Facilitating adjustments – New jobs and better pathways[1]

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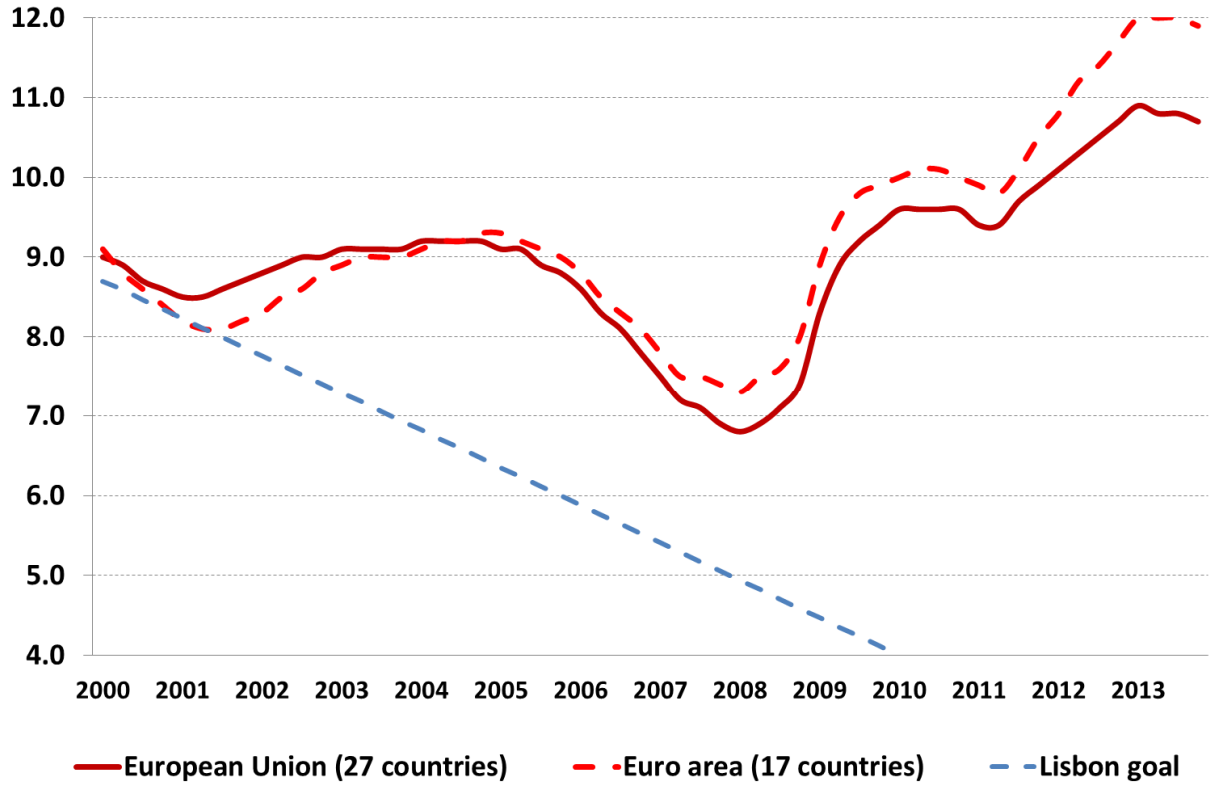
1. Setting the scene

There are serious doubts about the current employment pathways in Europe. The Lisbon-strategy 2010 did not deliver enough jobs, quite apart from good jobs. The unemployment rate never reached the envisaged goal of four percent. On the contrary: After some hope until 2008, unemployment shot up into the two digit sphere of around 11 percent, in the Eurozone (EA-17) even to 12 percent; only recently, in spring 2014, some signs of recovery became visible (Figure 1). The EU-2020 strategy even remained silent about the unemployment target.

Figure 1: Unemployment Rates EU-27 and EA-17, 2000-2013, Compared to Lisbon Target 2010



Source: Berkhout et al. (2010: Fig. 20); European Labour Force Survey; quarterly data, seasonally adjusted

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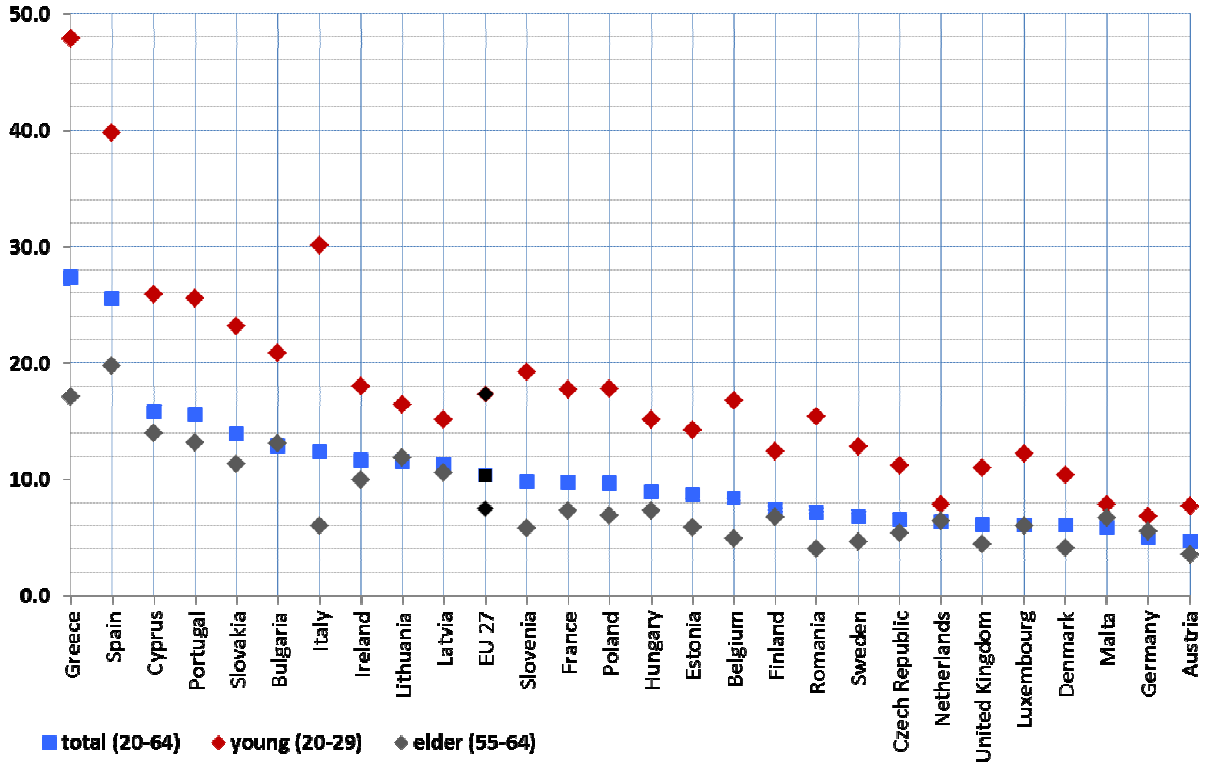
The group mainly hit by this development are the young. Apart of the youngest in age 15 to 19 who, at least for the majority, are supposed to stay in education or in vocational training, the unemployment rate of young adults in age 20 to 29 is dramatically high in Greece and Spain: more than one third of them are without a job. In many other countries 15 to 30 percent of young adults are unemployed. In some countries, in particular Greece, Spain and Italy, the situation even worsened most recently (Figure 2).

Figure 2: Unemployment Rates in EU-27 by Age Groups, 2013; age 20-29 (**red**) and 55-64 (**grey**) compared (and ranked) with total 20-64 (**blue**)



Data: European Labour Force Survey, 4th quarter 2013

If we measure the social inclusion impact of the 'Great Recession' on the young people in age 15 to 24 by NEET (*neither in employment nor in education and training*), the disparity between EU member states becomes even more drastic (Table 1): Whereas the NEET rate increased 'only' by 1.4 percentage points in EU-28 (from 11.7 percent to 13.1 percent), it soared by more than 11 percentage points in Greece (from 8.9 percent to 19.0 percent), but even decreased in some countries like Germany (from 9.6 percent to 7.1 percent).

Europe cannot tolerate a lost generation! However, before scape-goating labour market institutions for these disparities, one must keep in mind the almost perfect correlation of youth unemployment and the level of overall unemployment. In other words, lack of demand and job creation dynamics should still be considered as the first scapegoat, yet – as I will argue below – education and training systems play an important role in facilitating adjustment to changing labour markets.

