

Günther Schmid¹

The Transitional Labour Market and Employment Services²

In the traditional labour market, women entered the labour market after education and left when they got married; they perhaps came back for some occasional work when their children were grown up. Men entered the labour market and worked full-time, possibly with the same employer, until retirement. They received a family wage and an income that rose steadily with age. They possibly experienced brief intervals of joblessness, which unemployment insurance covered. Employment Services were restricted to pay unemployment benefits and to help placing the unemployed back into the labour market.

This situation has dramatically changed. In the transitional labour market, the male breadwinner model is eroding. Mass production shifts toward project and client oriented work. Manufacturing declines and social or information services rise. Work organised through internal labour markets based on large enterprises moves towards network-labour markets based on small or medium sized enterprises. Women get equally, if not better educated than men and they get more and more interested in gainful market work to become economically independent. Both men and women experience during their life course various employment relationships. Both women and men have to struggle in balancing family life, working life and personal life.

¹ Director of the Labour Market Policy and Employment Research Unit at the Social Science Research Centre Berlin (WZB) from October 1989 to March 2008, and Professor Emeritus of Political Economy at the Free University of Berlin. Contact: www.guentherschmid.eu.

² This keynote speech has been given at the International Conference on “*The Transitional Labour Market and Employment Services*” at the Seoul Job Centre, Seoul, Korea, August 26-27, 2010. For an extended version and respective references to literature see the paper version in the conference proceedings.

In such a labour market, unemployment insurance has to cover more risks: A work-life insurance would not only insure the income loss in case of unemployment but also income losses due to parental leave, due to a change from full- to part-time work, due to a change from a high paid to a low paid job, and especially when work and life-long-learning are combined. Even the risks related to the transition from wage earning to self-employment could be diminished through intelligent social risk management.

Under such a regime, employment services have to develop a much richer set of support than just to pay unemployment benefits and to help people finding a new job.

Before I go into details of such possible services, let me briefly sketch the normative basis of TLM theory. First of all, TLM-theory aims at ex ante risk sharing through empowerment. This means first, making transitions pay by extending the social insurance principle beyond unemployment and including also volatile income risks connected with critical events during the life course.

Second, making not only workers fit for the market but also making the market fit for workers by enhancing employers' and employees' capacity to adjust to uncertainties through investing in human capital as well as in the workplace environment.

In normative terms, TLM theory reflects a new stage of active labour market policy. The two basic principles are, first, active security by giving people 'hands-in' instead of only 'hands-out'. '*Active*' stands for investing in people instead of only charity common in pure '*market*' economies; and '*active*' also stands for protecting people instead of protecting jobs common in '*socialist*' economies.

The second basic principle is life course orientation by supporting work careers instead of enforcing job-to-job transitions without consideration of job quality. ‘*Career*’ stands for giving individuals the right to a development perspective instead of pure workfare in pure ‘*market*’ economies; and it ‘*career*’ stands for giving individuals voice in choosing their jobs instead of directing them into jobs common in ‘*socialist*’ economies.

A third intention is empowerment of individuals to be able to change from one work situation to another as both the economy and the individual’s preferences are changing over the life course. Citizens should have the right to transitions in and between works. “*Work*”, in the TLM perspective, includes all activities of an obligatory character, independent whether they are paid or unpaid. Even participation in collective decision making should be considered as work because exercising voice in work-related decisions is an essential part of economic democracy.

Historically, in fact, the first example for a work related right to exercise voice was granting time-off to representatives of works councils. Other examples are the right to negotiated exits like training leaves and sabbaticals, and the right to family related exits like parental leave or other care leave.

This core idea is based on four principles of justice which I can only summarize in this presentation: First, justice as fairness, which basically means equal access to jobs and inequality only justified if the lot of the most disadvantaged improves; second, justice as solidarity, which means sharing responsibilities according to the type of risks and individual capacities; third, justice as agency, which means to enable individual persons being autonomous agents through developing their capabilities for a self-determined life; fourth, justice as inclusion, which means enlarging

risk sharing communities according to the interdependencies of economic and social life.

The concept of the TLM has enormous consequences for the methodology of labour market studies: First: Employment and unemployment have to be considered as a product of stocks and flows. To give an example: An average unemployment rate of 10 percent per year can mean quite different things. It can mean that 60 out of 100 persons become unemployed but stay on average only 2 month unemployed. But a 10 percent unemployment rate can also mean that only 10 out of 100 persons become unemployed and stay on average 12 months or the whole year unemployed.

For employment services, these two possibilities represented by the same figure reflect two quite different problems to solve. If most people are only short-term unemployed, you have to concentrate on placement services; however, if a substantial minority is long-term unemployed, employment services have to concentrate on training, subsidised employment, protected work or work-place adjustment or even on public job creation.

