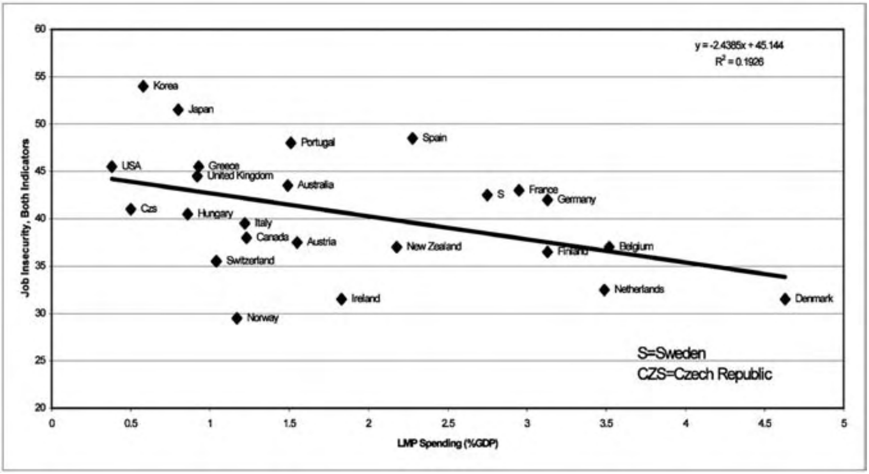

Figure 13.4 Job insecurity and labour market policies, 2000

Note: Job insecurity is the average percentage between two indicators: 1) workers worried about the future of their company and 2) those unsure of a job with their company even if they perform well.

Sources: OECD 2001 for data on job insecurity; OECD 2004 for data on LMP spending (Data for Ireland from 2001).

case is a ranking of employment security legislation for the 1990s compiled by the OECD) and labour market security (proxied by expenditure data for labour market policy). In some countries, there is an apparent trade-off between the two: looser employment protection correlates with relatively high spending on labour market policy. The institutional setting of Denmark exemplifies this case while the reverse is shown by Japan: high employment protection goes together with low spending on labour market policy.

Taken together, both seem not only to yield good labour market performance, but also a higher perceived employment/employability security. And this institutional setting also has positive effects on job quality, which rejects the trade-off hypothesis and indicates that policies are complementary.

Figure 13.4 shows the relationship between perceived employment security and the expenditure for labour market policy (LMP) measures. There is a positive relationship between these two variables, which tends to confirm the security-enhancing role of LMPs that we have found and that is confirmed by the analysis of the OECD (2004, 2006) and Clark and Postel-Vinay (2006).

The fact that most of the European countries that have higher mobility are in the loose employment protection/high social protection group suggests that in these countries, transitions and mobility are institutionally backed. This is not true to the same extent for all, but applies at least to Denmark and The Netherlands, and to some degree also to Finland and also some other countries like Ireland.

This leads us back to the comments made above. In these systems something like 'protected mobility' seems to emerge: while employment is less stable and secure at the company level than in some other high employment protection cases, this lesser security seems to be compensated by better labour market security through UBs and participation in LMP programmes, and by the development of social rights such as parental and training leave schemes.

There seem then to be strong arguments in favour of 'protected flexibility' or 'flexicurity' arrangements for labour market transitions that combine a fair degree of stable employment (and EPL) with flexible jobs that are embedded in a system of social protection. Flexibility, stability and security can be imagined dynamically as distributed over the life cycles of individuals. Flexible jobs can be provided at younger ages and stable jobs once family formation starts and intermittent times of protected transitions (such as parental leave, training periods, but also short-term unemployment spells in relatively generous systems, supplemented by active labour market schemes) and job changes. But in order to be effective, flexicurity and 'transitional labour markets' also need zones of stable employment, both in the public and the private sector. Indeed, transitions can be considered as bridges to employment and not as traps for exclusion.

