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## Transitional labour markets: A new European employment strategy

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**Transitional Labour Markets:  
A New European Employment Strategy**

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## Abstract

Although it has become fashionable to reject 'full employment' as a realistic objective for economic and social policy, there is one important reason to stick to this goal. 'Full employment' always reflected the idea that all persons should have the right to earn a decent living through their own work. It is this connotation of *social integration* by full participation in the working life that makes full employment still powerful as a regulatory idea. However, the content of this goal deserves reconsideration. The model of continuous and dependent full-time employment is no longer up to date, although it still implicitly underlies many institutional arrangements. This 'male breadwinner norm' denies full employment participation to women on the one hand, and relieves men from full responsibility in the family life on the other hand. This paper suggests replacing this norm by the regulatory idea of transitional labour markets.

'*Transitional labour markets*' would be the complementary element to the innovation and investment strategy required to solve the employment crisis in Europe. They are defined as institutionalised arrangements which allow or support the change of the employment status or the combination of labour market work with other socially (and to some extent even economically) useful activities. Important elements of such a strategy are the combination of working time reduction with life-long learning, the use of explicit wage subsidies for lower income groups or hard-to-place people, and legally or contractually bargained entitlements to transitional employment. Such transitional labour markets would also serve as a flexible buffer which expand in periods of recession and contract during booms. Already existing examples and promising innovative examples all over Europe are presented. Their employment potential is demonstrated with a detailed tableau for Germany and with a theoretical experiment for the European Union. Open research questions are discussed in the concluding part.

## Zusammenfassung

Obwohl es Mode geworden ist, 'Vollbeschäftigung' als ein realistisches Ziel für Wirtschafts- und Sozialpolitik zu verwerfen, gibt es einen wichtigen Grund, an diesem Ziel festzuhalten. 'Vollbeschäftigung' reflektierte schon immer die Idee, daß alle Menschen das Recht haben sollten, einen menschenwürdigen Lebensunterhalt durch eigene Arbeit zu verdienen. Es ist diese Bedeutung der *sozialen Integration* durch volle Teilnahme am Erwerbsleben, die das Vollbeschäftigungsziel immer noch als eine wirkungsvolle regulative Idee erscheinen läßt. Dennoch bedarf ihr Inhalt einer Neubesinnung. Das Modell der kontinuierlichen und abhängigen Vollzeitbeschäftigung ist längst nicht mehr zeitgemäß, obwohl es noch vielen institutionellen Arrangements als implizite Norm zugrundeliegt. Dieses 'die Männer sind die Ernährer'-Modell verweigert den Frauen einerseits die volle Beteiligung am Erwerbsleben und entlastet andererseits die Männer von jeglicher Verantwortung im Familienleben. Dieses Papier schlägt vor, diese Norm durch die regulative Idee der Übergangsmärkte zu ersetzen.

'*Übergangsmärkte*' wären das komplementäre Element zu einer Innovations- und Investitionsstrategie, die zur Lösung der europäischen Beschäftigungskrise erforderlich ist. Sie sind als institutionalisierte Arrangements definiert, die zeitlich befristete Wechsel zwischen verschiedenen Beschäftigungsformen oder die Kombination von bezahlter Arbeit und unbezahlten, sozial (und teilweise auch ökonomisch) gleichwohl nützlichen Aktivitäten erlauben oder unterstützen. Bedeutende Elemente einer solchen Strategie sind die Kombination von Arbeitszeitverkürzung mit Bildung oder Weiterbildung, Lohnsubventionen für untere Einkommensgruppen oder schwer vermittelbare Personen, sowie verhandelte oder rechtlich abgesicherte Ansprüche auf eine Übergangsbeschäftigung. Solche Übergangsmärkte würden auch als flexible Puffer dienen, die in wirtschaftlichen Rezessionen expandieren und in Boomzeiten kontrahieren. Schon vorhandene und vielversprechende innovative Beispiele in Europa werden vorgestellt. Ihr Beschäftigungspotential wird sowohl mit einer detaillierten Tabelle für die Bundesrepublik Deutschland als auch mit experimentellen Überlegungen für die Europäische Union demonstriert. Zum Abschluß werden offene Forschungsfragen diskutiert.



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## **Transitional Labour Markets: A New European Employment Strategy**

Participation in the labour market is fundamental for social integration. Unemployment, therefore, is one of the main channels of social exclusion for it prevents people from exchanging their labour services and their productive knowledge. The developed capitalist societies, however, seem not any longer able to fulfil this basic civil right for a substantive part of their members. Most of the 15 European Union Member States (EU15) have been plagued with mass unemployment since two decades. A substantial part of this unemployment is „structural“, reflected in the high proportion of long-term unemployment or in a socially selective incidence of unemployment. Of the 18 million unemployed, about 9 million are unemployed more than one year, not to mention many discouraged people who have given up to search for a job. The youth unemployment rate (20 percent of the labour force 15-24) is double the figure of total unemployment (10.2 percent in April 1998). The majority of the long-term unemployed remains excluded even after participating in one of the many labour market programmes to regain their employability, and young people who do not get the chance to demonstrate their capacities, skills and ingenuity will sooner or later revolt, or they will (at best) become politically apathetic or (at worst) criminal.

A stronger economic growth would certainly relieve this situation. The problem of the European employment system is only in part the lack of employment intensity of growth; in fact, the linkage between employment and growth became even stronger during the last decade (Schmid et al. 1998). The problem is also in part the lack of growth dynamics as can be seen from the growth rates of real GDP. All highly successful countries in terms of employment growth and unemployment reduction (for instance the Netherlands) had recently growth rates in real GDP above the average of the EU or OECD (OECD 1998, p. 2). Unemployment, thus, is not only a problem of the labour market but also (if not primarily) a problem of the commodity market which in turn depends on financial markets, innovation capacities and other regulatory frameworks of the production system. This is, however, not the subject here. This paper starts from the assumption, that a more positive economic climate is only a necessary but not a sufficient condition to solve the problem. What, then, is the solution?



The *key hypothesis* of the following essay is that transitional labour markets would be an essential part of the solution in complementing the required economic growth based on technological innovations and new commodity or service markets. The argument is that the borders between the labour market and other social systems have to become more open for transitory states between paid work and gainful non-market activities which preserve and enhance future employability. Restrictions in global demand management, limited effectiveness of conventional labour market measures, and new preferences of workers require such a turn in the European employment strategy. In contrast to non co-ordinated labour markets and so-called „secondary labour markets“ („Zweiter Arbeitsmarkt“), the institutionalisation of transitional labour markets would encourage mobility (‘transitions’) across the border of social systems without inducing downward spirals of social exclusion by optimising people’s lifetime social participation.<sup>1</sup>

This contribution starts with the premises of transitional labour markets (section 1), develops the main principles how to organise such labour market institutions (section 2), explores existing and promising policy examples in the European Member States (section 3), demonstrates the employment potential with figures for Germany and a medium-term scenario for the European Union (section 4), reviews in the concluding part the main results and discusses open questions (section 5).

## **1. Premises of Transitional Labour Markets**

Apart from ‘globalisation’, which dominates the present employment discourse, consideration should also be given to another major trend, one that is usually ignored in the often very ideological debate on international competitiveness, namely increasing social differentiation, possibly even a renewed drive towards individualisation. The associated change in family and demographic structures creates new challenges for the employment systems in modern industrial societies that are at least as dramatic as the changes in the global economy. The historical phases of civilisation, rationalisation and differentiation are now being followed by a new element of modernisation, namely individualisation.

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<sup>1</sup> For previous versions of the concept see Schmid 1994a, Schmid 1995a and Schmid 1995b; for extensions see Gazier 1998, Schömann 1998, Wilthagen 1998.

*Civilisation* denotes the process of exerting control over the exterior and, above all, the interior nature of human beings as part of the monopolisation of power by the state (Elias 1976). *Rationalisation* means, on the one hand, the 'demystification of the world': Not the increasing general awareness of the conditions under which one lives but rather the knowledge or the belief „that, in theory at least, *one could control* all things if one only *wanted to*” (Weber 1992 [1917], p. 87). Thus the rationalisation of society denotes a belief in the increasing intellectual mastery of living conditions *and* the concomitant trust in or reliance on the appropriate experts. On the other hand, rationalisation also hints to the pluralisation of value systems and the scientific search for the means to put them into practice (Weber 1992 [1917], p. 103). *Differentiation* reflects the process of defining and institutionalising various spheres of action and the individual participation in several of such fields of action (Durkheim 1977). In addition to these historically completed phases, individuals are increasingly seeing themselves as the creators of their own, non-collective life plans. This phenomenon has always existed in individual cases or among privileged groups. However, the early 1970s saw a significant shift in this direction. It has been possible since then to talk of a phase of *individualisation*, in which a critical mass of separate individual interests, not only of men, but also of women and children, is defined and put into practice not only in the face of the state and the church, of local communities and kinship but even of individuals' families.<sup>2</sup>

The consequences can here only be intimated with the aid of a few key terms: an endogenous trend towards increasing female participation in the labour market, rising divorce rates, increasing numbers of single parents and declining birth rates. The process of individualisation is further reinforced by demographic trends. Between the end of the working life and eventual death there is now an increasingly long period of independent living that can be organised according to individual taste. Thus individualisation also denotes a society in which life expectancy is long and increasingly long periods of people's lives can be organised to suit individual wishes. The consequence is a shift in the age structure, which in turn has an effect on the conditions under which the labour market operates. Until now, in Germany for instance, for every

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<sup>2</sup> Cf., among others, Beck 1986, Huinink 1995, van de Loo and van Reijen 1992, Miegel and Wahl 1993, Mayer 1996.

