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## Managing social risks through transitional labour markets

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## **Managing social risks through transitional labour markets**

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The paper builds and quotes at numerous occasions on the work by many network members. Unfortunately due to space constraints not all members could be cited with their valuable contributions. The authors are especially indebted to Günter Schmid (Social Science Center Berlin, WZB) for his valuable comments and suggestions on a previous draft of the report as well as his continuous support of the project. Errors and omissions are, of course, the responsibilities of the authors.

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discussion paper



## Abstract

The research project “Managing Social Risks through Transitional Labour Markets” (tlm.net) was co-financed by the 5<sup>th</sup> framework programme of the European Union. It was jointly co-ordinated by SISWO (*Social Policy Research Amsterdam, Drs. Nick van den Heuvel*) and the WZB (*Wissenschaftszentrum Berlin für Sozialforschung, Dr. Klaus Schömann*). The transitional labour market concept (Schmid 1998) is complemented by a life course perspective reaching from education to work transitions to retirement transitions and the policy oriented perspective of improving the work-life balance.

The network addressed the basic transformation of our European social and economic systems caused by globalisation, modernisation, individualisation or the shift towards the knowledge-based society. The change in the nature of social risks was one of the focal points of the project. The decline of ‘old risks’, inherent to an industrial society, and the advent of ‘new social risks’, such as life course risks or intergenerational risks, were common points of departure for the European research network. Results of the network deal with labour market processes and policy implementation.

The tlm.net evidence supports a shift from active to a mix between active and activating social and labour market policies, involving a change of focus from job and income security to employment and transition security, and from the traditional unemployment insurance to employment insurance arrangements. This implies a new balance of responsibility for managing social risks between the collective and the individual level. Targeting policy and benefits to those most in need ensures the sustainability of social systems at times of financial pressure through population ageing. Successful policies are decentralised in their design and implementation, closest to the local context and target groups, and which involve to a greater extent the social partners at all stages of the process. Making transitions pay and enabling everyone to make the transitions that fit their choices best is a generally shared policy conclusion from the network. Lifelong learning is also a major component of the strategy to deal with the risk of social exclusion, reflecting the understanding of the prevailing need to invest in learning to remain employable on the individual level. Lifelong learning can serve as a sort of insurance against the risk of unemployment.

The TLM-enabled welfare state can be described as possessing three main characteristics: strong equal opportunity policies, investment in human capital throughout the life course, and a good degree of activation of social policies to fight social exclusion. While removing institutional barriers such as the male breadwinner model is crucial, policies cannot be effective in encouraging a more equal division of labour until the gender wage gap is redeemed. Some countries have provided excellent examples of how a coordinated and coherent policy (e.g. combining flexibility and security to flexicurity) together with a readjustment of institutions and social norms can serve to produce good results in the long term to make a reformed European Social Model sustainable.

## Zusammenfassung

Das Forschungsprojekt “Managing Social Risks through Transitional Labour Markets” (tln.net) wurde durch das 5-te Rahmenprogramm der Europäischen Union mitfinanziert. Das Netzwerk wurde zusammen von SISWO (*Social Policy Research Amsterdam, Drs. Nick van den Heuvel*) und dem WZB (*Wissenschaftszentrum Berlin für Sozialforschung, Dr. Klaus Schömann*) koordiniert. Das Konzept der Übergangsarbeitsmärkte (Schmid 1998) wurde dabei ergänzt durch die Lebensverlaufsperspektive, die Übergänge von Ausbildung in Arbeit bis hin zu Übergängen von Arbeit zum Renteneintritt umfasst und einer politik-orientierten Perspektive zur Verbesserung der Balance von Lebensqualität und Arbeit.

Das Netzwerk thematisierte die grundlegende Transformation unserer Europäischen Wirtschafts- und Sozialsysteme, die durch Globalisierung, Modernisierung, Individualisierung oder die Entwicklung zur wissensbasierten Gesellschaft verursacht werden. Das europäische Forschungsprojekt untersuchte die Veränderung in der Art der sozialen Risiken, die mehr und mehr weg von “alten Risiken”, die inhärenter Bestandteil der Industriegesellschaften waren, hin zu „neuen sozialen Risiken“, wie z.B. Lebensverlaufsrisiken oder intergenerationale Risiken. Die Ergebnisse des Netzwerks handeln von Verbesserungen von Arbeitsmarktprozessen sowie Politikimplementation.

Die Ergebnisse des tln.net unterstützen die These eines Wandels von aktiver zu einer Kombination von aktiver und aktivierender Sozial- und Arbeitsmarktpolitik. Dies schließt die Veränderung der Systeme der Arbeits- und Einkommenssicherheit mit ein und reicht bis zur Beschäftigungs- und Übergangssicherheit, sowie dem Wandel von einer traditionellen Arbeitslosenversicherung hin zu institutionellen Arrangements der Beschäftigungsversicherung. Gleichzeitig bedeutet dies eine neue Balance im Management sozialer Risiken auf der kollektiven und individuellen Ebene. Eine stärkere Zielgruppenorientierung von Politiken und Unterstützungsleistungen, gerichtet auf die am stärksten Bedürftigen, sichert die Nachhaltigkeit der sozialen Systeme in Zeiten der durch das Altern der Bevölkerung verursachten finanziellen Engpässe. Erfolgreiche Politikansätze operieren dezentral im Design und in ihrer Implementation, nahe am lokalen Politikumfeld sowie den Zielgruppen und die Sozialpartner werden umfangreicher als bisher in allen Phasen des Prozesses eingebunden. Eine allgemein unterstützte Politikempfehlung des Netzwerks ist: „Übergänge gewinnbringend gestalten“ (Making transitions pay) und jeder Person sollen Übergänge ermöglicht werden, die ihren Wahlmöglichkeiten am besten entsprechen. Lebenslanges Lernen stellt ebenfalls eine wichtige Komponente einer Strategie gegen das Risiko der sozialen Exklusion dar. Es gilt, das Verständnis für die Notwendigkeit kontinuierlich in Lernen zu investieren zu betonen, damit Personen selbst beschäftigungsfähig bleiben. Lebenslanges Lernen kann als eine Art der Versicherung gegen das Risiko der Arbeitslosigkeit wirken.

Der durch Übergangsarbeitsmärkte bereicherte Wohlfahrtsstaat besitzt drei Hauptcharakteristika: starke Gleichstellungspolitiken, Investitionen in Humankapital über die ganze Lebensspanne hinweg und ein hohes Maß an Aktivierung der Sozialpolitik zur Bekämpfung der sozialen Exklusion. Obwohl die Beseitigung von institutionellen Bar-

rieren, wie die des männlichen Alleinverdienermodells von enormer Bedeutung ist, können solche Politiken nicht effektiv eine gerechtere Verteilung der Beschäftigung zwischen den Geschlechtern erreichen, wenn nicht die geschlechtsspezifische Lohndifferenz verringert wird. Einige EU-Länder haben hervorragende Beispiele geliefert, wie eine koordinierte und kohärente Politik (z.B. die Verbindung von Flexibilität mit Sicherheit zu flexibler Sicherheit (flexicurity) zusammen mit einer Readjustierung von Institutionen und sozialen Normen hilfreich ist und gute Ergebnisse bringt, damit längerfristig ein reformiertes europäisches Sozialmodell auch nachhaltig ist.



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# **1 Background and objectives of the project**

## **1.1 Introduction**

From the beginning of its existence the thematic network has been constructed as an open network in the sense that albeit institutional members received the basic funding through the 5<sup>th</sup> framework programme, individual contributions were always welcome and organised on a totally voluntary basis. This has led to a large amount of contributed papers to workshops and the annual conferences. The work has been organised in work packages and reports have been delivered already on intermediate results. Additionally the policy conclusions from the network have been subject of a special report, which has been published as a project deliverable (de Gier and van den Berg 2005b).

A substantial investment has been made to build on the results of the tlm.net research project and to develop a continuation as a research project under the acronym of TRANSWELL by Tilburg University (Muffels). The starting point for the network was the delivery of the so-called *The Seminal Paper* and *The State of the Art Report* by Günther Schmid and Klaus Schömann (2003, 2004) and the preparation of position papers, which guided the work in the subsequent work packages. The annual conferences (Berlin, Amsterdam and Budapest) guided the research of individual members and served to confront our mainly empirical results with results from other European Union member states and, most importantly, with the concerns of policy makers in this field like the European Commission, OECD, ILO and several country representatives and social partner representatives. The tlm.net started with a well defined theoretical framework (the Seminal Paper), which guided the contributions of the member institutes. It builds on the theory of transitional labour markets and applied in a systematic fashion life course methodology and work- life balance issues to each of the basic labour market transitions.

In terms of methodology we have made use of the ECHP in some analyses as well as national panel and cross-section data mainly of individuals. Some firm-level data have been used as well as a wealth of qualitative interview material to identify the validity of best practice cases. The annual conferences served to discuss comparative studies and to assess the sound methodology in each paper presented.

This final report follows a simple structure: First we restate some of the basic premises of the social risk approach building on the seminal paper by Schmid and Schömann (2004) using transitional labour markets as a guiding reference framework. We then summarize the major findings of each of the work packages. The overall conclusions are summarised in a concluding chapter. Some assessment of achievements and areas for promising future research are outlined in the concluding chapter.

## 1.2 Defining social risks, governance structures and the role of transitional labour markets

The rapid structural change that began in the 1970s in Western societies has had a profound impact on the labour market. The transformation of the social and economic system is characterized, albeit imperfectly, by terms such as globalisation, modernisation, individualisation or the knowledge society. Globalisation has sparked ever increasing trade flows and spreading of production across continents. Modernisation affects the private sphere as much as organisational change and privatisation trends demand new responsibilities for the individual and relationships between individuals. The move towards the knowledge-based society has meant a shift in the balance towards more service sector jobs where the most productive services are heavily knowledge intensive and shrinking importance of the production sector in the western industrialised societies. This has led to a profound change in the nature of social risks evident in the decline of the so called ‘old risks’ inherent to an industrial society and the advent of ‘new social risks’ (Esping-Andersen 1999, Schmid and Schömann 2004).

Several developments in the recent past account for this change. The individualisation of the life course progressively erodes the traditional stable working career, interrupting the previously taken for granted continuity education – work – promotion/seniority – retirement. Individual preferences now shape the nature of the modern fragmented career pattern, which however involves risks, which are still largely unaccounted for by present institutional arrangements. The higher involvement of women in the labour market meets countries with a male-breadwinner tradition in social security systems as ill prepared for current and future social challenges. More unstable dual-earner careers have arrived as the prevalent model of labour market participation of households among the younger and middle-aged cohorts. The changing skill requirements of the knowledge-based society (European Commission 2006), which requires a constantly updated stock of knowledge, has put further pressure on the adaptability and employability of some social groups.

Additionally, the transformation of work organisations to cope with the changing dimensions of competitive advantage and the requirements of the economic system has served to wear down internal labour markets and effectively eliminate some of the implicit insurance mechanisms characteristic of the standard industrial system. The erosion of the seniority structure and the status-oriented wage system have universalised employment risks across social classes and have played their part in turning age from a purely biological risk to a labour market related risk. The increasing flexibility of firm staffing practices has turned the “implicit contract model” little effective as a sustainable risk management instrument.

While this is by no means an exhaustive list of changes in risk and risk perceptions (and no attempt to that effect shall be made here), it illustrates how recent trends have altered the nature and span of social risks. This development has blurred the boundaries between “at risk” and “non-risk” groups and thus necessitates a corresponding change in the nature of the work of social risk management institutions from passive to active risk management.

Before we address the contribution of the work packages to the discussion of social risks and the proposed social insurance framework of Transitional Labour Markets (TLM) we restate the basic definitions of our use of the concept of social risks. An important research objective in this sense is the study of which risks are “old” and diminishing and of what exactly the “new” labour market risks entail.

### A typology of risks

Risk can be defined as an event that substantially deviates from the expected mean outcome. Three basic types of risk can be defined in the context of labour markets (Esping Andersen 1999, Schmid and Schömann 2004).

#### *Class risks*

Class risks are defined as risks, which accumulate only for one specific social stratum. These are the types of risks that predominate a standard industrial system in periods of high unemployment, when specific groups are marginalized by technological change and increased requirements, illustrated by the increased risk of unemployment for the low skilled, or increased risk of poverty for single mothers.

Class risks have undergone significant changes. The erosion of internal labour markets and the standard employment contract have served to threaten the employability of all groups on the labour market, even those who previously enjoyed total employment protection (prime age male breadwinners on standard employment contracts). This trend is also partly responsible for the fragile position of the elderly on the labour market. With changes in industrial organisation, workers in some industries are at specific risk due to large-scale volatility of labour demand.

Thus additionally, several “new” risks can be identified. Firstly, the transformation to the knowledge-based society and economy has given rise to new skill requirements (qualitatively different abstract skills vs. technology-oriented skills) and has shortened skill depreciation periods, thereby spreading the risk of income maintenance to all social groups, sometimes even to persons with high technology specific skills. The risk of income volatility is on the rise due to restructuring and income losses upon mobility from industry to service income insecurity.

#### *Life course risks*

Life course risks are related to critical events over the life course. The traditional welfare state accounts for these mainly via two passive strategies – providing income maintenance for adults with children by way of family allowances and for the elderly through pension benefits. These are rapidly proving to be insufficient in managing the wide spectrum of new risks related to changes in the social organization of workfare. Active approaches become ever more important as the unstable dual-earner family structure increasingly bundles risks to the young, lone parents and prime-age workers as well.

Several trends are noteworthy in this context. The rise of labour market participation of women and increased demand for education and economic independence necessitates radical infrastructure changes in welfare states, in enacting equal opportunity policies aimed at reducing the gender pay and career opportunity gap (which still persists in almost all member states of the European Union) and providing an improved public and private childcare infrastructure. Notably, innovative life course management approaches are needed since the change in the labour market role of women has not coincided with a decrease in social requirements or societal expectations regarding childcare and family life.

A recent study in the Netherlands has demonstrated how compressed career patterns affect specifically women, with the time they have for meeting the requirements of both social roles (be educated, have a successful career, marry, settle and raise a family) amounting to only 5 years (de Bruijn, de Vries and Cate 2003). This “multiple role stress” has caused many young women give up employment altogether and become so-called inactive in terms of labour market status. This type of new labour market risk constitutes a sizeable trend, which current welfare states have few instruments to manage.

Another feature of modern society is that individuals are expected to be perfect in all their roles (husbands/wives, fathers/mothers, breadwinners, colleagues, etc), with the accruing stress causes career breaks either in the form of periods of inactivity or changes of job/career/place of residence, with adverse outcomes on eligibility for social benefits. A change in the institutional makeup is required in order to be able to account for this trend via income security in the case of movers, or income maintenance in the case of the unemployed or the inactive.

In combining dual-earner careers, some socially desirable activities emerge as new risks. Given that both parents are now supposed to take care of children, the birth of a child becomes a risk significantly hurting the income capacity of the household. Other forms of care (for the sick/elderly) also require income maintenance. Geographical mobility is an illustration of desirability from the perspective of the macro economy, but may entail a social risk to dual-earner careers, since the move initiated by one partner potentially can hurt the income capacity and lead to a reduction of income of the second partner. In view of more unstable partnerships risk may be accumulating with one of the two partners only.

### *Intergenerational risks*

Intergenerational risks are connected to belonging to a specific group according to generation, race or gender, with life chances of workers being systematically dependent on group membership or membership due to a person’s birth cohort (Esping Andersen 1999, Schmid and Schömann 2004). As opposed to class risks, which are usually determined by social background, intergenerational risks are usually not market-related, although intergenerational risks can be reinforced through market processes (“baby boomer’s financial bust”). Welfare states have implemented a wide variety of responses to class risks with very mixed effect, leading again to a policy of eliminating systematic inequalities through comprehensive equal opportunity policies beginning at the school level.

While these risks are still valid, new risks are emerging and were the principal focus of the tlm.net project. The old intergenerational risk of low intergenerational mobility (high correlation between parental and individual income) is in a sense making a comeback. The ageing of the workforce is the defining factor here, posing also an additional problem in accounting for the higher risk of disability. Activating labour market policies that focus on disability prevention may lead to substantively better results (Nicaise et al. 2005) through avoiding the payment of disability benefits and systematically increasing life satisfaction.

#### Why we speak of problems with social insurance

The erosion of “traditional” social insurance instruments is a phenomenon, which can only be understood on the level of the welfare state itself. Therefore, this section is dedicated to systematizing the challenges on the three pillars of the welfare state: the state, the family, and the enterprises.

The goals of flexibility, security and mobility forming the basis of the European Employment Strategy call for pan-European policy solutions aimed at a far-reaching transformation of policy-making to respond to present-day challenges. The state-level problem with this strategy is that Europe while unified as a political and economic identity is fundamentally composed of countries with very different social and economic systems. This questions the transferability of policy solutions and best practices across European states, especially when considering the very different approaches to policy-making and implementation (institutional structure and normative/social goals). The very difference in welfare state types has been pointed out as a deterrent to the adoption of common European social policy (Scharpf 2002). Concurrently, however, the very process of European integration (and globalisation), which has had an enormous impact on the European economic system, necessitates joint solutions in risk management for affected industries, regions and workers. The open method of coordination is a useful step in the direction of unifying policy guidelines across countries, but the question remains whether it will be enough to support the changes that the social protection system in Europe needs. However, it is still vital both cognitively (through allowing for learning) and normatively (through reflecting a shared vision on social justice).

In addition, the feasibility of the welfare state at its current level of expenditure (and prospectively higher levels with demographic ageing) is doubted by some scholars. For example there is the question, whether welfare states are sustainable in periods of low economic growth and substantial aging of the population and unfavourable changes in the dependency ratios.

The family as a risk management institution in itself is diminishing as well (Muffels 2005; de Lathouwer 2005). There is a higher degree of family instability marked by higher divorce rates, and the extended family model is hardly the norm in Europe any more. The changes in birth rates, the effects of demographic ageing, the individualisation of the life course, and the rise of female labour force participation have all introduced risks (related to career interruptions or changes in working careers due to individual choice or caring responsibilities) that the family itself and the state may find themselves unable to handle.

An additional example is the question regarding the feasibility of the pay-as-you-go principle concerning pensions for geographically mobile people and for people with longer lifespans in receipt of pensions.

In enterprises, work organisation is changing under the effect of new technologies, innovative products and market dynamics. The dissolution of the implicit contract model due to the erosion of long-term stable employment relationships has dealt a significant blow to one of the main avenues through which enterprises provide insurance against external economic risks, although average job durations have not declined much in the last decade (Auer et al 2002). The steady rise in non-conventional employment relationships such as fixed-term contracts, part time employment, multiple employment, and the increasing flexibility in working time have raised concerns that these are effectively turning into a marginalized employment mode, which strikes a delicate balance between avenues of social integration for some and may lead to social exclusion for others (O'Reilly, Cebrian, and Lallemant 2000).

#### The TLM framework approach to social insurance

Without further reference to Rawls' theory of the just society (Rawls 1971) and Dworkin's hypothetical mandatory-interventionist policy (Dworkin 2000) which are two core concepts at the basis of the TLM-based insurance scheme, the potential of transitional labour markets to provide an effective social insurance scheme will be discussed here.

#### *Defining the TLM concept*

Transitional labour markets (TLM) are seen as a necessary complementary element to the economic, technical and knowledge growth necessary to create sustainable full employment in Europe (Schmid 1998). They may be defined as innovative institutionalised arrangements used in order to increase the chances of (re)integration into the labour market and to prevent social exclusion (Schömann and O'Connell 2002, Schömann 2001). TLMs take the form of institutionalised employment bridges intended to facilitate the transition between different employment statuses and relationships over the life course in a way that promotes employability and social integration (Schömann and Schmid 2003).

The TLM concept focuses on finding and explaining what guides transitions over the life course of individuals in various social groups in a society. Some of the transitions over the life course are critical in the sense that they may lead to career paths resulting in recurrent unemployment, long-term employment, inactivity and finally poverty. As a normative concept, TLM aims at preventing such exclusionary transitions and its core goal can be summarised as "making transitions pay" through institutionalised arrangements which enhance the employability and flexibility of both the unemployed and the employed (Gazier 2003).

TLM-based policy uses a differentiated set of mobility options, entitlements and income insurance in order to preventatively address social exclusion through exclusionary transitions, and therefore focuses on both flexibility and security, or *flexicurity*. It focuses

on careers that enable the combination of paid and unpaid activities (especially education and training), facilitate job re-entry, two-way mobility and gradual retirement.

In order for a TLM framework to be implemented in practice, it requires four arrangements to be in place (Schmid and Schömann 2004). Firstly, it needs work organisations, which allow individuals to combine different sources of income and therefore increase flexibility. It further needs social rights or entitlements to be in place which enable people to make freely their decisions about how their life course progresses according to individual preferences. It requires policy provisions that support the multiple use of insurance funds, especially the use of income maintenance insurance funds to finance further training. Finally, public and/or private employment services need to focus on maintaining employability not only for the unemployed but also those in risk of exclusion.

#### *How does TLM deal with old and new risks*

A TLM based employability insurance will attempt to cover all risks related to transitions aimed at preserving employability or carrying out socially desirable tasks. It aims at creating an overarching framework which deals with and accounts for all major transitions during the life course and their associated risks. Therefore, it is functionally organised as follows:

*Income capacity* is to be developed and maintained in order to ensure successful transitions between education and the labour market and between employment and Continuing Vocational Training (CVT) and vice versa.

