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to post-industrial  
labour market risks**

Working paper de l'IDHEAP 6/2006  
Chaire Politiques sociales



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# ADAPTING EMPLOYMENT POLICIES TO POST-INDUSTRIAL LABOUR MARKET RISKS

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### *Abstract*

Labour market risk structures have changed quite dramatically since the early postwar years. Long-term unemployment, low wage employment and the associated problem of the working poor, and clashes between work and family life constitute today the most widespread social risks. They were not well covered by the welfare states that were built during the postwar years. Today, however, some welfare states, in the Nordic countries, seem much more effective in dealing with these new risks. In this paper it is argued that this is a result of different policy decisions taken in response to deindustrialisation and the loss of manufacturing employment since the 1970s.

### *Résumé*

Les risques sociaux associés au marché de travail ont changé passablement au cours des deux dernières décennies. Aujourd'hui, les risques les plus importants et répandus sont le chômage de longue durée, la pauvreté laborieuse, et l'incompatibilité entre travail et vie familiale. Ces nouveaux risques sociaux ne sont en général pas pris en charge par les Etats sociaux que nous avons hérités de la période des trente glorieuses (1945-1975). Aujourd'hui, toutefois, certains pays, essentiellement le pays Nordiques, semblent avoir mieux réussi à maîtriser ces risques. La thèse défendue dans ce papier met l'accent sur l'importance de décisions prises à partir des années 1970s pour faire face au déclin de l'emploi industriel.

## Introduction

Labour market risk structures have changed quite dramatically since the early postwar years. Unemployment, essentially a cyclical risk during the golden age of western capitalism, has become a structural feature of today's labour markets. In addition, trends in earnings inequality and labour market instability mean that today, employment income alone is sometimes not sufficient to ensure a poverty-free existence, especially for families with children and single parent households. Labour markets interact with family structures to create entirely new types of social risks. The risk of poverty is lower among the increasingly numerous two-earner couples, who are nonetheless facing entirely new problems and dilemmas in terms of reconciling work and family life. All these contingencies can be labelled "new social risks" and refer to situations that are typical of the postindustrial labour market and family structures in which we live today. They have little in common except the fact that they are generally not well covered by the welfare states that we have inherited from the postwar years, and that they tend to hit the same social groups, especially younger people, women and those with low skills (Armingeon and Bonoli 2006; Bonoli 2007).

Current labour market risk structures are the result of two challenges, often conflated in the literature, but quite different in the real world: deindustrialisation and the tertiarisation of employment. Deindustrialisation, defined in terms of rapid decline in manufacturing employment, has generated large numbers of jobless who were particularly difficult to reintegrate in the new expanding service economy. As a result, deindustrialisation is responsible for the emergence of long-term and mass unemployment, with all its consequences in terms of social exclusion, and disruption. But deindustrialisation may neither be the only nor the most important feature of the current transformation in labour market structures. In fact, the new, service-based labour markets that are emerging in western economies are characterised by strong polarisation and inegalitarian pressures. Job creation in service-based economies tends to bifurcate between high skill, high wage sectors (finance, information and communication technology, produces services) and low skill, low wage activities (retail trade, hotels and restaurants, personal services). The results are more unequal labour markets or, to the extent that countries try to resist this sort of pressures, more unemployment.

Countries responded first to the most urgent and visible challenge, deindustrialisation, and they did that in rather different ways. Generally speaking, they developed new policies that were in line with their long-standing political economy and welfare state traditions. For English speaking countries, the dominant policy-orientation was labour-market deregulation and liberalisation; continental European countries strengthened employment protection and income replacement programmes (especially early retirement) so as to reduce labour supply and open unemployment; Nordic countries, finally, developed an approach based on the expansion of employment through active labour market policies and public social services.

These three strategies, which are briefly reviewed below, fare very differently in relation to the second postindustrial challenge: tertiarisation. First, in a service-based economy, labour market liberalisation generates stark inequalities and social problems for those at the bottom of the wage distribution. This is the trajectory followed by countries like the US or the UK. Second, employment protection and generous labour market exit provision, for example in the shape of early retirement schemes, results in barriers to employment for low skill workers and high labour costs, which in turn produce high rates of unemployment. It is the root of the

employment problems faced by countries like Italy, Germany or France. Finally, whether through wisdom or luck, the response to deindustrialisation that seems to fit best in the current service-based employment structure is the one adopted in the Nordic countries. Active labour market policies and public social services are a clear asset in managing a labour market that tends to be polarised. ALMPs allow the upskilling of workers and social services, especially in the fields of childcare and elderly care facilitate women's employment.

The superiority of the Nordic response to both labour market challenges is increasingly being recognised, sometimes explicitly, but much more often implicitly. Governments outside Scandinavia have, over the last ten years or so, put increasingly strong emphasis on the two pillars of the Nordic response to postindustrialisation: ALMPs and public social services. The EU, through the European Employment Strategy, is clearly pushing countries in the direction of a variant of the Nordic model, with high rates of employment for all groups, especially women, with state support through child care services and ALMPs (Bertozzi and Bonoli 2002).

