

# **Final Report**

**Targeted Socio-Economic Research programme**

**(TSER)**

## **SOCIAL INTEGRATION THROUGH TRANSITIONAL LABOUR MARKETS**

**New Pathways for Labour Market Policy**

**(TRANSLAM)**

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## Final Report<sup>1</sup>

# Social Integration Through Transitional Labour Markets

by

Hugh Mosley, Jacqueline O'Reilly, Günther Schmid, Klaus Schömann<sup>2</sup>

Unemployment in most post-industrial societies has risen to levels unprecedented in post-war history. In countries that face this phenomenon, rising levels of unemployment have led to persistent long-term unemployment. The economic and social problems related to this development are clear: The longer the exclusion from gainful employment, the higher the risk of being also excluded from full participation in social and political life; this holds especially true for women and for young people with low skills. This threat to social integration may even undermine the trust in the basic institutions of our democratic societies. The *common*

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<sup>2</sup> Main co-ordinators of the project; Social Science Research Center Berlin (WZB).

*underlying assumption* of this project is that a return to full employment in the traditional sense is highly unlikely or only at unacceptable social costs. If some countries succeeded in recent years to reach levels of unemployment like in the 1960's, it was either at the cost of high income differentials and increasing numbers of working poor or many precarious employment relationships especially for women, and more or less involuntary massive early retirement for many older workers. The objective of this project, therefore, is the search for alternatives to such ill-conceived responses to “globalisation” and “individualisation” which in different ways can generate forms of social exclusion.

It is not only structural unemployment that is of concern, although the most visible change. More importantly, the underlying forces of balancing supply and demand on the labour market seem to be quite different from the past. The aim of our common effort was, therefore, also to understand these new dynamics and to ask which institutional arrangements would be able to prevent or to alleviate the high flows into unemployment and to mitigate the concomitant adverse selection mechanisms during the subsequent difficult processes of reintegration, which often result in the unemployed also becoming victims of social exclusion. Social exclusion is the counterpart of social integration which erodes the "cement of societies". Social integration in modern societies, thereby, means not just having a permanent job and being protected by social rights such as unemployment benefits. It also means having the perspective of evolutionary job careers, having access of means and ends that ensure employability by life-long learning or flexible work arrangements and being able to fully participate in all relevant areas of social life. The risk of unemployment is always a risk of reducing substantially the freedom of choice as well as the range of social participation for a significant minority of people concerned.

The following research institutions were involved in a joint venture to search for solutions to these problems:

- > Economic and Social Research Institute (ESRI), Dublin;
- > Hugo Sinzheimer Institute at the University of Amsterdam, Amsterdam;
- > Economic Faculty of the Universidad de Alcalá de Henares, Madrid;
- > Institute for Employment Studies (IES), University of Sussex, Brighton;
- > Manchester School of Management (UMIST), Manchester;
- > Netherlands Economic Institute (NEI), Rotterdam;
- > The Centre for European Labour Market Studies (CELMS), Göteborg, in co-operation with Växjö University, Växjö;

- > Mutations, Espace et Environnement, Travail et Emploi, Industrie et Services, Stratégies (METIS, CNRS) Université de Paris 1, Paris;
- > Sociological Faculty at Tilburg University (Tilburg);
- > Labour Market Policy and Employment Research Unit at the Social Science Research Centre Berlin (WZB), Berlin.

The project was sub-divided into three modules around the following topics: social integration through working time transitions (I), social integration through training and human capital investment (II), and social integration through active labour market policy (III); outside the formal contractual support, a fourth module was set up to work on a larger theoretical and empirical framework of employment systems (IV).

The common underlying argument of the four modules is the *concept of transitional labour markets*. Transitional labour markets (TLM), as an *analytical concept*, refer to the observation that the borderlines between gainful employment and other productive activities are becoming increasingly blurred. The "standard labour contract" is eroding but we do not know yet which new standards will develop. People transit more and more between different employment statuses, for instance between different working time regimes, between unemployment and employment, between education or training and employment, between unpaid family work and gainful labour market work, and between work and retirement. Thus, as analytical concept, TLM emphasise the dynamics analysis of labour markets, which means focusing on flows rather than purely on stocks, and applying methodologies that find out and explain patterns in the many transitions during the life cycles of individuals or groups in different societies.

Some of these transitions are critical in the sense that they may lead to downward spirals of job careers (*exclusionary transitions*), ending in recurrent unemployment or (finally) in long-term unemployment, poverty, discouraged inactivity or violent protest. We identified five major critical transitions during a life cycle: (1) The transition from school to work, (2) the transition from part-time to full-time work or vice versa, (3) the transition between family work and labour market work, (4) the transition between employment and unemployment, (5) and the transition to retirement.

As a *normative concept*, TLM envisage new kinds of institutional arrangements to prevent those transitions from becoming gates to social exclusion and to transform them into gates for a wider range of opportunities (*integrative and maintenance transitions*). "*Making transitions pay*" requires institutions that realise in one way or

the other the following principles: *work organisations* which enable people to combine wages or salaries with other income sources such as transfers, equity shares or savings; *entitlements or social rights* which allow choices to be made between different employment statuses according to shifting preferences and circumstances during the life cycle; *policy provisions* which support multiple use of insurance funds, especially the use of income (unemployment) insurance for financing measures that enhance employability.