100 economically active individuals aged between 20 and 60, there were about 35 pensioners; soon there will be 70 or more.<sup>3</sup>

In combination with other 'megatrends', such as 'globalisation' or internationalisation and information technology, individualisation creates two major problems for postindustrial societies. First, the notion of '*full employment*' in the traditional sense can no longer be sustained. The slogan of 'work for all' has to be qualified anew. The 'all' in the traditional sense has been restricted, according to the breadwinner concept, to the male heads of households. This ideology can no longer be upheld. In other words, the full employment objective in the sense of work for all under the condition of eight hours a day, five days a week, 46 to 50 weeks a year, 40 to 50 years during an average individual life span, is both outdated and unachievable. Second, the growing number of pensioners, or more precisely the increasing number of older people not burdened by paid work, is becoming a drain on the social security systems. The old-age pension systems can no longer be financed only by those in work (through social security contributions and income tax); additional sources of finance or subsistence must be institutionalised.

If we qualify, however, the '*new full employment*' by saying: Let our orientation be an average working time of 30 hours a week over a life cycle of both men and women, but let our concrete working time vary around this standard according to economic conditions and circumstances of our life cycle, then full employment in this sense would be possible. In other words, the goal of a more employment intensive growth can only be achieved by a working time reduction of those who have a job, and this, realistically, implies some kind of income redistribution. In the long-term, however, this income redistribution will not necessarily lead to lower real income or lower living standards for three reasons. First, the higher degree of social integration through this kind of work sharing measures will foster productivity through working time reduction and reduced segmentation or occupational segregation, and it will increase the 'economic cake' for distribution because more people are productive (or less idle labour has to be maintained). Second, life quality will increase through more leisure time, more time sovereignty, improved natural environment, and more equal opportunity. Third, the income sharing may also be a positive sum game (or at least a zero sum game) from the household point of view: what the

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<sup>3</sup> Cf., among others, Baltes and Mantada 1996, Deutsche Gesellschaft der Vereinten Nationen 1994, Enquête Kommission 1994, Harrison 1994, Hof 1993, Klose 1996.

male spouse loses may be more than compensated by what the female spouse wins through new forms of family labour divisions.

Phases in the life cycle in which the working time deviates substantially from the new standard of 30 hours are phases of '*transitional employment*'; and institutional arrangements that allow such intermediate phases will be called '*transitional labour markets*'. Unemployment would be an extreme form of such an intermediate phase, and the new concept of 'full employment' does allow for '*transitional unemployment*'. But structural unemployment can be alleviated substantially through a new labour market policy which supports various forms of 'transitional employment' such as short-time work, temporary part-time work, further training and retraining, sabbaticals, parental or career leaves.

In a stylised way, the working time regime of transitional labour markets can be compared with two other regimes. First, the *traditional regime* in which men work full-time and women, if at all, work part-time at various hours depending on the households' need for additional income. Austria, for instance, seems still to come near this model, and also France with the exception that more and more women work here also full-time by adjusting to men's style of working life. Germany comes also near this model with the exception of a peak for women working part-time at around 20 hours a week. Second, the *dual working time regime* in which many women work part-time at precarious conditions and low income, whereas many men work regularly overtime to compensate for the low income of women who are still supposed not to be 'equal breadwinners'. The United Kingdom seems to be unique in coming near to this model. In contrast to these models, the frequency of weekly working time in a working time regime of 'transitional labour markets' would be 'normally' distributed around 30 hours a week both for men and women.

What are the suitable policy measures to realise this work sharing strategy? What are the organisational requirements to implement these measures? These are the subjects of the following sections. I will start with the principles that underlay the strategy of transitional labour markets.

## **2. Principles of Transitional Labour Markets**

A personal experience shall introduce the main argument. When I made 20 years ago an interview at an employment office in a rural area, the placement officer explained the rationale of short-time work in the following way: Most

people accept temporary working time reduction connected with some income loss as a legitimate form to adjust to cyclical demand shocks; they prefer this form to layoffs or dismissals; many people use the free time to get work done on their farm; they consider this as a property right, and they are even frustrated if the timing of the demand shock does not fit with the need to do their farm work. This story contains the three most important elements of the concept of transitional labour markets:

- *First*, labour markets are always exposed to shocks to which workers or employees have to adjust. These shocks may come from external sources of the labour market such as a rapid changes in effective demand or technological changes. But these shocks may also come from internal sources of the labour market such as demographic ups and downs, health disasters, family breakdowns or the need to follow a partner in another region and therefore to change the employer and perhaps also the job. As the British sociologist Anthony Giddens remarked, the characteristic feature of our times are not external risks but internal risks or ‘manufactured risks’ that result of human intervention into the conditions of social life and into nature (Giddens 1995; Giddens 1996, p. 4). Internal risks show no clear cyclical or seasonal pattern. In other words, *chaotic* involuntary (and sometimes even voluntary) *unemployment* becomes an increasing fact of the life for everybody.<sup>4</sup>
- *Second*, labour markets are not commodity markets but ‘social institutions’ (Solow 1990; Schmid and Schömann 1994). Their adjustment capacity to external and internal shocks by wage flexibility is limited. The greater the need to adjustment and the longer the time needed to adapt to the new situation, the less the room of manoeuvre through downward wage flexibility. Especially the notion of fair wages restricts this possibility: Social status and human dignity forbid wages below a certain level. Thus, labour markets require effective *and* socially legitimate institutions of adjustment.
- *Third*, enforced or unplanned idleness of labour with respective cuts in labour income must not necessarily be negative. It could be used positively if the free time can be employed for other meaningful activities which are either self-rewarding, investments for the future, or bridges to new labour

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<sup>4</sup> A recent study in Germany suggests that about one third of unemployment (referred to West Germany) may belong to the category of ‘transitional unemployment’ (or „post-industrial unemployment“) which is short in period, related to contingent changes in the local labour market, to personal reasons or voluntary job changes (Mutz et al. 1995).

market activities. In the golden industrial times, the primary sector (farm work) was the most important institutional buffer providing the social space for such useful activities; large and multigenerational families was another one. These 'natural' institutional buffers disappeared or are deteriorating further in the post-industrial society. New socially constructed buffers are required. 'Transitional labour markets' are the solution in providing functional equivalents to the „hinterland“ of the traditional subsistence economy<sup>5</sup> or the social security trough traditional family network.

In analogy to the theory of life transitions in psychology, 'transitional labour markets' can also be regarded as institutional responses to critical events in labour markets. Transition theories in psychology following the *life event framework* assert that change induced by unexpected events is inevitable. Opposing to traditional theories which emphasise life stages in order to develop universal characteristics of personal identity and maturity, life event theories focus on the episodic or accidental disasters that occur in people's lives in order to learn more about the ways people cope with such events. To follow transitional behaviour of individuals with longitudinal data or cohorts exposed to the same events is thus a promising research strategy to detect patterns of adjustment that are suitable for generalisations and policy conclusions (Schömann 1996).

*Critical transitions* can be said to occur when such events result in a change in assumptions about oneself and the world and thus requires a corresponding change in one's behaviour and relationships. Events that change important elements of social networks are especially critical. Actual or potential job losses are such critical events (Hartenstein and David Waugh, 1993; Schlossberg, 1984). They usually create great tension because the usual problem solving mechanisms do not work. Such transitions may be both negative and positive depending on the adjustment capacity of people. 'Empowerment' seems to be the catch word of today to express the need to accumulate such potentials.

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<sup>5</sup> At the turn of the century it was common to see cows, goats and pigs in the streets of Manhattan belonging to this 'subsistence economy' during the industrial revolution; this has been nicely described by Robert Smuts (1971). Even during the first two decades after the Second World War, this subsistence buffer was an essential part of the 'economic miracle' in the rural areas in Germany; see, for instance Lutz 1988.