Table 1: NEET-Rates (youth 15-24 neither in employment, education or training as percent of 15-24 population) for selected EU member states

	2006	2012
Greece	8.9	19.0
Spain	12.0	18.8
Italy	16.8	21.1
Austria	7.5	6.5
Denmark	3.6	6.6
Germany	9.6	7.1
EU-28	11.7	13.1

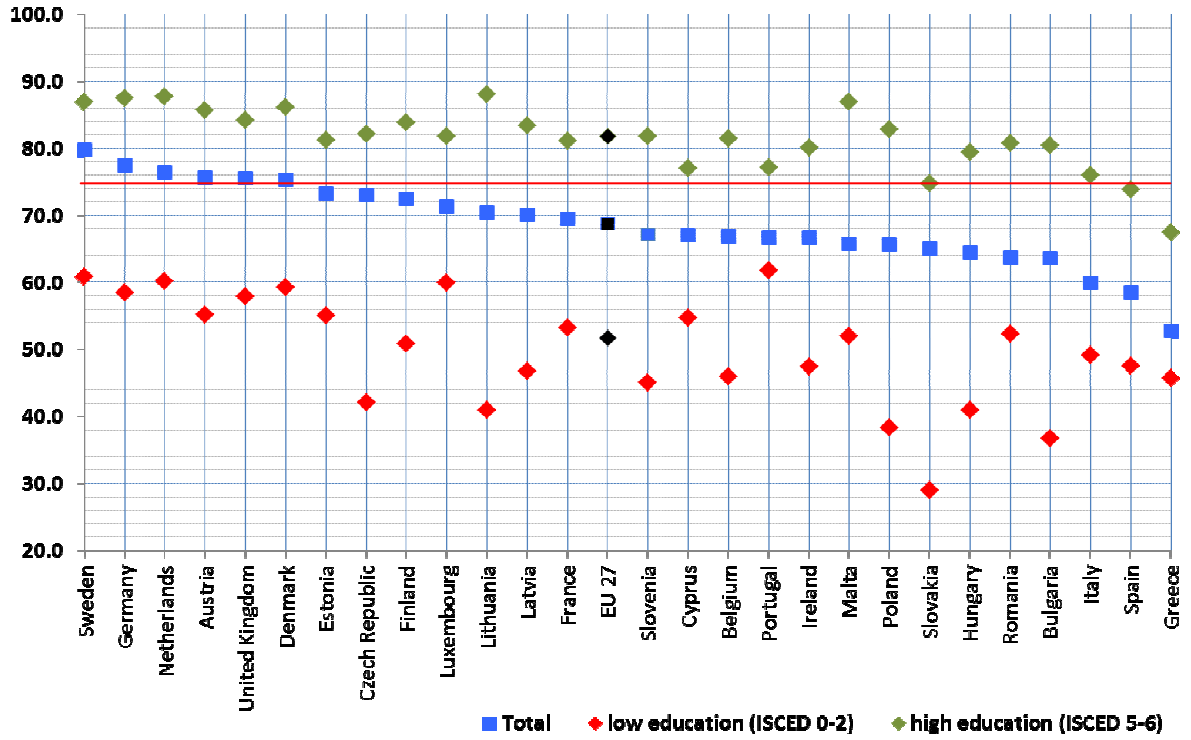
Source: European Commission (2014), Employment and Social Developments 2013, Statistical Annex: Social Inclusion Indicators

Moreover, the official target of 75 percent employment rate (for people in age 20-64) will probably not be reached by 2020. For the EU as a whole, the gap is still 6.6 percentage points. Currently, only a few Member-states (Sweden, Germany, The Netherlands, Austria, United Kingdom and Denmark) are already at this level. But some countries like Italy, Spain, in particular Greece and almost all New Member-states are far below this benchmark. What is even more worrying: It is especially the low skilled people (here in red) that contribute to this low level of employment; at the EU-level, only 51 percent of low-skilled people formally participate in the labour market in contrast to the 82 percent of the high skilled (here in green) who already have jumped over the employment benchmark in almost all EU Member-states. In Spain and Greece, the high-skilled employment rate fell below the benchmark only recently (Figure 3).

If we look at senior men (Figure 4, here in grey colour) and in particular at senior women (in red), their employment rates are 30 to 60 percentage points below this benchmark. At the EU-level, only 42 percent of men in age 60 to 64 are employed; and the situation of women in this age group is even 15 percentage points lower. There are only a few exceptions like in Sweden. But for most other countries, the European labour market is not fit for old people.

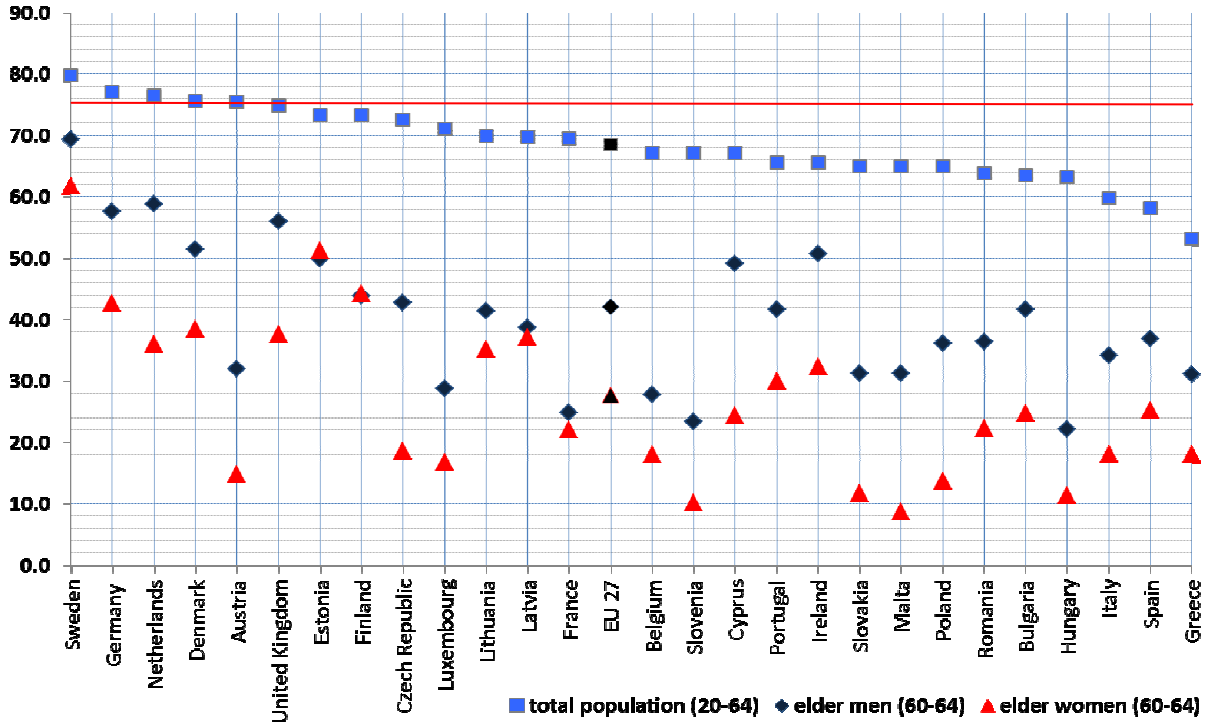
And even where employment increased, many of the new jobs are non-standard, which means part-time, temporary, casual or own account work. Figure 5 shows that the non-standard employment rate of Europe climbed up from about 17 to 23 percent in the period of 1998 to 2008. In The Netherlands even 43 percent of the working-age population is working in non-standard employment contracts. Of course, not all but many of these jobs are precarious, which means jobs with low income, high risk of unemployment and low social security in old age.