*Income security* is to be provided during critical transitions between various employment statuses: between part-time and full-time work, dependent employment and self-employment, low-wage and high-wage jobs.

*Income support* is to be made available during periods of reduced income capacity due to the carrying out of socially desirable activities such as childcare or care for the elderly.

*Income maintenance* is to be in place during transition periods from employment to unemployment.

*Income replacement* is to be ensured in cases when income capacity nears zero such as retirement or disability.

The proposed scheme, if coordinated with other social security institutions and policies, can result in the functional equivalent of rigid employment protection, however correcting for its inflexibility. This system can be termed employment insurance, as opposed to the more traditional form of unemployment insurance. While unemployment insurance is provided for under this framework, the entire focus is shifted towards the prevention of unemployment as a whole. If managed correctly it can be very cost-effective, since it can reduce unemployment insurance payments through converting transfer entitlements to employability investments, thereby increasing the income of the social system as a whole.



The TLM employment insurance will consist of four pillars:

*Pillar I* would encompass traditional unemployment insurance and cover unemployment risks arising from purely external circumstances. Following the tendency for diversification of the income portfolio of high-earners, it may be financed via an income as opposed to a wage tax. Concurrently, this will allow for a reduction of over-taxation in the lower-wage segment thus creating more jobs and encouraging people to work through increasing the difference between unemployment benefits and low-wage jobs.

*Pillar II* would comprise individualised social security, employability or mobility accounts.

*Pillar III* would cover transfers or funds related to increasing the degree of equality of opportunity. Selective LMP and state-financed mobility accounts can establish drawing rights to cover some of the income risks associated with transitions. Vouchers could empower individuals to make individualised decisions and actively manage their life course. Equalising opportunities could also involve some form of basic income guarantee independent from work life course – e.g. basic pension rights. In this framework, the discontinuity of the income stream and the working career will be not only be not punished, but in fact encouraged. Labour market policy will aim to not only activate people (mostly men) into full-time job, but also encourage all to engage in socially profitable activities such as education or care.

*Pillar IV* would attempt to cover for risks emerging as a result of the erosion of the implicit contract model and other traditional forms of insurance built into the economic system, such as seniority and status wages in the internal labour market. It will consist of various private insurance schemes, individually or collectively negotiated by employees and employers.

This proposed form of employment insurance would cover all major types of transitions on the labour market, in addition to accounting for the major problems faced when attempting to account for the new risks described above. Through equalising opportunities it will partially tackle the problem of intergenerational immobility. Through providing equal basic entitlements it will also attempt to cover the ‘old’ intergenerational risks. Through the various measures it provides for managing the individualised life course it will decrease dropping out of employment due to ‘burnout’ effects, changes in preferences which may severely depreciate human capital, or caring obligations. It also attempts to account for the erosion of internal labour market and to provide tools for the management of ‘manufactured risks.’

This framework, while theoretically sound, requires rigorous research designed to accept or reject its practical feasibility, as well as to further elucidate its advantages and disadvantages. However, it does provide a way around the difficulty of ‘Europeanising social policy’ by providing an overarching employment insurance based on the concept of TLM in terms of policy objectives. Naturally, the way it will be practically implemented heavily depends on the different forms of social organisation and the type of welfare state, but it can nonetheless serve as a reference point for the evaluation of innovative policy solutions in Member States of the European Union and on the European level, as well as a normative model for enhancing efficiency and equality.

The course of the research in the tlm.net took the opportunity to assess various forms of good practices in European Union member states in each of the work packages using quantitative and qualitative approaches and, in most instances, a multi-disciplinary perspective to gauge the potential for such reforms to better manage old and new social risks for individuals and society as a whole.

### 1.3 Objectives and organisation of the project

Based on the original technical annex to the project proposal, the seminal paper developed the major overall objectives and then the so-called position papers in work packages 3 to 7 developed a further specification of the objectives and themes.

#### Objectives of the tlm.net project

In the context of the previous discussion, the **overall objective** of the network was to contribute to the modernisation of the European social model. With a focus on the evaluation of human resource, labour market and social policies, members sought to find new combinations of policies that work more effectively than traditional policies in specific domains of working and social life. A more cost-effective use of resources for social policies and social risk management may then contribute to more jobs, in case lower social contributions are needed to finance social budgets, and better jobs to the extent that new combinations of learning and working or caring and working may lead to higher job and life satisfaction.

In order to achieve its overall objective, the work of the TLM.NET project was distributed over six work packages, each with its own thematic priorities, as outlined in the original research proposal. Each package was designed to address some of the challenges and risks outlined above, to analyse existing institutional arrangements for the management of social risks, to provide insights on the nature of these risks and the factors that influence them and which define the risk exposure of particular groups, and elucidate the role the European Union can play in alleviating existing frictions between the labour market and other social spheres. The aim was to propose additionally innovative policy solutions.

The work packages (WP) were organised in a “classical” way according to the five transitional labour markets and critical phases of the life course:

- (1) Transitions within employment (WP 3)
- (2) Transitions between education/training and the labour market (WP 4)
- (3) Transitions between employment and unemployment (WP 5)
- (4) Transitions between household activities and employment (WP 6)
- (5) Transitions between retirement/disability and the labour market (WP 7).

A final work package (WP 8) attempted to fuse the experience and lessons learned from other packages into an overarching strategy, together with providing useful insights of its own on the organisation, management, and implementation of a pan-European strategy for the management of old and new social risks. A prime advantage of this mode of organisation is that it promotes a better link between transitional labour market research and other European research projects or already existing networks from the 5<sup>th</sup> framework programme (for example YOUTH transitions, LOWER).

The work package chairs drafted the so-called position papers published in the web-based tlm.net working papers series ‘Transitional Labour Markets’ 2005 no.4 to no.7., which guided the research in their work package building on the seminal paper in the sense that a more explicit research agenda for the work package could be determined and to arrive at a better delineation of the precise topics to be dealt with in a specific work package. In this way each work package formulated specific objectives, which contributed to the achievement of the overall goal. These, along with more detail on the work packages themselves, are presented below.

#### Organisation of the tlm.net project

#### **Work Package 3:** Supporting Labour Market Mobility and Dynamics

The focus of the employment insurance approach is empowering individuals to make life course decisions according to their individual preferences without hurting employability. This package focused on the transitions in and out of the non-conventional forms of employment that are frequently used in the EU, and on the different responses by member states to these new forms of employment. It dealt with the risks involved in these transitions, and the number of transitions into standard employment that occur during different stages of the business cycle. The combinations of different employment statuses that are increasingly contracted bilaterally between employers and employees give rise to new types of risks.

*The specific objective* of this WP was to analyse these risks and suggest feasible institutional and policy responses. It also aimed at elucidating the long-term consequences of transitions in and out of non-conventional forms of employment over the life course.

To this end, the research agenda comprised (Muffels 2005):

- The role of flexible jobs: stepping stones or dead-end jobs
- Factors explaining the internal and external job-to-job mobility of workers
- What patterns can be discerned in the types of contracts and their use in various institutional settings
- Social risks involved in unstable careers
- How can instability and the resulting risks be better managed
- How do institutions affect labour market behaviour over the life course

#### **Work Package 4:** Life-Long Learning, School to Work and Labour Market Transitions

While lifelong learning promotion is at the heart of the European agenda, the persistent underinvestment in Continuing Vocational Training (CVT), the lack of clarity on the impact of programmes targeted at promoting lifelong learning, and the advent of new forms of learning pose questions that can benefit from a TLM perspective.

*The specific objective* of this package was to analyse the impact and potential of the introduction of new forms of learning (e-learning), deal with issues of risk taking and risk-averseness, and to address new possibilities for combining work and education.

To this end, the research agenda comprised (Lassnigg 2005):

- The interrelation between transitions, institutional frameworks and policy interventions
- The analysis of the preferences and behaviour of the principal actors in the labour market
- Improve the knowledge about how institutional frameworks structure transitions, the institutions which promote transitions and which can make them more inclusive through comparative analyses
- Evaluations and policy analysis of education and training measures, especially those dealing with an overarching perspective on lifelong learning policy

#### **Work Package 5:** Activating Labour Market Policies and Escape Routes from Unemployment

This package focused on transitions from unemployment to employment and vice versa. Although there are a number of studies dealing with this issue, most investigations remain confined to the country level, and fail to produce generally valid policy recommendations.

Therefore, *the specific objective* of this package was to derive the lessons to be drawn from existing and new studies on the debate about institutional reforms in Member States and other European countries to alleviate the social costs of unemployment. This work package also aimed to test the policy recommendations from transitional labour market theory making use of recent data available and to provide insights into the long-term effects of employment policies. It contributed to the current body of evidence through conducting cross-country studies on the effectiveness of labour market policy from the perspective of TLM and identified generally applicable policy solutions.

To this end, the research agenda comprised (de Lathouwer 2005):

- Supply-oriented policies; recognising the limits to employment and employability
- Work and flexibility (dis)incentives
- Active vs. passive benefit systems

- Active risk management by social investments in employability
- Making work and transitions pay; activation of tax/benefit schemes into wage subsidies and vouchers
- Activation of the un(non)employed and of employers
- Modification of the management of active policies
- Benchmarking, evaluation, and profiling systems
- Evaluation of innovative policies

**Work Package 6:** Work-Life Balance and New Forms of Transitions and Combinations Related to Household Activities

This package provided insights into the issue of work-life balance, or the combination of work and household- or other social activities. Studies on work-life balance are still scattered across disciplines, with rare efforts to bring together results into a single theoretical or policy framework.

With this in mind, *the specific goal* of this work package was systematising the literature on work-life balance from a transitional labour market perspective and conducting original studies with the aim of deriving innovative policy conclusions. It analysed the various transitions related to the household and the labour market, paying specific attention to compressed working careers and exclusionary transitions resulting thereof, caring obligations, studies of work-life balance, life satisfaction and enabling work arrangements. It identified the risks related to transitions from work to personal activities (caring) and pinpointed policy solutions on the European level accounting for regional imbalances.

To this end, the research agenda comprised (Anxo and Erhel 2005):

- The influence of the institutional and policy framework on time allocation over the life cycle
- Which arrangements favour a better balance between paid work and social activities, foster gender equal opportunities, combat social exclusion, and improve living and working conditions
- Comparative analyses of time allocation over the life cycle across different employment and institutional regimes
- Look for inequalities not only in a specific period, but over the life course

**Work Package 7:** Active Retirement; New Solutions to Demographic Needs and Individual Preferences in Retirement Transitions

The previous focus of European policy making on promoting early retirement is clearly detrimental to the current economic system characterised by demographic ageing. However, attempts to abolish this policy have been slow and ALMPs still largely favour early

retirement trends. Since reformation of retirement schemes requires a significant amount of time, the TLM-based approach can generate and simulate solutions to the governance of the intergenerational contract in Europe.

*The specific objective* of this work package was therefore deriving a new set of arrangements keeping older people integrated in the labour market and allowing for an economically active mode of retirement in order to enable the sustainability of the European social security system. A further aim of this package was to pursue evaluations of such policies to test the innovative potential and the “transferability” of solutions from one country to another. Innovative combinations of employment and gradual retirement as well as the reorganisation of work practices to accommodate for these were also a focus of this package.

To this end, the research agenda comprised (Anxo and Erhel 2005):

- Older workers and their position on the labour market; the variety of transitions involving older workers
- The challenges of active retirement; comparisons of European institutional mixes in order to identify best practices
- Reforms for the abolition of early retirement and the promotion of active retirement
- Path dependency; identifying country-specific paths

#### **Work Package 8: The Sustainability of Employment Insurance**

As opposed to the unemployment insurance scheme, the employment insurance system establishes institutions that provide social security independent of circumstances but dependent on individual choices.

*The specific objective* of this package was to build on the results of the other five packages to assess the feasibility of employment insurance on the European level. It analysed existing institutional arrangements, their overlap, and potential avenues for improvement. It generated overall ways of dealing with risks identified in the other packages and attempted to design European-level solutions.

## **2 Scientific description of the project results and methodology<sup>1</sup>**

The results of the work of the thematic network are presented in this chapter 3, and organised following the work package structure of the project itself, the work packages 3 to

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<sup>1</sup> The report builds and quotes at numerous occasions on the work by network members. Unfortunately due to space constraints not all individual participants of the members could be cited with their valuable contributions.

8. Regarding the general seminars ( the work packages 1 and 9) and the workpackage meetings an overview of the presentations during these meetings has been listed in annex 2 and a detailed programme of the final seminar is provided by deliverable D 4.2. of the final report. The work packages 2 and 10, respectively the creation and operation of the information network and the management of the network, are not discussed separately in this chapter. These work packages are supporting activities, enabling the performance of the scientific tasks of the thematic network.

In this chapter 3 forthcoming work package based publications will be discussed, the contents lists of these publications are to be found in annex 5 of this report. For more information on the publication strategy and results see the dissemination chapter 5, the annexes 3-5 and the bibliography of this report.

## 2.1 Supporting labour market mobility and dynamics<sup>2</sup>

As opposed to the unemployment problems that industrialised countries faced before the oil crises of the 1970s, the current state of unemployment is of a rather different, structural, nature. A host of problems have been pointed out as causes, including various rigidities and barriers to the smooth functioning of labour markets (Andersen and Halvorsen 2002). Promoting flexibility and correcting for structural unemployment are seen as the major current policy challenges, recognised by a number of international bodies like the OECD and the EU (Chung 2005).

The previous project phase (Schmid and Schömann 2003) recognised the matter of working time flexibility and examined the extent to which changes in working time flexibility could stimulate labour market integration for the unemployed and those outside the labour market, often categorised as inactive. One of the key issues was the examination of this component of transitional labour markets in its capacity to assist people to successfully leave unemployment permanently, or whether these exits were merely 'revolving doors', spinning people back into social exclusion. The main research focus was assessing the quality of non-standard, flexible work arrangements (part-time, fixed-term, flexible hours work) and their capacity to serve as stepping stones into employment (as opposed to forming an external labour market characterised by precarious employment).

The main task of the TLM framework in this context is to accommodate and manage competing interests on the national level: governments, which wish to encourage more job-intensive growth, firms which wish to optimally fill staffing requirements by flexible arrangements, and individuals with their varying preferences for working hours along the life course.

Three main types of transitions were identified (O'Reilly, Cebrian and Lallemand 2000; Schmid and Schömann 2003). Integrative traditions are those which help individuals re/integrate into the labour market. An interesting finding was that it was more often the

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<sup>2</sup> **Work Package 3;** Chair: Prof. Dr. Ruud Muffels

inactive than the unemployed who managed to enact these transitions. The unemployed were more likely to look for a full-time job and were reluctant to pursue flexible employment, with only secondary workers or dependents being able to afford to take a part-time job. Results also indicated that while flexible part-time jobs could indeed serve as a bridge to stay in employment for people who were unable to succeed in procuring a full-time job (due to e.g. caring responsibilities), only very few people managed to move into full-time employment after part-time work. Part-time work usually formed a bridge between two periods of non-employment, and therefore it has the capacity to act as a form of integration for those outside the labour market, but can rarely act as a form of maintenance transition, except for the young.

Maintenance transitions (O'Reilly, Cebrian and Lallemant 2000; Schmid and Schömann 2003) represent mobility between different employment statuses while preserving employability, which gain in importance given that social systems penalise career breaks or gaps of non-employment, in terms of pension or even unemployment benefits. Some countries have started to correct for this deficiency, including Germany where reforms were implemented incorporating time spent in child care into pension calculations. More radical reforms are needed, however, since the transformation of the labour market increases the risk for some groups to undergo patchwork careers and patterns of exclusionary transitions.

Exclusionary transitions (O'Reilly, Cebrian and Lallemant 2000; Schmid and Schömann 2003), or those which lead to downward spirals to short- and long-term unemployment, and eventually inactivity are more likely among the lower skilled. In Spain, even well-qualified youth were subject to these transitions. In addition, childbirth increases the risk of falling out of employment and/or experiencing marginal employment. Company restructuring to allow working time flexibility has had contradictory results. On the one hand, this reduced the number of individuals in internal labour markets with the entitlement to traditional pay scales and benefits, but on the other it also increased the number of jobs available, especially for people who previously could not compete for full-time jobs.

Policies should therefore address care responsibilities, carefully manage organisational restructuring (in the form of flexible working time, sabbaticals, or part-time work), which can provide more opportunities for maintenance or integrative transitions, but can also lead to inferior job opportunities, and finally reduce reliance on tax and means-tested welfare benefits on households, which create incentives for withdrawing from paid employment or limiting labour supply.

#### *The benefits and challenges of temporary work*

As mentioned above, temporary work may be seen as an integrative transition after unemployment or a maintenance transition in order to prevent unemployment. The prevention of unemployment is seen as preferable in the TLM framework for mostly normative and macro-level efficiency issues (costs of retraining, unemployment benefits, etc). However, a study implemented in the framework of the current project has demonstrated that unemployment scarring effects (which have mostly been documented for



the US) are also prevalent in Europe (Gangl 2005). Thus, there is a clear case for exploring avenues for the prevention of unemployment, especially given that both previous unemployment periods and the length of the unemployment spell significantly influence the probability of an outward transition to employment (de Koning, Kroes and Gelderblom 2006)<sup>3</sup>. A brief comment may be in order so that the results of this study (Gangl 2005) can be seen in context, as they will have a particular bearing on subsequent discussions. It first confirmed earlier work on the US labour market (although employment prospects recover relatively quickly, wage losses in the order of 10% persist even after three years of subsequent employment), and compared the results to the very different institutional setting in Europe. The study demonstrated that earnings losses in the UK and France were almost on par with those in the US, while workers in Germany faced even more difficulties in finding a job than their American counterparts (who did so easily, although running an increased risk of falling into unemployment again). However, the effect was not equal in different countries. While the UK, France and Germany displayed trends similar to the US situation, the economic costs of unemployment were much lower in Scandinavian and Southern countries. An interesting finding regarding institutional arrangements in this context was that states relying on *either* stringent employment protection legislation, *or* generous unemployment benefits fared comparatively better. Generous unemployment benefits evidently manage to overcome the disincentive effects brought about by large transfers through encouraging more active job search behaviour, especially when combined with the extensive job search and vocational guidance support that typically complement such systems. However, a combination of both generous unemployment benefit and strict regulation (that is, corporatist states) yielded much the same outcomes as those observed for Liberal states, which calls for caution in balancing between social protection and economic flexibility in order to improve the welfare of the unemployed.

Temporary work can also be seen as a measure to enhance flexibility on the labour market. It forms a part of the TLM concept by “encourage[ing] transitions across the border of social systems without inducing downward spirals of social exclusion.” (Schmid 1998:2) However, there has been little empirical evidence to support this theoretical case of having the capacity to (re)integrate or keep people in the labour market. A number of evaluations of this issue were undertaken in the context of this project.

Debels (2004) analysed temporary jobs in the context of the flexicurity debate. The survey covers a large number of countries<sup>4</sup> and evaluates their capacity to offer employment security and income security to workers. Her results indicate that temporary jobs can indeed enhance both types of security for workers, but only to a limited extent. While temporary workers are clearly better off, with chance of getting a permanent job in the following year ranging from 25% to 50% depending on country, they are clearly much worse-off than permanent workers (also supported by Gagliarducci 2005). In fact, the gap is so large that temporary workers are much closer to the unemployed than to permanent workers. Two conflicting theories govern the role of temporary jobs, and can be used to explain this trend.

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<sup>3</sup> This study has provided very interesting methodological insights, since it is one of the few simulation studies available on the topic

<sup>4</sup> Belgium, France, Germany, Denmark, the Netherlands, Ireland, United Kingdom, Spain, Portugal, Greece and Italy

Firstly, the stepping stone theory suggests that temporary employment can be used as a point of entry in the primary labour market for young people leaving education via its capacity to act as a screening mechanism. It can further facilitate transitions from unemployment to employment, and from employment to retirement. However, if temporary jobs belong to a secondary labour market (segmentation hypothesis), they will be stigmatised and will therefore hurt the chances of workers to secure permanent employment. Temporary jobs can also potentially increase the flexibility of workers to actively manage their life course and better adjust to changing personal circumstances, although one should not overestimate this effect since Eurostat data indicates that a large proportion of workers entered into temporary work involuntarily (European Commission 2002). This finding can be seen as indirectly supporting the segmentation hypothesis.

A somewhat broader look at segmentation theory would imply that there exists a negative feedback effect of the lower amount of training provided in secondary segments, which would tend to lower productivity and reinforce the attached stigma. The key question here is whether the outcome of temporary work is just based on human capital differentials, or whether there exists an effect over and above education and training. Results seem to confirm the latter. The stigmatisation effect therefore extends beyond educational differences.

Other significant results include the fact that the young are not significantly at an advantage (given that stigmatisation may be lower for this group). While segmentation is not strict, it is clearly existent and robust even in the long term. The institutional setting has an important effect here, with significant cross-country differences observable. Temporary workers were best-off in the Netherlands (which is currently moving to a liberal regime) and the UK (also liberal). The clear underperformers in this regard are Southern states.