In the following, we provide short summaries of the specific research objectives in the four modules, their methods and data used, and their major results which will be published in four volumes with Edward Elgar, Cheltenham.

## **MODULE I**

### **Working Time Changes:**

### **Social Integration through Transitional Labour Markets**

**Editors: Jacqueline O'Reilly, Inmaculada Cebrián and Michel Lallement**

### **Objectives and research hypotheses**

The aim of this research module was to examine the extent to which changes in working time flexibility could stimulate labour market integration for the unemployed and those traditionally outside the labour market, often categorised as inactive. One of the key issues for the examination of transitional labour markets is the extent to which people are successfully able to leave unemployment permanently, or whether these exits are merely 'revolving doors', spinning people back into social exclusion. The increasing use of working time flexibility has raised concern over the development of marginalised and precarious employment in the form of part-time and temporary employment. The key issue which this research module and forthcoming book has sought to address is to what extent flexible working time can provide stable and integrated transitions between different labour market situations both into and between different employment statuses in a number of European countries. These countries include: Germany, France, the UK, the Netherlands, Sweden, Spain and Ireland.

The aim of developing transitional labour markets is to find a compromise between competing interests and needs of the actors concerned. On one hand employers may need to reduce labour costs, and obtaining optimal staffing requirements over the short, medium or long term perspective using a range of flexible working time practices. On the other hand employees preferences for different types of working hours vary over the life cycle. Additionally, government interests', for economic, social and political reasons, have been largely concerned with the requirement to develop a more job intensive growth to tackle the problem of unemployment and exclusion from the world of work.

Theoretical perspectives which have been used to examine working time flexibility have tended to concentrate on particular aspects of the constellation between demand, supply and forms of regulation. For examples studies of demand from the production sphere have been examined from contrasting approaches of transaction costs economics as well as from labour market segmentation theory. Approaches which have given more emphasis to supply side issues in the area of social reproduction are found in new household economics as well as in social policy debates. Finally, attempts to examine institutional arrangements impinging on both demand and supply have given more emphasis to more integrated 'societal' or

systemic employment system approaches. In this book we seek to develop this latter approach by linking analysis from the institutional framework level, to individual labour market transitions and the impact of organisational restructuring.

## **Main Results**

Through a process of theoretical discussion and empirical analysis we came to distinguish between three key types of working time transitions. We distinguished between integrative transitions, maintenance transitions & exclusionary transitions. We defined these in the following ways.

We found that most of the people who made *integrative transitions* through part-time employment were more likely to come from the ranks of the non-employed rather than the unemployed. The latter were more likely to be looking for a full-time job that could guarantee them an independent source of income. Only those who were seen as secondary earners or dependants could afford to take a part-time job. While the take up of part-time employment may allow people access to the labour market for those who could not otherwise work on a full-time basis because of caring responsibilities or educational involvement, there was a significant problem with transitions that followed from a period of part-time employment. This was largely due to the very limited number of people who could move onto full-time work. These findings were supported from the analysis of several countries with high and low levels of part-time employment for example the UK, Spain, Ireland and Germany. In only a tiny minority of cases did part-time work form part of a continuous employment trajectory. It was more often the case that part-time work acted as an interruption between longer periods of non-employment. This evidence for the European countries studied in this book have also been supported by studies conducted in the USA. Part-time work clearly acts as a form of integration for those outside the labour market, but it is rarely part of a maintenance transition, except for the young.

*Maintenance transitions* we defined as ways of moving between different working time regimes in order to allow employees to maintain continuity of employment. The importance of this over the working life is closely related to the way welfare systems operate, so that career breaks or gaps of non-employment are penalised in terms of pension receipts, or even in terms of entitlement to unemployment benefits over the working life. Attempts to reform welfare systems to take account of patchwork careers can be seen for example in the reforms in Germany to acknowledge child rearing years in relation to pension contributions. However, more radical reforms in the future will be required as rising levels of unemployment increase the probability, amongst particular groups, of experiencing discontinuous career trajectories and patterns of exclusionary transitions.

In this research we have also sought to identify *exclusionary transitions*. We found that these types of transitions were more likely to be found amongst groups of people with low level skills and qualifications. However, in countries like Spain these types of transitions were also found amongst young well-qualified people. Childcare and caring responsibilities were also closely associated with significant patterns of labour market withdrawal or marginal forms of employment. The case studies indicated that company restructuring of internal labour markets and the introduction of working time flexibility generated contradictory results. On one hand firms were reducing the members of traditional internal labour markets, with entitlement to traditional benefits and pay scales. In this sense many people who belonged to these employment systems were gradually being eased out. On the other hand, job creation was also leading to the creation of new employment opportunities that created potential for employment integration for those who may not have previously been able to compete for entry to full-time jobs in traditional sectors. Nevertheless, the quality of these new jobs was often on inferior terms and conditions to the type of jobs that were being lost.