This chapter presents and illustrates this two-staged process of policy adaptation. The argument presented introduces a chronological dimension in the study of labour market policy, by distinguishing between different stages in the adaptation process<sup>1</sup>. Other studies have emphasised sequences of policy adjustment (Hall 1993; Hemerijck and Schludi 2000), but they have generally tended to pay more attention to learning processes. Here, instead, we focus on the impact of decisions taken at time  $t$  on policy problems emerging at time  $t + I$ . The chapter starts by reviewing the key elements of the new postindustrial labour market risk structures. It then moves on to an account of the policy trajectories adopted in response to deindustrialisation in different groups of countries, and shows how different responses turn out to be more or less suitable to the service-based economies that are dominant today. Third, it looks at how countries having embarked in sub-optimal reform paths are now trying to shift to more efficient policy solutions.

## Post-industrial labour market risks

Post-industrial labour markets differ from the sort of employment structures that were dominant in the postwar years in many respects. First, of course, a smaller proportion of the working population is employed in manufacturing, and the service sector provides the vast majority of jobs.

Second, and this is to a large extent a consequence of the point just made, there are important differences in terms of life chances and career opportunities for low skill individuals. Persons belonging to this category have always been disadvantaged. However, during the postwar years, low skill workers were predominantly employed in manufacturing industry. They were able to benefit from productivity increases due to technological advances, so that their wages rose in line with those of the rest of the population. The strong mobilising capacity of the trade unions among industrial workers further sustained their wages which came to constitute the guarantee of a poverty-free existence. Today, low skill individuals are mostly employed in the low-value added service sector or unemployed. Low value added services such as retail sale, cleaning, catering, and so forth are known for providing very little scope for productivity increases (Pierson 1998). In countries where wage determination is essentially based on

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<sup>1</sup> On the importance of considering the chronological dimension of political phenomena, see Pierson, P. (2004). *Politics in Time*. Princeton, Princeton University Press.

market mechanisms, this means that low skill individuals are seriously exposed to the risk of being paid a poverty wage (US, UK, Switzerland). The situation is different in countries where wage determination, especially at the lower end of the distribution, is controlled by governments (through generous minimum wage legislation) or by the social partners (through encompassing collective agreements). Under these circumstances, the wages of low skill workers are protected, but job creation in these sectors is limited, so that many low skill individuals are in fact unemployed. Overall, the fact of possessing low or obsolete skills today entails a major risk of welfare loss, considerably higher than in the postwar years.

Third, partly as a consequence of the tertiarisation of labor markets, postindustrial employment is considerably more feminised. In the late 1960s in the Nordic countries, in the 1980s in English speaking countries and in the 1990s in continental Europe we see the take off of female employment. Married women and women with children, two categories of the working age population who tended not to be involved in paid work, are increasingly less likely to exit from the labour market. In spite of big steps towards gender equality in the labour market, women's career profiles remain different from those of men. Women are still more likely to have career histories punctuated by periods of inactivity, usually after child birth. Everywhere, they are more likely to work part-time. And finally, are on average less well paid than men. In these respects, women's entry into employment has generated a new dimension of stratification in labour market.

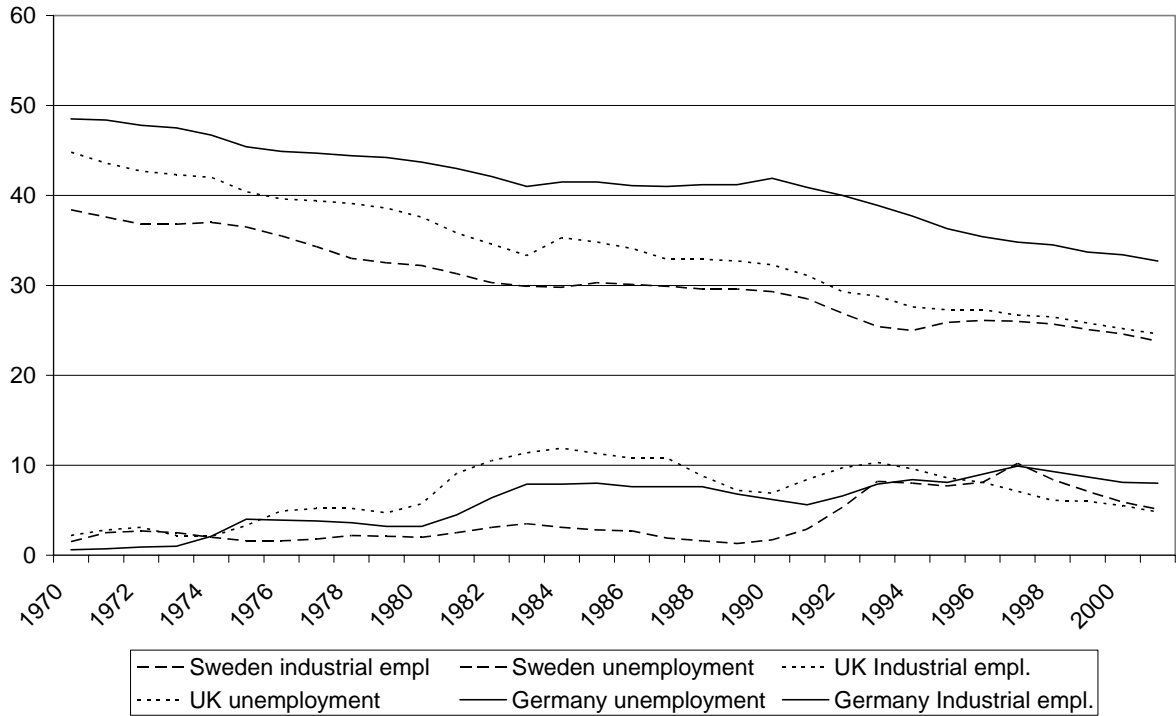
As already hinted, these three important developments, tertiarisation, skill polarisation and feminisation of labour markets are responsible for the emergence of new, postindustrial, labour market risks. These are discussed next.