There is evidence that while employment breaks are more common in the UK, periods of non-employment last longer in Italy (Gagliarducci 2005). Furthermore, remaining in temporary jobs, i.e. not using them as stepping stones, is associated with an increased risk of poverty in almost all countries with the exception of Belgium, the Netherlands, and Italy.

A second study (Hernanz, Origo, Samek, and Toharia 2005) focused on Southern regimes, by examining temporary work in Italy and Spain. Even within the same welfare state type, there are large cross-country differences depending on the state of the market for and policies towards flexible workers. In Italy, moves toward temporary work have been much less pronounced than in Spain, which boasts a long tradition of fixed-term work. In Italy the deregulation of the market does not yet have the same momentum as in Spain. Consequently, the impact of temporary work is different. In Italy, the unemployed are less likely to find a job, although when they do they move into permanent employment more often. In addition, temporary workers in Italy are more likely to move into permanent jobs, while in Spain they find work more easily but tend to become entrenched in fixed-term work. In both countries temporary employment was a significantly better choice than unemployment, although much more so in Italy than in Spain.

Therefore, any case made pro temporary work will be ambiguous at best. While they do seem to increase chances on the labour market, they also run the risk of forming a

secondary labour market and rather serve as ‘revolving doors’ into unemployment or low-wage employment than a stepping stone to good-quality permanent employment. Further research is needed to elaborate on ways to tackle the stigmatisation effect, which if possible will enable temporary work to reach its full potential as an integrative tool.

Especially important in this context is the provision of security to temporary workers, which was examined in detail by Chung (2005). Several global developments have shaped the rise of participation in fixed-term employment, and have raised a number of important issues regarding increased risk exposure of temporary workers as opposed to permanent ones. Globalisation as a structural factor increases the level of temporary work since it requires changes in work organisation (just-in-time production, flexible inventories and labour inputs). In addition, the globalising economy has increased competition by foreign low-wage workers, which leads to decreased worker bargaining power and consequently a higher incidence of non-standard employment. This may cause governments to intervene in order to correct for this increasing vulnerability by either raising regulations on non-standard employment, raising regulations on standard employment, or using flexicurity approaches to protect more flexible workers. Increasing security for temporary employment could theoretically tend to undermine its effectiveness as an instrument to promoting flexibility on the macro level. However, the results of the study indicate that increasing security for temporary contracts does not, necessarily lead to a diminished level of fixed-term employment, since it seems to be primarily influenced by the level of protection for permanent employees. Two strategies are discernible on the macro level to promoting flexibility – the liberal approach characterised by low employment protection for both permanent and temporary workers, and the Southern model composed of well-protected permanent jobs and less protected temporary jobs (Spain and Portugal), but most countries are striking a (reflexive) balance between employment protection for fixed-term employment and permanent jobs.

### *The flexibility-security nexus*

The second major interest of this work package focused on the flexicurity concept (Muffels 2005), and the evaluation of the liberal state logic that there is a necessary trade-off between market flexibility and generous security provisions (Van den Berg, Parent and Masi 2004). The alternative logic, also known as the flexicurity thesis, states that in the emergence of the knowledge economy there is a sort of a double-bind between flexibility and security (ibid.). The former is required to successfully compete on the market, which enables the state to afford a high level of employment security, which in turn promotes flexibility. Within the project, this issue was investigated by Muffels and Luijkx (2004). Their analysis suggests that despite economic pressures, there is no convergence of welfare states towards a model disproportionately favouring flexibility. On the contrary, divergence between states is strong and stable, with some countries acting under the trade-off principle, and others – under the double-bind mode. The liberal regime performs best in terms of flexibility, while nonetheless achieving a rather good level of work security, and social-democratic regimes fare best in combining the two dimensions, albeit with a small efficiency loss. Corporatist and Southern regimes perform worst, with low levels of mobility not accompanied by high levels of security. A number of other variables were included in their model, which

however only reinforced the impact of the welfare state. Human capital factors were found to play a large role in explaining job mobility patterns. Education, work experience, and unemployment history all affected upward and downward mobility in the expected direction, with the relationship with age exhibiting a U-shaped curve, with mobility decreasing to a certain point and rising with age upon movements out of employment. The low skilled are particularly susceptible to downward mobility. Married workers appear to be at an advantage, although the number of children has a significant negative impact on career prospects for both men and women. Finally, workers in large firms characterised by extensive internal labour markets are more likely to move into higher level jobs.

Overall, there are different pathways to managing security and flexibility, but nonetheless this analysis has demonstrated that they can be combined successfully on the level of the state.

A good example here is Denmark, whose flexicurity model has long been used as a paradigm for successful policy making. The Danish system (following the review by Madsen, 2004) is characterised by a flexible labour market with high external numerical flexibility (worker mobility) and correspondingly high income security for the unemployed. In addition, it comprises a strong employment security component, based on active labour market policy, while keeping employment protection at a low level in order to encourage both worker and enterprise flexibility. A defining feature of this system is its universal coverage, as opposed to flexicurity arrangements in other countries, which focus on some groups only.

The results of work package 3 are the subject of an edited volume (forthcoming) by Ruud Muffels (ed.) *Flexibility and Work Security in Europe: Labour Markets in Transition*. The subject of the book is primarily the different venues for states to accomplish the goal of simultaneously increasing work flexibility and work and income security. The innovative focus of this work is its focus on the role of institutions and policies in shaping the patterns of labour market transitions in a rapidly changing social context. These changes, briefly summarised in the beginning of this chapter, have a rather differential impact across welfare state types. Particularly the advent of ‘novel’ types of labour organisations (such as flexible, temporary, part-time, etc jobs) is of particular importance, as is the examination of when and how these jobs may serve as stepping stones into permanent employment, rather than forming a precarious secondary segment of the labour market. The first part of the book deals with this development and analyses the impact of government intervention and policy making in the resulting balance between mobility and security. The second part is devoted to the impact of different labour market mobility patterns over time, specifically to the long-term effects of unemployment, part-time employment, and self-employment. The third and final part deals with country-specific examples in an attempt to derive best-practice solutions to designing the so-called ‘flexicurity’ policies. In summary, the goal of the edited volume and of this chapter can be defined as an examination of the performance of different policy regimes and a subsequent evaluation with the aim of arriving at a clearer picture of how European solutions can be found and what form these should take.

Although such a clear vision is yet to be found, there are some common elements of recognised importance to almost all policy efforts in the field of the labour market, especially when dealing with the concept of ‘employability.’ One such element is promoting education and continuous training, and it forms the focus of the next chapter.

## 2.2 Life-long learning, school to work and labour market transitions<sup>5</sup>

The transitions to learning are a core element in the transitional labour market framework (Lassnigg 2005, Schömann and O’Connell 2002) since human capital stock is one of the basic enablers of not only macroeconomic success, but of many “upward”, “good”, or “integrative” transitions for individuals.

Ensuring a labour market system that encourages and enables learning at all stages of the life cycle is therefore a major goal of labour market policy. Overeducation at the formal education level in tight labour markets and underinvestment in lifelong learning (participation standing at around 10% in 2004 for the EU-25 according to the EU LFS) are two equally important and to some extent mutually-reinforcing problems. In this respect, transitional labour markets as a normative framework and a theoretical tool provide some useful insights in how the situation needs to be managed, in order to increase the elasticity of the labour market (at least on the supply side) and minimise the incidence and impact of education-job mismatches. A mismatch situation typically occurs in cases when there is a difference between the share of high-skilled jobs and the number of skilled workers. Due to the imperfect character of the labour market, and the costs required to find a perfect match, employers will tend to use observable individual-level characteristics as a primary consideration in their hiring process (also known as “signals”), one of which is the highest level of education completed. Given the disadvantaged position in terms of low acquired experience on the job, this situation often occurs with youths, who tend to be overqualified for their first few (entry) jobs (Allen and de Vries 2004). Empirical research on overeducation has found that overeducation is characteristic of some distinct groups in the labour market, among which young people, part-time workers and returnees (Groot and van den Brink 1996 in Allen and de Vries 2004), thus confirming the signalling hypothesis. For some groups, the initial bad experiences with education, such as the inability to find a job after graduation for an extended period of time will tend to have long-lasting negative effects (Schömann and O’Connell 2002, Gangl 2005). This knock-on effect will also tend to discourage them from further pursuing education throughout their working life, thus lowering their capacity to deal with subsequent transitions.

### *Transition between education and working life*

Managing the transition from education to working life is therefore a matter of prime importance (Lassnigg 2005). A large number of overqualified individuals overinvest essentially because they see this increased level of education as their gateway to the labour

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<sup>5</sup> **Work Package 4;** Chair: Dr. Lorenz Lassnigg

market, a situation that may be ameliorated by facilitating school-to-work transitions. From an economic point of view, firms will continue to hire overqualified workers who are content with lower wages until supply runs out since this signals lower training costs. However, costs need not necessarily follow this logic; the costs of retraining the person to match the specific skill set of the job may potentially outweigh any benefits accrued by the higher level of general skills that they hold. Therefore, firms may also be willing to hire persons whose skills match the job, rather than overqualified workers, especially in light of the fact that productivity, job satisfaction, and worker loyalty are maximised when the job match is good. Nevertheless, the process is self-perpetuating, given that the larger number of overly qualified individuals serves to crowd out (the so-called creaming effect) lower-qualified workers from the market. Therefore at the individual level, the certification effect takes precedence since access to the market is restricted. Easing the transition to work from education will therefore be a very important determinant for eliminating this macro-level trend. Additionally, the long period required to transit to a first 'significant' job is also driving the increased participation in education among youths in countries with marked problems with school-to-work transitions. This has raised serious concerns regarding the possibility that funds are invested in the generation of a skill base which may not be needed (Verdu, Rodriguez and Cortes 2004).

A brief interjection is warranted here to highlight a significant distinction between 'traditional' education research and the tlm.net approach. The focus of TLM at this stage is subtly but importantly different from the one employed within the lifelong learning research framework. While lifelong learning research attempts to improve the 'learning chain' focusing on maximising the probability for further successful transitions, the TLM approach involves improving the quality of transitions themselves (Lassnigg 2005). As an example, apprenticeships are widely recognised as a good practice in the integration of the vocational education market and the labour market (Schömann and Siarov 2005b). Apprenticeship schemes are in place in the UK, Portugal, Austria, Germany, and the Netherlands among others, although they rarely take the same form. Specific skills and some experience in the form of apprenticeships, traineeships or internships could improve the prospects of first-time entry (Allen and de Vries 2004). Such devices are also often used by companies as screening devices which may subsequently lead to employment. The argument here is clear – when engaging in such efforts, employees acquire a better understanding of the state of the labour market and maximise their chances for a successful first transition ensuring a good match of their skills to the needs of the market.

In general, transitions from initial education and training to employment seem to be becoming more difficult. Periods of transition are being prolonged, and in several countries a high proportion of young people require a relatively long period before completing the transition to employment. A paper produced in the framework of the project (Verdu, Rodriguez and Cortes 2004) examined the school-to-work transitions in Spain and Italy, two countries with notable problems in the sphere. While in both countries increased education promoted better quality transitions, the proportion of youths who complete higher education is much larger in Spain than in Italy, and a very significant portion of young people in Italy have little or no work experience. These differences may be explained by the differences in employment protection between the countries; stringent employment

protection regulation in Italy makes access to significant jobs much harder, while there is a good availability of non-significant jobs in Spain.

Overall, broad policy efforts such as the ones which attempt to align the skill base of the entire population with the needs of the labour market are not easy to implement, and require a broad support base from both beneficiaries and the social partners. In this context, a valuable trend may be discerned in some countries in the attempt to engage all stakeholders in the education and training process, exemplified by the UK Sector Skills Councils, which serve to enable employers in each sector to identify the skills they need, thus ensuring a better relationship between the labour market and the market for qualifications. This on the other hand serves to lower the overeducation trend, and improves the information structure of the market since employers are well-aware of the skill level a given education provides and can use this information to match it to their open positions. On another note, this approach is particularly beneficial since such closer links between training activities and skill needs in the labour market can enhance the effectiveness of training measures (Schömann and O'Connell 2002). Such activities studied in the tlm.net framework include the partnerships designed to support school-to-work transitions in France (Burzlaff 2004). The study found that beset by problems as initiatives in France are, many of them do manage to bring actors together in co-operative relationships and create good outputs (e.g. information material, school-firm exchanges, networks), and can even result in the formulation of new courses of study. The study also managed to identify several general guidelines for improving the success of such partnerships, including the identification of appropriate financing mechanisms and the design of incentives necessary to keep all parties motivated in the long run. A further study in Denmark (Lassen, Soerensen and Lindkvist 2004) identified the networked training policy that covers both supply and demand in order to generate efficient and sustainable strategies was instrumental to improving regional economic welfare.

#### *Lifelong learning, or transitions from working life to education and back*

Lifelong learning is another important factor in ensuring the quality of the working career. The frequent updating of skills and knowledge has become a decisive competitive advantage on the level of individuals. It can be seen as a form of insurance against social exclusion and unemployment, since it leads to increased productivity, higher wages, and lower risk of unemployment. Even though its advantages have been extensively documented, the relatively low incidence of training is an indicator for a persistent underinvestment in continuing education in Europe. Market failure in the market for qualifications is difficult to overcome just through a short-term labour market measure. However, the existence of such programmes still shows that the market for qualification is not in a stable equilibrium.

The TLM approach differs strongly from the lifelong learning research approach in the field of continuing training, in that it focuses not only on the unidirectional transitions to Continuing vocational training, but rather on the transitions to employment enabled by CVT, how to promote CVT itself, and how to make its impact on employment prospects more pronounced (Lassnigg 2005).

Starting with the promotion of lifelong learning itself, the further training market displays a remarkable degree of segmentation along basically the same lines as the labour market as a whole. Theoretical research (Schömann and Siarov 2005a) and recent empirical evidence (O'Connell 2004) have defined these as running along socioeconomic status, educational attainment, age, and employment status, even after controlling for a large number of job- organisation- and sector-specific variables.

Facilitating the transition to lifelong learning especially for groups at a disadvantaged position on the labour market remains a major task, and will serve to reduce the risk of falling into long-term unemployment or dropping out of the labour market as a whole. It is especially problematic to tackle this problem on the practical level since the factors influencing training incidence are highly interrelated and sometimes unpredictable given that two or more trends may be acting in opposite directions, with the ultimate outcome depending on personal characteristics and the institutional context in which the individual is embedded.

There are several factors influencing the individual investment decision and which could potentially create a deterrent to the proper functioning of the market. In a perfectly competitive market characterized by a perfect information structure the only two potential sources of market failure are liquidity constraints (or spillovers of capital market imperfections) and the effects of bounded rationality. Therefore, in a perfect market situation there is a strong case for limiting governmental involvement to ensuring better functioning loan markets (Becker 1962).

An imperfect information structure, however, is the defining characteristic of the labour market (Acemoglu and Pischke 1999). This quality contributes to the signalling hypothesis which was discussed earlier. It also implies that individuals cannot switch jobs at will and at no cost, and firms cannot be perfectly flexible regarding their labour force. This creates a situation where a match-specific surplus is created and later shared by bargaining, with the firm obtaining a share of the worker's productivity as rent (Acemoglu 1997). Therefore, firms and workers both invest in general and specific human capital, with the degree of wage compression influencing positively the impetus for firms to engage in financing training and negatively the degree to which workers would be willing to take part in the financing. With the training employer being most aware of the quality of the training and the skills provided, the worker cannot readily find an outside option which would truly reflect their increased productivity; thus, wage compression can occur at equilibrium. Certification of training and increased transparency in the training offered at the current employer will serve to drastically reduce this source of uncertainty; however, this would essentially remove the firm's desire to engage in training provision (for a larger degree in the case of general training and to a smaller degree in the case of specific training since almost no skills can be considered perfectly specific). While certification may serve to increase worker mobility and promote their willingness to engage in training, the firm will take the opposite stance. Therefore, the case for certifying firm-provided training remains unclear (Schömann and Siarov 2005a).

Certifying government-sponsored training, however, has clear advantages for the individual. Partnerships involving all social partners in the design and implementation of



courses will serve to promote the faster adoption of these standards therefore ensuring increased return to training on the individual level, also promoting learning on the macro level. In addition, some efforts by the Nordic countries to certify the skills employees have acquired throughout their working life is a good step toward ensuring more flexibility and an increased return to education, formal or informal. Recent data shows that the incidence of informal and non-formal learning is very large in Europe, its level outpacing several times formal training, but still exhibiting the same divisions as formal learning (ETUI 2006). An important conclusion here is that even though informal learning involves significantly lower costs in terms of direct financial investment (although still entailing expenditure in decreased productivity or working time during the training period), the segmentation trend persists. Therefore, liquidity constraints, although being an important contributor to underinvestment for some groups, are not the only defining characteristic of training participation.

Another overarching effect here is the bounded rationality of individuals (Schömann and Siarov 2005a). The keyword in human capital investment overall being risky returns, bounded rational individuals may fail to realise the optimal amount of training so as to maximise their chances on the labour market. This is a known problem. However several important insights have been recently gained within the tlm.net project.

Since human capital investment yields returns beyond immediately observable improvements in salary and objective work conditions, short-sighted individuals may underinvest since they fail to understand the benefits training provides. With the de-standardisation of the life course, and the need for people to consistently monitor, reformulate, and manage their individual working career, a failure to make the correct decision regarding a major turning point in one's life (that is, a major transition) will negatively influence their entire life course, although they may not understand this fact at that point. The relevant term here is the "cognitive competence" of individuals, or their capacity to make the right choices regarding future outcomes (Ester and Kalmijn 2004). The current generations are becoming more and more modernised, and facilitating them to successfully complete the transitions which shape their subsequent life is crucial since the fragmented structure of the life course is no longer in place to provide this necessary guidance.

In dealing with decisions relevant for the long term, as human capital investment, two characteristics of the individual decision making process need to be taken into account. Firstly, the time horizon the individual employs when considering their investment decision is an important variable in this context. One of the first studies of this topic in terms of the labour market was conducted by Ester and Kalmijn (2004), with their results providing excellent insight into the segmentation of the market for training. Their study, using data from a survey of a nationwide sample in the Netherlands has demonstrated that the very young and older persons have significantly shorter time horizons in which they analyse their prospective decisions. This serves to provide some insight into the training process, and why these groups are particularly disadvantaged in terms of training position, either in the form of over- or underinvestment. Several policy recommendations directly follow.

For older workers shorter time horizons need not be necessarily a problem, since there is insufficient understanding of the depreciation period for human capital investment. Older workers may be motivated to train by being supplied with information on the benefits and short depreciation period of specialised human capital investment (Schömann and Siarov 2005a). For the young, a broader vocational guidance system may serve to improve the situation through helping allocate supply to the occupations most likely to provide greater returns on education and the skills needed to perform a successful transition into the labour market. This may minimise overinvestment in education and serve to correct for the knock-on effects of bad first returns to education on subsequent education decisions. The information such a system provides will enable people to make informed decisions, minimise the incidence of job mismatch, enabling people to find out which training programmes are available to them, and can provide useful feedback to learning providers by elucidating the demand for skills (Clayton 2004).

There is a strong case for extending these services to also lower-paid workers (*ibid.*). This is a group that is just beginning to be targeted by EU labour market policy, even though there is evidence that lower-paid workers when trained can progress to better (sometimes also better-paid) jobs (Clayton 2000). However, understandably, they have not been the centre of the focus for neither governments (who have preferred to involve themselves much more with the unemployed and inactive), nor firms (who tend to provide such services almost exclusively to their highly paid workers). The TLM perspective here calls for an intensification of training and guidance efforts for this group, who run the highest chance of making a negative transition out of employment among almost all other groups on the labour market. There is a clear case to preventing such transitions given their substantial negative impact on the life course (the scarring effect); the new employment insurance focus advocated by the TLM framework points to the fact that the costs may indeed be lower to target this group before unemployment is reached. Given the associated drop in earnings for the medium- and long-term (Gangl 2005) and marked psychological effects such as lowered self-esteem, the transition into unemployment has a robust impact on labour market prospects, which is much harder and more expensive to alleviate than taking preventive measures would be.

The low skilled and typically lower paid workers (together with the unemployed) also exhibit significantly shorter time horizons. Being forward-looking is directly related to education and wealth, which is in line with empirical evidence that these groups perform better as far as being in training is concerned. This argument holds above and beyond their obviously advantaged position in the labour market; the unemployed and low-skilled underinvest even when alternatives are readily available (in terms of affordable and flexible training programmes) (Clayton 2004).

A broader time horizon is also typically associated with a lower degree of risk averseness. Risk averseness is the second major factor in the human capital investment decision, implying that the individual will receive more utility from the same return when the asset is risk-free than when the asset involves a degree of risk. In this sense, the risk-free asset will be unemployment insurance, and indeed for highly risk averse individuals, the risk premium may serve to dissuade investment due to the large volatility of return in the labour market. The destandardisation of the employment career which does not necessarily

any more involve the subsequent steps of *education-employment-training-promotion*, and the universalisation of employment risk to all groups on the market has served to increase the riskiness of the investment in training. Thus, for some people the certainty-equivalent of the discounted lifetime earnings will equal, or be lower than unemployment benefits. At this point one may note that the discount rate is influenced by the risk preference of the investor and the evaluation of the acceptability of the time required to recoup the investment is influenced by their time horizons. Risk averseness typically varies along the same lines as the time horizon, which serve to push the return required to undertake an investment in training beyond what the market can provide, severely limiting the probability that a member of these disadvantaged groups will make a transition to training, however beneficial and despite clear labour market signals (the persistent long-term unemployment rates for some of these disadvantaged groups is a very clear signal of lost employability). The trend is self-perpetuating since more risk-prone individuals are able to realize a greater return on their human capital investment. Risk-averseness also declines with education, due to either the fact that individuals holding more education are more aware of its benefits, or due to their ability to better utilize scarce forward-looking information under uncertainty (Shaw 1996). A problem of equity clearly arises since it has also been empirically demonstrated that wealth decreases risk-averseness; thus it will be mostly the poorer, less skilled individuals who will underinvest.