Working time also varies over the life course. People move from part-time to full-time and vice versa. Measuring employment by simple head counting does not take account of such transitions. The European Commission, for instance, defined full employment as 70% employment rate by 2010. If you look to the Netherlands, apart from Denmark hailed as a model of flexicurity, its total employment rate of about 76% far exceeds the official benchmark. But if you measure the Dutch employment level in full-time equivalents, its employment rate falls to about 59%, which is far below the full employment goal.

Now, one can interpret this discrepancy in different ways: Some might say, look, the Dutch part-time economy is far below its full capacity. Others might say, look, the Dutch part-time economy is a model for solidaric work sharing. The TLM-theory favours more the work-sharing point of view, however, under three conditions: First, a developed economy can afford work-sharing as long as productivity is not affected; second, people working in part-time must do this voluntarily, and they must have the opportunity to transit between part-time and fulltime as they wish; third, part-time workers must be equally treated in terms of wages, access to social security and employment services. To fulfil these conditions, the implications for employment services are quite clear: the focus must change from placement services to training and career services, and all these services have to include part-timers, especially the underemployed part-timers.

Finally, as people transit from activity to inactivity, often without changing the formal employment status, one has to make distinction between nominal and effective employment. The nominal employment rate, for example in Sweden, is about 76%, but Sweden's effective employment rate is only about 65%, which means, only about 65% actually are on their job in a given week. This could mean (in a positive sense) that about 11% of the active workforce is on parental leave, on education leave or on care leave. However, this also could mean (in a negative sense) that about 11% of people – counted nominally as employed because they have an employment contract – is ill or absent from the workplace for other reasons. One reason for this absence can be 'taking a blue Monday' as we like to say in Germany for people not minding to go to work after a nice weekend.

The TLM perspective also forces researchers and policy makers to concentrate on risky events over the life course and look if job-to-job

transitions lead to social integration, career development or social exclusion. This requires analytical and empirical instruments to study transitions and multi-year transition-sequences, to utilize descriptive transition matrices and to control individual transitions sequences through proper methodologies like multinomial logit or probit models. Let me give you an example from Germany, which also contains a clear policy message.

Yearly Transitions of West-German Women in Age of 20 to 55 (2000-2006)

		t+1			
	High Wages	Low Wages	Unemployed	Inactive	Total
T (Year)					
High Wages	87.4	6.8	1.3	4.6	100
Low Wages	27.3	61.8	3.0	8.0	100
Unemployed	16.4	20.1	33.4	30.0	100
Inactive	5.9	4.9	4.6	84.7	100
Total	51.1	14.4	3.5	30.9	100

Source: GSOEP and Mosthaf/ Schank/ Schnabel (2009)

This transition matrix shows – statistically controlled – the yearly transitions of West-German women between different statuses of employment or inactivity. The most important result is that women in low wage jobs have a higher probability to move into high wage jobs than unemployed women: 27.3% against 16.4%. In contrast, unemployed women have a much higher probability to move into inactivity than women in low wage jobs: 30% against 8%.

Studies like this allow important policy conclusions. They suggest that the strategy of work first seems to make sense even when women enter into low wage jobs. Nevertheless, the study also shows that the chance to get

stuck in low wage jobs is still very high: 61.8%. The strategic conclusion for employment services, therefore, can only be: “Work first plus Training”. Work first is a meaningful orientation; especially for the low skilled for whom training on the job is more effective than training off the job. But it holds also true in general: work first strategies have to be combined with measures going beyond job placement services. Modern active labour market policy also has to promote upwards careers, for instance by supporting continuous vocational education and training for all categories of workers. Efficiency oriented employment services have to care not only for a quick placement but also for sustainable placements with high productivity potentials. Public and private employment services can play important roles in this respect.

Finally, one also has to note the importance of transitions within stable employment relationships, for instance the transition from full-time work to short-time work or the combination of part-time work with part-time education or training. In other words: internal flexibility can be a functional equivalent to external flexibility.

An example for a protected form of internal flexibility is short time work. Let me give you an example, and I apologise referring again to my home country: Despite the deep economic crisis in 2009, which led in Germany to a drop of GDP by 5 percent, unemployment did not much increase. Many firms, especially in the automobile and machine tool sector, used short-time work instead of dismissing people and making them unemployed. Workers' reduced income due to reduced working time is partly compensated by unemployment insurance, and in some cases even topped up by collective agreements. So, in fact and according to TLM theory, the German unemployment insurance system already functions as an employment insurance system.