Figure 3: **Employment Rates in EU-27 by Educational Level, 2013;** low (**red**) and high (**green**) compared (and ranked) with total (**blue**) in age 20-64



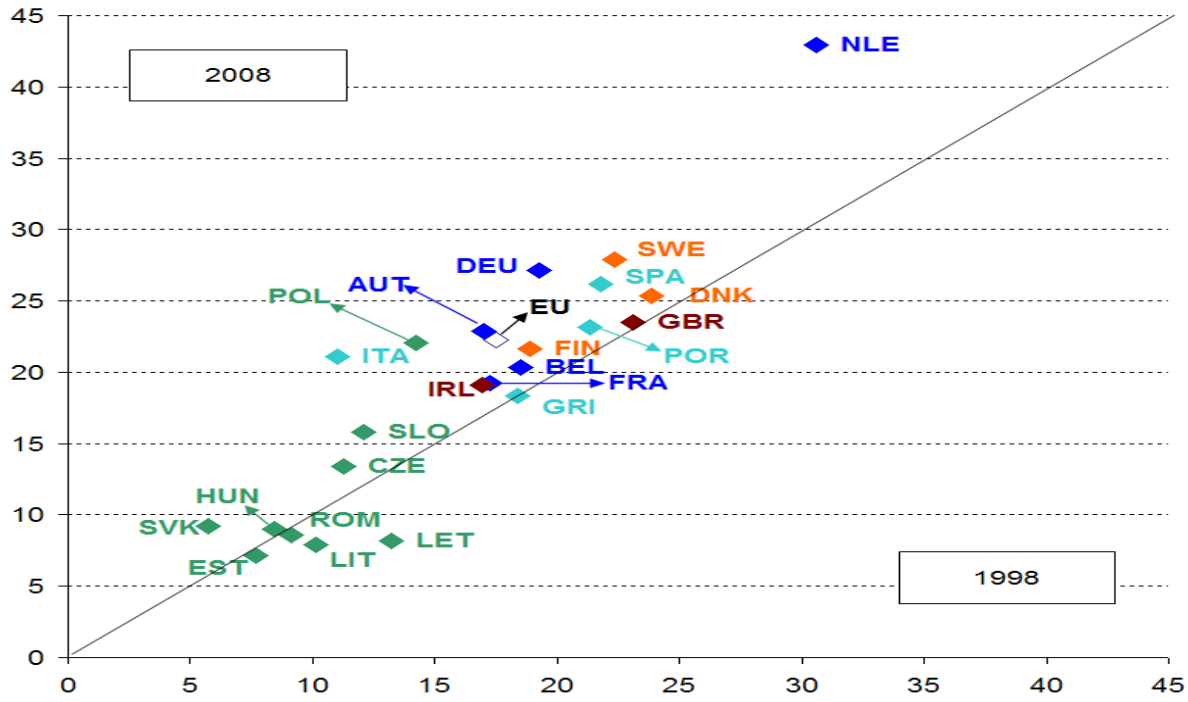
Data: European Labour Force Survey, 4th quarter 2013

Figure 4: **Employment Rates in EU-27 by age and gender, 2013;** women 60-64 (**red**), men (60-64) (**navy**) compared (and ranked) with total (**blue**) age 20-64



Data: European Labour Force Survey, 4th quarter 2013

Figure 5: Non-standard employment rates, 1998 and 2008 (Part-time, temporary, and own account work in percent of population 15-64)



Source: Schmid 2011a, p. 174, for further explanations

The most recent development (2008-2012) did not change much in this pattern of job creation dynamics: The share of flexible jobs (fixed-term contracts) went – for obvious reasons – slightly down, whereas the share of self-employment in form of own-account workers stagnated; but the share of jobs for part-time workers (which are not necessarily flexible jobs!) did further increase, in particular among the young. Mainly women work part-time, albeit with increasing shares of young and old men, and the part-time share correlates strongly with overall employment rates suggesting that it might be a prerequisite for high employment participation. About one quarter of part-timers would prefer full-time work, but interestingly, involuntary part-time correlates negatively with the overall level of part-time: it is lowest in the part-time economy of Netherlands (only about 7 percent are involuntary of about 48 percent part-timers), and highest in Bulgaria (about 57 percent are involuntary of about 3 percent part-timers) (Berkhout et al. 2013).

Finally, the crisis drives labour market segmentation further which can be observed, for example, in the dynamics of long-term unemployment. Typically, in a recession, here in 2008, the share of long-term unemployed goes down because the crisis hits people across all socio-economic categories. During the upswing, however, negative selection processes take place increasing the share of difficult to place people, in particular disabled and elderly, statistically expressed in a relative increase of long-term unemployment. The severity of this displacement depends on labour market institutions, in particular employment protection regulation, the existence of seniority wage systems, and activation measures of labour market policy. In countries where employment protection and seniority wages are strong, targeted activation measures however weak, long-term unemployment or transitions into inactivity or disability schemes increase.

Table 2: Long-term unemployed (> 12 months) as percent of total unemployment of the respective group for selected EU-Member states in 2011

	Men			**Women**		
	15-24	*25-49*	*50-64*	*15-24*	*25-49*	*50-64*
EU-27	31.9	44.4	54.9	27.8	43.7	55.6
Germany	26.2	48.9	63.8	20.6	45.3	61.4
Sweden	8.0	24.8	37.6	5.3	20.2	32.3
Denmark	10.1	28.2	45.1	n.a.	22.4	42.8
France	29.8	42.3	59.9	26.6	41.5	55.9

Source: Europäische Kommission (2012), Langzeitarbeitslosigkeit – EBO-Bericht 2012, Table 2.1

Table 2 shows quite distinct differences in this type of segmentation for some selected EU-MS. For the whole EU-27, relative long-term unemployment (as percent of total unemployment in the respective group) is highest among elderly people (54.9 percent for men). However, Germany – otherwise applauded for its "job miracle" – displays a particular unfavourable segmentation pattern in this respect: apart from the young age group, relative long-term unemployment exceeds the EU-average, in particular among elderly men (63.8 percent) compared for instance with 'only' 37.6 percent in Sweden. This difference shall be a memorizing mark when we come back to the role of labour market institutions.

Obviously, Europe in general, but EU-MS in particular are not well adjusted to the *new world of work characterised* by increasing competition through the globalisation of the economies, new information and communication technologies, the challenges of global warming and devastating pollution of our environments (water, countryside, and air). As already mentioned, the key factors leading to this worrying situation have to be looked at failures in macro-economic policies, in particular monetary and fiscal policy (bank and debt crisis). Social policies and welfare state institutions cannot be the main scapegoats; otherwise the strong Scandinavian welfare states would be at the top of Europe's 'problem children.' In fact, there is no correlation between social spending and competitiveness ranking among the OECD countries. In Finland, Germany, and the Netherlands, social spending is around 30 percent of GDP, but they still figure in the top 10 of the Global Competitiveness Index of the World Economic Forum. The Swedish level of social spending is even higher, but that does not prevent it from being 6th in the ranking (Vandenbroucke and Vanhercke 2014). Furthermore, as has been shown elsewhere, income maintenance systems, properly designed, even serve as powerful inbuilt stabilisers for the macro-economy (e.g., Dolls et al. 2011) buffering thereby the negative employment impacts of recessions. Eventually, labour market institutions – the thematic subject in this Chinese-Europe dialogue – play an important role, too, but are only decisive in the interplay with macro-economic employment policies. In the following, a brief sketch on the range of labour market institutions and their impact parameters will be given; the main part summarizes some insights from a synoptic study on new jobs and skills in Europe (Schmid 2012), an article in BJIR (Schmid 2013a), and a recent paper on the EU Social Model (Schmid 2014).

2. The portfolio and conceptual framework of labour market institutions[3]

The labour market is not a market per se where "demand" (employers looking for labour) and "supply" (people providing their 'labour force') meet and freely contract. As any market, the labour market needs a set of rules, organisations, policies and resources to properly function. Among them are unemployment insurance, employment services, education and training systems, employment protection regulations and wage setting rules including collective bargaining organisations – all of them building up an ensemble called *labour market institutions* (LMIs). As "institutions" they provide both: restrictions as well as opportunities. A minimum wage, for example, restricts the range of possible wages by a downward-limit; it also provides, however, security of a decent minimum income for workers and protection against cut-throat competition both for employers and employees. Labour market institutions, in particular, aim at providing a balance between equity and efficiency considerations. In contrast, however, to the product market (regulation of capital flows, trade regulations, property rights etc.), labour market institutions are much deeper imbedded in the societies they belong to, which means in their cultures (habits, traditions) and value systems related to fairness and solidarity. That's why Robert Solow (1990) chose as a title of his book *"The labor market as a social institution;"* and that's why one is struck by the wide diversity of labour market institutions over the globe in general, and in Europe in particular.

Table 3: The portfolio and impact parameters of labour market institutions

	Prices (wages and payroll taxes)	**Quantities** (workers and working time)	**Qualities** (skills and competences)
Unemployment Insurance	+ -	+ -	+ -
Employment Services	+ -	+ -	+ -
Education and Training Systems	+ -	+ -	+ -
Employment Protection	+ -	+ -	+ -
Wage setting and Collective Bargaining	+ -	+ -	+ -

Source: + (=opportunities); - (=restrictions); authors design (GüS)

The parameters on which LMIs 'work' are: prices (wages and payroll taxes), quantities (workers and working time) and qualities (skills and competences). The diagonals in *Table 3* shall symbolise that institutions always have to be considered both as restrictions (-) as well as opportunities (+), a point which pundits of labour market deregulation often neglect. Designing LMIs is a delicate art to find the right balance and always has – as we will argue below – to consider the effectiveness of LMI-institutions in the context of other institutions. Unemployment insurance, for instance, induces moral hazard, raises the

[3] The following is based on Schmid (1994), profiting also from a recent survey article by Bernard Gazier (2013).

reservation wage and might thus prolong unnecessarily unemployment and reduce employment; but it also might maintain skills, raise morality, and induce productive job search. Properly designed in anticyclical way (extended in recessions and scaled down in booms), it even induces positive external effects: macroeconomic stabilisation and reduction of unfair job competition for scarce jobs in recession (e.g., Lalive et al. 2013).