The main problem here is not only the stratified structure of risk preferences, which serve to generate imbalances. The main issue may be considered to be rather the fact that individuals have very few instruments of risk management at their disposal.

The insurance of the future cash inflows human capital might generate is extremely troublesome. It is rendered even more difficult through the interaction of human capital with personal ability. It has been empirically demonstrated that more “able” individuals receive more training and have a greater chance of augmenting their human capital than others; their marginal return is also higher. Insuring against this type of endogenous risk poses serious moral hazard problems (Shaw 1996). Diversification is also impossible for all practical purposes, even if interdisciplinary educations are considered a quasi-portfolio choice in the sense that they attempt to reduce risk by combining several disciplines (Schömann and Siarov 2005a). However, upon deciding on an educational investment, given the low prevalence of interdisciplinary education, for all practical purposes diversification strategies are impossible. Therefore, there is little opportunity for investors in human capital to shield themselves from their large risk exposure. A very strong argument can be made here that the model of employment insurance, coupled with easier access to lower-rate financing for human capital investment, can serve to reduce risk exposure and increase participation in CVT. Further efforts in promoting a better link between the education and training market will also reduce volatility of return and thus risk exposure.

Taking steps in this direction is justified since from a theoretical point of view a system characterised by risk-averse individuals will contribute to a low-wage, low-skill equilibrium, in which employees take the first possible job without attempting to manage their life course, and in which the low incidence of training is increasingly supplemented by technological alternatives. This system will tend to exhibit relatively low frictional

unemployment, but a large degree of structural unemployment for specific groups (Pissarides 1974).

The alternative of this system is one in which frictional unemployment is somewhat higher since people will be sufficiently prone to take the risk of staying in unemployment so that they can make a good transition back into the labour market. However, the rise of new work arrangements and the universalisation of employment risks has caused concerns that need to also be examined from the perspective of lifelong learning.

Perez (2004) studied different employment trajectories and their impact on lifelong learning. She found that unstable career patterns (characterised by periods of fixed-term, temporary employment or unemployment) penalised training, especially so if they included unemployment. Therefore, intervention is needed to augment the level of training typically provided by employers to their short-term or part-time workers. However, it is unclear whether measures should be targeted at employers or employees; despite higher associated relative costs, most unstable workers financed their training themselves.

However, there is a decidedly better chance for such unstable careers to turn to stepping stones into employment, when they include some form of learning. Training really does help escape unemployment and the chances of reemployment increase with higher education level (Fernandes, Passos and Lopes 2004). The need for support is greater with the length of the unemployment spell, and with a lower degree of formal initial education. People in unemployment financed the training effort about 50% more often than the mean of the entire unstable group, and were more often required to take the initiative. The main reason for training is clearly re-entering employment, and the fact that they needed to go forward with learning themselves speaks that there is still some way to go in terms of the penetration and reach of government-sponsored programmes.

A worrisome trend is emerging when observing the reasons for not engaging in training (Fernandes, Passos and Lopes 2004). Nearly a quarter of those unemployed said that they did not need training, which may be the people who experience long-term unemployment spells. What exactly causes this disillusionment with training is still an open question. It is likely that the unemployed who have had previous unsuccessful transitions to employment following a training course would be the reason for this finding. This knock-on effect will serve to further depress individual desires to train leading to a downward spiral into long-term unemployment and subsequent inactivity. Better measures to encourage integrative transitions from unemployment to employment are therefore called for; there is a good argument here that policies also encompassing the facilitation of transitions out of unemployment rather than the single-sided provision of training for the unemployed will yield better results.

On the basis of TLM research, broad policy objectives can be defined that may ameliorate, if not correct, this situation. Programmes should be focused on the people least likely to undertake the investment in training on their own, which will serve to improve the cost-benefit ratio and increase effectiveness (Lassnigg 2005; Schmid, O'Reilly, and Schömann 1996).

The conclusions and a selection of papers of this work package are joined in a volume edited by Lassnigg et al. (eds.) ***Lifelong Learning. Building Bridges through Transitional Labour Markets***. It provides several valuable additions to current work in the sphere of TLM, specifically in its focus on transitions from lifelong learning to employment, the institutional bridges that can be used to aid the most disadvantaged groups, and the analysis of actor practices in institutional building. It elaborates on the risks involved in the transitions to education, and ways to manage them. Overall, its results provide a new perspective on how the gap between education and training and employment can be bridged using TLM arrangements.

The book is organised along four major lines. First, in the sphere of initial transitions from education to employment, the effects of precarious jobs, over education and partnerships are examined, calling for wide-reaching strategies which combine precarious jobs with strong incentives for learning and policies which align supply and demand for skills. Second, in the sphere of adult transitions, problems of selection and exclusion are analysed, especially with regard to unstable working careers and vocational guidance, highlighting the need for bridging institutions designed to promote access to lifelong learning as a viable means to advancing one's working career. Third, the impact of firm-level strategies and ICTs in the transformation of lifelong learning is debated, paying particular attention to the sharing of responsibilities in the effective provision of continuous training. Finally, the advantages of strategies accounting explicitly for supply and demand are discussed.

The new vantage point taken in this book, both in terms of a TLM-enabled approach, and a fusion of a human capital investment and insurance-based perspectives, makes it a valuable contribution toward current discourse in the sphere of education and training.

However, important as education and training have been demonstrated to be for enabling successful transitions into employment (additionally serving as a form of insurance against the risk of unemployment or more broadly, poverty), they cannot generate those transitions. Only by combining a sound education policy with a stable active policy framework can integrative transitions be not only enabled, but promoted. This framework forms the focus of the following chapter.

## 2.3 Activating labour market policies and escape routes from unemployment<sup>6</sup>

### Labour market policy and unemployment

Active Labour Market Policies (ALMP) were initially conceived as tools for promoting occupational and geographical mobility in a situation of near-full employment (at the up

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<sup>6</sup> **Work Package 5;** Chair: Prof. Dr. Lieve de Lathouwer

side of the business cycle). However, with the decline of economic conditions, their goals have shifted toward decreasing unemployment, and especially long-term unemployment.

With the slight erosion of the standard contract structure of full-time employment when taking a long-term perspective (Auer et al. 2002), people move increasingly often among different labour market statuses. Some of these transitions can be dangerous, in the sense of leading to unemployment, long-term unemployment, inactivity and eventually social exclusion. In this context ALMP could serve to redistribute job opportunities so that less people become long-term unemployed.

While active labour market policy cannot change the transitional nature of today's labour markets, it might be possible to prevent long-term unemployment or at least to minimise its incidence through active policies that maintain labour force attachment and bridge transitions to reemployment. Specifically, ALMP may increase total employment in the short term by eliminating supply-demand frictions, although this is considered of marginal importance in periods characterised by high unemployment, when vacancies are usually not hard to fill. Therefore, their short-term effect is questionable. However, in the long term, their impact is of a different nature. Since firms are reluctant to hire some workers such as the long-term unemployed, the integrative effects of ALMP serve to increase labour supply, which on the other hand has a positive effect on total employment through wage setting effects and easing recruitment. It is important in this context to note that the potential and actual effects of ALMP differ according to the method of implementation and the institutional setting in which they act. Therefore, evaluations of implementation are vital in studying active labour market policies.

There is some empirical evidence that ALMP reduces total and long-term unemployment on the aggregate level, although results are conflicting and not easy to interpret. However, overall impact is often found to be very limited. A study conducted in the framework of the previous phase of the programme, and which formed the basis for continuing work at this stage (de Koning and Mosley 2001), found that increasing hiring from unemployment can go together with increasing inflows into unemployment, thus leaving the overall unemployment level unaffected. That is, workers who participate in ALMP outperform workers in low-wage jobs who did not participate either because already employed or because access was restricted; therefore, there may be a finite set of jobs open to the unemployed (short or long-term, although of course this does not exclude the possibility of mobility beyond this set) in which workers "rotate."

The study reached the provisional conclusion that ALMPs in Spain reduced the probability of returning to unemployment in the future, while at the same time exerting no discernible effect on an integrative transition to employment in the current period. For Sweden, ALMP had a small but significant effect on both. Overall, no unequivocal significant effect was found for long-term unemployment, although the authors recognised that this may have been due to problems with methodology. Implementation-wise, the study demonstrated that co-operation between implementing agencies characterised by close physical proximity of actors and short horizontal, inter-organisational ties may enhance performance, but that more intense forms of cooperation such as organisational integration of actors and working procedures did not necessarily lead to better policy outcomes.

Overall, the conclusion was that best practices in implementation have to be tailor-made to fit local circumstances and even specific programmes.

Several aspects of ALMP are covered in this section. However, a brief overview of unemployment trends characteristic of the current state of the labour market is warranted here, since a definition of risk groups will provide a focus for subsequent discussions. Since the oil crises of the seventies which essentially marked the end of the full-employment period in Europe (and elsewhere), European labour markets are converging to a significantly distorted model (de Lathouwer 2005). Employment rates have shown a significant slowdown in growth, with almost no increase in jobs in most continental countries, decrease in some (the Scandinavian countries) and a rise in only a small minority (Ireland and the Netherlands). Unemployment rates have since spiked and have remained rather robust even in periods of higher economic growth. There is evidence of a significant imbalance between supply and demand resulting in persistent unemployment *together with* a number of jobs for which no suitable candidates are available. The character of unemployment itself has also changed, becoming structural (larger share of long-term unemployed) and selective (some groups are significantly more prone to unemployment than others). The five primary risk groups here, as evidenced by their high inactivity levels, are the low-skilled, the young, the elderly, migrants and women. Long-term unemployment has been on the rise due to economic restructuring leading to mass layoffs and difficulties for some individuals to adjust their competences to changing market requirements.

Therefore, the overarching risk of unemployment (or income maintenance) brought about by the advent of the knowledge economy can be broken down into several sub-categories, as follows<sup>7</sup>:

### *Education*

Firstly, low skills are a significant labour market risk, as their income capacity is increasingly decreased by the growing skill requirements in modern economies. Given that growth has been primarily concentrated in the knowledge-intensive sector, with corresponding drops in demand for industry manual jobs, there are less overall possibilities for the lower skilled to actively engage in working life. The rapid depreciation of skills in the current labour market has radically increased demand for continuous updating of skills through lifelong learning and multiple transitions between education and the labour market.

### *Gender*

With the individualisation of the life course and the concomitant rise of female labour force supply, the traditional breadwinner model is dissolving. Given that job growth has been unable to outpace the rise in demand for jobs on the part of women, significant unemployment persists among this group, with low-skilled women most at risk. The disintegrating foundation of the family as marked by rising divorce rates has lead to a very

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<sup>7</sup> We are indebted in the following section to the excellent summary by de Lathouwer (2005)

high increase in the chances of single parents to fall into poverty (especially so in the case of single mothers). Care has become a labour market risk, leading to possible loss of income capacity, stress, disability and inactivity.

### *Age*

Age has become a major labour market risk. The persistent early retirement tendencies pose the risk of future labour supply shortages in the context of an ageing society. Whether the pure availability of these exit paths combined with increased individualisation or discrepancies between wages and productivity account for this trend was a major research question at the start of the project. Young people, and specifically low-skilled youths are another disadvantaged group.

### *Flexibility*

Both demand-side (increasing need for flexibility) and supply-side (increased individualisation and focus on work-life balance) factors have contributed to the rise of non-standard forms of employment in Europe. This development has two sides. On the one hand, these jobs may serve as a stepping-stone to permanent employment or as an access point to the labour market for individuals who cannot compete for permanent positions. On the other, they may provide only precarious employment with few opportunities for training and other employability enhancements. It may also be considered to be shifting the employment risk from young/old workers to prime-age workers who were previously protected by permanent employment contracts.

### *Manufactured risks*

Manufactured risks occur through erroneous life choices. There is an argument here that the collective coverage of social risks through social protection systems has lead individuals to be 'reckless' in their choices. For example, even though they are aware of the benefits and need for training, individuals may choose not to involve in it and thus hurt their labour market prospects.

Persistent unemployment coexists with available jobs at other places within Europe. Low job growth in Europe has been considered to be the main problem (European Commission 2006). This is reflected by the fact that recent policy focus in the EU has shifted somehow from the quality of employment to the quantity of jobs and job vacancies. True as this may be, and there is no contention made here of the fact that more job intensive growth will be beneficial, there are still factors influencing unemployment in Europe beside the lack of job growth. According to Marx (2005), the policy focus in the EU on reducing poverty and providing job growth may not be enough. The analysis of data on OECD countries in the 1980s and 1990s illustrates the problems states are facing in simultaneously progressing along both these lines. While it is a fact that wages will tend to fall if companies provide more job openings, perhaps leading to "poverty at work", the more important factor in this regard is the fact that the most underprivileged are rarely winners in



the process. The tendency runs in quite the opposite direction, with the better-off benefiting more. Even for low-skilled jobs, the market assigns preference to households with at least a little working experience, while periods of strong growth tend to further widen the gap between the rich and the poor. Therefore, one of the biggest problems is that the market effectively excludes the poorest individuals from participating in working life. There is evidence that countries experiencing strong economic growth usually display a higher relative poverty gap, questioning the viability of European social goals at the current state of the market. Since there are significant gaps in the participation in lifelong learning programmes by the unemployed, even when opportunities are freely available, the answer does not seem to lie simply in promoting equal opportunity. However, further research is needed to identify possible policy solutions.

### *The low paid*

The low paid workers run a significant risk of falling out of the labour market either through unemployment or inactivity. In theory, the generous unemployment benefits of some states coupled with the over-taxation of low-income earnings can lower the income differential to the point where disutility of working as opposed to pursuing other activities cannot be compensated for by the increase in income generated by working in a low paid job. This is the situation commonly referred to as the unemployment trap: when the financial standing of an individual or household deteriorates as a result of leaving unemployment. This is not only due to income differences and taxation, but also to the fact that certain additional benefits are lost during this transition, for example publicly subsidised housing. In some countries the situation is quite serious, illustrated by the marginal tax rate in France, which amounts to nearly 100% (Cazenave 2005).

In recent years several European countries introduced schemes aiming at increasing the net wage for the low paid in order to make work more attractive than relying on welfare benefits. There are several ways of influencing the net wage (Verbist, Roggeman and de Lathouwer 2005). Lowering social security contributions for the low paid (in Germany and Belgium) is one avenue. Alternatively, ways of combining social security with work income (France, Belgium, Germany, Portugal), or tax credits for low earners (France, Netherlands, Germany, and Belgium until 2005) can be implemented. Finally, taxes can be lowered for the low-income group (Denmark, France). A major factor for low-income families, which presents a significant barrier especially to low-skilled (and low-paid) women, is the lack of public child care and its associated expenses when it is available (Debacker 2005). Lowering childcare costs can significantly increase participation for this group. Overall, the goal of social policy in this field is to create a comprehensive policy which through incentives and disincentives encourages transitions from unemployment or inactivity to employment.

In continental welfare states, policies have primarily focused on the demand side, through lowering employer social security contributions in order to decrease the wage costs of hiring (low-wage) employees. Their results have been repeatedly questioned on the basis of high deadweight costs and 'substitution' effects (Verbist, de Lathouwer and Roggeman 2005). For example, tax credits are a viable instrument, which is gaining in popularity in

continental Europe, although traditionally being a liberal welfare state measure. This measure originated due to the low market regulation in liberal states, which resulted in a large number of low paid jobs. It, together with other instruments, forms the functional equivalent of a high minimum wage, which has been the mode in continental states.

However, tax credits in continental Europe have been less successful. The Belgian system was abolished in early 2005, while the French credit was found to have a very small impact on employment and enticing transitions out of unemployment or inactivity. The reasons quoted are the experimental nature of these enterprises, which by definition limits their impact. For France, the expenditure was nowhere near the funds dedicated by liberal states, which coupled with its wide coverage meant that the benefits it provided were insignificant (Cazenave 2005, Courtioux 2005). In addition, the French case is extremely limited in flexibility since it is linked directly to income taxes, which in essence means that benefits will be received a year later. Higher discount rates faced by short-sighted individuals (who would be concentrated in the low-wage sector (Ester and Kalmijn 2004)) would tend to lower its value even further. In Belgium, the benefits took two years to materialise.

Different institutional settings also influence the outcomes of investments in such instruments. Compared to the UK, in France benefits and taxes are high, and most employment is concentrated immediately above the already high minimum wage. Research has argued that in this framework the tax credit is ineffective as an instrument due to disincentive threshold effects (Pearson 2003)<sup>8</sup>. Therefore, some countries take alternative approaches. For example, Germany has recently focused on sharply reducing its generous unemployment support both in terms of size and duration in order to encourage transitions into employment.

From the perspective of TLM, however, there is the question of whether a transition of this type is desirable if it does not lead to sustainable outcomes (Cazenave 2005). Transitions generated by tax credit systems may prove insufficient if they are not 'integrative', that is if they serve as a revolving door from unemployment to precarious employment and back. There cannot be a single solution that ensures this, rather a comprehensive strategy is needed which also ensures the ability of transitions to enhance the employability of workers.

To answer the question of whether low-wage work can serve as a stepping stone to better sustainable employment, Ramos-Diaz (2005) conducted a study focusing on the possible character of low-wage jobs as unemployment traps vs. stepping stones in the UK, France, Spain and Denmark. Results indicate that significant cross-national variability is present, and easily understood in terms of prevailing labour arrangements. Spain and Denmark are clearly opposed, with low wage jobs tending to be a trap in Spain and a stepping stone in Denmark. Mixed trends occur in France and the UK. Overall, results confirm the segmentation hypothesis, according to which transitions from low wage employment to unemployment and revolving door transitions are more likely for workers outside the protected sector of the rigid labour market (France and Spain). Spain generally

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<sup>8</sup> In Cazenave 2005

performs worst in comparison, and was the only country for which the chance for unemployment transitions was higher than the chance of transitions to higher-wage employment. The UK low-wage labour has been described as a trap as well. However, the high period of low-wage employment was offset by a relatively low risk of transitions to unemployment or revolving door transitions, with the chance for exiting to a well-paid job the highest among the countries surveyed. France is closer to Spain than the UK, with increased risks of transitions into unemployment or rapid transitions between unemployment and low-paid jobs. Denmark seems to perform best in terms of the risk of revolving-door transitions, has a very low risk of becoming unemployed, and despite the fact that the chance for transitions into better-paid jobs is comparatively low, most people in the low-wage sector combine work with education, therefore increasing their chances to exit to better paid jobs. Sectors which demand low skills are more frequently characterised by multiple transitions between unemployment and low-wage employment, and this trend manifests on the macro level with countries with larger high-skilled sectors (the UK and Denmark) exhibiting lower risk of transitions into unemployment. Despite the fact that on-the-job training failed to reach statistical significance in Ramos-Diaz's model, results seem to indicate that training lowers the risk of becoming unemployed and experiencing revolving-door transitions.

Increasing the employability of low-wage employees (and other disadvantaged groups on the labour market) in order for them to be better able to integrate into working life and avoid negative transitions is a crucial task. This goal is mainly achieved through active labour market policies. In the past, ALMP have often proved to be of poor quality, and producing poor impact in terms of precarious short-term employment or unsustainable effects. Continuous evaluation and the identification of best practices are vital for minimising deadweight and other costs, and genuinely empowering workers in the TLM framework. While there is a strong case to targeting policies for national contexts and needs, best practices to be later adapted can nonetheless be pinpointed and their results can serve as touchstones for the further evaluation of other policy efforts. As such, the discussion of ALMP is an important part of the work of this work package.

### *Active Labour Market Policies*

In line with research from the previous phase of the programme, Work Package 5 has concentrated on both specific policy examples and an evaluation of methods of implementation. The effectiveness of the tax credit systems in France and Belgium was evaluated in this context. The resulting state of low benefits was explained through inappropriate labour market conditions, calling for nationally coordinated solutions, which provide sufficient benefits to make an impact. Further, previous sections made it clear that one-sided solutions do not provide the necessary influence in order to reach their goals. Rather, comprehensive policies focusing on both the demand and the supply side, which increase incentives to enter employment together with measures enhancing employability, are necessary. An example is the Dutch system which promotes self-employment as a way to re-enter the labour market for disadvantaged groups, such as the long-term unemployed, the disabled, women and older people, since it can smooth out transitions between work, education, and caring obligations (Aerts 2005). However, only 6.5% of the Dutch labour

force considered this as a viable option, mainly due to the shortcomings of the social security system in not providing self-employed persons with benefits beside these that are available to them by virtue of their status as ex-dependent employees (ibid.). A further illustration is provided by the case of a new regulatory provision implemented in Italy in 2000 which aimed to foster employment with open-ended and not fixed-term contracts. However, a large amount of the investment was deadweight since the market adapted to the regulation and used the subsidy to employ young high-skilled workers who would have probably be hired in the absence of the programme, and for whom the temporary job they were ‘escaping’ was mainly a temporary evaluation scheme. The results seem to indicate that while it did have an overall positive impact on the probability of being hired with an open ended contract, it did so very differently across different groups of workers. It rose about 10% for workers with a college degree, 2% for people with high school diplomas, and actually declined for the low-skilled (Cipollone and Guelfi 2004).