At the height in May 2009, 1.5 million workers were on short-time work. Together with other instruments of internal flexibility (for instance the melting down of working-time accounts, reduction of overtime work, use of flexible working-time corridors allowed by collective agreement) about 1.4 million workers were saved from dismissals. In other words: without the use of these internal flexibility measures, unemployment could have increased up to 4 percentage points.

Compared to dismissals, working-time flexibility in form of short-time work has several advantages. It allows a very fast reaction to demand fluctuations, strategic waiting in situations of uncertainty, (task specific) flexible adjustment for the agents (which means employers), and (situation specific) targeted adjustment for the principal (which means the government or the national employment service). Furthermore, short-time work allows fair risk sharing by distributing the costs of adjustment on more shoulders than unemployment. It avoids high dismissal and recruitment costs for employers, it mitigates panic reactions ('Angst') of employees, for instance unreasonable saving, and it maintains cooperative networks.

However, as in real life, great dangers are lurking behind all nice appearing things. Internal flexibility buffers like short-time work, especially when they are subsidised, may shift adjustments costs to tax payer or to marginal workers; they may unreasonably extend U-benefits, they may maintain non-competitive industrial structures, and they may eventually lead to jobless growth or to new job creation only at the margin, which means fixed-term contracts, temp-agency work, and part-time work.

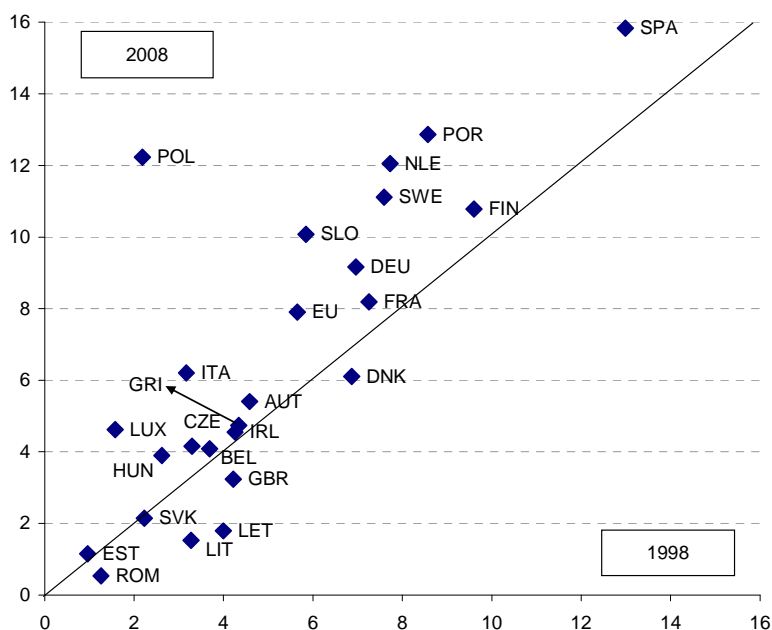
It also has to be mentioned that Germany made – in my view – some serious mistakes in implementing short-time work: the incentives for training during short-time work were too low; a corresponding flexible

training infrastructure has not been developed; and to comfort the voters, the government decided to extend the scheme unconditionally up to March 2012 despite the fact that the coming upswing was already in sight.

A final lesson should not be forgotten: Effective implementation of short-time work requires established employment services in which employers and employees can trust.

Let me turn to another issue which also affects the Korean labour market to a great extent: the rise of temporary work and the related high risks of unemployment, low wages and dead end jobs. First, let me show the corresponding development in Europe.

Temporary Employees (in full-time work or part-time work) as Percent of Working Age Population (15-64 years), 1998 and 2008



Source: Eurostat, own calculations

Level and dynamics of temporary employment are quite diverse. The familiar European champion in this respect is Spain with about 16 percent

of working-age population in fixed-term contracts. I guess the situation in Korea is about this level. Germany can be found in the upper middle class with a temporary employment rate of about 9 percent. Most new member states in Eastern Europe have very low levels, mainly for the reason that employment in the informal sector is still quite high. Some of the member states experienced a spectacular increase, for instance Poland from about two to 12 percent.

Related to this phenomenon, the question now arises: How can governments reasonably restrict such risky jobs and how can they make sure that temporary work becomes a springboard into regular employment and not a permanent precarious employment relationship?

Here again, we first have to notice that temporary work can have very different functions. Fixed-term contracts may be the starting point of downward careers, especially when interrupted by one or more spells of unemployment. However, for young people, who are concentrated in this form of non-standard employment, fixed-term contracts can serve as side jobs to earn money during their studies, or they can serve as entry ports to start an occupational career. Moving from one temporary contract to another may then be necessary to find out the right occupation, to accumulate competitive experiences and to build up social networks. In many European countries, therefore, the transition rates from temporary work to regular jobs are quite encouraging. For instance in the Netherlands, two thirds of temporary jobs end in open-ended contracts after five years.