With regard to existing industrial relations (IR) regimes, the only country that has something of a fully fledged labour market security system that combines looser employment protection with passive and active labour market policies today is Denmark. Visser (2001) classifies this country among the 'Northern corporatist regimes'. The IR regime indeed contributes to shaping the employment system of a country because the establishment of such systems requires many bargaining rounds between the tripartite constituents of business, labour and government. The feasibility of the establishment of such 'protected mobility' systems will therefore also depend on the prevailing IR regime. Antagonisms within the IR system may have made it necessary for the governments to legislate in the more confrontational systems, very often to instil bargaining gains in terms of security of employment by unions. A further and complementary hypothesis is that less commitment on the part of the State to provide labour market policy measures and 'generous' UBs for quitting or laid-off workers has encouraged unions to push for more employment protection. Alternatively, an active commitment from the State to act as a provider to displaced workers may – as seen above – increase workers' feelings of job security, encourage worker mobility, and result in medium or low tenure. In the latter case, employment protection stringency is 'traded' against access and to coverage of social protection, which results in firms and workers being 'embedded' in institutions for adaptation and security. And, as the above analysis has shown, some variants of Northern corporatism seems to be the nearest to the model of labour market governance based on complementarities between employment protection and labour market security.

Conclusion: Better Security as an Important Part of the ESM

Globalization, no doubt, tends to affect labour markets and to increase the perception of employment insecurity. Although overall globalization has not destroyed longer-term employment relationships, it increases flexibility at the margin and raises the fear of job loss, leading workers to accept less favourable working conditions. Strains on the systems of social protection have led to fears that increased insecurity cannot be matched by increasing social protection, thus leading to overall welfare losses. Flexibility and the trade-off between flexible labour markets and security are widely perceived as threats that destroy the foundations of the ESM.

This chapter provided evidence that there are European countries that have succeeded in transforming the trade-off into a complementarity. It has been shown that while flexible labour markets yield some gains in terms of employment rates, job quality requires more than just flexibility. It requires core stability in the employment system and a sound institutional environment with labour market policies that provide a security-in-transition framework. At present there is a school of labour market researchers that claim that insured transitions are the basis of an insurance against labour market risks. They accept the metaphor of the 'security of wings rather than the security of the shell' coined by the late Swedish economist Gösta Rehn, and acknowledge the need to protect transitions between different labour market statuses (between jobs, jobs and unemployment, jobs and training, etc.). Labour markets featuring such supply-side-empowered flexibility, protected by regulations and policies, have been coined 'transitional labour markets' (see Gazier 2003 and Schmid 2002) or flexicurity (European Commission 2007). A security-in-transition framework seems to yield good results in terms of labour market performance as well as decent work. In order to produce flexibility and security, it is essential that looser employment protection is accompanied by sound labour market policies and new social rights that also increase women's participation in the labour market. Changing the possible trade-offs between stability, flexibility, and security into a complementarity for globalized labour markets requires bargaining on an enlarged agenda that includes adjustment and productivity concerns of firms and security and welfare concerns of workers, as well as the sustainability of productive and welfare systems concern of the state. This is urgently needed, since globalization will increase rather than decrease the need for insurance against labour market risks and for protected transitions (Agell 1999; Auer, Efendiglou and Leschke 2005).

In order to sustain systems that possess both flexibility and security, however, high employment rates are required, and security should be based on work, not welfare, for those who are able to work. Therefore, the goal of increasing the employment rates of the population as stated by the EES and implemented through national reform plans is indeed of utmost importance for the survival of the ESM. In light of the above analysis, social partners who should be involved in designing such labour market security could agree on the following: a certain level of labour market flexibility can be accepted by unions, when it does not equate to the loss of the standard employment relationship and is embedded in labour market security allowing protected transitions, because this enhances rather than destroys workers' welfare.

A fair level of employment stability (external numerical stability) of the workforce is beneficial for productivity[15] and positive for firms. It thus should be an employer's goal, as it is required for human capital investment and worker motivation. Employment stability is ideally combined with internal forms of adjustments. Furthermore, governments should provide for an efficient labour market security system, based on labour market policies, that also supports internal adjustments. Tripartite bargaining over optimal combinations of flexibility, stability, and security in the labour markets and a common acceptance that all three elements are needed for a productive economy and a well-functioning labour market yielding decent work is an important condition for the survival of the ESM.

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