## **Policies to facilitate Social Integration through Working Time Transitional Labour Markets and areas for future research**

The key areas where policy needs to be directed in the future to remove labour market bottle necks can be seen in four key areas:

- **Care responsibilities** – are one of the major factors associated with labour market withdrawal. The lack of care provision differentially affects potential labour supply and the terms and conditions on which employees with these responsibilities are available, if at all, for work.
- **Organisational restructuring** through the use of flexible working time, part-time work and sabbatical arrangements can provide new opportunities for integrative and maintenance transitions. They can also, however, lead to the development of inferior job opportunities. The combination of competitive policies to improve productivity and service delivery need to be developed in relation to facilitating employees choice.
- Low levels of **education and training** are more closely associated with exclusionary transitions. Policies, as discussed in the Human Capital module by Schömann and O’Connell, need to identify effective labour market practices which help the unemployed back to work.



- The effect of **tax and means tested welfare benefits** on households create incentives to encourage people to limit their labour supply or withdraw from paid employment. Reform, as advocated by the OECD, to reduce the high levels of marginal taxation on the low paid require radical reform. However the way in which this is being implemented in different countries varies depending on the nature of political constellations and agendas.

# **WORKING TIME CHANGES:**

Social Integration through Working Time Transitions

Jacqueline O'Reilly, Inmaculada Cebrián and Michel Lallement

## **Introduction**

Jacqueline O'Reilly, Inmaculada Cebrián and Michel Lallement

## **Part I THEORETICAL AND METHODOLOGICAL ISSUES**

Chapter 1. Working-time, social integration and transitional labour markets

Colette Fagan and Michel Lallement

Chapter 2. Working-time regimes and transitions in comparative perspective

Dominique Anxo and Jacqueline O'Reilly

Chapter 3. Measuring the Meaning of Transitions:

Inmaculada Cebrián and Jacqueline O'Reilly

## **Part II LABOUR MARKET TRANSITIONS**

Chapter 4. Transitions between different working time arrangements: A comparison of Sweden and the Netherlands

Dominique Anxo, Elena Stancanelli and Donald Storrie

Chapter 5. Transitions in Germany and the UK: A Comparison of the German Socio-Economic Panel and the British Household Panel

Silke Bothfeld and Jacqueline O'Reilly

Chapter 6. Transitions Through Part-time Work in Spain and the United Kingdom: A Route into Secure Employment?

Mark Smith, Inmaculada Cebrián López, Maria Angeles Davia Rodríguez, Miguel Angel Malo Ocaña and Virginia Hernanz Martín.

Chapter 7. Peripheral Labour in Peripheral Markets?

Mobility and Working-Time within Transitional Labour Markets among Women in Ireland and Spain

I. Cebrián, V. Gash, G. Moreno, P. J. O'Connell, and L. Toharia

## **Part III EMPLOYMENT CONTRACTS AND COMPANY PRACTICES**

Chapter 8 Time, lifestyles and transitions in France and Sweden

Dominique Anxo, Jean-Yves Boulin, Michel Lallement, Gilbert Lefevre and Rachel Silvera

Chapter 9. Restructuring Internal Labour Markets in the German and British banking sector through working time integration strategies:

Jacqueline O'Reilly, Jill Rubery and Silke Morschett

Chapter 10. Working-time and employment transitions in the British, French and Dutch Health Care Sectors: a case-study approach

Damian Grimshaw, Frans Kerstholt, Gilbert Lefevre and Ton Wilthagen

## **Conclusion**

Inmaculada Cebrián, Michel Lallement and Jacqueline O'Reilly

## **MODULE II**

### **Training and Human Capital Investment**

**Editors: Klaus Schömann and Philip J. O'Connell**

#### **Objectives and Research Hypotheses**

The module on training and human capital investment deals with investment oriented labour market processes. These policy responses to advance social integration have generally been recognised to achieve their targets, although often the returns to training and other forms of human capital investments tend to "materialise" rather slowly. The approach, specific to this TRANSLAM-project, starts from the study labour market transitions rather than static labour market outcomes. This means, based on Schmid's theory of labour market transitions and transitional labour markets, that we worked on hypotheses about processes with labour market integration and wider social integration as major outcomes. A second set of hypotheses, put to the test during the project, suggests that education and training can serve as some kind of individual or societal insurance against the risk of social exclusion.

The concept of transitional labour markets stresses the multiple dimensions of processes of social integration and exclusion, the major dimensions are related to each of five major transitional labour markets in line with a life course perspective on labour market transitions. The theory of labour market transitions developed in this module highlights that there are important multi-level relationships which intervene in labour market processes so that individual transitions, for example, into the labour market or back into employment may turn out to be very hard to accomplish under different macro-economic, macro-social or country-specific institutional arrangements. The two major hypotheses tested are: (1) Both initial investments in education and training, as well as the early experience of transitions, have lasting effects on entry into the labour market and subsequent labour market transitions; (2) Segmentation tendencies early in the education system, and particularly at the time of entry and re-entry into the labour market, have a strong tendency to persist unless mitigated through transitional labour market arrangements which confer additional qualifications.