In other words, critical transitions are always like exits from doors that close behind the back whereas opening doors in front are still uncertain. Thus, the danger is great that they kick off processes of social exclusion. '*Social exclusion*' in the narrow sense refers not necessarily to the fact of having little chances on the labour market or being unemployed. It relates especially to the personal reaction of discouragingly withdrawing from the labour market. The probability of such a reaction increases exponentially with the duration of unemployment. Finally, such discouraged workers do not even belong anymore to the 'Reservearmee' of which Karl Marx talked. They count as the 'dispensable' or the 'superfluous', people not needed (any more) in the working society. To be dispensable hurts every personal identity and self-consciousness. The damage of such a situation is worst if no alternative social roles (such as being houseman, housewife or a pensioner) are available. This is the reason why social exclusion is most dangerous for young people who never had the chance to prove their capabilities. In addition, enforced social exclusion in one dimension, here from participation in the labour market, leads often to marginalisation and exclusion in other dimensions - such as in cultural life, in a decent economic prosperity or in the political arena.<sup>6</sup>

Successful adjustment to critical events depends on several factors: on the way people perceive the change, on the supportive environment, and on individual characteristics. In terms of perception, uncertainty about the expected duration of the critical event plays a crucial role in mobilising the available individual resources. Any feeling that the critical event will never end, may paralyse activity, prevent acceptance and integration of that event in one's life which may lead to miss the potential chances of such events to improve one's life conditions. Thus, policies that reduce the horizon of uncertainty about the outcome of critical events by, for example, providing clear time schedules of financial support and adjustment plans, may be helpful in supporting to cope with transitions. Apart from the internal support system - having intimate relationships, a beloved family, a network of friends - the external supportive system is often decisive for successful adjustment. This holds especially true for successful adjustment to job loss (Schlossberg 1981) and calls for labour market policy to provide such institutional supports.

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<sup>6</sup> For questions of 'social exclusion' or 'social inclusion' see among others Dubet and Lapeyronnie 1994; Engbersen et al. 1993; Katz 1993; Kronauer 1997; Marshall 1992; Morris 1994. From a strong moral and literary point of view (albeit a bit opaque) see Forrester 1996.

Apart from job loss (Schmid and Reissert 1996), other critical events in the labour market are school-to-work-transitions (Ryan and Büchtemann 1996), transitions from one employer to another (Rubery, Fagan and Maier 1996) or from one skilled job to another (Tuijnman and Schömann 1996) or from dependent to self-employment (Meager 1996), transitions from full-time work to part-time work (O'Reilly 1996, O'Reilly and Fagan 1998) or from full-time work to short-time work (Mosley and Kruppe 1996), transitions between unpaid family work and gainful employment (Fagan and Rubery 1996), and transitions to retirement (Casey 1996, Delsen and Reday-Mulvey 1995).

Active labour market policy can help to cope with these situations in providing the supportive institutional environment. It can provide legal entitlements to opt for transitional employment, public services and financial support to organise these transitions, and guidelines for fair bargaining procedures between the interest groups. The effective use, however, of these resources is always different from case to case. It will depend on the existence of rich and flexible networks at the local level. It is unlikely that our old-fashioned public employment service suffices to provide these flexible networks. Its modernisation, therefore, is crucial. The evaluation of recent applications of 'new public management' (Schmid 1996) and other strategies to institutionalise effective and professional employment services will have to be an important element in studying transitional labour markets (Auer and Kruppe 1996, Walwei 1996).

To summarise in operative terms, transitional labour markets are characterised by four principles:

- From an *organisational point of view*, they are a combination of gainful employment *and* other useful social activities that are not valued on the market;
- from an *income point of view*, they are a combination of wages, transfer payments and other income sources;
- from a *social policy point of view*, they are legally, collectively or privately contracted entitlements to opt for transitional employment;
- from a *fiscal point of view*, transitional labour markets finance employment or other useful activities instead of unemployment.

In principle, transitional labour markets are nothing new. However, important innovations are on the way which - if they would be disseminated faster - could



reduce unemployment substantially.<sup>7</sup> Especially, they would prevent long-term unemployment which, as explained above, is often the door to social exclusion. In the following, examples from recent developments in Europe are selected. Although they are neither exhaustive nor representative, they nevertheless are intended to satisfy at least some of the following four *criteria* (C<sub>1</sub>-C<sub>4</sub>) for 'good' transitional labour markets:

- First, they empower individuals faced with critical life events; the challenge is to increase the capacity of individuals to cope with the (new) risks of social life; just sending in a pay slip for income protection is not enough any more (*C<sub>1</sub> = Empowerment*).
- Second, they support transitions back to the 'regular' labour market by providing every incentive to 'activate' passive expenditure into effective employment promotion; the challenge is not to 'make work pay' at any rate but to '*make transitions pay*' for keeping or increasing employability (*C<sub>2</sub> = Sustainable Employment and Income*).
- Third, they establish a new balance between centralised regulations and self-organisation by delegating more decision power to individuals or local agencies in order to adjust to individual needs and local circumstances; the challenge is to save money by spending at the right time and at the right place (*C<sub>3</sub> = flexible Co-ordination*).
- Fourth, they support existing or stimulate evolving local networks and public-private-partnerships of implementation; the challenge is to use potential synergies by linking resources; just to leave it to the local public employment service is not enough (*C<sub>4</sub> = Co-operation*).

Are innovations in view that meet all these criteria? This will be the subject of the next section.

### **3. Forms and Examples of Transitional Employment**

Five types of transitional employment can be distinguished: (1) transitions between short-time work or part-time work and full-time employment, or transitions between dependent work and self-employment or a combination of

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<sup>7</sup> For more information see, among others, European Commission 1995a,b; recent issues of the quarterly Employment Observatory [inforMISEP]; Mosley 1995; Schömann 1995.

both; (2) transitions between unemployment and employment; (3) transitions between education or training and employment; (4) transitions between productive (but unpaid) private work and (paid) market work; and (5) transitions from employment to retirement. In the following, a few examples of already existing and of innovative forms of transitional employment will be given (Figure 1).

### 3.1 Transitions Between Various Working Time Regimes

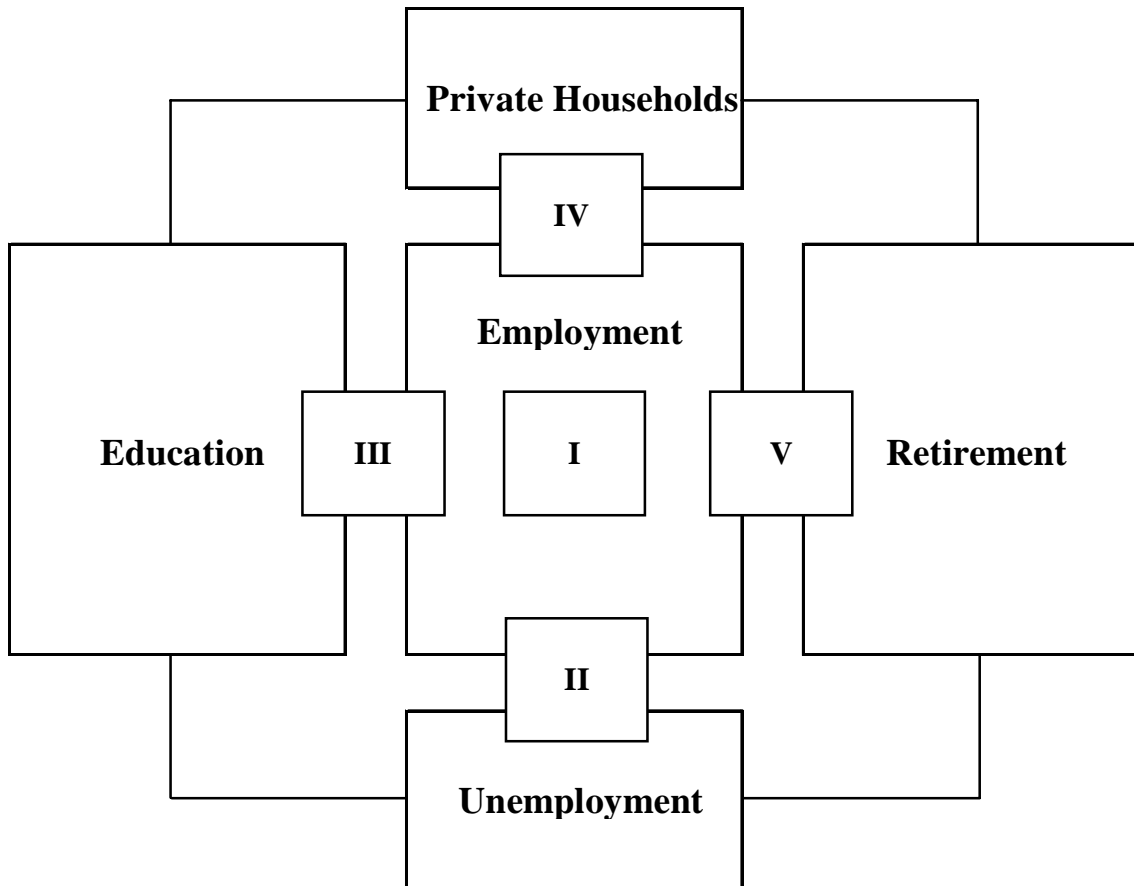
The first type refers to transitions between various working time regimes.<sup>8</sup> The logic of this transitional labour market is a substantive temporary reduction of working time linked to certain conditions such as bad weather, cyclical shortages of demand or large-scale restructuring of production to avoid dismissal. Which institutional arrangements and innovations are available to cope effectively with these critical events?

A prominent example is the German *short-time allowance* scheme. It allows employers to reduce working time very flexibly according to cyclical demand fluctuations; short-time workers receive partial unemployment benefits for the shortened working hours. Such temporary reductions in working time to avoid redundancies are an important adjustment strategy in most European countries (Mosley and Kruppe 1996) and also in Japan (Auer 1994). Grosso modo, between 0.3 and 0.5 percent open unemployment is already prevented in the European Union by such measures.