However, this is not the place to outline the totality of LMIs' diversities between countries, and even not the partly unifying and partly contested theoretical views of experts and researchers. A reminder of some common concepts must suffice here.

First, the concept of *institutional path dependency*: Building up mutual expectations between the actors on the labour market, institutions cannot be changed easily from today to tomorrow. Some institutions go back more than 100 of years ago, for example the cooperative industrial relations system in Denmark, or the dual vocational training system (apprenticeship) in the German speaking countries Austria, Germany and Switzerland where the bulk of workers come from this training and recruiting route, while it remains marginal in others. The diversity comes from the specificity of societal contexts and history, but also from the variety of objectives pursued by each scheme and rule, e.g. efficiency and equity considerations may be combined in multiple ways. Labour markets are usually segmented in different submarkets. Some groups, benefitting from long-term and secured careers with promotional ladders, may be favoured by some institutions, while others are left aside or excluded. Another essential source of variety is the degree of implementation on the rules, depending on the size of the informal sector, on the political will and the amount of resources devoted to detecting and sanctioning noncompliance. There may be a big gap, and even an abyss between laws or signed agreements and their implementation. So, for reasons of path dependency it is almost impossible just to copy institutions from other countries.

Second, even if possible, copying might be ineffective for other reasons. All these institutions interact with each other and in the context of different social and economic situations. LMIs might mutually support each other (*institutional complementarity*), but they can also be incongruent (*institutional incongruence*) or be hampered by trade-offs (*institutional trade-offs*).

An example for *institutional complementarity* is the interplay between dual education and training systems and income maintenance through unemployment insurance. As apprenticeship training, by definition, concentrates on the formation of occupation and firm-specific skills, the income risk is high due to the fact that firm specific skills or narrow occupational skills get out of date and due to greater difficulties re-entering the labour market in case of unemployment. Decent and generous income maintenance through unemployment insurance, in this case, is clearly a complementary institution since it allows to take the higher risks involved in occupation or firm-specific training and education. So, there is no wonder, that for instance Switzerland has one of the most generous unemployment insurance systems of the world. Furthermore, the Danish "Golden Triangle" (the 'flexicurity' model) can be considered as a good example for institutional complementarity: low employment protection is complemented by high income security and strong activation measures in case of unemployment or enforced mobility.

Institutional incongruence comes up, for example, when costs and returns of job creation investments fall apart. In Germany, e.g., the municipalities were responsible to pay social assistance for jobless long-term unemployed whose insurance benefits have run out, but they were not endowed with sufficient financial means to create jobs or to reap fully the investments into job creation measures. The 'Hartz-Reforms' partly solved this problem by the central government taking over the bulk of the costs for means-tested unemployment benefits and corresponding employment service measures.

Institutional trade-offs might occur when the same institution affects different objectives either positively or negatively. Employment protection may (and is intended to) support mutual investments of employers and employees thereby enhancing productivity, but it may also create insider-outsider cleavages enhancing wage rigidities, preventing wage flexibility in recession or the hiring of new apprentices to maintain a sustainable stock of skills. Studies find strong positive correlations between employment protection and flexible jobs (Berkhout et al. 2013; Martin and Scarpetta 2011; Schmid 2011a).

Third, one has to consider *institutional equivalents*, which means that one missing (or badly functioning) institution might be replaced by the functioning of another institution. An effective minimum wage, for instance, can be established by the state through mandatory legal minimum wages (as in France or Great Britain), but also through collective bargaining enforced by strong unions and employers associations (like in Sweden, Denmark or Austria). Labour market institutions even might be (at least partly) a functional equivalent to product market institutions or financial market institutions. If, for instance, devaluation of a currency is not any more possible due to joining a common currency union (like the Eurozone) or due to the binding of a national currency to the Euro or the Dollar, then real devaluation might be implemented through working time and wage flexibility (like in Denmark).

Now, we are prepared to ask which LMIs in Europe might be considered as candidates to facilitate adjustments to structural changes due to globalisation, new technologies, climate changes, demographic and social developments – in particular under the normative condition of balancing equity and efficiency.

3. A New Momentum of Flexicurity

First of all, a new momentum of flexicurity – the current flagship of the European Employment Strategy – is required. It is high time to rethink this oxymoron: The relationship between labour market flexibility and security is a dialectic one. Both are mutually reinforcing. Employment policy of the first generation of flexicurity tended to emphasise flexibility and to think about security as a secondary element. Apart from re-assessing unconditional social protection – in other words solidarity – as an ethical principle per se, the next 'flexicurity' generation has to emphasise more the flexibility potential of security. We know of the inherent flexibility potential of security through learning theory, including may be, our own anecdotic evidence from educating children: If they feel secure and self-confident, they develop more initiative and creativity than if they are insecure and anxious. Why should the same not be true for workers? If they feel secure, they are encouraged taking risks, making risky transitions and pursuing a

professional career; otherwise they stick to their jobs, even if they feel overstretched and burned out.[4]

The *first element for a new momentum of flexicurity is to mind both sides of risk: potential gains and losses*. Employers as well as workers are willing to take more risks if they are connected with securities; only by this way, win-win games connected with calculated risk taking can be established. Take the case of part-time work. Most new jobs in Europe have been created as part-time jobs, in particular for women. Of course, part-time jobs per se are not precarious. They are, in particular, good for the work-family-life balance. However, research shows convincingly that many part-time jobs, especially marginal part-time below 20 hours a week, are combined with low wages, low social security entitlements in case of unemployment, illness or old age, and with low chances of moving up the career ladder, even low chances to move back to full-time work.

European experiences, therefore, suggest establishing the individual right of reducing working hours in the same job and returning to a comparable job without a negative effect on pay. This may help to spread part-time jobs across all job categories without creating negative effects of occupational segregation, which keeps in particular women as prisoners of low-wage jobs. In addition, this regulation could be combined with unemployment insurance, by extending this insurance to an employment insurance that allows the combination of intermediate (and involuntary) part-time as a method for gaining work experience and knowledge about the employer (for workers) and as a design for screening the productivity and loyalty potential of workers (for employers). Finally, it is not by accident that in many countries, the extensive use of part-time work finds its parallel in a basic income guarantee by citizenship in old age which is independent from the work history of a person, for instance, in Switzerland, Denmark, Sweden, and in particularly in the Netherlands (Visser 2002).

The second element for a new momentum of flexicurity is to *mind both sides of flexibility, external and internal*. The first generation of flexicurity emphasised external flexibility, which means job-to-job transitions, reflected for instance in the Danish model. This one-sided view has to be changed. As Figure 6 (below) shows, Denmark was not particularly successful in overcoming the last recession. It experienced a big jump in its unemployment rate and a strong increase of long-term unemployment.[5] This is not to say that Denmark may not anymore serve as the Poster Boy for flexicurity; Denmark still has many strengths. For small countries with a homogenous labour force and population, the flexicurity model of trading in high income security for the acceptance of high external flexibility is still valid.

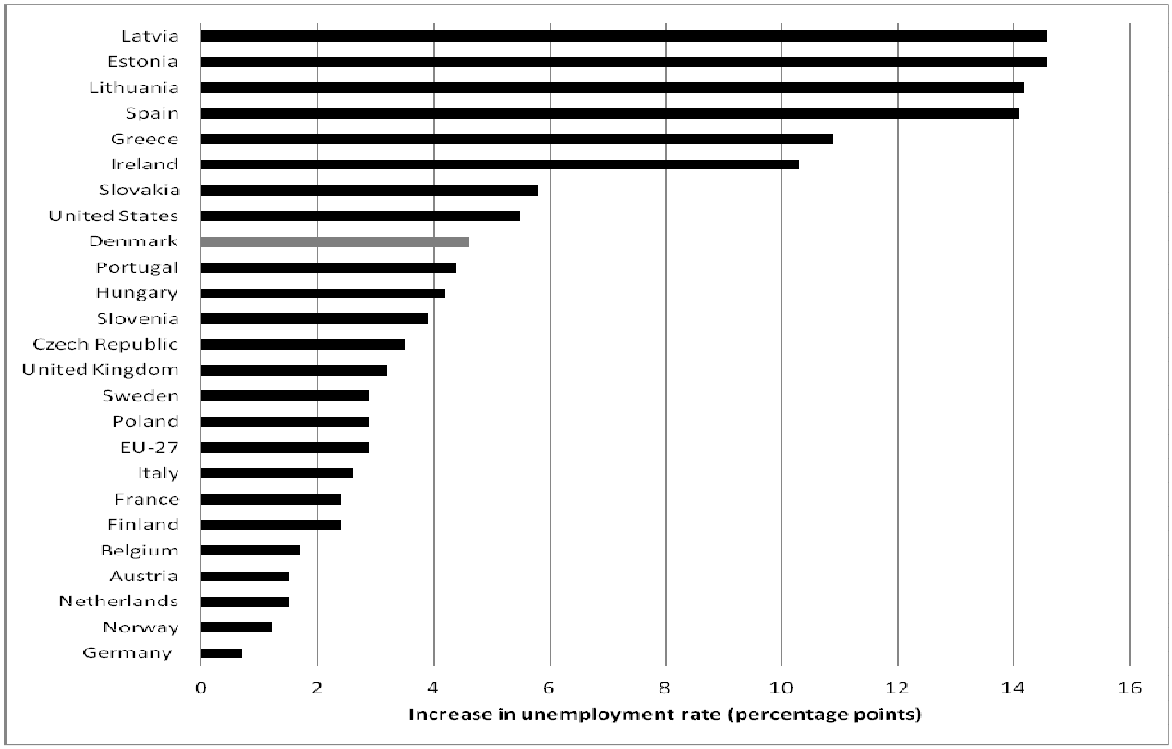
But in countries with a less homogenous labour force, with less population density, and with many more medium sized and large enterprises, like Germany, this model does not work. Germany relies much more than Denmark on internal flexibility, which means working time and wage flexibility. The extensive use of short-time work (‘*Kurzarbeit’*)