#### **Methods/Data**

The major data sources for the study of these processes were the European Community Household Panel (ECHP), the European Labour Force Survey (ELFS), specific country

longitudinal surveys as well as recently available firm-level data in some countries. The role of actors in the field of training transitions was approached by in-depth case studies to grasp the multidimensional and multi-level aspect of the actor's rationale for training policies and activities. The studies included in-depth analysis of five countries: France, Germany, Ireland, the Netherlands and Spain, as well as more broad ranging studies analyses comparing transition outcomes across the European Union at large based on harmonised data sets and methodological approaches.

## **Major Results**

The theory of labour market transitions in combination with the concept of transitional labour markets allows us to identify the multi-dimensional and multi-level issues affecting the goal of social integration. In addition to human capital theory, segmentation approaches and insider-outsider theory, the theoretical perspective proposed in this module suggests several changes in the way education and training transitions are to be linked to the labour market. Particularly concerning life-long learning approaches, institutional arrangements can supplement or counteract the role of the market by correcting for market failure due to under-investment of specific target groups in continued training efforts. A major role for policy makers in this field consists of improving incentives for life-long learning by facilitating training transitions throughout the life course, for example through sabbatical leaves or job rotation for training purposes. These forms build on existing endogenous mobility in the labour market and add a training component to job mobility which occurs as part of either the market process or individual preferences as kind of "natural fluctuation".

## **Empirical Results on Education Systems and First Entry**

Estimates of education demand models for Spain, Ireland and Germany highlight that labour market and income expectations are less important factors in influencing the demand for higher education than incentives related to the parental background and institutional frameworks. The observed patterns of access to higher education were strongly driven by the supply of higher education and professional training, thereby widening access as opportunity for social integration but increasing the negative signalling effect for drop-outs.

These signals embedded in educational credentials from the full-time education system are largely responsible for the sorting of persons at labour market entry to

specific industrial segments in France, Germany, Ireland, Netherlands, Spain and United Kingdom. Young labour market entrants are found to be not in competition to older employees in firm's recruitment processes and, due to the educational sorting earlier, there are also several labour markets according to skill levels for the young. Second chance education needs to be reformed with elements of transitional labour markets to avoid exclusionary recruitment patterns within industrial sectors and a sufficient equality of access for women. Gender specific recruitment practices at points of entry are still prevalent across the European Union.

## **Evaluation Results of Training Policies**

Market oriented training programmes are shown to work best for both women and men in Ireland, the Netherlands and Germany. A closer link of publicly supported training activities to the labour market and firm's skill needs, as proposed by the concept of transitional labour markets in form of multiple transitions or simultaneous organisation of working and learning, is an important element to improve social integration through labour market policies.

Public training policies too far removed from the functioning of labour markets do not achieve the intended effects of social integration although at least temporarily alleviating the risk of social exclusion.

In terms of a benefit – cost re-analysis of evaluations of training measures it is shown that the net effect of training at the transitions from unemployment to employment is positive though relatively small in size. Besides market orientation an improved targeting of training policies on re-integration of unemployed persons with only small chances of integration on their own initiative, like persons from ethnic minorities or women with longer career interruptions will increase the cost-effectiveness of these programmes. This is due to the relatively high net rates of return to such training investments for these target groups in case of course completion. Since economic inactivity is frequently the costly alternative to such investment from a societal perspective these programmes are worth their efforts even if gross placement rates in employment are relatively low for these 'hard-to-place' target groups.

Additionally, for the transition economy of East Germany in the early 1990s it can be shown that employment prospects of job-related training are highest while pursued on-the-job even if this job is scheduled to be terminated in the near future. This highlights the superior cost-effectiveness of preventive measures, since no unemployment benefit payments are necessary, despite the difficulty of early identification of future marketable skill needs.

Evidence based on European Union wide surveys like the small sample Eurobarometer and the large size European Labour Force Survey suggests that the market element in labour markets produces higher risks of unemployment and long-term unemployment for the low skilled persons and those with little marketable or work experience with relevance to the labour market. The social selection operating in labour markets is in some instances complemented rather than mediated by correctly targeted training policies which can lead to a twofold selection process operating as social exclusion. Hence market failure combined with government or policy failure is identified as a major cause of the risk to suffer social exclusion.

### **Assessing the firm's rationale for training**

In theoretical approaches to the firm's rationale for training a close link of the firm's productivity and wages are postulated. In practice, however, seniority based wage structures frequently dominate the link between age of an employee and individual productivity rather than observed productivity recognising severe measurement problems of individual productivity in the age of team work and network dominated labour markets.

The very low rates of participation in continuing vocational training among ageing workers observed in most Member States of the European Union (France, Ireland, Netherlands analysed in much detail) combined with a seniority- based wage structure reflects the fragile integration status of older employees in most firms at present. Exclusion from a firm's labour force and transitions into early retirement, passive unemployment benefit receipt or disability benefits are the more likely the larger the discrepancy between worker productivity and wages. A higher firm-level commitment to training, as part of the personnel management strategy of a firm, reduces the number of dismissals in the following years in the Netherlands less so in France and least so in Ireland. Based on firm-level data and individual level data it seems to be possible to identify persons on positive career tracks with multiple participation in training and those with high risk of exclusion from the labour market due to failure to participate in or being selected for training by the firm or public policy initiatives.