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<sup>8</sup> I skip here the issue of transitions between employment statuses, especially between dependent employment and self-employment. Of special interest are combinations of both, i.e. dependent work say of 20 hours per week and independent work during the rest of the time. As the „high velocity labour market“ in the computing branche of California shows, the difference between dependent work and self-employment becomes more and more blurred (see for example Saxenian 1994).

**Figure 1: Labour Market Policy as a Strategy of Transitional Labour Markets**



- I Transitional arrangements between short-time working and full-time employment or between dependent work and self-employment
- II Transitional arrangements between unemployment and employment
- III Transitional arrangements between education and employment
- IV Transitional arrangements between private domestic activities and employment
- V Transitional arrangements between employment and retirement

A complement to the periodic underuse is the periodic overuse of the workforce. High *overtime work*<sup>9</sup> is one of the main reasons for the low employment intensity of growth in Europe. Overtime work may be efficient for the firm because of high marginal productivity, and it creates considerable fringe benefits for the insiders. But it is not efficient for the society as a whole, and it is not fair to the outsiders. Grosso modo, the figure of overtime in the European Union is in the range between 5 and 7 billion hours; 6 billion hours overtime work correspond roughly to a job potential of 3.5 million. If only one third of this potential could be transferred into employment, at least one million additional jobs could be created. Here, the European Commission could stimulate a co-ordinated initiative through guidelines which, for instance, limit paid overtime or make overtime more expensive or regulate the exchange of overtime into employment effective free time.

Such guidelines would gain effectiveness if combined with incentives to reduce the *average yearly working time* in favour of additional employment. In France, for instance, firms signing work-sharing agreements are entitled to rebates in their social security contributions of 40 percent in the first and 30 percent in the two following years. The reduction in working hours must amount to at least 15 percent and be combined with a reduction in wages and a 10 percent expansion of the work force.

Private industry has started with additional models of temporary working time reduction with or without public support. Volkswagen, for instance, received world-wide attention for its four day week and other innovations, and there are certainly many other examples that would be worthwhile to be scrutinised carefully to stimulate mutual learning processes in Europe and in Japan.<sup>10</sup>

The public sector could be a model employer in experimenting and applying flexible working time arrangements which intend to stabilise or even increase the employment level. An interesting example are wages and working time corridors: Trade unions in the public sector in East Germany signed an agreement according to which public employers and employees can (in mutual

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<sup>9</sup> Overtime work is especially pronounced in Denmark, France, the Netherlands and in Germany.

<sup>10</sup> For an overview in Germany see Lindecke and Lehdorff 1997. It has to be noted, however, that most agreements at the firm or sector level regulated the exchange of working time reduction (with only partial compensation) or wage moderation (for instance freeze of wage levels) with employment protection but not in favour of an employment increase.

agreement) choose the regular weekly working time between 32 and 40 hours; working time reduction is only partly compensated, and the employer guarantees employment (Tondorf 1995).

### **3.2 Transitions Between Unemployment and Employment**

In a dynamic market economy, unemployment can never be totally eliminated. Indeed, we can go still further: the more dynamism is required or desired, the higher the level of transitional unemployment and the greater the need to build bridges, which means transitional employment, leading back into the regular labour market. The more workers can put their trust in such arrangements, the more they will accept uncertainties, for example the risk of frictional unemployment. Without such confidence, they will seek security in the past and resist to structural change.

The question thus arises: Which institutional arrangement can shorten unemployment if it cannot be avoided? The various forms of providing a bridge between unemployment and employment can be arranged in a continuum according to the degree of subsidy and the proximity to the 'regular labour market'.

(1) First and next to regular labour market activities are *placement services* which have been established in all countries to match idle labour supply and new labour demand as quickly as possible. The most prominent change during the last years was the admission of private placement services in countries where the public employment service had a monopoly, for instance in Austria, Denmark, the Netherlands, Germany, and Sweden. Some countries - Denmark, the Netherlands, and the UK being at the forefront - introduced in addition basic changes in their delivery systems taking ingredients from the new public management movement. Studies suggest that the most important contribution of private placement services was to spur the modernisation of public employment services. They complement public employment services only to a limited extent, but seem not to displace it either, so that there remains some room for enhanced cooperation between private and (modernized) public employment services (Mosley and Speckesser, 1997). Even the rather libertarian OECD recommended recently an extension of public employment services under the condition of modernised service deliveries (Walwei 1996).

(2) *Wage subsidies for the unemployed* are the next category to speed up the transition to regular employment.<sup>11</sup> The most prominent innovation with this respect are *enterprise allowances* for unemployed starting up their own business (Meager 1996). The allowances come from the UI funds and are sometimes topped up by additional sources. Respective programmes are now available in almost all EU countries, especially in France, United Kingdom, Denmark, Germany. While the programmes do help many unemployed to cope successfully with this transition, the structural labour market impact is fairly limited. Grosso modo, between 150 000 and 200 000 unemployed, at most 1 percent of total unemployment, profit from this scheme in the European Union. A stronger connection with new local needs in services and assisting new entrepreneurs to growth into small enterprises is probably more employment effective.<sup>12</sup>

More recent are various kinds of vouchers which enable certain categories of unemployed to use their entitlements to UB for employment or training subsidies. The model for this development, obviously, was the reemployment bonus as practised in Japan and in the United States. However, evaluations of the U.S. experiments suggest that reemployment bonuses have a fairly limited impact on reducing unemployment because of windfall profits and displacement effects which probably are connected with these measures but can hardly be assessed empirically (Björklund and Regnér 1996; Meyer 1995). The conclusion is that a combination of more intensive checks of UB eligibility and intensive placement services are presumably more cost-effective than financial incentives.

(3) *Wage subsidies for employers to induce the hiring of disadvantaged groups* are very common (Erhel et al. 1996). Short-term recruitment subsidies for young or hard-to-place people, for instance, are widespread in Italy, Ireland, Portugal, Denmark, and Sweden. In most cases they take the form of rebates for social security contributions. Long-term and often digressive wage subsidies for hiring long-term unemployed in the private sector are available in almost all countries in the EU. Despite their wide diffusion, most programmes are not

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<sup>11</sup> Cf. Gautié et al. 1994; Erhel et al. 1996.

<sup>12</sup> The new labour promotion act (SGBIII) in Germany provides since April 1997 subsidies to self-employed if they hire their first dependent employees; up to two employees can receive subsidies if they are hired from the stock of unemployed.

impressively effective, and some were clear failures. Their political popularity seems to rely more on their visibility and ease in handling.

One important reason for the low effectiveness of wage subsidies directed to employers is their short-term incentive character. Employers change their dispositions only in the long-term. Short-term incentives tend to be (at best) overlooked or (at worst) misused. The recent trend, therefore, goes to reduce wage costs or non-wage costs for certain target groups for a longer period or even permanently. The most notable initiatives in this direction are the structural wage subsidies in Germany and the 'service employment cheques' in France and in Belgium (Finger 1997). Remarkable is also an initiative of the European Commission to identify 17 employment areas of new services at the local level which could be stimulated through reduction of non-wage costs or some kind of negative income tax. Three macro-simulations, which have been conducted in France, Germany, and the United Kingdom, estimated a potential of 0.3 to 0.5 percent yearly full-time equivalent employment growth in these new services.

(4) The next case are *temporary employment enterprises* providing effective local networks to help to cope with mass dismissals or with the reinsertion of very long-term unemployed. One of the most prominent example is the non-profit agency START in Netherlands which engages in employing temporarily hard-to-place people, to lend them to private employers (with the intention to gain work experience or to find by this way a permanent job), and to train them in the meantime if no temporary work is available. Other European countries started to imitate this model, notably Germany. Here also „integration firms“ in France and Belgium or the already mentioned „job pools“ in the Netherlands and in Denmark and the „local employment agencies“ in Belgium have to be mentioned as new institutions which could allow for more efficient transitions.

Another interesting example are the *work foundations* in Austria. 'Voest-Alpine-Stahlstiftung' seems to be the prototype. This model has very interesting features which deserve wider attention. Its speciality are not so much new single instruments but the co-ordination of various financial sources and the co-operation of local key actors. The aim of this model is to provide redundant workers with a rich infrastructure to cope with the transition instead to leave them alone. The financing of the work foundations come from four sources: First, the remaining workers of the mother company which had to engage in mass dismissal pay 0.25 percent of their monthly wages as solidarity

contribution to the foundation. Second, the mother company provides the basis capital for the foundation, topped up by another 50 percent of the solidarity contributions. Third, the redundant workers make themselves a contribution in depositing 50 percent of their redundancy payments into the foundation. Fourth, the public employment service guarantees UB's for four years which covers the majority of costs. The foundation provides or organises training and all kind of services helpful to get a new job in the regional labour market. 79 percent of the redundant workers finally got a job; the average time of stay in the foundation was 18 months; 45 percent could be placed in the regular market during the first 6 months.