[4] See also various contributions in Keune & Serrano (2013).

[5] The share of long-term unemployed of total unemployment increased from 9.5 percent (2009) to 24.4 percent in 2011; to be fair, however, Denmark still performs better in this respect than the EU-28 average, and better in particular compared to Germany. However, whereas Germany improved its ranking position in the Global Competitiveness Index from 8 (2006/07) to 4, Denmark fell from position 4 to 15.

was only one element of internal flexibility; other elements were working time accounts, flexible collective agreements and reduction of overtime work. It was this capacity of internal flexibility which explains to a large extent Germany's low rise of unemployment during the last recession. Figure 7 illustrates this adjustment capacity for the case of the German Mechanical Engineering industry, and the following Box 1 provides a balance account of advantages and disadvantages for this adjustment instrument.

Figure 6: Growth of unemployment in percentage points 2007 (min) – 2011 (max)

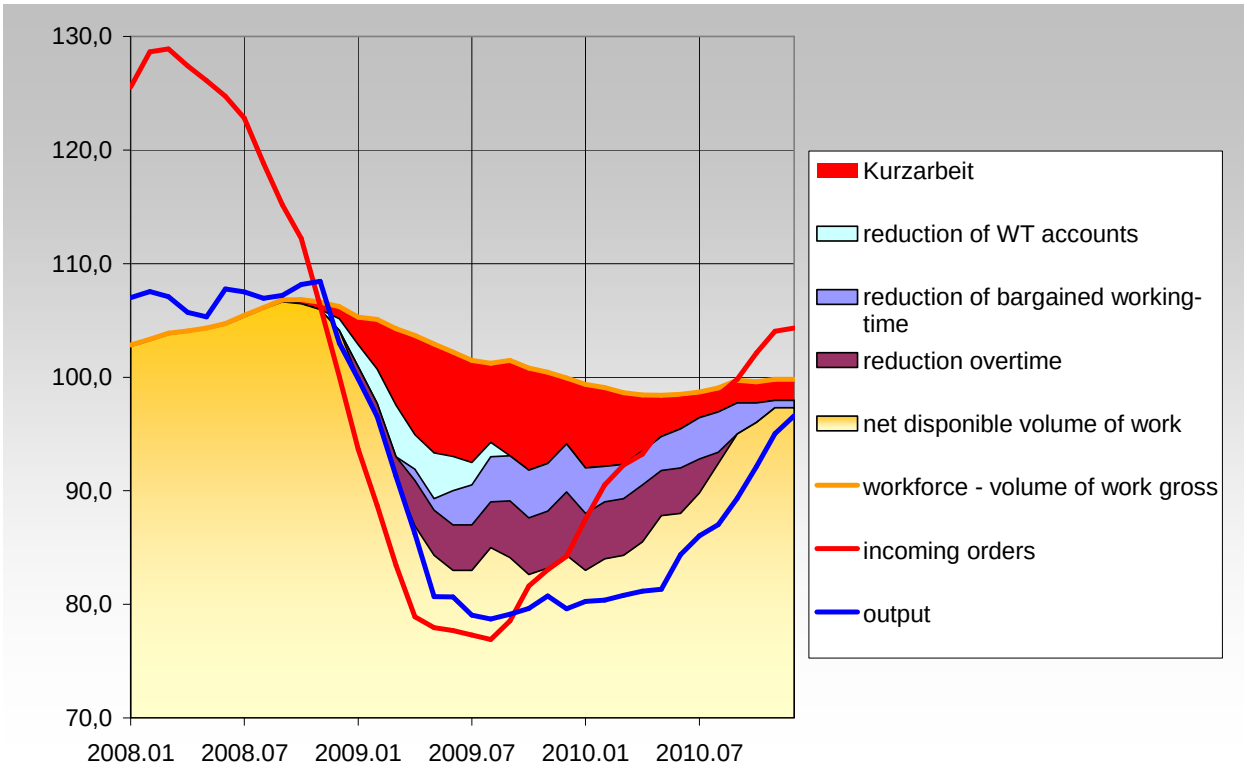


Source: P. K. Madsen (2011), Still the Poster Boy? Danish Flexicurity and the Crisis, CARMA-Aalborg, mimeo

Incoming orders in this sector (the red line starting left at the top) fell by almost 50 percent and output (the blue line) by about 30 percent within less than one year. Both recovered within one year but remained at a slightly lower level. The workforce however, the dark and almost horizontal yellow line, dropped only by about 3 percent. The bulk of adjustment was managed by working time flexibility. However, short-time was only one element; it reduced the overall working time volume by 8%. Other elements were the return to the regular 35 hours week (-1.4%), the reduction of overtime (-5.6%), the melting down of working time accounts (-5%), and the reduction of working time by utilising collectively bargained working-time corridors (-2.8%).[6] Altogether, the volume of working time fell by 20.8 percent, and rose again to almost the pre-crisis level at the end of 2010 when only a few short-time workers were left.

[6] These 'corridors' allow firms to deviate from standard collective agreements, for example, by reducing under certain conditions working time *with* respective cuts of wages; so, 'corridors' are an instrument of both: working-time *and* wage flexibility. Most agreements provide for 10, some for 20 percent deviation from the standard weekly working time (e.g. a corridor of 32 to 40 hours); but wages are not allowed to fall below this level.

Figure 7: Internal Flexibility in the German Mechanical Engineering



Source: Jörg Hofmann, IG-Metall Baden-Württemberg

However, as Box 1 below shows, this capacity of internal flexibility is still underdeveloped even in Germany. The current short-time working schemes are not only quite costly but also conservative: They mainly protect the core workforce, and they do not provide enough incentives to make internal flexibility investive: for example by combining short-time work with education and training to prepare for restructuring and to enhance the overall employability of workers in case they should become redundant. Yet the overall balance is positive.

The third element for a new momentum of flexicurity is to mind both sides of security: 'passive' and 'active'. Flexicurity frameworks have usually emphasised workfare, which means enforcing the acceptance of available job opportunities. The new flexicurity framework should accentuate more *active securities* that encourage labour market transitions. Workfare is mainly concerned with controlling "moral hazard", which means peoples tendency to be careless or even to exploit social security benefits. Active security is mainly concerned with stimulating calculated risk taking. If a reasonable safety net is available, individuals become more inclined to invest into their employability or to risk job-to-job transitions.

Box 1: Advantages and disadvantages of short-time work as an adjustment instrument

For the workers the advantages are quite clear: Their wages are insured by 80 to 90 percent, since collective agreements top up the regular wage replacement of 60 or 67 percent. In addition, short-time workers maintain their jobs, their qualifications and their social networks. Problematic are the low incentives for activation and mobility, and current regulations do not entitle short-time workers to education and training.

For employers the most immediate advantage is the maintenance not only of skilled workers, but also of workers who are loyal and cooperative; the opportunity costs of recruiting for instance high skilled craft workers or engineers are estimated up to Euro 32,000. Short-time work allows a much quicker reaction to demand fluctuations than dismissals because dissolving employment contracts needs more time and implies higher transaction costs than just reducing working time by maintaining the employment contract. Short-time work offers employers also the opportunity of strategic waiting in face of uncertainty, which means 'workforce liquidity': Nobody knows at the beginning how big the drop in demand will be and how long this will take. Short-time work is a reversible instrument, dismissals are not. Short-time work also provides for employers the opportunity to adjust work organisation precisely according to the specific tasks to be reduced or expanded. The government increased this flexibility by relaxing conditions which allowed especially small firms (for instance logistic enterprises and suppliers of large firms) to use the scheme to a larger extent than in former times. Problematic for employers are the remaining fix-costs per short-time worker between 24 and 46 percent depending on the size of government subsidies; for the society, however, these remaining fixed-costs are an effective incentive not to misuse the system. Problematic are also the low incentives for employers to activation, which means to improve the long-term employability of their workers; they even do not have the right to instructions of workers in the phase of short-time work.