Labour market segmentation following patterns of industrial sectors which occurs at entry into the labour market is likely to be perpetuated by the firm's rationale for training throughout the European Union. In order to prevent market failure and therefore career tracks leading to labour market exclusion a much extended participation in public market oriented training and firm based training is needed to encompass the developmental needs of all employees irrespective of age. The concept of transitional labour markets suggests the need to equalise access to

training of employees in sufficiently close relationship to the labour market like those involved in one of the five major transition processes and transitional labour markets.

### **The Impact of Political Actors in the field of training**

Due to the developments of a common market within the European Union the coherent education and training systems within each country have experienced an evolution towards industry specific education and training strategies across the Union. Based on matched firm level case studies it is shown that the substitution phenomenon of initial training versus further training is no longer recognisable as has been argued previously comparing France and Germany. Rather than substitutes the two forms of training have become indispensable complements, thereby reinforcing the trend to set up positive career paths with upward mobility and frequent training versus static career tracks which are likely to lead eventually to exclusion from the labour market. An improved co-management and co-financing particularly concerning further training is indicated with an obvious way to combine training with changed working time arrangements along the lines proposed by the concept of transitional labour markets.

The multi-level governance in the European Union complemented by the European Social Fund and experimental training policies has turned the process of European integration into a process of institutional creativity. The Community Initiatives function as laboratories for social innovation. In order to find and define a role for the European Commission in this field it is noteworthy that both the elaboration and operationalisation of policies to fight social exclusion are largely delegated to semi-public organisations. Decentralisation and privatisation of social policy provision has, therefore, reached a stronger impetus through European level policy making than in most Member States of the Union prior to enlargement. It is by means of institutional creativity of both centralised and decentralised policy making that solutions will be found to increase social integration by not increasing the risk of social exclusion for some other groups simultaneously.

Overall, the work has revealed that social exclusion is a result of market failure in combination with policy failure, since the number of policies and social protection arrangements and budgets in the European Union are sufficiently to address these issues. More rigorous evaluations as well as solid and multiple bridges between the world of education/training and the work will improve the potential for a wider spread of social integration in modern societies.

# **EDUCATION, TRAINING AND EMPLOYMENT DYNAMICS:**

Transitional Labour Markets in the European Union

**Klaus Schömann and Philip J. O'Connell**

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Klaus Schömann and Philip J. O'Connell
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**MODULE III**  
**ACTIVE LABOUR MARKET POLICY AND EMPLOYMENT**  
**TRANSITIONS: Aggregate Impact and Process Evaluations**  
**Editors: Jaap de Koning and Hugh Mosley**

**Objectives and research hypotheses**

Our primary focus in the studies in this volume is on the impact of active labour market policies and their contribution to the prevention of social exclusion. Active labour market policies are a subset of labour market and employment policies addressed primarily to individuals with the goal of either preventing unemployment, promoting their reintegration in the labour market, or career advancement. In recent years active programs have been heavily used to combat unemployment in all EU countries. Among the four countries whose ALMP policies are evaluated in the contributions to this volume, expenditure for ALMP ranged from a low of 0.5% of GDP in Spain, 1.3% in France and Germany, 1.5% in the Netherlands and to a high of 2.2% in Sweden. In all five countries a large percentage of the unemployed participate in active measures.

The role of active labour market policy has undergone a fundamental transformation since it was first conceived and applied in Sweden and widely disseminated by the OECD in the 1960s. Originally, it was an integral part of a broader economic strategy for accelerating structural change by promoting geographic and occupational mobility and conceived as an alternative to exclusive reliance on macro-economic policies in economies near full-employment. In an era of slower growth and persistently high levels of unemployment, the primary goal is now no longer full-employment but ameliorating unemployment, especially long-term unemployment, and combating social exclusion.

Not only the level of unemployment has increased but also the underlying dynamics of the labour-market are now quite different from the patterns of the past. The 'standard labour contract,' i.e. full-time continuous employment, is eroding. Evidence suggests that people move more and more between different labour market statuses. Some of these transitions are critical in the sense that they may lead to downward spirals of job careers, ending finally in long-term unemployment, discouraged withdrawal from the labour market, or social exclusion.

There are several ways in which ALMP might have an important impact on social exclusion by reducing unemployment and particularly long-term unemployment. First, it could redistribute job opportunities so that less people become long-term unemployed. Active labour-market policy cannot change the transitional nature of

today's labour markets, but it might be possible to prevent long-term unemployment or at least to minimise its incidence through active policies that maintain labour force attachment and bridge transitions to reemployment.

Second, ALMP might increase total employment, which is, however, not obvious: A positive effect on total employment will emerge directly only insofar as friction between labour demand and labour supply is reduced as a result of ALMP, but during periods of high unemployment vacancies are usually filled easily. The only exception is subsidised job creation, but even in this case the effect on total employment is uncertain due to possible displacement and substitution effects.

ALMP may, however, have a positive effect on total employment in the long-term. Firms are often reluctant to recruit certain categories of unemployed workers such as the long-term unemployed. When ALMP succeeds in reintegrating them effective labour supply will increase which may have a positive effect on employment through wage setting effects and by easing recruitment.