A general analysis of effectiveness of ALMP in Finland was undertaken by Aho (2005) who surveyed the impact of ALMP participation on later employment prospects. His results indicate that the relatively low impact of ALMP was due to a large amount of deadweight loss resulting from inaccurate targeting, and if this were to be improved, net ALMP impact would improve significantly. Although accuracy does vary between measures, on average about 40% seem to benefit from ALMP and a proportion of roughly the same size constitutes deadweight loss. Regarding timing of measures, net impact is decreased if the measure is implemented ‘too early’, or after relatively short unemployment periods. However, waiting too long impairs impact due to the large-scale loss of human capital in the waiting period. This consideration warrants further research. Relative impact on the most vulnerable groups is slightly larger than average, while the employment probability remains low. This is due to the fact that a single ALMP measure may be insufficient to meet their needs; however, this is balanced out by the fact that the risk of deadweight loss is minimal in this group. There are certain groups for which even repetitive exposure to ALMP is insufficient to increase employment rates, and there is clearly a need for comprehensive tailor-made solutions.

Different approaches to flexibly meeting the needs of disadvantaged groups are discussed by Nicaise, Rubbrecht, Matheus and D’Addio (2005). They focus on social employment enterprises in Flanders, which are measures specifically designed to empower workers to find and keep good jobs. Three such instruments currently operate in Flanders. Learn & Work Centres are targeted at the low-skilled long-term unemployed, who are provided with work experience, guidance and training for a period of one year. Social workshops in contrast are not time restricted and offer subsidised employment to low-skilled individuals with some type of personal stigma (homelessness, psychological disorder, etc), and are targeted at people who have been inactive for at least five years. Insertion enterprises offer subsidised employment in a semi-regular company to low-skilled workers with a minimum of two years in unemployment. Subsidies on wages continue over four years (lower each year), after which period workers can choose to stay in the enterprise, however under the condition that they have achieved sufficient productivity levels to be competitive in the labour market.

Interesting patterns were found regarding participation in each measure. Learn & Work Centres are characterised by increased participation by the young, women, and very long-term unemployed job seekers. Social workshops concentrate on the least educated groups, while integration enterprises attract mostly young, male, and moderately long-term unemployed individuals. Social enterprises seem to suffer from a targeting problem, in the sense that they do not unambiguously focus on the most deprived groups, and individuals with prior work experience and a somewhat higher attachment to the labour market in general seem to enjoy better access. However, they do target in general groups with moderate to serious disadvantages on the labour market.

The cost-benefit analysis for each measure yielded overall positive results. The return on the Learn and Work Centres (LWC) is very high, with net long-term return to society averaging EUR 25 (in five years) to EUR 45 (in ten years) per hour subsidised. Social workshops seem to have a negative return of about EUR 6 per hour, although they do target the most disadvantaged groups and therefore they account for sufficiently severe risks (emerging either from individual choice or external circumstance) that there is a case for society to engage in providing support. The cost-benefit balance for integration enterprises is also positive, but moderate in comparison to LWCs.

Overall, the social employment enterprises managed to assist employment creation for the disadvantaged groups in the labour market. Somewhat surprising findings were found for LWCs, in their capacity to generate sustainable increase in employment among their target group, since they were viewed as creating nothing more than short-term gains. Social workshops, on the other hand, while achieving sustainable employment gains for their very hard-to-reach and in general difficult target group, could still be enhanced with training measures in order to further increase the productivity of those engaged, thus improving the cost-benefit balance and simultaneously improving the chances of participants on the outside labour market. Two distinct approaches emerge - Learn & Work Centres focus on generating sustainable capacities for workers, while foregoing some employment creation effect, while the other two measures lead to a relative decrease in material security and even some reduction in participation in CVT while substantially enhancing employment in a sustainable manner. Eliminating these shortcomings can serve to create an excellent example of a TLM-enabled and TLM-based employability measure.

### *Implementation considerations*

A study within the framework of the programme measured the impact of local-level implementation on overall reintegration outcomes for active labour market policies conducted by the Public Employment Services (PES) in Germany (Mosley and Müller 2005). The study revealed that in Germany, training measures yielded distinctly better results than subsidised employment (which was seen as rather creating a secondary labour market in itself than enabling reintegration into the primary one). Furthermore, the labour market context also has an impact, with both types of measures being more successful in Western than in Eastern Germany. Finally, it revealed that around a quarter of the variation in outcome is under the control of the PES and therefore a matter of implementation rather than design.

Not new, but gaining in momentum, is the attempt in some countries to liberalise the market for employment services to allow for the easier access of private actors in areas such as job brokerage (for example in Denmark through temporary work agencies). The rationale behind this decision is enhancing competition in order to improve service quality. The basic risk related to this type of management is the risk of moral hazard, in which economic agents maximise their utility to the detriment of others when their actions cannot be fully observed (Bruttel 2004). In the case of temporary placement agencies, a conflict of interest emerges in that temporary work agencies will attempt to provide their clients with the best qualified workers, to the disadvantage of the riskiest groups on the market (de Koning 2004). In addition, the current design of incentives promotes the so-called creaming effects, in that agencies are paid on the basis of pure placement numbers. Therefore, more easy-to-place workers will be helped first / more often, and the situation may occur that some job seekers receive no assistance at all, i.e. 'parking' (Heckman et al. 2002<sup>9</sup>). Three measures are put forward to account for these difficulties: incentive, information and control mechanisms (Bruttel 2004 in a study of the UK). Incentives taking advantage of outcome-related payments are the most common; however a fixed commencement fee is also provided as a strategy of risk sharing between contracting authority and implementers. The risk of moral hazard is further mitigated by information mechanisms to manage the activities of implementers, through the indirect (benchmarking) or direct (monitoring) approaches. The Australian Star Rating was pointed out as a best practice in managing information-related difficulties. Finally, a case is made against using the extensive use of control mechanisms in the form of either rules or regulations, since this breaks from the idea of flexibility embedded in this approach.

An evaluation of the outcome of this approach for the Netherlands and Australia was conducted by Struyven and Steurs (2004). Results indicate that gains from the introduction of market forces have so far been rather modest. Indeed, Australia has recorded an increase in efficiency, although possibly offset by a drop in quality. In the Netherlands the effect was insignificant. In both countries, problems of creaming and parking were still not resolved. The very different paths taken by these countries illustrate the fact that no one policy solution can be translated to the very same benefit from one country to another. Institutional inertia and path dependency influenced the resulting systems for the private provision of services, and their consequent effects. For example, in the Netherlands the main role of the government was seen as guaranteeing an efficiently functioning market, and in Australia the focus was much more shifted toward the control of suppliers.

The conclusions and policy recommendations of this work package are well represented by the volume edited by Jaap de Koning (ed.) *Innovating active policies: measures, institutions and methods*. This work emphasises the fact that while it would be inappropriate to state that active labour market policies have failed, it is important to recognise their drawbacks and to devise ways to improve their performance. Three such approaches are covered: improving the measures themselves, improving the delivery process (possibly through involving the private sector), and improving the visibility of performance through benchmarking. This distinction also shapes the structure of the book,

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<sup>9</sup> In Bruttel (2004)

with a section devoted to each approach. The first section stresses the importance of evaluations and making a clear distinction between successful and failing practices in order to devise a good way to change the policy mix in order to improve the efficiency of public spending and to maximise the impact on welfare. The second section mostly deals with the increasing trend toward the involvement of the private sector in the delivery of services, questioning the rather simplistic presumption that outsourcing and involving market forces will automatically generate increased levels of efficiency and effectiveness. This is not necessarily the case, however. Due to the fact that the performance of agencies is heavily regulated, one can at best speak of a quasi-market organisation (Struyven and Steurs 2004), which has its advantages, but does not necessarily yield better results.

With regard to benchmarking, information on performance is crucial in the context of a reform of the ALMP system. In this section, various methods have been described, highlighting the need for a better understanding of all variables to be included in an evaluation and finding the optimal method by which evaluation is to be conducted. Some examples are the inclusion of variables indicating the *quality* of services and relating them to outcomes, and using longitudinal data in order to better account for short and long-term effects.

The previous chapters have already demonstrated the importance of the life course approach in managing the success of transitions in improving the labour market situation of individuals. The following chapter goes into more detail into the trends of increasing individualisation of the life course and provides some useful insights which complement instruments discussed so far.

## 2.4 Work-life balance and new norms of transitions and combinations related to household activities<sup>10</sup>

With the EU commission's policy goal to engage women more actively into the labor market as a source of future labor supply, enabling women to participate more fully in economic life is at the top of the policy agenda. Research has shown that combining work and family life is one of the most important problems women face in their labor market participation. Reform of welfare systems to accommodate for this challenge is called for in the form of implementation of policy measures concerning childcare provision, leave of absence, and lifelong learning (Anxo and Erhel 2005).

Despite the global nature of the trend of increasing female labour supply and the individualisation of the life course, significant differences still persist among countries. Nordic welfare states boast high employment rates and the highest incidence of dual-earner households. This structure is supported by generous parental leave provisions and extensive childcare infrastructure. These countries exhibit on average lower gender differences in working time, and a low incidence of long working hours or marginal part-time

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<sup>10</sup> **Work Package 6;** Chair: Prof. Dr. Dominique Anxo

employment, due to high average and marginal taxation and low gender wage differentials (which encourage dual earner structures and at the same time discourage long working hours), and strict hours constraints on unemployment benefits (which discourage part-time employment). Liberal welfare states also exhibit a high level of labour market integration. High income inequality, high returns to education, and low taxation foster long working hours. In comparison, however, female labour market integration is somewhat lower in comparison to Nordic states. In the UK, the male breadwinner model is still the norm, with lower female employment rates, and significant differences in working hours. Corporatist welfare states have not managed to secure the high level of employment characteristic of the two other regimes, while also exhibiting higher gender disparities. There are differences among states in this group as well, mainly due to different arrangements regarding female employment, such as childcare provisions, leave schemes, and opportunities to work part-time. France, for example, performs better than both the UK and the Netherlands in terms of gender differences in working time, and has a correspondingly more developed childcare infrastructure in place. Impact of childbirth is clearly a labour market risk for women in these regimes, with participation rates falling significantly after the birth of the first child. Southern welfare states, typified by rigidity in working time and low incidence of childcare facilities, clearly support the traditional breadwinner model and consequently display the lowest rates of female participation (Anxo and Erhel 2005).

The impact of the birth of child on males living with partner is positive on average both in terms of working hours and participation overall (Anxo and Erhel 2005). The impact on females is negative, but in Nordic countries it is limited to only very young children, moderately negative in terms of working hours in Liberal states (which can accommodate switching time preferences via temporary jobs), and strongly negative on both aspects of female participation in Continental and Southern countries (ibid.).

The differences in household preferences and needs over the life cycle necessitate policy provisions that enhance the choice set of possible working times in order for individuals to be able to better adapt to various events and risks during their lifetimes. Removing existing barriers to flexible working time without large income losses is therefore vital to not only eliminating gender inequalities, but also to enable a more efficient allocation of time and other resources over the life cycle (Anxo and Erhel 2005).

#### *Childcare and its influence on female labour supply*

Ascertaining the exact impact of child birth on female labour supply is a precondition to defining its nature as a social risk, and devising corrective policies. Numerous studies have dealt with the strong link between female labour market supply and childbirth. Using data from Germany, the UK and the Netherlands, Vlasblom and Schippers (2004) demonstrated that women with children work significantly less in terms of labour market participation. In these countries, only very few women return to the labour market within a short period. Many women take a couple of years to return to the labour market or do not return at all. Women who do return tend to work shorter hours than before.



Switching the perspective to the long-term impact of this critical transition, theoretical predictions are conflicting. The life course approach tends to emphasise the deterministic nature of choices and the path dependency of labour market decisions to critical choices made earlier, and therefore stipulates that the damage to the connection with the labour market upon childbirth will result in a worse connection with the market in the long run. The theory of human capital, in contrast, allows for ‘rebound’ effects by compensating for the loss of skills during the care period. A subsequent study by Vlasblom and Schippers (2005) also in the framework of tlm.net determined that long term effects of child birth do exist but do not have as drastic consequences as theorised. Indeed, while there were discernible effects due to the “link” with the labour market (i.e. women who had a connection before childbirth appeared to have kept it in later stages too), the very existence of such a connection is more important than its strength. The choice effects seem to diminish with time, although they take a relatively very large amount of time to dematerialise, around 20 years. The working hours component of female participation also appears to be influenced by childbirth, and specifically by the birth of the oldest child. Women who ceased their work activity upon the birth of the first child retained significantly lower working hours after returning to paid work. The study also revealed that some women made the conscious choice of having a child before commencing labour market participation, as evidenced by participation probabilities and working hours. This fact is well in line with the trend of the individualisation of the life course. The examination of participation modes of different cohorts illuminates radical changes occurring in a relatively short period, with participation after the birth of children or the combination of part-time employment and childcare becoming the norm for European labour markets.

#### *Corrective policies for combining household obligations and working life*

Policies aimed at allowing for more flexible combinations between work and other socially useful activities such as care are gaining in popularity in European policy making. An example to this point is the Belgian time credit, which is the most important leave scheme in the Belgian welfare state, and forms an integral part of the social security system. Its characteristics and its capacity to serve as a good policy example within the TLM framework were elaborated by Debacker, de Lathouwer and Bogaerts (2004); de Lathouwer, Debacker and Bogaerts (2005). It has a number of attractive characteristics, including its large degree of flexibility (3 modes – full-time career break, reduction of working time by 50%, or 20% depending on period), its inclusiveness (it is formulated as a *right* for *all* employees in the private sector; corresponding arrangements are also available in the public sector), and its element of job protection (which protects an employee from dismissal from the moment of application to three months after termination). It is especially geared towards older employees, with benefits being higher after the age of 50, and the right to reduce working hours up to 50% until retirement. Benefits are flat-rate, and calculated in a formula that takes into account the age employees, their career tenure, the type of reduction chosen and the family situation.

Viewed in terms of the TLM perspective, it does possess some qualities that make it very attractive. However, it fails to meet one of the base normative requirements of TLM-based policy – equality of opportunity. It cannot be assumed that all employees will be able

to collect sufficient experience in order to be eligible for subsidised leave (Debacker, de Lathouwer and Bogaerts 2004). Nonetheless, it is a good example for an all-encompassing measure aimed at increasing flexibility for employees and enabling them to more freely choose how to distribute their time over the life course.

Another policy is currently promoted in Belgium, namely ‘timesaving’, under which employees can save up extra hours of work and holidays in a time savings account, to be used whenever the individual needs some personal time. It reflects some of the underlying values of TLM, in being individually determined and therefore more flexible, and empowering individuals while concurrently making them more responsible for the management of their life course. However, from the view point of equality of opportunity, this scheme also discriminates in favour of the advantaged on the labour market. For example, low-skilled / low-paid employees will have less opportunities to save up time, as will those with high caring obligations. As with the time credit scheme, the most disadvantaged in the labour market will have little to nothing to gain (Debacker, de Lathouwer and Bogaerts 2004).

The Netherlands has also designed a policy response to tackle issues of flexibility and combination of activities, through the Adjustment of Working Hours Act introduced in 2000, which effectively eliminated all formal barriers left to adjusting working hours. Under its provisions, all employees can put in a request to change working hours either upward or downward at any point, and employees need to honour their request except when precluded from doing so by conflicting business needs (Baaijens and Schippers 2005). This represents a significant departure from traditional labour practice, in the fact that employees need not present a reason for their request, but the employer must justify a rejection (Van der Heijden in Baaijens 1999b: 14)<sup>11</sup>. While an immediate threat to implementation is embodied in irresolvable conflicts between employers and employees resorting to court, but such events occurred only very rarely. While this is an excellent example of a flexibility-enhancing arrangement, there are still many circumstances that can prevent employees from actually realising their working time preferences, e.g. lack of childcare infrastructure, risk of disadvantaged position in the labour market as a part-timer, etc. Such policy provisions, however, coupled with increased availability of childcare facilities in the Netherlands since the 1990s and a change in social norms accounts for the increase in female participation rates and the decrease in drop-out rates at childbirth (Vlasblom and Schippers 2004).

Germany has responded with a similar, but more restrictive policy. The rigid regulation of the German labour market has introduced difficulties in reducing working hours in periods of care, for example. As a response, employees achieve the reduction by either changing employer or by dropping out of the market. The Part-Time and Fixed-Term Act was implemented in 2001 in order to correct for this. It grants employees the right to reduce their contractual working hours provided they have been at the firm for at least 6 months. Impact evaluations, however, have questioned its significance (Vlasblom and Schippers 2004).

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<sup>11</sup> in Baaijens and Schippers 2005

### *Individual preferences and the need for comprehensive policy solutions*

Returning to the combination of childcare and labour market participation, this is a significant factor in the context of the aging society, the emergence of which is at least partially explained by the increase of participation of women in the labour force. Therefore, enabling demographic growth and still allowing women to be as engaged in economic life as they prefer, is a crucial policy goal. The provision of childcare infrastructure has been seen as a major way to promote both developments. However, recent research in the framework of tlm.net has indicated that an approach of this type is not viable in isolation, largely because of individual preferences connected to childcare. Research by Ghysels (2005) has demonstrated that mothers in Belgium, Spain and Denmark do not regard external childcare as a substitute of their own, they rather consider it an incentive to become more involved themselves. Therefore, comprehensive policy solutions are needed to accommodate these preferences and reduce the rate of falling out of employment for women who cannot find a way to match their preferences with available facilities.

### *Comprehensive policy examples*

In the study by Leitner and Wroblewski (2005), Denmark and Finland are taken as model countries in order to derive a policy mix that can be beneficial to continental countries. These two Nordic countries were selected since they traditionally have a higher employment rate of women (even for women aged 30-40, which is much lower in other countries), and have managed to combine it with demographic growth above the EU average. Their practices were compared with arrangements prevailing in Austria and Germany in order to pinpoint differences and outline directions for improvement.

Policies in Finland and Denmark are based on the principle of family entitlement; therefore, the choice is free regarding which parent takes care of the child. In Finland parents may take extended leaves if they choose to take care of the child themselves, and are then entitled to a child home care allowance. Mothers are entitled to a one-year maternity leave and parental leave, and receive benefits based on prior income. During the first few months, fathers are entitled to a paternity leave of 2 (in Denmark) to 3.5 weeks (in Finland). The time required to return to work was found to greatly depend on available childcare infrastructure, which needs to be socially accepted and considered of good quality. These facilities also reduce the risk to companies when employing women with children. In Nordic countries return of mothers after maternity leave is mostly to full-time jobs. Studies in Denmark have shown that there are almost no negative effects of temporary absence for childcare on income. However, in spite of the freedom to choose who takes care of child, fathers rarely do it, since the persistent gender pay differential means that economic loss would be higher if the father were to quit his job. Even though men in Nordic countries do engage more in household and family duties than the EU average, there is still a distinction, which means that women get to do most of the care work, leading to longer overall working hours and stress.

In Austria and Germany there is almost no difference between childless men and women, and it is common practice for women to be gainfully employed until the birth of the

first child. There are significant differences between Nordic and Continental countries in terms of entitlements. Parental leaves are much longer (up to 36 months in Austria and up to the child's third birthday in Germany), and benefits are comparatively much less generous. Being geared to a system which supports very long periods of non employment for females and increased dependence on male breadwinners, this combination of benefits reinforces rather than diminishes gender gaps. Furthermore, in Austria and Germany there is a noticeable lack of good childcare infrastructure for children up to three years of age (while in Denmark and Finland childcare facilities are prepared to accommodate children after their first birthday). Even when older children are concerned, the use of childcare is fundamentally different in corporatist states; in Germany it is seen as an educational service rather than one which caters for work-life balance. Therefore, parents can only use part-time child care.

In Austria, measures were implemented, which allowed for mothers working part time to receive childcare as long as monthly income did not exceed EUR 14,600, however to no significant effect. This measure was considered to have generated a large amount of deadweight loss, since women who do return to the labour market are those with high resources and human capital (those who can also afford expensive private childcare). In the long term, this will increase differences between women, especially along the lines of family duties and education.

A further difference is recorded in the generosity of income protection. In Austria and Germany, mothers are entitled to full income protection for 8 weeks after birth. In contrast, in Finland and Denmark mothers receive 80-90% of their previous income level for an entire year, and can then select from a large variety of quality public childcare. Longer leaves in Germany and Austria additionally influence negatively the human capital of mothers, which coupled with lack of childcare translates into much lower chances of returning to the labour market. This is evidenced by the shorter absence periods in Denmark and Finland (1-1.5 years) as opposed to Austria and Germany (2.5 years), and the fact that mothers in Continental countries more often engage in precarious employment in temporary work after the care period.