### *Long term unemployment*

Long term unemployment is a feature of post-industrial economies. During the postwar expansion years, unemployment, where it existed was essentially frictional or cyclical. Today, instead, virtually every developed market economy is confronted with the problem of structural, long term unemployment. Current long term unemployment has essentially two roots: deindustrialisation and the institutional rigidities in service-based labour markets mentioned above.

Deindustrialisation is a decade long process, whereby low skill manufacturing jobs are transferred to low income countries or taken over by machines. The result is a more or less constant decline in industrial employment in the traditional OECD countries since the 1970s. Deindustrialisation presents a problem for labour markets because it destroys low skill jobs. The individuals who are as a result left without employment cannot easily re-enter other segments of the labour market. The skills acquired through years of experience in manufacturing industry are not easily transferable to service occupations. The archetypical example is that of a metal worker or a miner. After several years spent in this sort of occupations, learning a new profession which perhaps implies sophisticated social skills is extremely difficult. Deindustrialisation is as a result a major source of social risk in modern societies and an important cause of structural unemployment (Iversen 2001). Chronologically, it is also the first post-industrial trend to affect labour market risk for large sections of western societies.

Fig. 1. Industrial employment as a percent of total employment and unemployment rate in Sweden, Germany and in the UK, 1970-2001.



Source: (OECD 2006)

Deindustrialisation causes unemployment and particularly long term unemployment in the 1970s and 1980s. Most countries experience sharp rises in the rate of unemployment in the late 1970s and early 1980s, which can be largely attributed to the loss of manufacturing jobs. Figure 1 illustrates this development by looking at three countries that are typical of the different postindustrial labour market trajectories: Sweden, Germany and the UK. In spite of the differences, which will be discussed more in detail below, the three countries clearly follow a similar path: fewer industrial jobs and higher rates of unemployment.

Deindustrialisation explains the initial stages of the emergence of mass unemployment. It does not, however, explain current variation in unemployment levels across countries. Figure 1 also shows that Germany, of the three countries the one with the highest proportion of jobs in manufacturing, is also experiencing the highest rate of unemployment. Most labour economists today agree that in the current postindustrial context, one of the main causes behind differences in unemployment rates, is variation in the extent of employment protection and other forms of labour market rigidity such as high minimum wages (Esping-Andersen 2000; Nickell 2003). The sort of service-based low skill jobs that are needed to mop up unemployment today, are only created in relatively deregulated labour markets (Iversen and Wren 1998).

*Low wage, bad quality employment*

Low wage, bad quality employment is the price to pay, in a postindustrial economy, in order to avoid or to contain the problem of long term and mass unemployment. Deregulated labour markets favour job creating in the low skill service sector, but the other side of the coin is a segment of the labour market characterised by low wages, often providing incomes that fall below the poverty line, and bad quality employment in the sense of the level of social

protection associated with it and the opportunities for career advancement (Esping-Andersen 1999) (Iversen and Wren 1998). This is the case above all in the US but also in other mostly liberal labour markets, such as Britain and Switzerland. Those countries are confronted since the 1980s with the problem of the “working poor” individuals that in spite of a job, often a full time job, live with incomes below the poverty line. It is a phenomenon that was unheard of during the postwar years.

Labour market deregulation results in low pay but often also in new forms of atypical employment, which are often not well protected by the sort of social security programmes that were built during the postwar years. Pension coverage, in most western European countries, is optimal for workers who spend their entire working life in full time employment. Part-time work usually results in reduced pension entitlements, as do career interruptions due to childbearing. The result of the presence of these new career profiles in the labour market may be, if pension systems are not adapted, the translation of the labour market and working poor problems of today into a poverty problem for older people in thirty or forty years time. From an individual point of view, the fact of following an “atypical” career pattern represents a risk of insufficient social security coverage, and hence a loss of welfare.