The evaluation studies reported in this volume focus on two aspects of ALMP, which in our view have been relatively neglected in previous research and merit special attention: 1) the aggregate impact analysis and 2) process evaluation.

The methodology for impact evaluation of ALMP is most developed for research designs using micro-data, but effects on macro level may be different from those on the micro level. Most studies use data on individual level to assess the effects of individual ALMP measures on the labour market position of the participants. In Europe effectiveness is usually measured on the basis of employment effects and mostly non-experimental methods are used, whereas income is the usual impact indicator in US studies, many of which use experiments. An important limitation of micro impact studies is that they cannot deal with displacement, substitution and indirect effects of ALMP measures. Therefore, on the basis of these studies alone, we still do not know a great deal about the impact of ALMP on an aggregate level. Given the importance of aggregate effects and the fact that we know so little about them, we will focus on aggregate impact analysis of ALMP in this volume.

Second, the potential effects of ALMP may be positive even though the actual effects are not. This is due in particular to the fact that the impact of ALMP depends heavily on the way it is being implemented. Even if ALMP has positive effects potentially, the results may turn out badly in practice due to shortcomings in implementation. Although even less is known about the impact of ALMP implementation, it seems likely that it is an important determinant of ALMP results and the second focus of the studies in this volume is on process evaluation of ALMP.

The book consists of two principal parts: Part I deals with aggregate impact analysis. For five countries (France, Germany, The Netherlands, Spain and Sweden) an attempt is made to estimate the impact of ALMP on the transitions from unemployment to employment and vice versa. Although quantitative in nature, these contributions also pay attention to qualitative aspects such as the socio-economic context in the countries concerned and the structure of ALMP. Part II focuses on the implementation of ALMP. Implementation studies have been carried out in three countries (Germany, The Netherlands and Sweden). The qualitative element plays a more important role in these contributions, which use case study and survey data in addition to statistical data. A distinctive feature of all the ALMP evaluation studies in this volume is that they are based on regional-level analysis of the impact of ALMP or implementation processes.

The overall conclusion of the aggregate impact analysis of ALMP based on the evidence for the five countries is that there is some empirical support for the claim that ALMP helps to reduce total unemployment and long-term unemployment. However, the results are partly conflicting and not always easy to interpret. Only in the German case was some evidence found for an impact of ALMP on the level of long-term unemployment. Given the data limitations and the confidence intervals of the estimators the results do not exclude that ALMP reduces total unemployment and long-term unemployment, but we can fairly say that the overall impacts are relatively small in any case. These findings are consistent with the results of evaluation studies based on micro-data.

The most convincing results are obtained in the French/Swedish contribution. According to these results ALMP measures have a significant upward effect on the outflow from unemployment to employment, albeit the impact is relatively small. A significant but again relatively small impact of ALMP on hirings from unemployment was also found in the Dutch aggregate impact analysis. Remarkably, in this contribution there was no significant impact on the (change in the) level of unemployment. A possible explanation of this finding is that ALMP increases the chances its participants, but at the cost of reducing the chances of other job-seekers. As a result, increasing hirings from unemployment can go hand-in-hand with increasing inflows into unemployment, leaving the level of unemployment unaffected. However, in the Spanish case a significant impact was found on the level of total unemployment, but not on the flow from unemployment to employment. One possible explanation of this result is that participation in an ALMP measure reduces the probability of becoming unemployed in the future again, but does not have a significant effect on the transition probability from unemployment to employment in the current unemployment spell.

Neither in the Dutch nor in the Spanish cases do the results point to a particularly strong impact of ALMP on long-term unemployment. In the Dutch case the effect on hirings from long-term unemployment was not even significant. In the German case too no effect on the outflow from long-term unemployment was found, although data limitations may be responsible for the lack of significant results. Analyses of both the level of and the change in long-term unemployment rate as well as the share of long-term unemployment in total unemployment yielded mixed results: Sometimes a significant negative impact on long-term unemployment was found, but in other models the effect is not significant. The French-Swedish contribution does not contain separate analyses for long-term unemployment.

There are several possible explanations for these surprisingly weak findings. One is of a technical nature, the so-called endogeneity problem: government tends to raise ALMP expenditure in response to increasing unemployment. So our estimates may underestimate the real impact of ALMP or even show the wrong sign, suggesting that ALMP is ineffective. All contributions attempted to deal with this problem by applying the fixed-effects technique on pooled regional data for a number of years, but perhaps the problem was not entirely solved in this way. Future research should address the issue of estimating a policy response function for ALMP, which is difficult in any case and may well be different for each type of measure.

Another possible explanation for the low effectiveness of ALMP in the results of these aggregate impact analyses may have to do with deficiencies in implementation (e.g. policy mix, targeting, deficiencies in the delivery system). Too much money might be spent on relatively ineffective measures and little on effective ones. On the basis of the evidence available from the aggregate impact analyses, it is difficult to draw any general conclusion about the relative effectiveness of the various types of measures.

The three implementation studies reported in Part II of this volume address a number of issues related to the ALMP implementation process and its impact on ALMP outcomes at the regional level in France, Germany, and the Netherlands.