(5) Far away from regular market activities are, finally, *temporary public jobs* to maintain work experience and to stabilise the economy counter-cyclically. These measures are widespread only in Denmark, Sweden, and Germany; we will not go into details because they are rather conventional. However, even this traditional tool of ALMP could be reorganized to allow transitions. For example, in East Germany, critics of the measure acknowledge a high degree of displacement of regular activities. If this is the case, why not gradually „privatising“ the tasks which find their market and make it possible that private firms use the subsidised manpower of the schemes for a temporary period?

### **3.3 Transitions Between Education, Training and Employment**

Transitions from school to work are always a critical phase in each individual's life span. Furthermore, rapid technological change induces more and more critical events during the adult's life span which call for substantial further training or even retraining. But such critical events might also be supply driven, for instance an occupational allergy, burn-out syndromes or just the wish to change or to improve skills.<sup>13</sup>

One possible way to implement transitions between work and education or training for adults on a larger scale would be the establishment of alternating further training according to the principles of apprenticeship systems: Practical training would be financed by the firms, and the trainees would participate in the financing by accepting lower wages during the training period; general training would be financed by the state, including the unemployment insurance

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<sup>13</sup> Cf. Ryan and Büchtemann 1996; Tuijnman and Schömann 1996.



system. Denmark is the country with the most extended and sophisticated further training systems which comes already close to such an alternating further training system (Schmid 1996).

The Swedish 'training and hiring' programme appears to be another promising model. Since 1991, the Swedish labour market authorities are subsidising further training for employees with low qualification levels if firms take on unemployed people to do the work of employees undergoing training; firms also receive wage cost subsidies for the recruited unemployed people. In 1994, almost 13 000 person participated in this scheme. On the level of the European Union, the corresponding absolute figure would amount to half a million.

Related to its leave-schemes, Denmark also successfully practices vicarious employment if firms send employees to training. The average number of persons in the three leave-schemes (training or parental or sabbatical leaves) was at its height 82,000 (full-time equivalent) in 1995 which equals to about 3 percent of the active labour force. The resulting reduction in open unemployment has been estimated at between 59,700 and 70,100 persons depending on the assumptions regarding the numbers of substitutes; this equals to about one quarter of the total stock of unemployment (288,000 in 1995). The major effect (46,000 persons) is caused by unemployed persons taking sabbatical or parental leave. The number of persons taking leave has decreased somewhat (121,000 in 1996) since the maximum of 141,000 persons in 1994. In 1995, the total number of persons taking part in such job-rotation projects was 29.000. Both employers and employees take a very positive view of such educational leaves (Madsen 1998).

The European ADAPT programme has taken up the Danish idea of job rotation and sponsors various pilot projects for small or medium sized firms and a network to gain more experiences on this innovation. On the level of the European Union, the absolute figure of job rotation corresponding to the level of Denmark would amount to two million.

### **3.4 Transitions Between Private Work Activities and Gainful Employment**

A transitional society would provide many more bridges between unpaid and paid work to account for the various and probably increasing critical events in

the life course. Such critical events have often little to do with the labour market, for example, family formation, divorces, 'mid-life crisis', elderly becoming dependent, regional mobility of a partner, cultural or political ambitions and so on. In most European countries, the problem of reconciling family responsibilities or other critical events and regular paid work is still solved largely by women withdrawing wholly or partially from the labour market. However, not only critical events require „transitions“. Such transitions might also be voluntarily sought by individuals for virtually having „a break“ in strenuous or monotonous jobs and to provide them with more flexibility in their careers.

Apart from parental leave (see below for more), bridges between domestic activities and gainful employment are not yet well established. Considerable employment effects, however, could be achieved by providing greater support for temporary part-time employment for family reasons. Various measures would have to be co-ordinated here: financial incentives, including favourable tax treatment for part-time income and the maintenance of social security entitlements collected during full-time work, the right to return to full-time employment, the maintenance of seniority rights, and additional further training in preparation for a return to full-time employment.

Furthermore, the old idea of a civil right to unconditional sabbaticals fits perfectly with the concept of transitional labour markets and should be revitalised. For instance, in purely arithmetic terms, entitlement to a total of one year's sabbatical during an average working life could increase the number of people in employment by some 5.5 million in the European Union. An interesting example is the 'teacher model' in Berlin, where teachers can take up a paid one year sabbatical after 4, 5 or 6 years under the condition that they save their leave in advance by a corresponding cut in their salary (e.g. by one sixth).<sup>14</sup> The example shows that such sabbaticals would not necessarily be accompanied by additional costs. From a long-term perspective, many people can afford and would be willing to save income for this kind of privilege which - at the same time - creates more employment opportunities for other potentially unemployed people, especially for women who stand by in the 'silent reserve'. Banks or governments might support saving for sabbaticals through interest rate incentives or special tax deductions. There are signs in some European

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<sup>14</sup> According to an preliminary evidence, about 5 percent of the teachers have taken up the scheme, and the replacement rate was almost 100 percent.

countries, notably in Denmark, that this idea might gain more power in the near future.

The impact of parental leave or parental part-time regulations on gender equality is ambivalent and discussed controversially.<sup>15</sup> Some experts interpret them as means of inducing mothers to reduce their labour supply in times of lacking labour demand, thereby reducing competition for men, enhancing traditional role models and throwing especially high skilled women back in their employment career. Other experts stress that these measures enhance parent's continuous labour market attachment as leave-taking becomes legally established, contribute to a reduction of unemployment, as employees can be taken on as substitutes and may create additional jobs as working parents exert labour demand for professional child care. Starting from the second position in which various forms of family time-off (including sabbaticals) would serve multiple employment tasks, the questions here are the preconditions for a non-discriminatory or gender-neutral take-up of such schemes. The principles and criteria for 'good' transitional labour markets (see above) would stress the following conditions:

- The *empowerment criteria* calls for a well developed infrastructure both for child care and for keeping employability during the period of shortened working time or interrupted career. Essential ingredients of such an infrastructure are whole day schools and kindergartens, as well as training institutions or community schools for adults.<sup>16</sup>
- The *criteria of 'sustainable employment and income'* would require not to compensate for the child care (who can measure the productivity of this care?) but to compensate for the 'opportunity cost' to earn income during this time. This would mean to organise family time-off allowances in analogy to unemployment benefits, in other words as an income replacement subject to taxes and social security contributions. The further consequence of this criteria would be to individualise strictly entitlements to parental leave or other time-off arrangements.

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<sup>15</sup> See, among others, OECD 1995, pp. 171-202; Thenner and Czermak 1998; Fagan and Rubery 1996.

<sup>16</sup> In 1990, Germany (West) provided day-nursery only for three percent of children under three years of age; France (20 percent), Belgium (25 percent) and Denmark (40 percent) were much better equipped in this respect. These countries had also a richer infrastructure for children in the age of three to six, providing day-nursery places for 80 to 100 percent of children; the corresponding figure for Germany was 79. Related to many other OECD countries, Germany lacks also whole-day schools.

- The *criteria of flexible co-ordination* requires individual decision power and co-ordinated bargaining processes between employees and employers in using entitlements to family time-off. Thus, the German regulation of parental leave which allows to take time off for a continuous block of three years<sup>17</sup> would - according to this principle - have to be transformed into an entitlement of a corresponding time account which could be used flexibly, for instance by taking part-time work of both parents for six years or for reducing working-time of both parents to six hours a day (30 hours a week) for 12 years.
- The *criteria of co-operation* requires regulations allowing a parallel instead of a sequential organisation of family time-off. Not a 'decommodification' (Esping-Anderson 1990) but the flexible combination of transfers and labour market income is necessary. Also working time arrangements are required that allow combining family work with labour market work.<sup>18</sup> Public or private employment services would have to co-operate in helping to replace the persons on leave (or on substantially shortened working time) with qualified job seekers.

If all four criteria were met, women would be in a much better bargaining position on the labour market and within the household, and yet the freedom of choice for both partners would be maintained completely; even the traditional role model could be chosen under these regulatory ideas. Within this framework, Sweden comes probably closest to all of the four criteria. It has a rich infrastructure for individual empowerment, practices organised job rotation, allows a flexible take-up of entitlements to family time-off, provides regular income replacement during these leaves and has partly individualised the right to parental leave by introducing a one month 'papa sabbatical'. In most European countries the proportion of men using parental leave is below 1-2 percent. However, the fulfilment of the above mentioned criteria does matter. In Denmark where parental leave is an individual right which expires if it is not used by the father about 8 percent of the leave-takers are fathers. In Sweden about 30 percent of leave-takers are fathers, using however only 10 percent of leave days due to shorter leave duration. In the Netherlands parental leave is only available on a part-time basis and an individual right of half a year for

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<sup>17</sup> Or six years if a second child is born 'just in time'.

<sup>18</sup> At present, the German regulation, for instance, does not fulfil this condition. If both partners would reduce their working time to 20 hours in order to share the care for the children, they would not be entitled to parental leave allowances.

each of both parents. But eligibility is also subject to working at least for 20 hours a week in advance of the leave period which makes 40 percent of persons taking part-time leave fathers. Belgium has integrated parental leave in a broader scheme of career break. The number of persons taking such a break amounts to almost 2 percent of all employed persons in Belgium. The take up in the public sector is much higher than in the private sector, and 87 percent of the persons taking a break are female (Thenner and Czermak 1998).