In summary, individual freedom of choice seems only an empirical fact in Denmark and Finland. Effectiveness of measures is low in Austria and Germany, where lack of childcare is combined with a shortage of qualified part-time jobs which would in-fact preserve and enhance employability. In essence, policy in Germany and Austria not only increases the gender pay gap, but also increasingly marginalises low-paid / low-skilled mothers (since only the already advantaged women on the market will be able to move to full-time jobs). While policy in Denmark and Finland does not really introduce any external stimuli to having children, it does cover all related risks through ensuring income maintenance and no fall in employability by providing multiple ways of combining care and work.

One of the core contributions of this work package, Anxo et al. (2006), performs a larger-scale analysis of the institutional setup of seven European countries, and the extent to which this is conducive to increased female integration in the labour market. This contribution also demonstrates the advantages of the Nordic regime (exemplified by

Sweden) as ‘providing the most coherent and integrated system of time and income management over the life course’ (p. 20). In these regimes, the impact of childbirth is limited only to a very short period. The authors attribute this success to a comprehensive system of reversible working time options bolstered by a complete employment guarantee, established and implemented under the principle of negotiated flexibility (it gains social legitimacy through involving the social partners in the design of the working time options).

Given the large variety in household needs as regards working time options, the authors recommend policy favouring more flexible changes in work time over the life course in order to respond to these requirements. However, while standardised regulations may have a limited degree of success, more programmes geared toward individual requirements need to be in place. The example of the Netherlands in ensuring the individual right to freely modulate working time over the life course resurfaces here as a good practice. However, the authors argue that a sustainable effect necessitates the support of such a universal right through a system of income redistribution and income transfers, like the one in Sweden (Anxo et al. 2006).

Increasing participation of older workers is another crucial adjustment needed to deal with the problem of demographic ageing, perhaps as important as enabling demographic growth *together* with female participation in the labour force. The next section deals with ways to encourage active retirement and to increase the integration of older workers in the market.

## 2.5 Active retirement: new solutions to demographic needs and individual preferences in retirement transitions<sup>12</sup>

The policy of early retirement pursued in the recent past by the majority of European states in order to alleviate supply pressures in markets characterised by high unemployment is clearly no longer sustainable (Anxo and Erhel 2005). In view of the rising costs of allowing older workers to exit the labour market at an early time and at a fast pace, be they in the form of increasing expenditures of the social security system, or productivity declines (both related to the issue of demographic ageing), states are now focusing on ways to keep older workers in the labour market. However, with the problems that the old system introduced to the functioning of the market, such as the stigmatisation of older workers, low levels of training, and a prevailing culture of early retirement, the problem extends far beyond what the current measures focusing on financial disincentives to exiting can accommodate.

### *Early retirement trends*

Early retirement is a major challenge in the context of the ageing of European societies. Theory has identified several factors which influence the individual’s decision to retire.

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<sup>12</sup> **Work Package 7;** Chair: Dr. Christine Erhel

According to Duval (2004)<sup>13</sup>, there are three base factors that influence the individual's decision to retire: financial incentives (the implicit tax), the standard age of entitlement to benefits, and the generosity of pension benefits. The implicit tax represents the difference between the benefits accrued by staying an additional year on the labour force (in terms of discounted benefits through higher pension) and the losses (pension contributions for an additional year plus foregone benefits). Working conditions also have a role to play in the decision, as do social norms regarding retirement, the availability of social services, the availability of training (or individual employability) and the opportunity for working time flexibility. The impact of a social setting conducive to early retirement (i.e. it is the norm) has been documented by Putman (2005). The role of care services is crucial, given that individuals aged 50-65 will face demands for care from *both* their children and their parents. Overall, there is a complex array of factors that have to be analysed in order to understand early retirement trends and be able to devise policy responses to counter them.

On the supply side, measures have been taken already across Europe to counter early retirement through closing off the various exit routes available to older employees, although the extent of success differs. However, questions remain whether financial disincentives if not combined with other measures will have a sustainable impact (Putman 2005). On the demand side, three explanations of early retirement have been put forward. Firstly, there is discrimination against older workers. Secondly, there is a gap between productivity and wages, which encourages firms to dismiss older employees (Gelderblom, de Koning and Kroes 2005). Thirdly, firms potentially face a problem of labour excess which can be solved through firing older workers (Blanchet et al 2004).<sup>14</sup> The promotion of lifelong learning among older workers can therefore significantly improve their situation on the labour market and eliminate the risks of losing employability. However, the state should also strive to eliminate discrimination, which is a fact in some countries (Courtioux, Davoine and Erhel 2005).

Liberal and social-democratic regimes seem to perform best in this regard, with Continental and Southern countries lagging behind. Evidence has been put forward for the existence of a 'culture of early retirement' in Continental regimes. In addition, the various schemes and institutional arrangements existing in these countries offer various options for exit. An example is Germany, where part-time early retirement programmes were transformed by employers and employees into full-time early retirement schemes (Courtioux, Davoine and Erhel 2005). Competition effects of policies can also render policy measures ineffective, as is the case in France (Courtioux 2005). Additionally, the participants in France exhibited different participation profiles, with more employable older workers being kept through these arrangements in the internal labour market. This serves to demonstrate that part-time retirement can be a useful instrument in continuing employment, although there is the question of whether these already qualified workers would need the programmes to stay in the market or not.

From the perspective of the age-productivity theory, two possible solutions emerge to account for economic losses resulting from the gap between older workers' wage and their

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<sup>13</sup> In Courtioux, Davoine and Erhel (2005)

<sup>14</sup> In Courtioux, Davoine and Erhel (2005)

productivity (Putman 2005). The first strategy is demotion, which is however detrimental overall since it violates the implicit contract between firms and workers, and may in fact produce the opposite effect on the macro level if widely employed. The second, and much more common strategy, is part-time retirement, which allows for workers to combine pension benefits with part-time work income and therefore both remain employable and provide an additional degree of flexibility for firms (ibid.). Another suitable measure is providing a specialized approach to lifelong learning for the elderly to keep their employability so that the suppression of early retirement does not weigh on the market or firms (Gelderblom, de Koning and Kroes 2005). One such option is the adjustment of training courses to the physical needs of the elderly, such as introducing large-print materials. Another potentially strong factor in promoting lifelong learning for this group is the provision of highly-specialized courses, providing quickly depreciable knowledge which could potentially eliminate concerns regarding the time required to recoup the investment in training (Schömann and Siarov 2005a).

Gazier (2003)<sup>15</sup> formulated several TLM-based policy recommendations regarding transitions into retirement. They include eliminating the special early retirement provisions for women, calculating pension benefits on the basis of the entire working career (as opposed to just the last few years of employment), guaranteeing individual retirement rights, confining the option of full-time early retirement to only specific groups, creating transition jobs subsidised by the state either by public spending or social contribution cuts, transferring senior workers to ‘adapted jobs’, maintaining retirement rights throughout career breaks, converting unemployment benefits into part-time early retirement rights, and establishing reversible early retirement programs. Some of these programmes already exist in Europe, e.g. the limiting of beneficiaries of early retirement programmes in France, the transfer of workers to adapted jobs in Finland, and targeted subsidies aimed at job creation for the elderly in the UK (New Deal 50+) and Germany. Finland has used a combination of several measures to increase the employment rate of older workers by over 15% in the past 10 years, including pension system reforms, specialized training, measures to improve the welfare of older people in the workplace, and targeted subsidies for low-paid jobs. (European Commission 2006).

As previously noted, the strategy of creating “more and better jobs” should not be skewed in favour of the former. This also applies to older employees; it has been demonstrated that good jobs over the life cycle can reduce the propensity for early retirement (Davoine 2005). Policies aimed at reducing the pull factor of existing early retirement arrangements and which activate older workers to engage more actively in working life are clearly the solutions here. Policy measures identified by tlm.net research and based on the flexicurity principle include the intensification of education and training, internal job mobility (job rotation), and reduced working hours and part-time retirement (Tros 2005).

In this context, the TLM approach calls for comprehensive solutions targeted at increasing the employability of older workers, reducing the wage-productivity gap, and employing the life course approach.

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<sup>15</sup> In Courtioux, Davoine and Erhel (2005)

As Gelderblom, de Koning and Kroes (2005) point out, the discrepancy between productivity and wages which may lead in their view to adverse consequences in the long run especially in the framework of an ageing society. In the aggregate an ageing society might have lower economic growth if productivity of the ageing work force does not keep up with productivity of comparatively younger societies. On the individual level this calls for a better understanding of the productivity and wage nexus for different age groups. This is also important to the extent that such differences are among the main factors contributing to early retirement. Two main theories attempt to clarify the connection between productivity and wage for older workers. Firstly, human capital theory postulates that the skills and knowledge accumulated throughout the working life will generate a productivity increase which will not be perfectly matched by the corresponding wage increase, due to market imperfections which generate a degree of wage compression (which according to some authors will be higher as human capital grows). In contrast, implicit contract theory suggests that firms cover the risk of hiring the ‘wrong’ young worker by calculating the premium into the wages of the young, and compensating delayed wages by implementing a seniority wage. Thus, employers minimise risks, and employees are motivated to stay productive since they wish to receive the full payoff for their lower wages at the start. The productivity function (for the Netherlands) was found to be parabolic with a maximum between 50-54 years. It seems to follow the logic of human capital theory before the age of 55, in that it is lower than the wage in the beginning and eventually exceeds it over time, and follows the rationale of implicit contract theory after the age of 55. The results of the study aid well the identification of target groups for tailored policy measures, thus contributing to the reduction of deadweight costs of interventions.

Individual-level factors contributing to early retirement have already been discussed; however, they should not be taken as the only causes, since all too often workers are in fact ‘pushed’ into early retirement by employers. Two approaches are available on the firm level to reduce the wage-productivity gap of older workers. Demotion as an approach seems to be successful in Japan (Putman 2005), where the wage structure is strongly linked to productivity. Up to the age of 60, the wage is very seniority-oriented; after the mandatory retirement age, the firm can fire the worker and hire them at much lower wages. Demotion seems to work, since firms have a strong incentive to invest in keeping older workers employed. However, the institutional setup of Japan is very different from Europe, as are its culture and firm ethics. In Europe, demotion would seem to go against the rationale of both theories (in that it would tend to underutilise workers with high human capital and will break the implicit contract between employee and employer) (Putman 2005). Part-time retirement as the second available strategy seems to have major advantages, which go along three basic lines. Firstly, it prevents the loss of human capital and employability. It also diminishes the risk of falling out into disability through reducing stress, and finally it increases flexibility for both employers and employees.

#### *Active retirement*

Flexibility is especially important in the context of what Pacolet and Hedeboew (2003) have termed the “sandwich generation,” referring to the fact that people aged 50-65 face increased demands for care from both their parents and their children. In Spain, for



example, there is evidence that young couples settle close to their parents to benefit from free childcare (Davoine 2005); in Italy figures show that nearly 25% of the elderly look after someone within their family, with intensity comparable to the responsibilities associated with a part-time job (Leombruni and Villosio 2004). Therefore, the provision of public childcare may have the additive effect of also increasing the employment rate of older workers. Part-time early retirement, however, may also lead to an additional degree of segmentation of the labour market, when being used by firms as a way to keep less productive workers out of the market, or engage them in a secondary labour market, while at the same time keeping productive older workers in an internal market (Courtioux 2005).

Davoine (2005) also summarises recommendations on policy approaches to increase the employment rate of “silver workers”. These include the provision of better jobs in terms of sustainable jobs (which may be considered to be pushed to the back in the European policy agenda focused on ‘Jobs, Jobs, Jobs’), financial (dis-)incentives preventing early retirement, the provision of ALMP and lifelong learning, the institution of working time arrangements conducive to flexibility for employers and employees alike, and the provision of social services and social structures enabling older workers to stay in employment longer. Thus, a multidimensional policy intervention focusing on both supply and demand is envisaged in the framework of the TLM concept. A further requirement of such a strategy is that it needs to be coherent (Schmid and Schömann 2004). Courtioux (2005) demonstrated how the existence of partially competing (catering to different needs for part-time and/or early retirement) programmes in France lead to cannibalisation effects of one programme on the other, leading to an unintended shift in the target population.

Training and lifelong learning constitute a crucial element of such a strategy. While the subject has been touched upon in other chapters, an important contribution has been provided by de Koning and Gelderblom (2004), who analyse the impact of ICTs on the productivity of older workers in the printing and wholesale trade industries in the Netherlands. Their results indicate that as compared to younger workers, older employees employ ICT less in their job, use less complicated applications, and in general have more difficulty in using ICT. This would tend to damage their position, since the level of use of ICTs was found to increase productivity. In addition, its effect is amplified by the fact that a large portion of informal learning on the European level is computer-based (ETUI 2006).

Some additional recommendations can be made on the basis of the analysis of Courtioux and Erhel (2004), who examined patterns of state-wide policy making in the field of promotion of employment of the elderly for Denmark, the UK, France and Germany. The marked difference between Sweden and the UK (as good performers) and France and Germany (as bad performers) is in the extent and type of reforms enacted in order to counter early retirement trends. Both France and Germany have been slow to implement reforms, with incentives still in place for early retirement, in the form of a combination of labour market policies and unemployment insurance regimes specific to the elderly. Any reforms that have been implemented, however, remain largely based on financial incentives to remaining in employment. In Germany, these have been the abolition of early retirement programmes to be completed by 2011, lowering the period older individuals can remain on unemployment benefits, and reinforcing the link between contributions and the pension system. France has followed a similar path (albeit the significant extent to which early

retirement is still part of French employment policy and the fact that the unemployment insurance system can still be used to finance the transition into retirement). Incentives to remain in the workforce are very recent (dating back to only 2003), implemented through increasing the contribution period, and attempting to limit early retirement to only some groups of workers. Enacting part-time early retirement programmes was attempted in 1992.

The approach discernible here entails closing off early retirement exits in combination with financial incentives to remaining in the labour market. However, as Anxo and Erhel (2005) note, early retirement transitions are embedded in a complex institutional setup, of which financial incentives to work are only one part. In addition, closing off one exit route (as early retirement) would only cause workers to switch routes, either through disability or unemployment insurance; making another route more attractive needs to be done simultaneously in order to redirect the flows (Putman 2005).

Sweden and the UK fare better, and although they do not necessarily follow the same path, some successful approaches can be identified. In both countries there are no age-specific provisions in the unemployment insurance system. Also, both implement active (and activating) measures targeted at aiding older workers in their exit from inactivity or unemployment into employment. While in the UK measures are mostly supply-oriented (which can explain why it still lags behind Sweden), both countries implement comprehensive measures for improving the employment situation of older workers. The New Deal 50+ in the UK provides job search assistance, a training grant and job placement in subsidised jobs, in addition to some financial incentives. In Sweden, besides lifelong learning and other employability instruments, the pension system was reformed to favour retiree activity, with older workers being able to combine pension benefits and employment. Demand-side policies include e.g. placement subsidies, covering 75% of wage costs for firms hiring long-term unemployed aged over 57. This is, however, a rather expensive measure and deadweight costs might be large as well.

In sum, the systems in the UK and Sweden fall at least partly in the recommendations for an activating comprehensive strategy by Gazier (2003), which include the closer link between labour market history and pension systems, the creation of transition jobs for older workers (the so-called bridging jobs), and the maintenance of retirement rights during career breaks (such as care). It seems that an approach following the recommendations of the TLM concept, adapted for the national context, may indeed yield good results.

Work packages 6 and 7 being so close together in the fact that they both address ways to balance work and private needs over the life course, their results are united in a single edited publication by Dominique Anxo, Christine Ehrel and Joop Schippers (eds.), ***Labour Market Transitions and Time adjustment over the Life Course***. This contribution is especially valuable in that it provides important insights into ways to increase the employment and participation rates of women and older workers, a core goal of the European Employment Strategy. The book is strongly policy-oriented, aiming to enhance the understanding of the interrelation between institutional settings and national performance and to draw specific policy recommendations. The volume is organised in three major sections. The first part outlines patterns of labour market integration in Europe and introduces the issue of work-life balance. The second section pays attention to the

current working time regimes and leave arrangements prevalent in member states, and attempts to evaluate the extent to which these match individual and household preferences. The final section addresses the impact of current institutional arrangements on the transitions from work to retirement.

An additional publication presents the results of this work package 7, **Active ageing. Early retirement and employability** (eds. van den Heuvel *et al*). The articles of this special issue, based on tlm.net paper contributions to this work package examine participation patterns of older workers and senior's targeted employment policies.

Part one contains international comparative contributions in which national regimes, policies, and the activation capabilities of specific policy reforms are analysed. This macro level analysis is then complemented in the second part of this special issue with studies of individual countries, including firm level and HRM policies.

Beneficial though all contributions discussed in the previous chapters are, discussions so far have highlighted the crucial importance of overcoming the prevalent one-sidedness of current approaches in order to ensure sustainability and tangible impacts. This goal is addressed in the following section, which attempts to synthesise previous chapters into an overarching strategy, and draw some general policy recommendations regarding what such a strategy may look like and how it is to be implemented.

## 2.6 The sustainability of employment insurance<sup>16</sup>

There are a number of factors, which limit the functionality of 'traditional' unemployment insurance and the classic approach to active labour market policy. ALMPs have often been questioned on the basis of their performance, critiques ranging from low/insufficient impact (including lack of sustainable impact of job gains due to stigmatisation effects) and large deadweight costs to an overwhelmingly one-sided approach. However, good alternatives are also not too easy to identify.

The position of the TLM approach in this context falls within the general 'third way' debate initiated by Anthony Giddens, which entails a reform agenda of the welfare state in response to the transformation of the labour market and the changes in the nature of social risks.

Three primary factors can be seen as responsible for the need for a readjustment of labour market policy. Firstly, globalisation and increased economic interdependence are considered to limit the capacity of states to uphold the current system of unemployment insurance, since they put constraints on the scope of the control national governments can exert over national labour markets (van Genabeek 2004). However, this does not necessarily mean that globalisation will always lead to a move toward a liberal welfare state. Indeed, as tlm.net research has demonstrated, there are many possible ways in which

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<sup>16</sup> **Work Package 8;** Chair: Dr. Klaus Schömann

globalisation and welfare state can determine each other (Carroll 2004), including the option that a social safety net for “losers” of globalisation is of even higher importance than it used to be in “home made” economic crisis. Secondly, demographic ageing is working to cause a deterioration of the dependency ratio. This fact, coupled with extended life spans and favourable pension conditions (especially early retirement) puts a tremendous strain on the current welfare system. There is an added need to focus on younger generations since they will need to increase productivity in order to offset these expenditures without considerable loss of welfare. There is a strong rationale behind boosting both productivity and participation rates from a global perspective: the marginal increase in welfare for the EU for each percentage point increase in either of these indicators will be higher than the corresponding gain in its two main global competitors – the US and Japan (ibid.). This necessity implies the need to increase participation for both the long-term unemployed and the disabled, which is a challenge for the current system of ALMP. This contribution will focus comparatively more on the third factor – the observable trend of re-commodification of labour (Gautié 2005), which is specifically relevant from a TLM perspective. The tlm.net paper by Gautié (2005) deals with this trend and the resulting necessity for change.

The trend of decommodification of labour (meaning that labour is not treated as a mere commodity; instead, there are a number of institutions, in the widest sense, which make the labour market act differently from a spot market) was commonly seen as prevalent in defining the wage employment relationship at the end of the 20<sup>th</sup> century. This relationship is based on the acceptance of subordination in exchange for economic security (Supiot 1999). It is characterised by internal labour markets, which follow regulated administrative procedures, and an external labour market, which follows the rationale of the spot market in classical economic theory. The trend of decommodification through institutions seems now to be reversing, with the traditional employment relationship under strain, and internal labour markets (ILMs) in decline.

ILMs, through isolating workers from market pressures, played a crucial role in the decommodification process. Once in the ILM, the worker is disconnected from labour market supply/demand dynamics, as well as the economic performance of the firm. This lead to a structure characterised by the existence of ‘implicit subsidies;’ assuming the firm’s wage expenditure equals the sum of the productivity of all its workers, then some workers (more productive than wage) would have to subsidise others. This is reflected in the seniority wage structure, in which older workers receive wages above their productivity, serving as a redistribution mechanism, compensation for delayed wages, and an incentive mechanism.

ILMs started destabilising nearly 25 years ago (around 1979). Changes such as the slowdown of growth, globalization and intense competition on product markets, as well as changes in financial systems and corporate governance, made internal labour markets economically less viable, at least in economic sectors which previously were shielded from international competition. This in turn led to a re-commodification of labour, and workers are starting to be paid on the basis of their ‘spot’ productivity (through the relatively recent introduction and expansion of flexible pay packages). This can serve to explain (together with technological growth) the rising inequality between skilled and unskilled workers. With the flexibilisation of the employment relationship, workers whose productivity is

lower, and those who used to benefit from implicit subsidies, suffered the most (e.g. the older workers, the low-skilled).

However, the author argues that it is too early to deem ILMs gone, especially in corporatist states, where there are pressures to protect male breadwinners. Employment security for these workers (male, prime-age) remains high, but the increasing segmentation of the market has caused outsiders to be comparatively much more exposed to economic insecurity. Firms now seem to require greater autonomy and yet guarantee less security, which calls for workers to become more mobile and employable throughout their life course.