From the point of view of implementation research, classical impact evaluations tend to assume a simplified input-output model in which the implementation process is automatic, underestimating the importance of program variation. Labour market training, job creation, or wage subsidy programs examine provide complex services that are in practice very heterogeneous. Program 'treatments' are seldom so standardized as the (misleading) analogy to medical research suggests.

In principle, these shortcomings can be remedied by giving more consideration to the role of implementation in modeling the impact of ALMP measures and by collecting appropriate data. In practice, this is difficult due in particular to the general

scarcity of good data on the implementation process. For example, data limitations made it impossible to give more attention to implementation variables in the aggregate impact analyses in this volume, which would have required a comprehensive survey of regional level variation in implementation.

The focus and methodology of the implementation studies are more diverse than in the case of the aggregate impact analyses. All three address issues related to co-operation in the implementation process, especially between the PES and municipal authorities responsible for social assistance. Moreover, the German and Swedish studies also address issues related to decentralization in ALMP policy implementation.

The co-operation problem addressed by all three studies has its roots in trends affecting most European countries: The stylized facts can be summarized as follows: A secular increase in unemployment and long-term unemployment has led to a tightening of eligibility conditions for unemployment benefit, resulting in the exclusion of more and more unemployed individuals from the PES's core clientele of unemployment benefit recipients. Parallel to this trend there has been a remarkable growth in the importance of local labour market policies for the long-term unemployed and other marginal groups dependent on social assistance. As a consequence of these trends, there is an increasing fragmentation in the delivery systems for ALMP with the PES and the local authorities each primarily responsible for their separate clienteles. This results in specific co-ordination problems. More importantly, this unfavourable division of labour permits the public employment service to shift responsibility for problem groups in the labour market on to the local authorities, whose ALMP activities often less professionalized and less well endowed with resources than are those of the PES.

The Dutch study examines the forms of co-operation that have developed between the PES and municipal social assistance agencies and investigates whether co-operation in the implementation process has had an impact on the performance of four ALMP programs for the long-term unemployed. The evaluation of government sponsored pilot projects to promote co-operation between the PES and municipalities is the focus of the Swedish study, which investigates in particular whether enhanced co-operation in the experimental municipalities result in higher transition rates out of unemployment. The German implementation study investigates the responsiveness of the PES to long-term unemployment and its interaction with local ALMP for social assistance recipients. Whereas the former two studies attempt to assess the impact of co-operation on program and labour market outcomes, the focus of the latter is on explaining patterns of co-operation in terms of the incentives provided by the institutional framework of labour market policy and potential co-operation gains. Moreover the German study and, from a theoretical perspective, the Swedish study

also examine the issue of decentralization in the PES, i.e. the extent to which local PES offices are allowed to develop independent policy profiles and strategies in implementing ALMP.

Although methodologically more diverse than the aggregate impact analyses, the implementation studies share a number of common features: All three are based on a regional level analysis of the ALMP implementation process either at the municipal level (Sweden, Netherlands) or at the PES district level (Germany). Moreover, all combine qualitative and quantitative methods of analysis, although with important differences in emphasis and approaches.

The implementation studies reported in this volume document the remarkable diversity in the implementation of ALMP programs but provide only weak evidence for a positive "co-operation effect." The only significant relationship between co-operation forms and program performance indicators found in the Dutch study was that between physical co-operation (e.g. co-location, joint venture) and positive outflows in the program for long-term unemployed youth, one of the 6 performance indicators examined. Moreover, the 19 municipal implementation regimes examined showed no clear pattern of "good practice:" There is no consistent correlation between their performance in the two programs examined: only positive program outcome rates were significantly correlated for both schemes. Different performance indicators for the same program are either not highly correlated or show the wrong sign. The more detailed case studies also showed a similar pattern with no consistent relationship between the development of co-operation in implementation regimes and program performance indicators. This study shows that co-operation characterised by close physical proximity of the implementing actors and short horizontal, inter-organisational ties may enhance implementation performance but that more intense forms of co-operation such as organisational integration of actors and working procedures do not necessarily lead to better policy outcomes and that best practice in implementation has to be tailor-made to fit local circumstances and even specific programs.

The Swedish pilot projects to promote intensified local level co-operation between the PES and the local authorities do not generate the anticipated positive impact on labour market outcomes for the unemployed. While the regression results do show a significant positive impact on transitions from unemployment to temporary employment, there was no impact on exit rates to regular employment. Moreover, the program appears to have had a negative effect on transitions from unemployment to labour market policy programmes. These weak findings in support of a co-operation effect may be due in part to methodological problems, for example, the timeframe of the evaluation may have been too short for the effects that may occur to work themselves out.