In some countries, however, regulation may be necessary to restrict fixed-term contracts to specific functions like carrying out projects with a definite end, screening productivity potentials, and replacing people on care leave or educational leave. Restrictions of temporary work are justified by recent

research, which shows that open-ended contracts offering seniority tracks and life-long-learning tend to enhance productivity whereas firms with high shares of fixed-term contracts are less innovative.

The figure you have seen includes also temp-agency work. This is, as you know, a hybrid employment contract between three parties: the employer, the employees and an intermediary agency. In my view, temp-agency work reflects the increasing tendency of project-type work and network labour markets, and it is especially promising in its ability of pooling risks. However, to avoid misuse or even exploitation, temp-agency work requires minimum wages, restrictions in fix-term contracts, and measures to compensate the higher risks related to these contract form, for example supplementary contributions of employers to employability insurance funds, as it is the case in France and the Netherlands. Otherwise, temp-agency workers run into the situation reflected in the following cartoon.

The worker, here, holds the dismissal notice in his hands, and the personnel chief, tapping on his shoulder, says: *“Perhaps we see us again as temp-agency worker!”* – Of course, and this is what the personnel manager is not saying, with much lower wages and under worse working conditions.

Let me come to the final question: What role can employment services play to accompany transitions into and within employment? I have already given part of the answer when I discussed the contested question “Work First” or “Training First”, and when I came to the conclusion that “Work First” must be accompanied by continuous training and education support. Another contested terrain is “activation”.



'Activation' has at least two different meanings. The first one is related to what psychologists like to call "tough love", which means a combination of challenging and empathy. Empathy requires from employment officers to try to understand the situation of their clients, to accept their idiosyncrasies and to offer them individually adjusted support; challenging requires from employment officers to demand from their clients to try hard, to make clear decisions and to take over responsibilities.

Especially the growing number of young people just finishing schools but still lacking basic skills need extensive employment services governed by 'tough love'. The British New Deal for Young People with its 'gateway approach' has earned much credit as good practice in Europe. Some countries also successfully support this target group through organizing internships. The aim is twofold: first to reduce the risks for employers in testing trainability and employability; second to help these young and

disadvantaged people to gain work experiences and to improve their formal skills. Virtual firms are also tested good practice to offer young people valuable work experiences.

Such '*tough love*', of course, requires not only professionalized employment services but also many more persons able to provide this kind of demanding case management. Research, in the meantime, provides plenty of evidence that investing more in both the skills and in the number of competent employment officers is of absolute necessity to help high risk people back into sustainable job careers. Whether these employment services are publicly or privately provided does not matter much. Yet, evidence in Europe suggests a trend towards 'centralised decentralisation' of implementing employment services.

Finally, the use of the new information technologies to increase the productivity of employment services seems still much underexploited. For instance, individual employment histories and competence profiles could be to some extent standardised through E-profiling, and systems to anticipate skill needs could be established through learning regions that combine analytical forecasting with interactive networks of key players at regional level. Such productivity gains would help to concentrate scarce personnel resources for intensive counselling services on the most vulnerable in the labour market.

The second understanding of 'activation' is to encourage people to take over risky transitions; this is a much neglected aspect of unemployment insurance or labour market policy. The first point to be emphasised here is to consider unemployment benefits not only as 'passive' transfers that might induce people's moral hazard. Research in the meantime provides plenty of evidence that generous unemployment benefits at least for the first 6 to 9 months are to be considered as 'active securities', which means

investments in the sense that they enable unemployed people to carefully search for a new job without 'Angst' to fall into the poverty trap.

Furthermore, in combination with effective employment services, moral hazard can be controlled, and the spectre of unemployment trap might disappear, too.

Second, activation also can mean to encourage job-to-job transitions, or the unfamiliar transition from unemployment to self-employment. In financial terms, activation means here to make this transition pay through capitalising unemployment benefit entitlements and combining this start-up capital with additional counselling and income support until these risky start-ups get the takeoff. There are many more possibilities to make transitions pay, for instance through wage insurance to enable people to try out jobs with lower pay as they had before, and to use such jobs as a springboard to better jobs.

Third, as we face more and more people whose skills get out of date or who get physically or mentally disabled, the role of employment services to encourage retraining or rehabilitation and to support employers in adjusting work places to the capacities of workers becomes more and more important.

To sum up: From the TLM point of view, there is a tremendous need to revitalize and even to enlarge the roles of public and/or private employment services.