For the society or the state, the first evident advantage is avoidance of open unemployment. The German short-time working scheme together with other working time adjustments prevented open unemployment by about 1.4 million workers. This is not just manipulating statistics. This form of job security, first, maintains high purchasing power in times of otherwise falling demand, and second avoids 'Angst', which means panic reactions of workers, for example unreasonable saving that might reduce effective demand leading to a vicious circle.

For the government and the public employment service as insurance principals, short-time work offers a lot of discretion to fine tune the scheme as the situation develops. The government used this discretion by extending short-time work up to two years, giving the employers a comfortable planning horizon; and the public employment services gave employers much freedom in implementing the scheme. It could do so because both, the managers of private companies and public employment agencies, had developed not only experiences with this instrument over a long time but also mutual trust relationships.

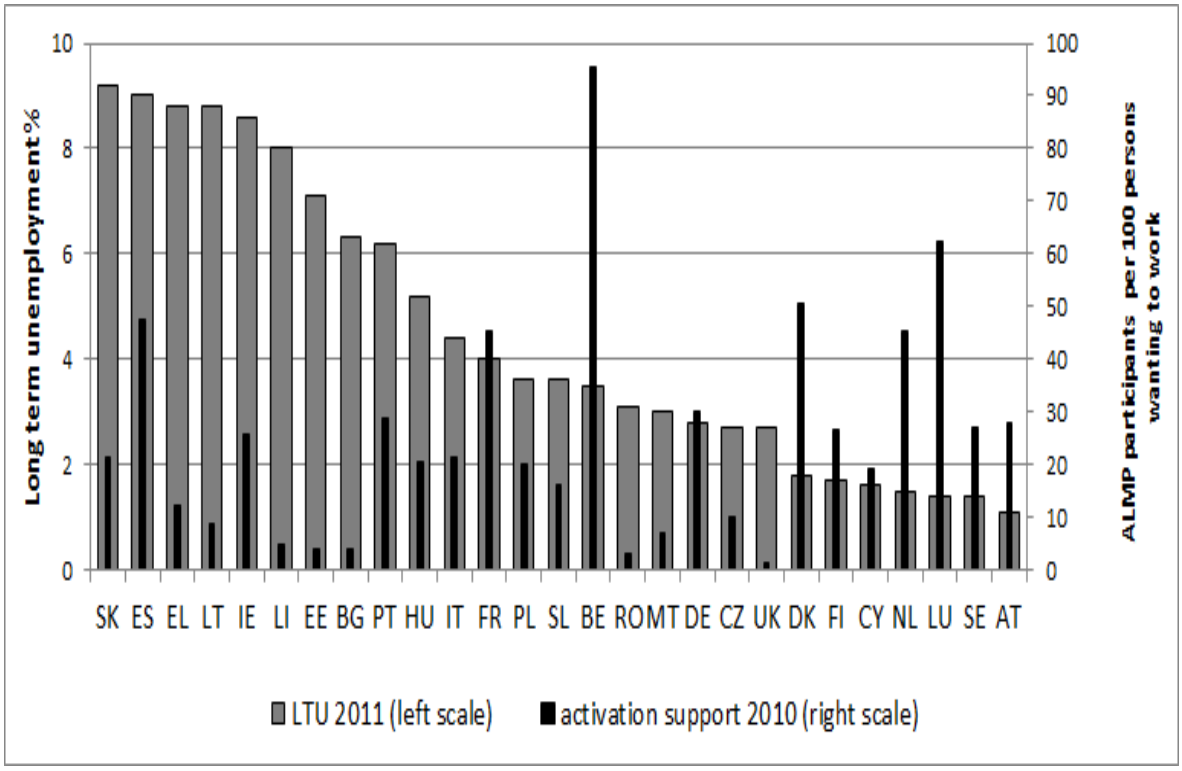
The problematic features, however, are not just minor. Each scheme of job protection, of course, weakens the situation of 'outsiders' and may slow down structural change that might be necessary in the long-term. Also the costs of such schemes are not minor. The risk sharing community of all workers, for example, spent about five billion Euros for the minority of short-time workers, and high social contributions are always hidden costs of production. Finally, the government complemented this risk sharing community by subsidising social security contributions and by offering a large stimulus package through a so-called wreck-bonus. People owning a nine-year-old car could deposit their car in a wrecker's yard and take home a new car subsidised by 2,500€. This cost the society another five billion Euros and contributed, of course, to high public debts.

The new flexicurity momentum, therefore, should emphasise much more the potential of securities for individual risk taking by *making transitions* pay. In this light, and first of all, decent short-term unemployment benefits are not 'passive' but 'active': Properly designed wage replacements are not only a fair compensation for people who become unemployed through no fault of their own but also an "active" investment into their productive job search. Recent studies – even from the OECD (Martin and Scarpetta 2011) – demonstrate that unemployed with generous wage replacements in the first six to nine months find more productive jobs (higher wages) than unemployed not covered by unemployment insurance or covered only by means tested benefits. Even more important: These jobs are more sustainable, which means that decent wage replacements mitigate revolving door

effects, i.e. leaving the benefits system and returning soon or entering another benefit system (such as health or disability insurance).[7]

As regards so-called active labour market policy, a bulk of evaluation research is available in the meantime and showing what works and what works not. Among others, 'work-first-measures' should be combined with career oriented supports like opportunities for on-the-job-training; carefully targeted in-work-subsidies for hard-to-place people turn out to be quite effective; and wage insurance instruments a quite helpful to bridge the transition from demanding high paid jobs to less demanding lower paid jobs when individual productivity capacities deteriorate for various reasons (old age or partial disabilities).[8]

Figure 8 Participants in 'Active' Labour Market Policies (ALMP) 2010 and Long-term Unemployment Rate 2011



Source: Draft Joint Employment Report to the EU-Commission's Annual Growth Survey 2013, Figure 14, p. 14. Admittedly, attentive readers will immediately discover the contradicting examples Belgium (middle level of long-term unemployment and high 'activity' rate) and UK (middle level of long-term unemployment and very low 'activity' rate). I have no explanation for this, but it could well reflect the fact that Anglo-Saxon countries in particular take recourse to tax credits (Earned Income Tax Credits in the US, Work Tax Credits in UK) that are not subsumed under 'ALMP' but applied to a large extent to support and incentivise low income earners. Furthermore, the usual disclaimer for causal interpretations of correlations holds true in this case, too.

[7] For more evidence and references see Schmid (2011b, 2013a).

[8] For an early review of evaluation methodologies and results related to labour market policy see Schmid et al (1996). Since then, the OECD was playing a leading role in collecting evidence on the effectiveness of labour market policy, among others Martin and Grubb (2001). Earlier evaluations often found no or little positive impact of training on re-employment. Card et al. (2009), however, show in a meta-evaluation of 199 studies on labour market policies that more recent evaluations covering medium and long-term effects came up with significantly more positive impacts in particular for training measures.

Raw evidence from Europe, as demonstrated in Figure 8 (above), also shows that 'active labour market policy' helps considerably to keep long-term unemployment in limits. Furthermore, Box 2 illustrates the functioning of the Austrian Work Foundations as effective transition agencies combining several elements of modern active labour market policy, including in particular various actors plus risk sharing devices between these actors.

Box 2: The case of the Austrian "Work Foundations" as effective transition agencies
(Source: Gazier 2013, with adaptations by the author [GüS])

Dating back to 1987, the "Work Foundations" (WFs) are training, placement and re-employment units used in cases of industrial restructuring and coping with mass dismissals. Their funding is original, because they were initially created by firms as foundations (independent bodies owning a stable capital given by a big firm engaged into restructuring) and benefit from three other resources: the full access to the Public Employment Services (in particular unemployment benefits being transformed into training allowances); a contribution coming from their "clients" (the dismissed workers) who add 50% of the interests paid on the sums yearly accumulated in their life-long severance pay account (a specific Austrian institution), and a solidarity contribution coming from the workers remaining employed in the dismissing firm and used for co-financing the retraining costs (in general, this contribution is around 0.5 % of the wage bill).