### *Reconciling work and family life*

The massive entry of women in the labour market has meant that the standard division of labour within families that was typical of the postwar years has collapsed. The domestic and child care work that used to be performed on an unpaid basis by housewives now needs to be externalised. It can be either obtained from the state or bought on the market. The difficulties faced by families in this respect (but most significantly by women) are a major source of frustration and can result in important losses of welfare, for example if a parent reduces working hours because of the unavailability of adequate child care facilities. To the extent that dual earner couples with children are considerably less likely to be in poverty than families that follow the “male breadwinner model” (Esping-Andersen 2002): 58), inability to reconcile work and family life, can, especially for low income parents, be associated with a poverty risk.

### *New social risks in postindustrial societies*

These situations are caused by different factors, but have a number of things in common. *First* they are all “new”, in the sense that they are typical of the postindustrial societies in which we live today. During the *trente glorieuses*, the period of male full employment and sustained economic growth that characterised the postwar years, these risks were extremely marginal, if they existed at all. *Second*, different new social risks tend to be concentrated on the same groups of individuals, usually younger people, families with small children, or working women. While it is difficult to set clear borders around the section of the population that is mostly exposed to new social risks, it is clear that the categories mentioned here are to some extent overlapping. The partially overlapping character of new social risks results in the existence of a more or less large section of the population that is hit by various contingencies. Low skill single parents; low income working mothers or low skill youth unemployed people are likely to experience additional difficulties because of the accumulation of disadvantage that affects their position. These situations are also those that most often result in social exclusion (Room 1999).



*Third*, new social risk groups have a further thing in common. They are generally not well served by the postwar welfare states. These tended to focus their efforts on core workers with stable employment and uninterrupted careers. In an ideal-typical postwar welfare state, concerned above all with the preservation of the income of the male breadwinner, the groups identified here as mostly exposed to new social risk do not benefit from social policies.

## **Responding to new labour market risks: deindustrialisation**

The 1970s and early 1980s were difficult times for western labour markets. While most advanced democracy had managed to keep full employment until the mid 1970s, between 1974 and 1983 unemployment rates soared throughout industrial countries. In the seven big economies (G7), the unemployment rate increased from 3.7% to 8.2 % during this period (OECD, Statistical Compendium, 2006). Countries responded in different ways to what they perceive as a truly new challenge. The trajectories followed by western countries in the aftermath of the economic crisis of the 1970s and early 1980s are widely documented in the literature (Katzenstein 1985; Esping-Andersen 1990; Hall 1993; Esping-Andersen 1996; Hemerijck and Schludi 2000; Scharpf and Schmidt 2000).

In short what we see is the adoption of three distinct strategies. Liberal countries, essentially the English speaking countries, chose the labour market deregulation option. At the time of the economic crisis these countries already have some of the most deregulated labour markets, and the little rigidity that exists is done away with. This entails, in countries like the US and Britain, an important weakening of the labour movement and its power to stage industrial actions. The result is an adjustment process based on market mechanisms, which produces high levels of inequality. Continental European countries, instead, follow the so called “labour reduction route”, consisting of incentives to leave the labour market for older workers, especially those in declining industries and for women (Esping-Andersen 1996). Nordic countries, instead, building on a comprehensive system of active labour market policies, developed a strategy based on employment expansion in the public sector. The 1970s, for example, see the beginning of a decade long process of building up a labour intensive system of social services (especially childcare and older persons care services), which has the result of increasing the supply of labour and ultimately the total quantity of employment.

This divergence is widely discussed in the literature of labour market trajectories and welfare regimes. What is somewhat less known, but extremely important to understand subsequent developments in employment policy trajectories, is the adoption, in continental European countries, of employment protection laws. In many cases employment protection existed before the 1970s, but when confronted with a major employment crisis, some continental European countries make it more difficult for employers to lay off their workers. The various ingredients of a policy response to the unemployment crisis of the late 1970s are combined in very distinctive ways, so as to reflect different welfare state and labour market regime types. Next we illustrate these trajectories on the basis of three examples that are typical of each regime-type: the UK (liberal), Germany (Conservative) and Sweden (Social democratic).

### ***UK: market-based adjustment***

The election of Margaret Thatcher in 1979 signals the end of Keynesian macro-economic management, a policy paradigm that had inspired postwar British governments regardless of

political orientation<sup>2</sup>. Monetarism, the new economic credo, implied that state intervention in the economy had to be limited to the setting of interest rate at the appropriate level and that combatting inflation was to be given priority over the fight against unemployment. The early Thatcher years saw the adoption of a tight monetary policy, which succeeded in containing high inflation rates only at the cost of a massive increase in unemployment (between 1980 and 1984, see fig. 1 above), and some cuts in social programmes.