### 3.5 Transitions From Employment to Retirement

Finally, transitional labour markets would provide more choices to organise the process from work to retirement (OECD 1995). The traditional way presupposes a full stop at a mandatory retirement age, usually 65 years. Women can retire in most OECD states already at 60, a privilege thought to compensate for their family duties. Actual retirement, however, takes place earlier. The average age at which individuals retire from the labour market, declined in the OECD countries for males from 66 (1960) to 62 (1995), and for women it stands well below 60 in two-thirds of the OECD countries.<sup>19</sup> For various reasons, this declining trend will have to be stopped, and in some OECD countries it has already been successfully reversed (Table 1). Transitional labour markets may provide the solution by supporting flexible or gradual retirement. However, studies have shown repeatedly that this ideal faces currently too many impediments to be realised (Delsen and Reday-Mulvey 1995, OECD 1998b). The question is, how these impediments could be overcome. Following the four criteria of 'good transitions' and taking into account the gender impact, flexible retirement could be enhanced by the following strategies.

- *Empowerment* to continuous productive activities: The regulatory idea of retirement in a regime of transitional labour markets would distinguish between income security and employability security. The system of income security should allow retirement after reaching a contractual age (say at 65) at a decent living standard, whereas the system of employability security

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<sup>19</sup> With large differences respectively: In Belgium, the average age of retirement for men is around 57, in Iceland 69 and in Japan 67; for women the average age of retirement is 54 in Belgium, 67 in Iceland and 64 in Japan (OECD 1998b).

should keep open the option to remain active<sup>20</sup>. Both, the changing demographic structure (and the related problems of financing social security) as well as improving health conditions (and the related preferences to remain active) call for a reversal of the actual average retirement age and (in the long run) even for an abolishment of mandatory retirement from work. The increasing need for elderly care will also endorse gradual retirement schemes that allow, for both men and women, the combination of labour market work and private care services. The opening of the (artificial) age border would reduce age discrimination and endorse human capital investment for elderly people. The 'privilege' for women to retire earlier reflects the traditional 'male breadwinner model' and is not consistent with gender equality. The same holds true for widows' derived pension entitlements which are completely depending on the labour market career of the male spouse. True empowerment of women, thus, would mean to establish (at least in the long run) an 'individualised' old age security system in which each adult partner in a family would acquire independent pension entitlements.<sup>21</sup>

- *Sustainable Employment and Income* during flexible retirement: Very often, the change from full-time to part-time work before retirement is connected with a loss of status and income (shift to less responsible jobs). Such implications can result from lack of skills and competencies. One solution, therefore, is to fight against age discrimination in continuous education and training. If the problem is not connected with skills or qualifications but with physical capacities or just with the wish to have more leisure time, firms would have the possibilities to switch such workers to tasks where elderly remain highly productive. Such areas are, as studies show for instance, retailing, caring, financial advice and counselling (OECD 1998b). In cases where the decline of productivity is given, a switch to more easier (and less well paid) jobs to maintain the employment relationship would be more realistic if either firms would be partially compensated for the loss of productivity (but paying the same or only a slightly lower wage) or if the

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<sup>20</sup> „Active“ in the sense of Hanna Arendt's 'vita activa', thus not related necessarily with labour market work.

<sup>21</sup> The institutionalisation of such independent systems would differ due to path dependency of the established social security systems in OECD countries. Whereas Bismarck's 'insurance principle' predominates in Belgium, France, Spain, Italy, Greece, Austria, Luxembourg, Portugal and Germany, Beveridge's 'welfare principle' (peoples pension or 'Volksrente') dominates in Finland, Sweden, the Netherlands, United Kingdom and Ireland.

employees taking over less well paid or part-time jobs would be compensated partially for their loss of income. Experiences with „bridge jobs“ or „retraite jobs“ have been noted especially in the U.S. and in Japan.

- *Flexible Co-ordination* of gradual retirement and social security: An important impediment to flexible retirement is the lack of co-ordination between old age security and flexible employment careers. Many studies hint especially to financial disincentive for elderly workers to reduce working time. Pension entitlements, for instance, are unduly reduced if the size of the pension depends heavily on the latest wage or salary. This disincentive could be easily removed by changing the basis of calculation for pension entitlements, for instance by taking the average income during a life course or by partially compensating the loss of income during part-time work (see above). One could even think of extending entitlements of unemployment benefits to entitlements to wage (cost) subsidies for gradual early retirement.
- *Co-operation* for implementing tailored retirement schedules: Flexible or gradual retirement instead of a full-stop retirement requires co-operation of the local key actors in order to fit the tremendous variety of individual needs. For instance 'new deals' at the firm or branch level that promote part-time early retirement in exchange for maintaining existing levels of employment or even increasing employment are only possible if various potential co-financiers get together and come to mutual agreements after negotiations. There are also psychological barriers to be overcome the „ghettoisation“ of part-time work. From a demand side perspective it has been remarked that as employers become more familiar with part-time work, the advantages have increasingly been seen to outweigh possible disadvantages (Thurman and Trah 1990, p. 25). And from a supply side perspective, it has been recognised that „men today ... will not have any status problems with part-time work at the end of their working life if they have had variable working hours during their working period“ (Schmähl and Gatter 1994, p. 465).

The way we organise the transition from employment to retirement, so far, does hardly fit with these strategies. Like many other European countries, Germany for instance drastically reduced the number of elderly men in employment by full-stop early retirement measures in reaction to the economic crisis during the last two decades. This led to a decline of labour force participation of German men aged 55-64 from 85 percent (1965) to 55 percent in 1997. Even more drastic declines were experienced in the Netherlands (from 81 to 44 percent) and in France (from 76 to 32 percent). Sweden and the U.S. did not apply this

policy to such an extent, whereas Japan, so far, kept labour force participation of elderly on a high level. Most of the countries in our sample, however, succeeded in reversing the trend most recently (Table 1). On an overall level of EU15, the labour force participation rate of elderly women even increased slightly, albeit from a low level of 27 (1983) to 29 percent (1997). Certainly, the policy of early retirement was advantageous for workers whose only alternative would have been unemployment. However, in its current form and scope, this format of ‘transitional labour market’ tends to social exclusion, and economically it is very expensive. The way for an innovative labour market policy must be paved by promoting gradual retirement for older workers. Here again, as has been shown, several policies and institutions would have to be co-ordinated, especially the social security and unemployment insurance system plus traditional active labour market policies (OECD 1998b).

**Table 1: Labour Force Participation of Men and Women (55-64) in %**

	1965		1970		1980		1990		1995		1997	
	m	w	m	w	m	w <sup>a</sup>	m	w	m	w	m	w
Netherlands			81		63	14	46	17	41	19	44	21
Germany	85		80		66	26	58	26	53	31	55	33
Austria									43	19	43	18
UK							68	39	62	41	64	40
France	76		75		69	33	46	31	42	31	42	32
Sweden	88		85		79	60	75	66	70	63	71	65
Japan	87		87		85	46	83	47	85	49	85	50
USA	83		81		71	42	68	45	66	49	68	51
EU(15)						27	57	27	52	30	52	29
OECD						35	66	36	64	36	64	38

Source: OECD Employment Outlooks 1991-1998

a, Data for 1983

Certainly, the policy of early retirement was advantageous for workers whose only alternative would have been unemployment. However, in its current form and scope, this transitional labour market tends to social exclusion and economically it is very expensive. The way for an innovative labour market policy must be paved by promoting gradual retirement for older workers. Here again, several policies and institutions would have to be co-ordinated,



especially the social security and unemployment insurance system plus traditional active labour market policy. One important disincentive for elderly workers to reduce working time, for instance, is the loss of pension entitlements. This disincentive could be easily removed by changing the basis of calculation for pension entitlements or by partially compensating the loss in income. Initiatives in this direction have been taken recently especially in France, Belgium and Portugal. Sweden and Japan practice already since a long time gradual retirement schemes.

#### **4. The Potential of Transitional Labour Markets**

Sure, the concept of transitional labour markets is not completely new. Since its invention in Sweden, active labour market policy has already established efficient forms of transitional employment. We can build on these experience, but there is also need for innovation. For Germany, I have estimated that within five years the bold extension of already existing forms and the implementation of innovative forms of transitional labour markets could increase employment by 1 to 1.5 million jobs, in addition to about 2.5 million transitional jobs already realised. In total, the potential of transitional employment in Germany is in the range of 4 to 5 million, which means around 12.5 percent or one eighth of the labour force (Table 2).

Comparable figures for the extent of already existing transitional labour markets in the European Union are not available. But a thought experiment might give an imagination for their potential: If one would succeed, through various forms of transitional employment, in reducing the average effective working time of full-time workers (during their life-cycle!) from about 38 hours a week to 35 hours a week, more than 10 million jobs could be created within the time span of about 5 years. Together with macro-economic policy, reducing European unemployment to half of its present level would therefore be a realistic goal (Table 3). Under the reasonable assumption that the majority of jobs created or maintained through the strategy of transitional labour markets goes to women, the female employment rate and labour force participation rate would grow faster than those of men. The total employment rate in the European Union would increase from about 60 percent to 69 percent, and the employment rate of women from about 50 percent to 63 percent.