WFs provide classical services such as competencies diagnosis, referral, (re)training and placement of the workers, with two original traits: First, they may propose quite long and even very long training programs, up to four years. Second, their "clients" are volunteers, easily recruited because workers feel confident and backed by their colleagues as well as by the whole community. These traits explain why they benefit from a good reputation, especially from potential employers.

The first WF has been set up by a big metalworking firm, Voest-Alpine, and from the start 12 firms were present. In 2011, 81 firms could benefit from this WF (Borghouts-van de Pas 2011). A first generation of enlarged versions emerged, adapted to different categories of workers and different situations: "insolvency WFs" (with a capital given by local communities), sectoral WFs and regional WFs, the last category being adapted for small and medium sized firms and for workers in short-term work contracts.

Since 2000, a second generation of enlargement appeared, with the idea that WFs should also help integrating unemployed workers by providing them the same services and guarantees. "In-placement" WFs have been created, offering intensive and long duration training sessions, especially to persons without apprenticeship records (in Austria apprenticeship is the main route from school to employment) targeted to the skill needs of enterprises which co-finance the training measures. Training is "dual": about one third theory, two third practices. In 2009, there were 141 WFs offering "out-placement" services and 175 WFs offering "in-placement" services. The WFs have enrolled 10,743 workers during 2012, i.e. about 5% of the Austrian unemployed. The medium length of their intervention is 300 days.

An early systematic evaluation (Winter-Ebmer 2001) showed a positive outcome of such "Work Foundations". More evaluation should be necessary in order to fully assess the costs and benefits of each type of WF. The case of the Austrian WFs, however, shows how a legitimate and successful institution may be extended, diffused in other contexts, and adapted to different challenges and beneficiaries.

The fourth element for a new momentum of flexicurity is to mind both sides of information: stocks and flows, including transitions. A 10 percent unemployment rate can mean quite different things: It can mean that 60 in 100 become unemployed but stay on average only two months unemployed. But a 10 percent unemployment rate can also mean that only 10 in 100 become unemployed and stay 12 months unemployed. In a life course perspective, transitions and transition sequences, in other words careers are the relevant information needed for properly designing and monitoring labour market policies. If, for instance, people quickly move up to medium and high-wage jobs, a high stock in low-wage jobs is less frightening than a low stock in low-wage jobs that turn out as dead-end jobs.

Following up individual transitions over the life course and assessing the impact of labour market institutions and policy measures on careers requires a modern data infrastructure on a panel basis.

However, in most EU member states, such an infrastructure – in particular employer-employee-linked data sets – does not exist or is still largely underdeveloped. Such an infrastructure would also be necessary to monitor and assess the gender impact of various measures to better targeting labour market policies to the needs of women. Table 4 shows, how an informative and gender sensible transition matrix could look like.

Table 4: Yearly Transitions of West-German Women Aged 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: Mosthaf/ Schank/ Schnabel (2009) based on the German Socioeconomic Panel (GSOEP).

This transition matrix shows 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 of moving into high-wage jobs than unemployed women: 27.3 compared to 16.4 percent. In contrast, unemployed women have a much higher probability of moving into inactivity than women in low-wage jobs: 30 versus 8 percent. These figures suggest that the strategy of work first seems to make sense, however, with an important caveat: The chance of getting stuck in a low-wage job is still very high: 61.8 percent. Too high! 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. Efficiency-oriented employment services, however, have to insure not only a quick placement but also sustainable placements with a high productivity potential.

4. A more skilled labour force

New jobs need – at least to some extent – new skills. An overview of recent studies related to this issue comes to the following conclusions and recommendations (Schmid 2012). First of all, Europe is still not sufficiently skilled, and skill polarisation aggravates this challenge: Those with low qualifications are much less likely than the high educated to upgrade their skills, and comparative European research demonstrates clearly that it is educational institutions that reinforce skill-inequalities. Schools pre-select children into

low-skill tracks, institutions for continuous vocational training and education remain weak or non-existent, and minimum standards of education are underdeveloped or not enforced.

The costs of not investing in individual skill capacities are enormous: It hampers not only the creation of new jobs but also innovation and thereby competitiveness. One of the many studies on growth and skills finds that 50 additional points on the PISA scale induce 0.6 percentage points more growth. This makes 30 percent more income measured after forty years (Piopiunik and Wößmann 2011). Furthermore, OECD's new comparative survey on the state of education for adults (*Programme for the International Assessment of Adult Competencies*, PIAAC) hints to the important fact that the usual measurement of returns to education on the basis of earned income in the early phases of working life underestimates the total life-course income by about one quarter (Hanushek et al. 2013). For Germany, in particular, it is remarkable that the institutional capacities for continuous training and education were not able to compensate for or even to reverse the disadvantages related to the social and economic background in the formal (primary, secondary and tertiary) school system. PIAAC shows drastic deficits in key competences like reading, calculating and managing computers especially for the long-term unemployed, which probably are further aggravated the longer the unemployment spells are (Rammstedt et al. 2013). So, the battle against long-term unemployment still has to be fought, including a reemphasis on basic and general skills.

The first conclusion and recommendation in this respect is: *Mind transversal and middle level skills as effective links between education systems and the labour market.* We need not only a proper balance of flexibility and security; we also need a proper balance of skills. That's why it is contested to put – as the EU-2020 strategy does – priority on raising the share of people in age 30 to 34 with formal high ('tertiary') education to at least 40 percent. Europe should put more emphasis on minimum standards of education at an early age and on (continuous) vocational education. Early education provides the basis for at last two transversal skills: the ability to learn and the confidence in one's own competences.

Table 5: Requirements of Methodological or Transversal Competences in Occupational Areas (multiple percents)

	Making complex issues to understand	Solving unpredictable problems	Making difficult choices	Detecting and closing knowledge gaps	Coping with many different tasks
Production-Occupations	18.7	44.1	34.0	20.8	63.2
Primary Services	25.5	40.8	32.0	21.7	65.2
Secondary Services	60.6	67.7	55.6	39.0	81.4

Source: Baethge 2011, taken there from Figure 4.

As one can see from the third line in Table 5 (above), methodological or transversal skills are most important in the growing job sectors of secondary service occupations like lawyers, managers, engineers, researchers, and life science, health, teaching or care professionals. These skills include making complex issues understandable, solving unpredictable problems, making difficult decisions, detecting and closing knowledge gaps, and coping with many different tasks.

Vocational skills provide a close link between education and work. Moreover, soft skills – such as the ability to communicate, creativity, and entrepreneurship – depend on personality traits that are shaped at an early age and during workplace experiences rather than later by formal education. These are two important reasons to re-assess the validity of dual education and training systems, in other words to closer link work and education together. The apprenticeship system is one particular form, but dual systems' principles enter more and more into higher, so called tertiary or academic education and training. From the transitional labour market (TLM) point of view,[9] dual systems have the following five advantages: they combine *learning and working* (1), *learning and earning* (2), *learning and identity building* (3); they also *give voice* to employers *and* workers in determining the content of learning (4); and they *build trust on both sides of the labour market (5)*: through the standardisation of training contents, workers can trust that their skills are valued on the market, and employers can rely on the competences of graduates entering the labour market. Germany is not necessarily the best model in this respect because its apprenticeship system is too narrowly structured around 350 licensed occupations implying, first, restrictions of cross-over mobility between occupations, second high risk of outdating skills and competences, third exclusion of those young adults from poor social background with low cognitive skills. According to recent research, Austria and Switzerland (and also Denmark) have adjusted their dual systems in a way which better prevents or mitigates these possible negative side effects.

Nevertheless, there is wide consensus in Europe that dual learning systems helped enormously to mitigate the impact of the last 'Great Recession' on young adults: Youth unemployment is lowest in European countries with dual learning systems that connect their education system closer to the labour market. These countries are Austria, Denmark, Germany, The Netherlands and Switzerland (Ebner 2012). Furthermore, one study found that, on average, increasing the share of upper secondary students that attend dual learning systems by 1 percentage point decreases NEET rates by about 0.04–0.09 percentage points (European Foundation 2012).[10] Finally, possibilities of enhancing higher (tertiary) education and training with dual learning systems seem still underdeveloped. Box 3 provides one successful example from Germany.

[9] The concept of transitional labour market (TLM) was developed by a network of European social scientists (visit the network www.siswo.uva.nl/tlm), which has been supported by the EU Fifth Framework Research Programme running from about 2000 to 2007; it was coordinated by the Social Science Research Centre in Berlin (WZB). For representative publications see, among others Auer and Gazier (2006), Schmid (2008, 2011b, 2013a), Schmid and Gazier (2002), various contributions in Jørgensen and Madsen (2007), Muffels (2008), Rogowski (2008), Rogowski et al. (2012).

[10] For further literature and evidence see Eichhorst et al. (2012) and Schmid (2013b).