In the field of employment policy, the measures adopted resulted in the strengthening of the liberal character of the UK labour market. The few forms of direct control over the labour market, such as the Wages councils, were done away with. Wage councils, were set up in 1909 with the task of setting minimum wages in low skill industries. They never played a substantial role: in 1968 they covered only 3.5 million workers and in 1984 2.7 million, mainly in catering, retail trade and hairdressing, with about a third of those covered earning the minimum wage. Wages councils were weakened on various occasions by the Thatcher governments in the 1980s, and were finally abolished in 1993 (Addison and Siebert 1993): 372-3; (Glennerster 1995): 216).

In the field of unemployment compensation, a modest earnings-related supplement to unemployment benefit was abolished in 1979 and never reintroduced. In 1986, the duration of the unemployment insurance benefit was reduced to 6 months, leaving social assistance (called “income support”) responsible for income security of those unable to re-enter the labour market. The result of these measures was a shift away from social insurance and towards a residual, means tested system (Erskine 1997). During the same years, new requirements were imposed on unemployment benefit and income support recipients, to ensure availability for work and training. As a result of these changes, beneficiaries who refuse to comply can be sanctioned with benefit reductions or withdrawal.

Finally, the third pillar of liberalisation of the UK labour market consisted in a radical reduction of trade unions’ influence in the workplace and in politics. Traditionally, British unions had been rather effective in guaranteeing high wage growth and good fringe benefits to their members. A series of laws adopted from 1980 onwards made it more difficult to organise industrial action, by requesting a ballot to be held, by outlawing political strikes and by holding unions responsible (financially) for any losses due actions not respecting the new rules.

State intervention in the functioning of the labour market has traditionally been limited in the UK, but after Thatcher the liberal character of its welfare state and employment structure was clearly reinforced. In a way, the transformation of the British political economy that took place under Thatcher was very much in line with the tradition of liberal British capitalism (Rhodes 2000).

### *Germany: the labour reduction route*

When confronted with similar challenges in the late 1970s and early 1980s, continental European countries reacted differently. The main strategy to deal with industrialisation was to take out of the labour force those who were being laid off by restructuring industries. As a result in the Netherlands one saw a dramatic expansion in invalidity benefit reciprocity,

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<sup>2</sup> It has been argued that the de facto abandonment of Keynesianism was the result of austerity measures adopted by the previous labour government between 1976 and 1978.

France reduced the age of retirement to 60 and introduced generous provision for early retirement, and Italy, with a retirement age of 55 (women) and 60 (men) provided easy ways to exit from the labour market.

Germany was no exception. Like other continental European countries, today it stands out for a comparatively low employment rate of older people, especially men. This is largely a result of policy initiatives taken since late 1970s with the aim of compensating for the social cost of restructuring industry and the decline of industrial employment. The German welfare state provides a number of routes to early exit from the labour market. Since 1957 it has been possible for unemployed people to take early retirement at age 60 without reduction in the benefit level. From the late 1970s onwards the use of this option increased substantially, often with firms laying off workers as they reached age 59, who would be first entitled to one year unemployment insurance benefit and then 5 years pre-retirement for older unemployed people. Its use was so widespread that this practice became known as the 59er rule. In the 1980s, the duration of unemployment insurance benefits was extended to three years for jobless people aged 54 or over, as a result of which firms could dismiss employees at the age of 57, knowing that the welfare state would guarantee them a decent income until the age of retirement. In contrast to other countries, disability insurance has not been used as a major route to labour market exit. This is probably due to the existence of strict requirements in order to qualify for it, and to the availability of more appealing alternatives (Ebbinghaus 1998; Manow and Seils 2000).

In addition to early retirement, labour supply was controlled also through family and fiscal policy, essentially by failing to adapt these two important areas of economic policy to changes in the aspirations of women, who more or less simultaneously with deindustrialisation, were claiming more equality including in the labour market. In Germany, changes in women's aspirations became a political issue in the 1980s, with the introduction of a relatively generous parental leave scheme. The decision to step into this then new social policy field was part of a reorientation in the CDU/CSU social policy, which culminated in the 1985 Essen party conference. On that occasion, the new orientation in family policy was elaborated. According to a long standing CDU social policy advisor, "the driving force of the Essen party conference was the realisation by the general secretary, Heiner Geissler, that if the party didn't change its approach in gender issues, it would loose its attractiveness for women" (quoted in (Aust and Bönker 2004). Interestingly, the practical results of the reorientation, included only measures that help women with children by supporting them in their capacity of carers, not so much of workers. The measures included a long parental leave and the introduction of pension contribution credits for unpaid caring work performed mostly by women.

This approach can be understood with reference to two factors. To consider women as primarily informal care providers was consistent with the social catholic ideology dominant in the Christian Democratic party, and certainly made it easier for the party leadership, concerned by the prospect of losing the female electorate, to get the endorsement of the party grassroots and of those with more traditionalist views. Second, and more importantly from the point of view of this chapter, the emphasis on measures that while helping mothers reduce their labour supply, was a policy that fitted well with the direction taken in employment policy. The new family policy developed by the Kohl government was a skilful move. It allowed him to do something popular with women, and at the same time to remain consistent with the policy option of containing labour supply.