The re-commodification trend has had an impact on people especially in corporatist and liberal welfare states, where the employment relationship is a central pillar of social protection systems (based on the pay-as-you-go financial provision of social security systems). With the erosion of traditional insurance mechanisms, both in the form of ILMs and the State (threatened as an insurance mechanism by the inadequate calculation of benefits), all related risks are not covered adequately any more. Life course risks in particular are on the rise (being older entails more risk of falling into dependence, being a single mother generates more risk of poverty), and are being accompanied in this by income inequalities (i.e. inter-generational risks), which expand as a part of the process of re-commodification.

The proposed solution, or the ‘third way,’ can be seen as a combination of classical liberalism and traditional social democracy. In contrast to the traditional approach, it focuses on individuals, rather than the labour market states (e.g. unemployment) that they may hold over their life course. The requirements for flexibility of the market, simultaneously combined with a good degree of economic and social security for individuals, far surpass the capacity of traditional employment protection systems. In this context, there is a pronounced need for a move from a curative to a preventive welfare state. The goal is to empower people to actively manage both their personal lives and their professional careers according to their preference.

There is, however, a certain question regarding the way that this ‘third way’ can be achieved. The asset-based welfare approach comprises an employment insurance strategy grounded on providing people with assets, which include financial, human and social capital, which they bring to the market (i.e. a portfolio of marketable competences) (White 2001 in Gautié 2005). The TLM perspective is quite different. A TLM method of finding the third way distinguishes between assets and capabilities; that is, the capacity of people to convert assets into achievements. Equipping people with assets would be insufficient since, according to Sen (1992), capabilities differ across individuals (e.g. blue vs. white collar workers with respect to training; even if both workers have vouchers, they would differ in the extent to which they can assess the benefits of engaging in training). Therefore, the relationship between assets and the real freedom to pursue one’s objectives will differ from one individual to the other. This calls for the provision of social services even more centred on individuals. The concept of the client of interventions as a subject rather than an object is fundamental to the Nordic approach (esp. Denmark), and contrasts sharply with the UK approach. Gautié describes the TLM-enabled welfare state as possessing three main

characteristics: strong equal opportunity policies, investment in human capital throughout the life course (reflecting the notion of promoting employability), and a good degree of activation of social policies to fight social exclusion.

The emphasis on *equal opportunities* is a vital element, since the weakening of the family coupled with the segmentation of the labour market increases the risks for women to fall out of employment into poverty, or remain confined into precarious jobs. *Human capital* is the base element of the asset-based welfare approach, with instruments including individual learning accounts (UK) and certification of skills acquired on the job and/or further training programmes being key elements (National Vocational Qualifications UK). Social capital is also seen as an important asset and a further economic justification to the strife of abolishing social exclusion. Networks are considered the key asset from an economic point of view. Social capital is seen as minimising transaction costs on the market, and allowing the best possible outcome to be derived for a given stock of human capital (Szreter 2001: 296 in Gauthier 2004).

As has been previously discussed, the core idea of the TLM approach is to provide a sustainable social safety net for the individual throughout the life course, via the provision of different institutional support mechanisms financed by both public and private sources (Barbier 2005). TLMs in this way can be regarded as an extension / continuation of the traditional protection of ILMs, although with an added degree of flexibility. Such a setup involves several major changes in the way the system operates. Social security policy needs to cover not only the unemployed or the disabled, but also people in various employment relationships and those engaged in education or care. Rights should be attached to individuals rather than statuses, and the objective is to secure the individual throughout his/her life course, rather than protect the current job s/he is in. This entails the disconnection of social rights from the employment position (and the firm), which may be very problematic in some states (e.g. for liberal regimes in which both pension and health plans are provided by the employer). In short, having sufficient assets is not enough; a wide institutional framework needs to be in place assisting and enabling people to make the right decisions.

The implementation of such a framework would tend to be very problematic, since it requires a systemic overhaul of the current system. The analysis by Vosse (2005) makes a strong point to the case of involving all social partners in such endeavours.

The author analyses policies combining both flexibility and security as the result of tradeoffs between the interests of negotiating parties (following the logic of Wilthagen and Tros 2004). In optimally functioning markets, there would be a Pareto-efficient situation, in which the interests of one party can be enhanced without hurting the interests of the others. However, this is not the case, and the state and social partners can function as a coordination mechanism to supplement the workings of the market in order to ensure the needed results.

Policies enhancing *both* flexibility and security are therefore the result of a positive-sum game. There are some conditions to creating positive-sum games; firstly, there need to be multiple issues involved in the negotiation, and the parties must be able to make

tradeoffs across issues in order for both sides to be satisfied with the outcome (Spangler 2003 in Vosse 2005). This is called integrative bargaining, in which opportunities are found to combine the parties' interests in order to create joint value. The identification of interests is the crucial first step, which increases the probability that win-win solutions can be identified (Spangler 2003 in Vosse 2005).

There are various advantages and disadvantages to the different coordination mechanisms in promoting flexibility and security. *The market* is least capable of coordinating such positive-sum games, due to the temporary nature of exchange relationships and its inability to produce public goods. While it is very good at promoting flexibility, the insurance market that it uses to provide security suffers from important market failures (interdependent risks and adverse selection), which necessitates the involvement of the other two mechanisms to create security. *The state* strives for minimising risk. It is good at enforcing solidarity and predictability. Regarding positive-sum games, the state can 'enlarge the pie' (therefore create more opportunities for win-win situations) by providing more funds (although these do have to be withdrawn from some other use). The state can potentially find out the underlying interests of the groups, although this is a costly and time-consuming process. Finally, it is well capable of considering alternative interests and finding ways to combine them. A disadvantage is that the state also has some concept of what people should do, which can interfere with the negotiations. In addition, it suffers from the difficulty of gaining democratic support for necessary reform.

*The social partners* aim at satisfying interests. Therefore, they are well capable of finding the reasons underlying these interests. Furthermore, they cannot implement decisions one-sidedly and therefore are naturally inclined to consider the interests of other partners in the pursuit of their own needs. Furthermore, a positive fact for social partners is that relationships with others are treated as valuable assets, and with time they become embedded into the partner's identity and are difficult to terminate. Drawbacks include that the negotiation process may be very long and selective, and therefore sometimes less legitimate. There is also the risk of reaching second-best solutions on the basis of negotiations strategies such as package deals. In terms of policy making, social partners provide an opportunity for combining the formation and implementation of social policy within the same organisational structure. Implementation-wise, their agents are closer to the target group and know it better than those of the state bureaucracy. Problems in this context are free riders, as well as an enforcement problem (which can be complemented by the state).

In sum, social partners as a coordination mechanism seem to offer good advantages, since they are better able to identify reasons behind interests and consequently viable tradeoffs, are more consensus-oriented, and seem able to enhance flexibility and security simultaneously. However for both social partners employers and employees organisations to be effective, they need to be able to build upon a decentralised basis and at the same time to dispose of sufficient institutional capacity at the central level to convince members to abide by the agreements reached (e.g. when there is a need to accept a present loss in anticipation of a future gain).

Neither mechanism seems to be able to produce a positive-sum game on its own. A form of coordination which would tend to minimise the disadvantages of the coordination mechanisms is vertical integration. Social pacts are seen as one of the methods here, being regular meetings held between the state and representatives of capital and labour to discuss and coordinate interrelated (although apparently independent) policy issues, such as wages, fiscal, labour market and social policy (Hassel 2000 in: Siegel 2005). In sum, a combination of coordination by the state and associations seems to be more powerful than either mechanism acting alone.

Another important example of involving social partners more fully in the decision-making process was provided by Korver and Oeij (2004) in the face of covenants (analysing the case of the Netherlands). Covenants are voluntary agreements, which are enacted in cases when despite their different interests, the parties have a shared goal, which they cannot achieve through individual action. They provide the advantages that the parties involved have a substantial influence on shaping the agreements, which in turn enhances commitment. Their voluntary, yet binding nature makes them more flexible than rules; therefore the entry threshold into such agreements is low, which makes their time to implementation much shorter. Major disadvantages include the easy exit option, and the fact that they cannot guarantee the involvement of everyone whose participation is needed in order to make the covenant work. In addition, the agreements and decisions it produces are not as secure as rules and laws, calling for a form of coordination supplemented by the state's authority in ensuring compliance (de Gier and van den Berg 2005).

The most important conclusions and policy implications of work package 8 are covered by the forthcoming work by Ralf Rogowski (ed.) ***The European Social Model. Law and Policy of Transitional Labour Markets***. The book argues that the heart of the emerging European Social Model (ESM) comprises a core set of values closely related to issues of social risk management, social inclusion and social cohesion. The ESM implies an active rather than passive management of social risks, including a good focus on preventive measures.

The book opens with a brief theoretical discussion of the European Social Model and relevant policy recommendations from a TLM perspective. Section two explores the legal and economic foundations of the European Employment Strategy in a TLM context. The following section discusses new forms of labour market governance in EU member states, including soft law instruments, followed by an account of national transitional labour market policies in Europe, which studies country cases of labour market reforms and their contribution to the ESM. The final section comprises comparative accounts of the ESM, including welfare and labour law aspects as well as industrial relations in Europe and worldwide.



### **3 Conclusions and policy implications**

"We can't solve problems by using the same kind of thinking we used when we created them." (Albert Einstein)

Perhaps the most important aspect of the contribution of the tlm.net project is providing exactly this alternative thinking that Einstein has been referring to. The largely nationally or privately funded research that have enriched the European network activities of the tlm.net continuously proposes new approaches and feasible solutions, united under a coherent, theoretical as well as normative framework. We briefly summarize some major conclusions from the work packages and highlight the potential impact on the *modus operandi* of policy making in Europe and the European Union.

#### **3.1 Work package conclusions**

Starting with work package 3 of the tlm.net and regarding 'non-standard' or flexible employment types, with a particular focus on temporary jobs, serious questions arise in relation to their capacity to act as an employment maintenance/integration tool. The use of temporary jobs as stepping stones into permanent employment heavily depends on the institutional context, mainly on the degree of protection of permanent employment (which will serve to limit the capacity of such jobs to integrate workers into the primary labour market), the existing incidence of activating policies aimed at easing transitions out of temporary employment, and the degree of stigmatisation attached to this sector (the effects of which extend above and beyond the effect of lower human capital). Therefore, policy should focus on both the demand and the supply side, and aim to concurrently alleviate stigmatisation of temporary employees, and provide education and training in order to enable them to move into better positions. Policy intervention is vital in order to enable temporary work to fulfil its potential as an integrative tool through preventing it from becoming a secondary segment in the labour market. In this respect, the challenge of the welfare state seems to be to realise the 'right' balance between flexibility and security (Wilthagen and Tros 2004), as the Danish model shows. For Continental and Southern states, the current perspective implies less employment protection in internal labour markets but also better employment protection for disadvantaged groups providing flexibility to employers as persons on fixed-term contracts. For Liberal regimes more earnings security should be in place, possibly at the expense of a fraction of flexibility offered to employers. Further, the TLM call for comprehensive solutions encompassing all workers on the market seems to be justified from the vantage point of the Danish model.

An important research finding was that Nordic and Liberal states manage almost equally well to combine flexibility and security, with Liberal performing better in terms of flexibility, and Nordic – in terms of security. Therefore, a trade-off between the two is not necessary. For temporary jobs in particular, more security is theoretically considered as limiting the incidence of temporary employment thus contributing very directly to lower levels of flexibility on the macro level; however, tlm.net research has demonstrated that this

trade-off does not always materialise. Since the volume of temporary work depends primarily on the level of permanent employment protection, an increased degree of security and/or the much-needed policy provisions for firm-based training for this sector will not necessarily significantly hurt macro flexibility. Comprehensive policy solutions are needed in order to carefully manage organisational restructuring in addition (which tends to limit the access to internal labour markets).

All in all, the case is ambiguous regarding the promotion of temporary and other forms of flexible work arrangements in Europe. While they may encourage transitions out of unemployment or inactivity, these transitions need to be sustainable in order to integrate people into the labour market. Lifelong learning has long been recognised as a viable means to improve labour market prospects of individuals, together with competitiveness on the state and firm-level.

More detailed conclusions on lifelong learning are based on work package 4. Several clear-cut policy recommendations can be formulated on the basis of this work package on lifelong learning. The initial transition out of education is very much defining for the further progression of the life-course. Promoting a better connection between the educational system and the labour market is vital in minimizing the incidence of education job mismatch. Instruments in this regard are various forms of school-firm partnerships, as well as various practical training schemes such as internships, traineeships, or apprenticeships, which can serve to ease the transition to work by providing better knowledge of the skill requirements of the labour market. There is, therefore, a clear case for engaging the social partners in the design and implementation of not only the initial but also of the further education and training efforts. Best practices in this context include the UK Sector Skills Councils, the school-firm partnerships present in some regions of France and last, but not least apprenticeship systems like in Germany or Austria still highly effective in the integration of youth into the labour market in a flexibly negotiated way.

Furthermore, the issue of risk-averseness intervening in the learning investment decision calls for ways to cover a proportion of the costs of the investment, or at best – ensure returns through reducing volatility of outcomes. In the TLM framework, this could be achieved by establishing a system of employment insurance coupled with easier access to lower-rate financing for investments in human capital. Another instrument available is the certification of training; however, an unambiguous argument can be made only for the case of government sponsored training.

Moreover, improving the information structure of the labour market can serve to mitigate the impact of problems generated by differences in risk-averseness, as well as lower the reliance of employers on signals in training provision (which penalises participation of groups disadvantaged on the labour market – the elderly, and the low-skilled/paid, in particular). Improving individual access to information regarding the returns to education through instruments such as vocational guidance can potentially correct for the fact that the more educated can better utilize forward-looking information under uncertainty, and help avoid the impact of bounded rationality. Broad vocational guidance systems can also minimise the incidence of education mismatch, help avoid deadweight losses of training measures, and finally can provide useful feedback to learning providers by

elucidating the demand for skills. Measures for the certification of the skill set also fall under this heading. The establishment of centralised information systems providing detailed information on acquired skills and experience, and the certification of skills acquired through informal, on-the-job, and not-formal learning, can help guarantee the outcomes of the training investments.

Training also has a clear positive impact on the chances of the low-skilled / low-paid on the labour market. This tlm.net conclusion suggests the pressing need to extend training and guidance services additionally to this group, with the aim of increasing the incidence and ensuring the sustainability of upward transitions, and preventing falling out into unemployment or inactivity. For the other risk groups, policy recommendations arrived at in the framework of the project include training solutions for the needs of older workers, focusing on specialised courses with shorter depreciation periods, delivered with tailor-made approaches and materials, and active outreach programmes for the needs of the unemployed and the inactive. However, training by itself, while improving the chances for upward or integrative transitions, does not generate them. For the unemployed or the inactive, it needs to be combined with other specialised measures in order to improve the labour market situation of individuals. Some labour market measures of this type were discussed in work package 5.

The transitions out of unemployment to employment are central to policy agendas in most states, especially regarding low-skilled and low-paid workers. A number of developments have complicated the situation, including rising skill requirements damaging the earnings capacity of the low-skilled, the transformation of age into a risk on the labour market and the dissolution of the family as an insurance mechanism, and the increasing requirements for worker flexibility by firms (as a response to rapid technological development, organisational restructuring, and globalisation of competition) not accompanied by higher levels of security. Promoting job growth and reducing poverty, however, may require more than simply establishing equal opportunity for the disadvantaged groups on the market.

One of the risk groups discussed by this work package, the low paid, is particularly vulnerable on the labour market. The low paid do rarely receive “compensating wage differentials” for higher risks (health hazards or low job security) attached to their jobs. Additionally the risk of falling into an “unemployment trap” of long duration unemployment is present in some European countries. Also in this case, the benefits of comprehensive and coordinated solutions are clear. A targeting of unemployment benefits to the persons truly eligible for support like unemployed persons actively searching for a job and ready to accept a reasonable job offers is among common reforms. This emphasises less the amount paid out to the unemployed, but the shortening of the longest duration eligible for unemployment benefits and the risk of unemployment traps. Such a strategy has been undertaken recently by Germany mainly through shortening its generous unemployment benefits durations in order to encourage transitions into employment and thereby lowering the “reservation wage” of the unemployed.

Additional instruments for increasing the wage differential between unemployment benefits and low-wage employment, and hence increasing participation of the low-skilled,

include devising ways of combining work and benefits (already implemented in France, Germany, Belgium and Portugal), lowering social security contributions (in place in Germany and Belgium), and implementing tax credits (in Germany, France, and the Netherlands). For the latter, conclusions of this chapter indicate that effectiveness can be substantially improved by providing more generous benefits (even at the expense of coverage), and making benefits faster to materialise.

However, such transitions cannot be integrative if they are not supplemented by a strong institutional framework enhancing employability. The promotion of (continuous) training for this group, including obtaining certification for prior experience with the aim of reaching a level of formal qualification, is therefore an important additional measure. So is the provision of subsidised childcare, which has the potential to significantly increase participation of low-skilled women. For this group, therefore, there is a clear case in favour of nationally coordinated solutions which provide sufficient benefits to make an impact and increase incentives to enter employment together with providing measures that enhance employability.

Work package 5 focused extensively on ALMPs, and ways to maximise their potential as ways to promote the (re)integrative or maintenance character of transitions. Good targeting and efficient implementation are common recommendations in this context, however made even more salient by tlm.net research. Results indicate that in Germany, about a quarter of the variation in outcomes depends directly on the implementing agencies (the PES), which calls for measures to promote institutional capacity building and closer relations to the local market and the target group. Efficient targeting (and the possible introduction of willingness-to-work controls) needs to be in place. Specifically for the most disadvantaged, tailor-made solutions are essential to ensuring impact. ALMPs need to consider the adaptability of the market in using one-size-fits-all instruments to serve its goals and enhance the segmentation levels, or even damage the chances of the most disadvantaged (e.g. in the case of the Italian measure to promote hiring with open-ended contracts).

The recent trend of the outsourcing of placement and reintegration especially for the long-term unemployed to private service providers (mostly temporary work agencies) was also discussed in this section. While benefits are difficult to evaluate clearly, tlm.net research has demonstrated that the benefits of such a strategy are not yet substantial. On the contrary, current methods of evaluation, while admittedly still crude, show that gains have been modest if at all present. Further research and benchmarking are very important in this respect, both for the purposes of evaluating the feasibility of this strategy, and in its management. Given the conflict of interests that emerges for temporary work agencies in serving the purposes of both firm and individual clients (and which leads to a substantial risk of moral hazard), control mechanisms are vital for the success of this strategy. Three such instruments were outlined in this chapter: incentives tailored to the specifics of the market, indirect evaluation (benchmarking) and direct evaluation (monitoring). A successful evaluation method seems to be the Australian Star Rating system, however it should be kept in mind that too much intervention can hurt the market principles that outsourcing relies on.

Perhaps the most important finding of work package 6 is the great impact of policies and institutions in determining individual choices in matters of work-life balance and the combination of work and care. The male-breadwinner norm prevalent in some countries and reflected in their institutional setup (especially so in the case of Southern regimes) forms the core of the problems faced by women in the reconciliation of work and family life. Women remain the primary care givers in the family, which coupled with increasing participation introduces specific and strong risks to mothers, in terms of role stress and burnout effects. The primary way to reduce the incidence of role stress seems to be eliminating the gender pay gap, which would serve to engage more men in the care process. Currently, the decision regarding which parent takes up caring responsibilities seems to have mostly economic foundations. However, even parental leave programmes which tie benefits to earnings cannot be effective in encouraging the more equal sharing of caring responsibilities in families, since the decision to engage in childcare is not a simple matter of investment logic. It is also largely defined by social norms and values, which have been slow to evolve. Even targeted subsidies which eliminate the income differential between the two scenarios (of the father vs. the mother participating in childcare) are unlikely to be effective if they are not accompanied by a broad rethinking of social roles.

The existing structure is further bolstered by the adverse impact of childbirth on labour market chances of women in most countries. More extensive universal childcare infrastructure (which starts from lower ages) is necessary to prevent long leaves characterised by large-scale losses in human capital and employability. Subsidised childcare is also necessary especially in the case of low-skilled women, who typically cannot afford private childcare services. A further instrument to manage childbirth in its capacity as a labour market risk is providing opportunities for flexible employment for parents. The issue of job quality re-emerges here, in the need to supply jobs which not only provide some degree of income security, but which also manage to preserve employability. Additionally, research within the network has demonstrated that substantial childcare benefits have allowed parents to avoid taking up precarious employment in order to supplement income, and have lead to a higher incidence of return to full-time employment upon completion of the maternity leave period in some countries. This is the strategy undertaken by Nordic countries, which combine generous parental leave provisions and extensive childcare infrastructure. However, it may be that this pattern could induce or enhance a strong vertical and horizontal segregation between men and women. Despite this favourable structure, men still do not share a significant portion of caring responsibilities in Sweden.

Overall, policies in this field need to be as complementary and flexible as the issues they seek to address. For example, tlm.net research indicates that *both* childcare and flexible time arrangements are necessary to achieve sustainable impact, since hired help is not generally regarded as a substitute for own care. An example for a comprehensive strategy is the Netherlands, where policy provisions promoting working time flexibility, coupled with increased availability of childcare facilities and a change in social norms account for the increase in female participation rates and the decrease in drop-out rates at childbirth.

With the individualisation of the life course, policies which aim at allowing for more flexible combinations between work and other activities over the life cycle are growing in popularity and importance. Removing existing barriers to flexible working time without

large income losses is crucial to not only eliminating gender inequalities, but also to enabling a more efficient allocation of time and other resources over the life cycle. A good example in this context is the Belgian time credit scheme, and the time savings scheme. This is an excellent worthwhile measure, however effective take-up can actually serve to enhance inequality.