Box 3: Dual learning systems in Higher (Tertiary) Education: The Case of Germany

Apart from the rapid (and successful) expansion of dual business high schools or universities of applied sciences in the German speaking countries, a possible model might also be the recently founded *Baden-Wuerttemberg Cooperative State University* with its main seat in Stuttgart, eight other locations in the region and four branch campuses. This university integrates academic studies and work experience. The students have an employment contract and through the entire period, they receive a monthly salary and have the insurance of being an employee. Small classes of at most 30 students guarantee close supervision. The university cooperates with numerous universities and enterprises worldwide. That makes it possible for most of the degree programmes (business, engineering, and social work) to include a training and education period abroad thereby responding to the increasing demand for internationalisation. The students' future prospects are excellent: roughly 90 percent of the students sign regular employment contracts with the companies after graduation (www.dhbw.de)

The second conclusion and recommendation related to new jobs and skills is: *Mind the ageing population*. The main response to this megatrend can only be to establish a *life-long-learning system*. Research indicates that enhancing skills at low and medium level might be more important than heading towards the benchmark of 40 percent in tertiary education. Often, higher education is only used to signal skills that are not necessarily learnt in higher education programmes. Scarce resources might better be spent into continuous vocational training and education, especially targeted to immediate skill deficits. Most important: Such upgrading can induce mobility chains that also open career paths for low-skilled and other outsiders. This would be an effective way to prevent or mitigate the tendency towards skills and job polarisation.

Investing more in life-long-learning systems and re-adjusting pension systems are effective pathways to enable elderly people to stay longer in the labour market. However, older workers participate considerably less in training than younger workers, and generous early retirement schemes discourage older workers from taking part in training, whereas flexible early retirement schemes encourage such training. Research results suggest that, in most European countries, training can keep older workers longer in the labour market. Older workers who do not receive training on-the-job have a higher probability to retire than those who did receive training. Even more importantly, the effect of training on labour market participation is higher for older workers with low education (Fouarge and Schils 2009; Picchio and van Ours 2011). The low long-term unemployment incidence as well as the high employment rates of elderly people in Sweden, mentioned at the beginning, has much to do with the heavy investments into life-long-learning and into work-place adjustment in Sweden.

The third conclusion and recommendation is: *Mind work place institutions as devices for skill formation and skill adjustment*. European research convincingly shows that providing more skills is not necessarily related to investments into new skills but rather to smarter work organisation. There is a need of better using existing skills by establishing a work environment that stimulates learning and cooperation of different skills. In this respect, high performance work systems (HWPS) should be developed, which means flat hierarchical structures, job rotation, self-responsible teams, multi-tasking, a greater involvement of employees in decision making and the replacement of vertical by horizontal communication channels. Box 4 shows the crucial elements of HWPSs.

Box 4: What are High Performance Work Systems?

High Performance Work Systems (HPWS) are characterised by a holistic organisation featuring flat hierarchical structures, job rotation, self-responsible teams, multi-tasking, a greater involvement of lower-level employees in decision making and the replacement of vertical by horizontal communication channels. HPWS emphasise the importance of decentralisation of problem-solving and decision making.

This requires three basic components:
1) Opportunity for substantive participation in decisions,
2) Appropriate incentives and
3) Training and selection policies that guarantee an appropriately skilled workforce.

Autonomous teams and quality improvement teams contribute to improve the organisational performance, as well as communication with actors outside the employees own work group. The employees in HPWS thus have a substantial autonomy in their work, and they are also able to call on resources when needed. However, while evidence for organisational benefits continue to accumulate, evidence for employee outcomes are increasingly polarised, varying from higher intrinsic reward to work-home spill over and work stress (Source Schmid 2012; for original research in particular Appelbaum et al. 2000).

The fourth conclusion and recommendation is: *Mind skills' uncertainty*. There is no analytical tool to overcome this problem. It can only be solved by establishing learning systems of anticipation. There is a great need to combine analytical forecasting with the tacit knowledge of key actors at local or regional level. This learning by monitoring can be put forward through mutual agreements or covenants between communities, firms, social partners, and development or financial agencies. This often requires the initiative and mediation by regional governments.

5. Better job quality

Job quality is a much underestimated tool for facilitating adjustment, as rich studies on this topic demonstrate and prove in the meantime. The theoretical reasons are quite clear: Improved education, especially in the form of cognitive skills, fosters economic growth and thereby employment (Hanushek and Woessman 2008). Investment in education and training yield increasing returns and generates positive externalities. A higher level of education not only raises individual productivity, but also the productivity of co-workers and co-partners in the market network (supply-chains). This explains the stubborn significant positive correlations between cognitive skills and economic growth (see above). There are also links between workers' security and economic growth. Employment protection, safe working conditions, fair wages and access to social protection foster co-operation, and acceptance of working-time flexibility, job-rotation, and of continuous education and training. All these components of security on the labour market may increase productivity and employment participation. In addition, many security mechanisms work as automatic stabilisers, which are particularly helpful during economic downturns. Thus, several dimensions of job quality (see Box 5) can increase workers' productivity and positively influence job creation.

Europe created too many jobs of low quality, yet research shows convincingly that only job quality enhances sustainable growth of jobs. In particular, excessive use of temporary work undermines not only career perspectives of many young adults but also weakens innovation and productivity and therefore competitiveness. Thus, the creation of good quality jobs is not only a matter of social but also a matter of economic concern. How can this virtuous circle of job quality and job growth be put in motion?

Box 5: Seven Dimensions of Job Quality

1. Safety and ethics of employment
2. Income and benefits from employment
3. Working hours and balancing work and non-working life
4. Security of employment and social protection
5. Social dialogue
6. Skills development and training
7. Workplace relationships and work motivation

Source: Schmid (2012)

First of all: *Mind work-life quality*. In the current economic crisis, temptations to increase work intensification and to decrease securities for employees should be resisted. Changes in work organisation are more effectively managed if workers are involved and encouraged to participate in decision making. An important case is working time. Research shows increasing workloads leading to early burn-outs or even to lasting mental health incapacities. There is therefore a growing need to monitor job quality not only at national or European level but also to institutionalise this monitoring at company level and to establish early warning indicators for preventative interventions.

Second: *Mind capabilities*. From a life course perspective, not only people's work capacities are changing but also their preferences. So, making workers only fit for the market would be a one-sided strategy; *the market also has to be made fit for the workers*. Of course, taken both together, many potential conflicts arise. Therefore greater institutional capacities for negotiated flexicurity is needed, first in form of standard regulation for work-place adjustments through amending social policy guidelines or directives and diffusing good practices in making markets fit for workers; second by collective agreements at firm or industrial level for hammering out fair compromises in risk sharing between employers and workers as well as between workers themselves.

6. Outlook

Europe – as well as most other 'developed' or 'emerging' countries – definitely needs more people in employment. Why? First of all: In view of persistent mass unemployment, creating more and better jobs is a moral obligation. The familiar economic arguments related to demographic challenges and employment as evident precondition for prosperity are not sufficient. A job is more than just an earning opportunity for people. The 2008 winner of the economic Nobel Prize, Paul Krugman, once expressed this view in a short and lucid way: "A merchant may sell many things, but a worker usually has only one job, which supplies not only his livelihood but often much of his sense of identity. An unsold commodity is a nuisance, an unemployed worker a tragedy." This statement holds of course equally for men and women, and in particular for young adults who strive for a live in autonomy with a meaningful perspective and at least in modest prosperity. Therefore, more emphasis should be put on avoiding unemployment, in particular long-term unemployment, and on youth guarantees for employment or education, not only for the youngest but also for young adults.

Second, in order to advance this spirit, Europe needs an enhanced social dimension in a way which has already been expressed in the *Declaration of Philadelphia* 1944 and subsequently in the *Universal Declaration of Human Rights*, adopted by the United

Nations in Philadelphia 1948: “Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.” Article 9 of the Treaty on the Functioning of the European Union is at least reflecting this principle in a weak form. Its spirit needs to be revitalized in a prospective new Constitution for Europe in order to unequivocally signal that the (labour) market is a means and not an end in itself (Supiot 2010).

This implies, third, that employment is only one (admittedly important) means for life quality. There are also other dimensions of life – family, friendships, care for the beloved, games and recreation, nature and countryside adventures, and so on – which should not be forgotten in the strive for “full employment.” All these life dimensions require free time from hard labouring and disciplining demands of employment relationships. So, all adjustment mechanisms to changes in the economy, technology and global relations should also be put under the test to what extent they increase this freedom to engage in individual, social and cultural life. Working time reduction is still on the agenda. However, it has to be designed and implemented in a flexible way according to changing needs and preferences over the life course. Provided with active securities for the related income and employment risks would also encourage paid as well as unpaid work sharing thereby contributing to more job opportunities.

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