The third element of continental European countries response to deindustrialisation was a strengthening of employment protection laws. Employment protection was strong in some countries in the early postwar years, but in the late 1970s and early 1980s we see an acceleration of measures that are aimed at making it difficult for employers to dismiss their workers. As shown in table 1, this is the case above all in continental European countries, which by the mid-1980s display the highest levels of employment protection. Sweden also increase employment protection levels during the same years, but reduced them again soon after (the index for Sweden declines rapidly after 1987: 1.53 in 1988-1995 and 1.10 in 1998).

Table1: Strictness of employment protection legislation. Index 0-2, 0 = virtually no employment protection; 2 = extremely strong employment protection)

	1960-1964	1965-1972	1973-1979	1980-1987
Denmark	0.90	0.98	1.10	1.10
Sweden	0.00	0.23	1.46	1.8
France	0.37	0.68	1.21	1.30
Germany	0.45	1.05	1.65	1.65
Italy	1.92	1.99	2.00	2.00
UK	0.16	0.21	0.33	0.35
US	0.10	0.10	0.10	0.10

Source: Nickell 2003

In one of the most lucid analysis of the continental-conservative labour market and welfare state regime, Esping-Andersen uses two metaphors to describe it: the labour reduction route and the “ring fenced labour market”. The former refers to the incentives provided to older workers and women to stay away from the labour market. The latter highlights the high degree of protection enjoyed by those who are in core employment, thanks also to strong employment protection legislation, and the difficulties that more marginal people face in entering the labour market.

### *Sweden: expanding employment*

Nordic countries, typified by Sweden, followed yet another trajectory in response to deindustrialisation. Losses in industrial employment were dealt with with instruments that had already been around for a couple of decades: active labour market polices. In the 1950s Sweden developed an employment regime based on egalitarian collective wage bargaining, full employment and active labour market policies, the so called Rehn-Meidner model (Benner and Vad 2000). These were meant to allow constant adaptation of labour supply to demand, by training workers from declining industries so that they could take up new jobs where they were created. Active labour market policies turned out to be extremely useful in dealing with the side effects of postindustrialisation: inegalitarian wage pressures and the possible emergence of a working poor problem, and the risk of skill obsolescence.

But active labour market polices were not the only significant new policy adopted in the 1970s. At that time in Sweden women were going through a process of change in their preferences in relation to the balance between employment and family life. This sea change in women’s aspirations was spotted by the ruling Social democrats, who soon decided to make it a central feature of their social policy, adopting the reconciliation of work and family life as a policy objective. Sweden did have a tradition in providing child care services, but these were

set up in the context of combating poverty rather than in order to facilitate the conciliation of employment and family life (Morel 2001). In fact, the development of extensive child care coverage and other policies supporting women's (and mothers') employment followed the expansion of female employment; it did not precede it (Leira 1992). Like in much of continental Europe today, the late 1960s and early 1970s for working mothers in the Nordic countries were dominated by juggling, having to a large extent to rely on informal care (Leira 1992; Naumann 2001). The reorientation of the Nordic welfare state began in the 1970s. Sweden introduced individual taxation in 1971, its first law on preschool education in 1973, parental leave in 1974. A law on child care was introduced in Norway in 1975.

The result of this reorientation of social and in particular family policy in Sweden was twofold. First, childcare centres and other expanding social services needed to be staffed, and this contributed to a massive increase in public employment, at a time when private sector employment was declining. Second, women's employment probably contributed to an overall expansion in employment. With increasingly large numbers of women, including mothers of small children entering the labour market, aggregate demand for family services (cleaning, washing, cooking, childcare) increased and resulted in additional job creation (Esping-Andersen 2000).

The Swedish, and more in general, the Nordic response to the challenges of the 1970s, deindustrialisation and change in women's aspirations, was rather successful at the time, Sweden succeeding in containing open unemployment until the early 1990s. However, its most significant feature is the fact that it has transformed Nordic welfare states and labour markets in a way that makes them considerably more suited to the current postindustrial socio-economic setting than their liberal or continental European counterparts. Decisions taken in response to the crises of the 1970s and early 1980s affect countries' ability to cope with the challenges of the 1990s and 2000s

## **Stage 2: Adapting employment and social policies to postindustrial labour markets**

Initial responses to deindustrialisation go back to the 1970s and during the 1980s, most countries stick to the approach adopted back then. It is only in the 1990s that something seems to change in the assessment of the adequacy of labour market policies in English speaking and continental European countries. The reasons that push governments to reconsider the choices made one or two decades earlier are different across groups of countries.

### *English-speaking countries*

Political leaders in English-speaking countries, in the US and especially in the UK, realised that an unregulated labour market coupled with excess supply of low skill labour results in extremely low wages, lower than any reasonable poverty line. This has two consequences. First, living conditions of low skill workers and their families are deteriorating, contributing to social problems. Second, to the extent that the state intends to run an anti-poverty policy, low equilibrium wages for low skill workers mean a serious incentive problem. Low wages can be lower than the social assistance level, so that in many cases work does not pay. This is especially the case when several means-tested benefits are combined (e.g. free health care

through Medicaid in the US and help with accommodation costs through housing benefit in the UK).