Work package 7 results show the need to move away from the early retirement culture, which has affected a large number of European Union member states. Regarding the elimination of early retirement practices, tlm.net research emphasises the importance of comprehensive measures encompassing both supply and demand, extending far beyond the current approach focusing on financial dis/incentives to retirement. Tlm.net research puts forward lifelong learning and especially ICT training as a critical tool in tackling the first main problem for this group, the wage-productivity gap. Eliminating the disparity between wages and productivity is of prime importance in the context of the policy goal to eliminate early retirement trends, so that these policies do not weigh on the market. Additional solutions may include the introduction of part-time early retirement schemes and subsidised transition/adapted jobs, which can be used to match worker productivity and wages, as well as satisfy the requirements workers have at the later stages of their life-course. An important finding emerging from the research in the network is the fact that job quality, which has largely been put second to job quantity in current policy formation, leads to lower propensity for early retirement. Thus, a re-emphasis on the “better jobs” component of the European Employment Strategy can generate a clear positive impact for this group. Further, ensuring and improving the position of older workers on the market will also need to involve abolishing discrimination against older workers and doing away with the culture of early retirement prevalent in some countries. From a life-course perspective, two main recommendations emerge. Firstly, in order to promote flexibility over the life course, retirement rights need to be maintained throughout career breaks (an example are the reforms in Germany to include parental leaves into the calculation of pension benefits). Pension benefits also need to be based on the entire working career in order to account for diversity over the life course and promote further participation of older workers.

Work package 7 has demonstrated that there is a way to achieve longer employment durations or “active retirement”, although it is neither simple, nor clear-cut. General TLM-based policy recommendations call for comprehensive solutions targeted at increasing the employability of older workers and reducing the wage-productivity gap. Tlm.net analysis points to the fact that the most vulnerable group in terms of the latter seem to be workers over 55 years of age. However, while policy intervention is needed to bolster their position on the labour market, one-off solutions may prove to be inadequate. Rather, a life-course approach should be employed, which would ensure the sustainability of training efforts and willingness-to-work measures. A specific obstacle in this sense is the culture of early retirement prevalent in some European countries, and reflected in their institutional design. This goes especially for Continental states, whose approach entails blocking early retirement exits in combination with financial incentives to remaining in the labour market. However, closing off exit routes cannot serve its purpose if another option is not made more attractive at the same time, since the market can adapt to policy changes and new exits can be found, even among government-sponsored programmes. Instead, older workers need to

be prepared for the market so that the abolition of early retirement does not do more damage than good. In this respect, tlm.net recommendations include the intensification of lifelong learning (especially ICT training) and the promotion of part-time, active retirement. Part-time retirement can be used to minimise the discrepancy between productivity and wages, and seems to have major theoretical advantages: it prevents the loss of human capital and employability, diminishes the risk of falling out into disability through reducing stress, and finally increases flexibility for both employers and employees.

It should be also kept in mind that spill-over from other problem areas also affect this group: the lack of available public childcare and/or care for the elderly puts an additional degree of stress on older workers, due to caring obligations. This is a good illustration of the fact that any good method necessarily takes into account problems beyond its particular target group, and all policy interventions discussed here and in previous chapters would be meaningless without being incorporated into an overarching strategy. The following section deals with the prospect of such a strategy, and makes an attempt at outlining some of the cornerstones for its design and implementation.

In conclusion of work package 8, the broader and flexible nature of modern labour markets necessitates innovative and versatile and comprehensive policies for the management of social risk. New constraints on the previously established role of the welfare state trigger the need for greater coordination, cooperation and monitoring of policies by all social partners in an attempt to overcome limitations imposed by the forces which drive the transformation of social risks. The consequences for the sustainability of our modern welfare states and overall social security systems are still evolving and a close monitoring, forecasting and simulation (de Koning, Kroes and Gelderblom 2006) of the effects need to be accomplished.

### 3.2 Overall conclusions

Europe has been very ambitious in setting its social and labour market goals, which makes the failure to meet them ever more apparent. The goal for a society both efficient and equitable, both flexible and secure, seems more of a dream given the persistent underperformance on the European level. There is hardly a need to re-enumerate here various problems persistent on the labour market in Europe, outlined in numerous reports, analyses and research papers. However, such analyses often stray too far from the reality that they describe, from the severity of the problems they seek to solve, and form their basic goal, which is to help people lead better, fuller and all around happier lives (Layard 2004). Not succumbing to this trend is the core both conceptually and normatively of the TLM.NET approach, with its focus on the life course, individual histories, problems and solutions. Targeted solutions, and those which impose strict requirements for eligibility (such as willingness-to-work controls) seem to be essential in correcting for not only large-scale structural problems, but also for the *increasing* degree of marginalization of society's riskiest groups. A very controversial and difficult trade-off is therefore emerging for European policy makers: between keeping the status quo but continuing to deal with

persistent structural unemployment, and breaking away from their current frame of reference, possibly at the expense of some large-scale rethinking of the role of the welfare state, but improving welfare itself.

For some critics, the shift away from an approach characterised by solutions with the same conditions and benefits to all to a system of universal entitlements with specific conditions according to group membership is seen as forming a threat to the European Social Model as it is at present. However, as has been previously noted within the tlm.net project, giving up some of the cherished principles of European policy making may be necessary in order for the most fundamental basis of the model to survive. In this sense, TLM forms a critical theory in that it attempts to find and trace the sources of current problems and devise innovative solutions, and therefore a TLM-enabled policy approach should be open to new, flexible and sometimes experimental solutions framed in a sound evaluation context. While some states were more or less successful in adjusting their systems and institutional designs to the new challenges of the information and knowledge economy and society, with the prominent example of Denmark, others have been slower to adapt to change as evidenced by the persistence of the male bread-winner model in the institutional set-up, strong early retirement trends, and rising requirements for flexibility without corresponding increases in security. The TLM concept is especially useful in aiding such a transformation, since it provides a flexible and adaptive frame of reference, which can help devise and evaluate solutions based on common criteria across all European states. In this sense, the TLM network implies a new approach to policy making, which involves the *management of coordination* in order to generate positive-sum games, supplementing the role of the Open Method of Coordination's mostly non-legally-binding methods with state-enforced regulation.

Policy solutions cannot and should not take the same form in all states. Path-dependency, institutional inertia, and specific ways of coordination of the market that have evolved throughout a nation's history are of a paramount importance for the way that a policy will impact its target group and the success it will achieve. Even in Denmark, all too often pointed out as more or less the only best-practice example of a national scale, the current state of the market was not fully the result of deliberate and focused efforts in all spheres; rather, specific circumstances and developments have helped shape its structure, which combined with the 'right' policy making have synergised to provide the desired result. However, the TLM approach *can* help analyse and observe these developments and recommend ways in which they can be replicated on the national level, not in their structural, but in their functional equivalence.

The Danish model does provide one definite and clear conclusion. There is a strong need for coherent and comprehensive solutions. While there are numerous examples of TLM-based or -enabled policy solutions, they are unlikely to reach their full potential unless supplemented by a strategy that in a clear way uses the TLM perspective to cover the risk associated with all important transitions. This strategy has been termed the "European Employment Insurance Model (EEIM)(de Gier and van den Berg 2005b)," focused on the concepts of both making work pay and making transitions pay. As discussed on numerous occasions within tlm.net, the components of the EEIM should cover both supply- and demand-side dynamics, in essence not only preparing workers for the market, but also



preparing the market for workers (Gazier 2003). However, a significant challenge for policy-makers would be finding the right mix of areas to include in its coverage without overstraining the system.

While the EEIM model cannot stand by itself, it can form an important complement to the EES. In view of the four top priorities of the EES (European Commission 2005): attracting more people to the labour market, increasing the adaptability of workers and enterprises, investing in human capital and making lifelong learning a reality, and improving the implementation of reforms through better governance, the TLM approach provides specific guidelines for concrete solutions which would maximise the possibility that these goals are achieved. Thus, one of its primary goals is serving not as a universalistic approach to be replicated in all countries without question, but rather being a touchstone against which reforms can be judged and evaluated. It has been shown repeatedly in tlm.net research how policies cannot be directly extracted from one context and implemented in another. The example of the part-time early retirement instrument in France shows how a policy can be transformed by actors in the labour market in ways that cannot be foreseen based on another country's experience. Nonetheless, some general guidelines for reforms emerge from transitional labour markets research within the network, which have a significant potential, if correctly implemented.

When managing risks two crucial stages can be discerned. First, risks need to be identified, in particular these which are 'old risks' and declining in importance, and, second, those risks, which are 'new risks' and on the rise. In this context, the TLM framework has been successful in identifying risk types, classifying them, and helping to provide an assessment of the risk exposure of particular groups. The project has identified five groups which face rising risks of marginalisation on the labour market, namely the young, the elderly, the low-skilled, women (especially mothers), and migrants, as evidenced by the high incidence of long-term unemployment for these groups.

Summarising, these new risks include the new skill requirements introduced by the knowledge economy, which have shortened skill depreciation periods, thereby spreading the risk of income maintenance to all social groups, sometimes even to persons with high technology specific skills. Economic restructuring and the change in pay structure towards more performance-oriented pay packages have seriously threatened if not yet abolished the internal labour market and the trend toward decommodification of labour. Non-standard employment relationships are also on the rise in response to changing requirements for global competitiveness, and have caused serious risks of income security. The rise in female participation has increased the risk of role stress and introduced childbirth as a major labour market risk. The process of demographic ageing has introduced specific requirements toward activating older workers, while early retirement trends still persist, which are unsustainable already in the medium-run.

Research within the tlm.net framework has generated a number of solutions to these trends, clearly and concisely summarised in the following table by de Gier and van den Berg (2005b p. 79):

**Table 1** Social risks and their Management according to TLM

	Risk prevention	Risk mitigation	Risk coping
Class risks	New employment norm Life long learning arrangements Working time arrangements Making transitions pay policies Making work pay policies Improvement quality of jobs and quality of working conditions Educational early childhood policies	Unemployment insurance Vocational training arrangements	Life long learning Vocational training Increase of internal & external mobility
Gender risks	New employment norm Making transitions pay policies Life long learning Educational early childhood policies	Day care provisions Parental leave arrangements	Life long learning Vocational training
Life course risks	New employment norm Making transitions pay policies Enlarging working career over time Working time arrangements Educational early childhood policies	Mobility insurance Time credit systems	Increase of internal and external mobility Personal savings accounts for caring, education and temporary leave

Clearly the shift from active to a mix between active and activating policy is at the centre of this framework, involving a change of focus from job and income security to employment and transition security, and from the traditional unemployment security to employment security arrangements. However, this also implies that the balance of responsibility for managing social risks between a collective level and the individual level is tilting in more spheres to the individual level whilst the importance of collective level solutions for addressing basic risks becomes even more evident. Such a rebalancing does not involve a radical shift toward a neo-liberal approach to the welfare state. Rather, such a shift would make the economic basis of the European Social Model (ESM) more sustainable in the medium and long run. Tlm.net takes the view that reforming the traditional, passive welfare approach is imperative for achieving the goals of the EES and makes the ESM sustainable.

Continuous and close monitoring and evaluation of the EES and the ESM at all levels of policy making is necessary to make employment insurance sustainable.

Targeting policy and benefits to those most in need is also an element of achieving a sustainability of social systems. However, given the large extent of deadweight costs associated with active labour market programmes and elaborated on repeatedly by work in the network, targeting seems to be of prime importance. In addition, one-size-fits-all arrangements seem to be prone to segmentation in participation which follows more or less the dynamics of the market. Therefore, it is all too often that the neediest are excluded from the instruments that are supposed to improve primarily their welfare. Tailor-made approaches seem to be most justified from an effectiveness and an efficiency perspective. In addition, further breaking away from the traditional approach, successful policies seem to be the ones most decentralised in their design and implementation, closest to the local context and target groups, and which involve to a greater extent all social partners at all stages. There is a strong case therefore for at least partially *concentrating* resources to serve the needs of the most disadvantaged, even at the expense of some coverage of more wide-reaching policies. However, given the severity of these problems, the trade-off may well draw the line between success and failure. Current activating policies translated into Continental countries suffer the most from this discrepancy between welfare state principles and the underlying design of the policy, in either providing insufficient benefits to be successful, or becoming financially unsustainable. However, a note should be made here that this is in no way a call for the indiscriminate targeting of social protection measures. Rather, it is a statement outlining the importance of being prepared to consider it as an alternative when clearly supported by a cost-benefit analysis. The maintenance of public support for such policies is crucial, especially when financed by general social security contributions. Following de Gier and van den Berg (2005b), this report also recommends promoting the universality of the principle for making transitions pay and enabling everyone to make the transitions that fit their choices best, however allowing for special conditions for the most disadvantaged.

As previously noted, however, enabling everyone to make the transitions that fit their preferred life course trajectory best by equipping them with marketable assets (the asset-based welfare approach) is insufficient. This is caused primarily by the fact that there is not only inequality of opportunity, but also inequality of capabilities to make the right choices, as evidenced for example by the unwillingness of some unemployed to take up training even when opportunities are freely available. Individuals therefore can be aided via institutional arrangements in order to be able to make the right decisions under uncertainty. This issue of bounded rationality is crucial in explaining the disadvantaged position of some workers on the labour market. Therefore, the state can do well to provide important market information, either through individual information and guidance services (such as forecasting demand for specific skills, providing information about specific requirements of the market, and the payoff of investment in human capital) or indirect macro-level guidance through closing off some transitions while *at the same time* promoting others. An example is the case of early retirement, which persists even when one route is closed, since workers and firms find others. Only through promoting the right alternative simultaneously can good results be achieved.

Lifelong learning is also a major component of the strategy to deal with the risk of social exclusion, reflecting the understanding of the prevailing need to invest in learning to remain employable on the individual level. Lifelong learning can itself serve as a sort of insurance against the risk of unemployment. Results indicate that its importance also depends on the initial education level, as does indeed the propensity to engage in training. Both empirical results and theoretical analyses seem to confirm that it is exactly the most disadvantaged in the labour market that will tend to under-invest in continuous training. More worryingly, the dynamics of underinvestment are such that it will reinforce and in turn be reinforced by labour market disadvantages, leading toward downward spirals into unemployment with significant scar effects. Therefore, promoting learning over the life course is a major precondition to preventing downward exclusionary transitions. The practical implementation of such programmes has been extensively analysed in the framework of the project; the most important finding is that once again decentralised policies, which keep a very close connection with the labour market, work best. A good example here is the Danish system of trade colleges, which are operated on the local level by unions, employers and local authorities (de Gier and van den Berg 2005b). In short, the TLM-enabled welfare state can be described as possessing three main characteristics: strong equal opportunity policies, investment in human capital throughout the life course, and a good degree of activation of social policies to fight social exclusion.

Specifically equal opportunity is vital to ensuring continued levels of female labour force participation. While removing institutional barriers such as the male breadwinner model is also crucial, even the best policies cannot begin to be effective in encouraging a more equal division of labour until the gender wage gap is redeemed. As daunting as this task may still be on the EU level, some countries have provided excellent examples of how a coordinated and coherent policy together with a readjustment of institutions and social norms can serve to produce very good results in the long term. Such a major structural change can only be effected by a good cooperation between the state, firms, and social partners.

Turning away from general policy recommendations, tlm.net has also managed to produce a wealth of specific policy advice, in the form of evaluations, theoretical work, and empirical analyses (Schmid 2005). These have already been summarised in the conclusions of each individual section, and will only briefly be recounted here in tabular form.

**Table 2** Overview

<b>Problem</b>	<b>Major defining factors</b>	<b>Solution</b>	<b>Instruments; Best practice example(s)</b>
Ensure the stepping stone character of flexible employment	Human capital Employment protection Activating policies Degree of stigmatisation	Promote CVT Early education is vital; some degree of over-education for the low-skilled may be warranted Lower employment protection legislation Careful management of organisational restructuring	Nordic countries, esp. Denmark (best in terms of security), Liberal countries (best in terms of flexibility) Austrian indemnity law Groupements d'employeurs in France (treating multiple employment relationships as one regular employment)
Reduce education-job mismatch	Link between labour market and educational system Type of education Minimum wages	Promote better connection between educational system and labour market Promote a good core of general knowledge; also in vocational degrees	School-firm partnerships Apprenticeships (e.g. Germany) Internships
Promote lifelong learning for the disadvantaged	Returns on investment in CVT Risk averseness Time horizon Available information Liquidity constraints Bounded rationality	Ensure returns by certification of government-sponsored training (results for certifying firm-based training unclear) Ensure against investment risk Promote more monitoring over firm training practices Provide adequate information on returns and available funds Promote availability of affordable training especially to most disadvantaged (and ICT training for older workers)	Certification programmes, including those of previous experience towards obtaining a degree Provision of subsidised training and training leaves for risk groups (including low skilled) Involve all social partners in design and implementation (UK Sector Skills Councils, school-firm partnerships in France) British individual learning accounts Voucher system for employability investments in Switzerland Provide vocational guidance
Reduce female role stress	Earnings gap Institutional framework	Abolish male breadwinner model and eliminate gender pay gap	Belgian time credit and time saving schemes, although with an added equal opportunity component

	Social values	<p>Provide better (subsidised) public childcare infrastructure</p> <p>Allow for better work-life balance through flexible employment without large income losses</p> <p>Ensure availability of quality part-time jobs</p>	<p>Provide generous income protection for a relatively shorter period (Denmark and Finland)</p> <p>Adjustment of Working Hours Act in the Netherlands</p>
Encourage transitions out of unemployment and improve participation of low-paid/low-skilled and their labour market position	<p>Income differential between unemployment benefits and employment</p> <p>Human capital</p> <p>Institutional framework</p> <p>Scarring effect; stronger when both high job protection and generous unemployment benefits</p>	<p>Activating approach through reducing generosity of unemployment benefits and introducing back-to-work incentives</p> <p>Enable combinations of work and benefits</p> <p>Implement tax credits or lower taxes</p> <p>Lower social security contributions for low-paid</p> <p>Promote lifelong learning</p> <p>Obtaining certification for previous experience in order to increase formal level of qualifications</p> <p>Subsidised childcare for low-skilled women</p> <p>Targeted making-work-pay policies for the most disadvantaged; high-intensity, tailor-made solutions most effective</p> <p>Vocational guidance and counselling</p>	<p>Reduced unemployment benefits in Germany</p> <p>1-Euro Jobs in Germany, other schemes in France, Belgium and Portugal</p> <p>Tax credits in UK, the Netherlands – success conditional on generous benefits</p> <p>Social security arrangements in Germany and Belgium</p> <p>Zwischengeld in Switzerland replacing 80% of income loss when switching jobs to discourage unemployment transitions</p> <p><i>Revenu Minimum d'Insertion</i> in France – combating poverty, combined with housing and training allowance</p> <p>Social employment enterprises for the long-term unemployed or inactive</p> <p>Employment companies or transition agencies providing temporary work, training and placement: START in the Netherlands, Personnel Service Agencies in Germany, Arbeitsstiftungen in Austria, etc.</p> <p>Sweden employment counselling</p>

Remove early retirement and improve the situation of older workers on the labour market	<p>Extent of wage-productivity gap</p> <p>Institutional framework</p> <p>Existing programmes allowing early retirement</p> <p>Allow for better work-life balance</p>	<p>Financial incentives</p> <p>Life course approach focusing on continuous training, incl. specialised training (esp. in ICTs)</p> <p>Provide subsidised adapted/transition jobs tailored to the needs of older workers or part-time early retirement schemes</p> <p>Enabling social services and coherent policy, including better public childcare infrastructure</p> <p>Closer link between labour market history and pension</p> <p>Promote job quality (sustainable, healthier jobs)</p> <p>Eliminate discrimination</p>	<p>Limiting beneficiaries of early retirement programs in France</p> <p>Adapted jobs, specialised training in Finland</p> <p>Targeted subsidies for job creation for the elderly in the UK and Germany</p> <p>The UK New Deal 50+ in job search assistance and subsidised jobs</p> <p>Subsidies in Sweden covering 75% of wage costs for firms hiring long-term unemployed over 57</p>
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This table does not cover the multiplicity of topics discussed in the tlm.net framework, nor can it do justice to its full scope. However, this is not its goal; it aims to provide a brief outline of the long way that the project has come and the even longer way that remains to be researched. While some very significant developments and dynamics have been noticed and discussed, there are still important open questions. Is the European Social Model sustainable under intensified globalisation, demographic aging and continuous under-investment in lifelong learning? Does Europe have to readjust its social targets? Should not the targets for the employment rates of all, women and older workers coincide? What is the ‘right’ or ‘optimal’ policy mix in each country and at the level of the European Union?

We have demonstrated that indeed flexibility and security *can* and *should* go together, but how can successful policy constellations be successfully implemented in a different national and local context? Is there a necessary trade-off between universality and efficiency of social security provisions? Is there a ‘best’ model, running across welfare state types? How can the European Union act together to improve worker welfare and mobility? In the words of Lao Tzu, the journey of 1000 miles always begins with the first step. Looking back at the progress of tlm.net we have accomplished a solid first step, which opens up new ways of policy learning on the road to improving the European Social Model, and while we have many miles left to go, we hope to have contributed to choosing promising avenues.

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