**Table 2: Already Realised and Possible Additional Employment in Transitional Labour Markets**

Transitional Labour Markets	Bridging Mechanisms	West Germany (in 1000s)					East Germany (in 1000s)					Possible additional						
		Already realized					Already realized											
		1993	1994	1995	1996	1997	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997	Possible additional	
I.	Transitional arrangements between short-time and full-time employment	38	41	28	6	2	10	9	6	3	--	15	10	6	3	--	5	5
	(1) Bad weather and winter allowances	229	90	47	74	55	83	46	39	38	26	55	83	39	38	26	20	20
	(2) Short-time allowances	--	--	--	--	--	--	--	--	--	--	145	--	--	--	--	40	40
	(3) Work-sharing in the service sector	--	--	--	--	--	--	--	--	--	--	325	--	--	--	--	75	75
	(4) Flexibility of working time																	
II.	Transitional arrangements between unemployment and employment	6	11	23	31	27	7	8	12	14	12	20	7	8	12	14	10	10
	(5) Business start-ups for unemployed	23	12	22	38	32	5	12	18	28	14	15	5	12	18	28	5	5
	(6) Settling-in allowances for hard-to-place	--	--	2	6	8	22	88	106	86	80	50	22	88	106	86	20	20
	(7) Structural wage subsidies	53	59	72	72	63	238	193	207	192	157	52	238	193	207	192	16	16
	(8) Social companies and public work	211	203	205	212	215	36	37	47	58	56	50	36	37	47	58	14	14
	(9) Vocational rehabilitation and sheltered work																	
III.	Transitional arrangements between education and employment	2	2	3	3	3	4	3	5	5	4	15	4	3	5	5	5	5
	(10) Training allowances	347	307	302	304	243	376	256	251	234	176	--	376	256	251	234	--	--
	(11) Advanced training and retraining	--	--	--	--	--	--	--	--	--	--	120	--	--	--	--	30	30
	(12) Further training and employment																	
IV.	Transitional arrangements between private/domestic activities and employment	167	188	177	177	178	19	18	20	22	23	--	19	18	20	22	--	--
	(13) Parental leave	--	--	--	--	--	--	--	--	--	--	120	--	--	--	--	30	30
	(14) Part-time employment for family reason	--	--	--	--	--	--	--	--	--	--	75	--	--	--	--	15	15
	(15) Sabbaticals																	
V.	Transitional arrangements between employment and retirement	22	18	20	23	24	3	5	13	17	16	16	3	5	13	17	4	4
	(16) Wage subsidies for older worker	135	145	149	140	130	854	652	381	215	138	--	854	652	381	215	--	--
	(17) Early retirement or semi-retirement allowances	--	1	1	2	2	--	--	--	--	--	80	--	--	--	--	20	20
	(18) Part-time work prior to retirement																	
	total	1233	1077	1051	1088	982	1657	1327	1105	912	702	1153	1657	1327	1105	912	309	309
Additional employment potential in transitional labour markets																	~1500	
Expected level of unemployment 1998-2003																	~ 3800	
Employment Policy deficit 1998-2003																	~ 5700	
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**Table 3: Scenario of Combined Labour Market Effects through Macroeconomic Policy and Transitional Labour Markets in EUR15**

<b>Status Quo (1996)</b> (in 1.000)			<b>End of year 2002</b> (in 1.000)		
<b>Total</b>					
POP <sub>L</sub>	245 927	(Rates)	POP <sub>L</sub>	245 927	(Rates)
E	148 249	(60.4%)	E	169 062	(68.7%)
U	18 176	(10.9%)	U	9 865	(5.5%)
LF	166 425	(67.7%)	LF	178 927	(72.8%)
<b>Men</b>					
POP <sub>L</sub>	122 679	(Rates)	POP <sub>L</sub>	122 679	(Rates)
E	86 384	(70.4%)	E	91 578	(74.6%)
U	9 277	( 9.7%)	U	5 849	(6.0%)
LF	95 661	(78.0%)	LF	97 427	(79.4%)
<b>Women</b>					
POP <sub>L</sub>	123 258	(Rates)	POP <sub>L</sub>	123 258	(Rates)
E	61 866	(50.2%)	E	77 449	(62.8%)
U	8 930	(12.6%)	U	4 047	(5.0%)
LF	70 796	(57.4%)	LF	81 496	(66.1%)

**Assumptions:** 10 million jobs through macroeconomic policy would be created (this is a more modest estimation than the 11 million estimated by the European Commission (1995); 10.8 million jobs would be created or maintained through transitional labour markets. The operations for the latter figure were the following:  $148\,249 \star (100 - 16.4 \text{ [percent part-time work]/100}) = 123\,936$  full-time equivalent workers;  $123\,936 \star 1750 \text{ h/year} = 216\,888\,000$  total working time volume;  $123\,936 \star 1610 \text{ h/year} = 199\,536\,960$  reduced working time volume through participation in transitional employment;  $216\,888\,000 - 199\,536\,960 = 17\,351\,040$  divided by  $1610 \text{ h/year} = 10\,777$  additional net jobs. in Tsd). 10 million + 10.8 million = 20.8 million, of which 75 percent are allocated to women, 25 percent to men. The unemployment impact of one additional job was estimated 0.4 according to earlier experiences. However, also by experience, the elasticity of female unemployment is lower (estimated 0.32 percent) than that of men (estimated 0.66 percent). POP<sub>L</sub> = working age population; (remaining constant by assumption); E = employment; U = unemployment; LF = labour force participation. This scenario does not include the effects of structural policy through a general reduction of non-wage costs. Sources: Employment in Europe Report 1997; own calculations.

## 5. Summary and Discussion

Although it has become fashionable to reject the term full employment because it lacks a precise meaning, there is one important reason to stick to the term. Apart from sophisticated academic definitions, 'full employment' always reflected the idea that all persons shall have the right to earn a decent living through their own work. It is this connotation of *social integration* by full participation in the working life that makes 'full employment' still powerful as a regulatory idea. Its content, however, will have to be adjusted continuously to the changing world, and it may be different across different societies.

Western Europe and the United States of America, the most prominent representatives of capitalism, are either plagued by long-term unemployment or by long-term poverty of a substantive and increasing part of their citizens. Both forms of *social exclusion* are not compatible with a true civil society. If the American job machinery and other job miracles teach us anything, it is the illusion of searching for simple solutions. Certainly, a recovery of economic growth would relieve the employment crisis of capitalism. But this would be only part of the solution.

Full employment is a necessary condition for social integration but it will only be possible if we define it in a new way. The model of continuous and dependent full-time employment throughout the life cycle has to be given up. This is the male breadwinner norm denying to women full participation in the working life on the one hand, and relieving men from full responsibility in the 'reproductive' family life on the other hand. This norm has to be replaced by another regulatory idea. *Transitional labour markets*, thus, have been suggested as the complementary part to the required innovation and investment strategy to employment creation in Europe. The new regulatory concept of full employment refers to variable and independent employment relationships for all, both for men and for women. Transitional labour markets can be conceived as a universal strategy of increasing the space of options in the employment relationship.

In the complex world of modern societies, the concept of market economy becomes only meaningful as the concept of creating functional submarkets. Transitional labour markets are a way to create many voluntary transitional jobs as a significant alternative to involuntary long-term unemployment or long-term poverty. Important elements of such a strategy are the combination of working time reduction with life-long learning, the use of explicit wage subsidies for lower income groups or hard-to-place people, and legally or contractually

bargained entitlements to transitional employment. Such transitional labour markets would serve as a flexible buffer which expands in periods of recession and contracts during booms. They would be an alternative to the unregulated and hardly subsidised low-wage sector as we find it in the U.S., and they would be an alternative to the unregulated but highly subsidised low-wage sector envisaged in models of non-selective minimum income guarantees.

Transitional labour markets, thus, intend not only to create more jobs. They would also improve the employment conditions towards a more equitable society between men and women, and they would also reduce the pressure of conventional economic growth which is one of the main causes for destroying our environment. Thus, macro-economic policy to induce qualitative growth and co-operative labour market policy to support transitional labour markets could also be the ideal marriage between environment and employment (European Commission, 1993, chapter 10).

Already existing and promising examples of transitional labour markets all over Europe have been given, and their employment potential has been demonstrated with a rather detailed tableau for Germany and with a thought experiment for the European Union. Important questions, however, remain open. A crucial principle of transitional labour markets, for instance, is the combination of different income sources. Thus the question arises of who (the state, the employers, the individuals) will co-finance how much and for what? It is also obvious, that the organisational arrangements of transitional labour markets, in combining paid work and non-paid productive activities, are more complex than liberal market regimes. Who and which agencies shall be responsible for this task? Another principle, finally, are contracted arrangements or entitlements to choices between various employment positions. How shall these entitlements be formulated, negotiated and controlled? These questions shall be briefly discussed below.

## **5.1 The Financing of Transitional Labour Markets**

In most cases, transitional labour markets involve some kind of income redistribution. It would be a mistake, however, to identify transitional labour markets as only being a work-sharing strategy. In economic terms, transitional labour markets can be conceived as a new solidaristic wage policy which balances the various functions of wages in a way that both equity and efficiency concerns are regarded. This is of course an ambitious goal, but there are good reasons that it may work if wage policy and income policy are properly linked together. Solidaristic wage policy is a way that promises the

'marriage' of equity and efficiency. However, as the break-down of the Swedish model that adhered to this strategy suggests, substantive changes in the old model are necessary.