It is in the late 1980s and 1990s that both the UK and the US begin to take these issues seriously. Both countries had already in place income supplements programmes for low paid workers (Earned Income Tax Credits in the US and Family Credits in the UK). These are strengthened with a view to reinforce work incentives, making sure that it always pays to work, including for low skill individuals with large families. The reformed tax credit programmes, in both countries, guarantee income levels well above the (meagre) social assistance level to all those who work a minimum number of hours per week. Second, both countries have strengthened their ALMPs, though, contrary to the approach taken in the Nordic countries, then main emphasis here is on pushing people back into the labour market and not so much in providing them with new skills. This is especially the case of the US, whose approach is reflected in an unusually high rate of sanctions for social assistance recipients (OECD 2003). In both countries most of these reforms are adopted by progressive governments (New Labour in the UK and the Clinton administration in the US), but they do not seem to reflect partisan politics. In many cases the reforms were initiated by previous, right-wing governments. In the US, because of divided government, Clinton's plans require the support of the Republicans in parliament.

In line with earlier developments in the Nordic countries, the UK has also invested considerably in the development of childcare services and work-life balance policies in recent years. The New Labour government elected in 1997, found itself in a situation that could be characterised by an almost total absence of provision in this field, and by strong expectations from working women and families for more to be done. In fact, work-life balance policies featured prominently in the 1997 election manifesto that brought Labour back to power after 17 years of Conservative rule. A chapter on "work and family" included promises to "help parents, especially women, to balance family and working life" and to introduce a "limited unpaid parental leave"(Labour Party 1997).

The promises were followed by policies. The first high profile initiatives in this area were, in 1998, the launching of a "national childcare strategy", which had the objective through the coordinated effort of various actors to expand childcare coverage, and the publication of a Green paper on childcare. The Green paper focus was on improving the quality, the affordability and the accessibility of childcare. The document made reference to non-working mothers, and to the fact that lack of childcare was often an obstacle to employment, especially for single parents (British Government 1998).

A childcare tax credit was introduced in October 1999, as part of a larger tax credit scheme (Working families' tax credit). It consists of a means-tested tax credit available to parents who work more than 16 hours a week and use approved forms of childcare. The credit covers 70% of costs up to a maximum. Eligibility depends on income, family configuration and other factors. As an example, in 1999, a family with two children younger than 11, where one adult works at least 30 hours per week, was entitled to some help as long as its annual income did not exceed approx. 14,000 GBP per annum (or 65 % of average full time earnings). At the end of 1999 there were over 800,000 families receiving WFTC, a number which increased to 1.1 million in May 2002, most of them eligible for the child care tax credit (British Government 1998). The same year, 1999, saw the adoption of provision for parental leave. This remained modest by European standards, as the scheme essentially translates the minimum

requirements of the EU directive. Each parent can take up to 13 weeks unpaid leave before the child 5<sup>th</sup> birthday, in addition to maternity leave (Hall 1999).

Work-life balance policies maintained a prominent place also in the second term of the Blair government. They extended their reach upwards in the income distribution, but developed also a stronger anti-poverty orientation. This was the case of other schemes targeted at disadvantaged families and neighbourhoods (like the Surestart programme). These developments need to be seen also in the context of New Labour's emphasis on the eradication of child poverty. To facilitate parents' employment is considered to be the most effective strategy to deal with child poverty.

### *Continental European countries*

Continental European countries were forced to reconsider their initial response to postindustrialisation essentially for financial reasons. The approach developed in the 1970s turned out to be unsustainable. Facilitating labour market exit whether through early retirement pensions (Germany, France) or Invalidity benefit (the Netherlands) is extremely costly. Because of the employment-based financing method adopted in these welfare states (employer-employee contributions), these costs directly impact on labour costs, making job creation in the low productivity, low skill sectors difficult. This problem is compounded by strict employment protection laws, constituting a further obstacle to the expansion of this segment of the labour market.

As a result, continental European countries in the 2000s are struggling to correct past mistakes, but are finding the process extremely difficult. The reform of labour market policies is based on three elements, which are more or less developed in different countries: less restrictive employment protection, some investment in active labour market policies, and some investment in work-life balance policies. Developments in these three areas are reviewed next.

Continental and especially southern European countries are confronted with the most serious unemployment problems, in particular youth unemployment. It has been shown by labour economists that strict employment protection laws have a strong effect on the composition of unemployment. Where protection is strong, women and young people are more likely to be on the dole. Some continental and southern European governments have taken this research seriously, though they have so far generally refrained from abandoning high employment protection levels for core workers. Instead, they have created a whole range of new employment contracts that are available to employers wishing to take on new workers and provide an alternative to the highly protected unlimited job contracts. This has been the case in particular in Italy, Spain and France. All these countries have seen the proliferation of new types of employment contracts, in general with very low levels of protection, whether from dismissal or social protection. In Italy, a law inspired by Marco Biagi, a labour economist killed by the Red Brigades in 2002, made it possible for employers to recruit workers on temporary contracts, on contracts related to a specific task, on part-time contracts, etc.. One result of these (and previous) labour market reforms has been a sizeable expansion in employment, almost entirely due to the new contracts. Between 2002 and 2005, some 600,000 new jobs were created, of which the vast majority through the new contracts (ISTAT 2006). Labour market deregulation has been pursued essentially without questioning the status of core workers, who still enjoy high levels of protection against dismissal.

Active labour market policies and work-life balance policies have entered public debates in most continental European countries, but steps in the development of these policies have been rather limited in comparison to Nordic countries but also in comparison to the UK, though national trajectories are somewhat different in this respect. France is a country that stands out in continental Europe for a strong emphasis on work-life balance policies, especially child care. This has largely historical reasons, and constitutes an exception in continental Europe (Morgan 2001; Daguerre 2006). In relation to active labour market policies, France has invested non negligible amounts of money in this field. French “reinsertion” policies, however, generally do not aim at reinsertion into labour markets (*reinsertion professionnelle*) but at making sure that unemployed people remain part of mainstream society (*reinsertion sociale*). In this respect, the French trajectory is rather atypical. In Germany, the Social democratic governments of the late 1990s early 2000s have tried to reorient policies towards women, by emphasising more the availability of childcare as a policy objective. Actual initiatives, however, have been limited and Germany remains a low spender in family services. High and persistent rates of unemployment have pushed policy makers to invest more funds in ALMPs. However, the social insurance character of the unemployment compensation system in that country has limited the extent to which this instrument can be used effectively (Clasen and Clegg 2006). Italy, finally, has clearly been lagging behind in relation to both policy areas. Some regional level initiatives in the field of labour market policy have taken place, especially in the North of the country. Childcare, instead, remains an affair for the family or (less frequently) the private sector.

### *Nordic countries*

Even though Nordic countries developed responses to deindustrialisation that were to turn out to be particularly suitable to the current postindustrial context, some further adaptation was needed there too. Policy change became inevitable in these countries also as a result of economic internationalisation, and the need to develop welfare states and labour market regimes compatible with their strongly internationalised economies (Benner and Vad 2000). This meant in the early 1990s, when Sweden was confronted with high budget deficits, cuts in social benefits and some other austerity measures. These decisions, however, were reversed when in the late 1990s as the economic and the budget situations improved. Both Denmark and Sweden had to strengthen the pro-employment orientation of their welfare states, which remain viable as long as a high proportion of the working age population is in employment. This effort resulted in increased investments in active labour market policies, more explicitly oriented towards re-entry in employment. Denmark has contributed to popularise the so called “flexicurity” model, based on low employment protection and high levels of labour market flexibility combined with relatively high benefits for the unemployed and access to extensive active labour market programmes.

The Nordic countries were also forced to continue adapting their welfare states during the 1990s and 2000s, but the extent of change was limited, because decisions compatible with the new socio-economic setting had already been taken in the 1970s. Both their trajectory and their outlook in the 1990s and 2000s are dramatically different from those of the liberal and especially, the continental European welfare states.

## **Conclusion: big obstacles and limited convergence**

Often in public policy, as well as in many other areas of life, inefficient solutions persist long after the discovery of more efficient ones. Economic historians have termed this phenomenon “path dependency” (Pierson 2000). The development of employment and social policies in



western countries provides yet another example of it. It has become clear and it is being increasingly recognised by labour market experts, politicians of different political persuasion, national and supranational organisation that several aspects of the Nordic model are essential for a welfare state to survive in the current postindustrial social and economic context. These are summed by the notion of flexicurity, but include also the arsenal of policies that help parents reconcile work and family life. This has been recognised by international agencies such as the OECD, by the EU, which makes this point very strongly periodically in the documents published in the context of the European Employment Strategy. It is also acknowledged by national political leaders in continental Europe, including in those countries that seem most intractable such as Germany and Italy.

Nonetheless, little is moving. There are obviously important obstacles which have to do with entrenched interests, but also with the “inconvenient” timing of the various postindustrial developments in continental Europe. In the Nordic countries, the expansion of service employment and the emergence of new aspirations among women concerning the balance between family and professional life occurred in the 1970s, a time when population ageing was not yet inflating pension and health care budgets. In contrast, continental European countries such as Germany and Italy have entered the postindustrial era somewhat later, in the 1990s or even in the 2000s. In both countries, current labour market problems and women’s aspirations have to compete with the preservation of the welfare state inherited from the postwar years for politicians’ attention. Differences in the timing of crucial socio-economic developments, like deindustrialisation, changes in women’s aspiration, and population ageing, are likely to play a crucial role in determining countries’ ability to adapt to the postindustrial world (Bonoli 2007).

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