In the old model of solidaristic wage policy, the role of active labour market policy was to compensate the loss of income of displaced workers by generous incentives of external mobility. Workers who became redundant due to high wages (that low productive firms were not able to pay) could count on publicly financed training measures or on a generous reimbursement of all costs related to regional mobility to other and new jobs. As regards firms, solidaristic wages were interesting, first in externalising the social responsibility for redundancies from the low-competitive firms to the society, and second in providing a premium for innovations through wages at a level lower than the more efficient firms could afford. The financing of labour market programmes came from progressive income taxes, i.e. from taxing the winners, and from special funds which were partly financed through taxing the innovation premiums.

In the new model of solidaristic wage policy, the role of active labour market policy would have to be internalised to some extent into the firm or into respective network labour markets. The main reason for this change is that internal mobility becomes more and more important due to the two megatrends of globalisation and individualisation. To maintain a high wage regime, firms have to rely more and more on highly skilled and competent human resources that cannot be provided from the external labour market. And because internal labour markets are eroding, firms have to rely increasingly on skilled labour in network labour markets that usually - despite the countervailing force of global telework networks - have a local or regional focus. But the internalisation of functions with the property of externalities is a tricky thing. It does not relieve collective actors, i.e. trade unions or the state, from cooperation. But their role changes. In terms of financing, transitional labour markets require complex and intelligent modes of co-financing for which the collective actors have to provide the proper institutional framework. How such a cooperative framework of wage and income policy could look like will be extended elsewhere.<sup>22</sup>

## **5.2 The Role of Placement Services in Transitional Labour Markets**

Placement services, sometimes combined with training management or selective wage subsidies, were so far the main functions of active labour

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<sup>22</sup> See Gazier 1998, and Schmid and Gazier 1999 (forthcoming).

market policy in postindustrial societies. Although such activities vary much, no mature labour market regime can be imagined without such services. Transitional labour markets require additional services. Empirical studies on the long-term unemployed as well as various labour market theories clearly show how complex the task of preventing unemployment or of reintegrating the long-term unemployed is. Specialised agencies, nowadays even operating on an international scale<sup>23</sup>, have to be developed to co-ordinate various but interrelated tasks which each require professional experience. Each unemployed person is different; each employed person in danger of unemployment needs different advice and support; and each employed person facing other critical events such as the change of the locality, occupation or firm looks for specific information.

Certainly, there is a free market for such services. And quite certainly, many countries have developed a honourable and powerful public employment service. However, as theories of market failure or state failure show, neither markets nor hierarchies can alone provide effectively such complex services as shortly described above. New public-private mixes are necessary to deal satisfactorily with such complex tasks. Thus, transitional labour markets require also intensive research on „third sector“ arrangements, intermediary organisations, non-profit organisations, voluntary associations, personnel services agencies, social enterprises, local networks, job-pools and so on, in order to find effective organisational arrangements for transitional labour markets.<sup>24</sup>

### **5.3 The Regulation of Transitional Labour Markets**

Under a regime of transitional labour markets, the question of legal or collective regulation has to be considered anew. Especially the postulated principle of „entitlements to transitional employment“ has to be legitimised against the radical laissez-faire philosophy that labour relations should be left to unconstrained voluntary negotiations between private parties. The theory of regulation has pointed out various situations in which market failures are likely to occur and in which third-party regulation may produce superior results.<sup>25</sup> These situations can be classified under four labels: transaction costs,

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<sup>23</sup> Such as the Dutch firms RANDSTAD, specialised in time-work, or START, specialised in services for very hard-to-place people.

<sup>24</sup> These questions will be dealt with in de Koning and Mosley 1999 (forthcoming).

<sup>25</sup> For an excellent overview see Büchtemann and Walwei 1996.

externalities, economies of scale, and prisoners' dilemma. Thus, it has to be checked to what extent transitional labour markets change the context which formerly required a regulatory regime. In the following again, only a few preliminary remarks will be made.<sup>26</sup>

As far as *transaction costs* are concerned, transitional labour markets presumably increase such costs due to the requirement of more detailed, individually differentiated and flexible contract arrangements. The increasing options for employees, for instance to take up a sabbatical, an educational or parental leave, might increase the danger for employers that they will not be able to reap the rents of their irreversible investments in relationship-specific capital (sunk costs). On the other hand, employees who expect for instance a promotion due to former firm specific investment might be deterred from taking up transitional opportunities if it might be punished by non-consideration in managers' promotion decisions. Thus, general procedural rules as well as individual bargaining in specifying the contracts will be necessary to overcome possible mistrust between 'labour and capital' and to arrange for risk sharing if the transition leads to a break in the employment relationship.

With transitional labour markets, new positive as well as negative *externalities* might arise. In the positive case, job rotation can induce a virtuous circle, which means a spiral of upward mobility of trainees in the external labour market and the recruitment of unemployed (including their on the job training) replacing the trainees. This is good for the participants of such schemes and for the society, however, the employers would have to bear high organisational costs related to such schemes. Thus, regulation of public co-financing will be required to stimulate employers' participation. Negative externalities have already been mentioned in the case of explicit employment contracts which shift the burden of adjustment to weaker sub-contractors and their employees. Thus, rules for fair sub-contracting or for lateral risk-sharing might be necessary.

Norms or internalised standards may further increase overall efficiency if the enforcement of private contracts is very costly and collective agreements or legislation could provide enforcement at a lower cost. Often, collective agreements, if successful, serve as pilots for universal standards through legislation. In economic terms, standardisation can be viewed as a way to reap the fruits from *economies of scale*. Transitional labour markets certainly imply growing complexity and contingencies in the employment relationship.

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<sup>26</sup> See for further considerations Rogowski and Schmid 1997, and Wilthagen 1998.



'Manufactured risks' (Giddens), thus, will increase and thereby costs. Monitoring contractual compliance becomes more difficult, contract terms may be vague and give rise to conflictual interpretations, damages resulting from non-compliance are difficult to measure, and causation of damages or harms is difficult to establish. Conflict-solution will entail costly information-gathering by external arbitrators in the course of lengthy case-by-case fact-finding investigations in which the actual terms of the contract and the behaviours of both parties during the employment relationship have to be retrospectively established. This process produces a high degree of legal uncertainty for both sides. Thus, new model contracts setting the frames and standards explicitly, and legislation setting minimum standards, procedural rules and entitlements might arise as an equity and efficiency device. In other words, substantive central regulation - as far as existing - will have to be deregulated in favour of decentralised contracting 'in the shadow of hierarchies', a process that might be dubbed '*reflexive deregulation*' (Rogowski and Schmid 1997).

Transitional labour markets may also be prone to new forms of *prisoner's dilemma* due to moral hazard or adverse selection. Firms offering job rotation schemes might be confronted with free-riders poaching away the better trained employees, or firms practising 'alliances for work' („Bündnisse für Arbeit“) might experience quits from the most efficient workers. Thus, so far new configurations of prisoner's dilemma are arising, labour market policy would have to invent corresponding new measures according to the standard solutions of game theory, which means by providing incentives (for instance co-financing job-rotation schemes) or by establishing universal norms (for instance the entitlement to training leaves).<sup>27</sup>

I come to the *conclusion*: This essay suggests a new employment strategy for Europe to be combined with an innovative and qualitative growth strategy co-ordinated at the European level (European Commission 1993). By enhancing a greater variety in working time and employment status, transitional labour markets would enforce the employment intensity of growth. This means, first, to look at the conditions of a greater '*working time flexibility*' that enables people to combine work with other useful activities such as care, housework, education and cultural life, or a greater 'flexibility' that enables people to combine dependent work with gainful self-employment or to ease transitions in both directions between the status of dependent work and entrepreneurship.

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<sup>27</sup> Among the huge literatur on game theory, see for instance Gibbons 1992 and Morrow 1994, apart from the classic work of Axelrod 1984.

Second, increasing 'requisite variety'<sup>28</sup> in employment relations means also to search for institutional arrangements that support greater mobility or 'transitions' between education or training and employment, or temporary combinations of both; the institutionalisation of *life-long learning* is a requisite for upward spirals or sustainable employment careers throughout the life-cycle for both men and women. Third, high and persistent long-term unemployment as one of the main causes of social exclusion requires institutional arrangements, especially *active labour market policies*, that reduce the inflow into and speed up the outflow out of long-term unemployment back into employment. To implement this strategy, special attention has to be given to the modernisation of public and private employment services and to networks that foster co-operation among key actors at the local and regional level.

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<sup>28</sup> The 'law of requisite variety' was originally formulated by W. Ross Ashby in his *Introduction to Cybernetics* and is expressed in the short version: „Only variety can destroy variety“ (Ashby 1979 [1956], 207). In other words: Varieties in the labour market have to reflect varieties in the social (reproduction) systems as well as in the economic (production) systems. Vice versa, increasing varieties in the labour market allow increasing varieties in social and economic life.

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