The Germany study found a great deal of local variation in the degree of institutionalisation of professional local ALMP delivery systems, which have become fairly widespread in urban areas and that the institutional division of labour between PES and local authorities is not per se detrimental: There is a certain justification in separate implementation structures offering specialised services to their respective client groups. This does not preclude co-operation, but a forced integration of these separate systems is neither realistic nor useful in light of the very different legal framework and the capabilities of many professionalised local structures. What is needed is not the abolition of this division of labour, but an institutional reform which leads to an improved correspondence between the labour market policy responsibilities of the local authorities and the financial and institutional resources available to them. Moreover, the problem of providing labour market services to the socially excluded, here social assistance recipients, cannot be regarded in isolation from reform of the PES itself. A principal finding is that the long-term unemployed are relatively neglected both in PES resource allocation to the regional level and in targeting of measures by the local PES. Moreover, there is a generally low level of targeting of ALMP on the long-term unemployed who are nowhere even proportionately represented in ALMP programs. These findings appear to reflect a pattern of institutional creaming that raises serious doubts about whether the PES is adequately addressing the concerns of problem groups at the margins of the labour market, especially the long-term unemployed.

**Active Labour Market Policy and Employment Transitions:  
Aggregate Impact and Process Evaluations**

**Jaap de Koning (NEI) and Hugh Mosley (WZB)**

Introduction: Active Labour Market Policies, Social Exclusion, and Labour Market Transitions by Jaap de Koning, Hugh Mosley and Günther Schmid

**Part I**      AGGREGATE IMPACT ANALYSIS

1. Introduction: Models for Aggregate Impact Analysis of Active Labour Market Policy by Jaap de Koning
2. The Aggregate Impact of Active Policies on Unemployment Outflows: a Regional Approach by Dominique Anxo, Stéphane Carcillo, Christine Erhel
3. Does Active Labour Market Policy Matter? An Aggregate Impact Analysis for Germany by Günther Schmid, Stefan Speckesser, and Christoph Hilbert
4. The Impact of Active Labour Market Policy on Transitions from Unemployment to Employment in the Netherlands by Jaap de Koning and Marike Arents
5. Do Active Labour Market Policies Matter in Spain? by María A. Davia, Carlos García-Serrano, Virginia Hernanz, Miguel A. Malo and Luis Toharia Cortés

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6. Introduction: Theory and Methodology of Implementation Case Studies by Hugh Mosley and Els Sol
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8. Activation through co-operation. The Impact of Coordination between the Public Employment Service and Social Security on the Transition from Unemployment to Employment by Martijn van Velzen
9. Towards an Intensified Local Level Co-operation in the Design and Implementation of Labour Market Policies: The Evaluation of Swedish Reforms by Lars Behrenz, Lennart Delander and Harald Niklasson

**Part III**      CONCLUSION

10. Conclusions and policy recommendations by Jaap de Koning and Hugh Mosley

**MODULE IV**

**The Dynamics of Full Employment**

**Social Integration Through Transitional Labour Markets**

**Editors: Günther Schmid, Bernard Gazier**



## Objectives and Research Hypotheses

The key issue which this book seeks to address is to understand the new dynamics of full employment and to ask which institutional arrangements are capable to prevent structural unemployment and its concomitant of social exclusion. The contributions are based on the assumption that social exclusion means not only not having a permanent job and being excluded from social entitlements such as unemployment benefits. Social exclusion means also not having the perspective of evolutionary job careers, not having access of means and measures that ensure employability, and not being able to fully participate in all relevant spheres of social life. The *main question* which the book addresses, therefore, is *how to achieve social integration*. This means more than the question of "how to make work pay"; it means also "how to make transitions pay", in other words, how to endorse "*maintenance transitions*" which increase the individual choices between different productive activities in the modern civil society.

The *first key hypothesis* which unifies the authors of this book is that the new dynamics of labour markets and the causes of structural unemployment can only be understood in the broad analytical perspective of employment systems. *Employment systems* are defined as the set of institutions (and policies affecting these institutions) that simultaneously determine the level of production and employment. It is the interaction of production systems and labour market systems which determine level and structure of employment. And it is institutions (the rules of the games) that determine the outcome of this interaction. These institutions act as filters, explicitly or implicitly suggesting to the actors certain reactions and excluding other possible reactions to external or internal shocks or to long-term structural and social changes. *External shocks* are short-term business cycles, sudden rises in energy prices or drastic falls of prices in high-tech products; *external long-term trends* requiring greater adjustment efforts are technological changes (information technologies) or changes in the international labour division. *Internal shocks* (or "manufactured risks") are health disasters, family breakdowns or the need to follow a partner in another region; and '*internal long-term trends*' are fundamental changes in family structures, socialisation or demographic trends (e.g. ageing).

*The first key question which this book seeks to address is whether there is a tendency within the European Union towards convergence or divergence of employment systems.* This issue will be studied by identifying the key elements of employment regimes. *Employment regimes* are employment systems with an identifiable 'character'. The essence of this character is a relatively constant pattern

of social co-ordination which is distinctively different from other employment systems and results in typical different outcomes related to the adjustment of common or universal challenges such as 'globalisation' and 'individualisation'.

The *second key hypothesis* that organises this book is the emergence of transitional labour markets. *Transitional labour markets* (TLM) represent both a theoretical and policy-oriented concept. They are based on the assumption that the borders between the labour market and other social systems (such as the educational system or the private household economics) become and have to become more open for transitory states between gainful employment and other productive activities. TLM provide, first of all, opportunities of '*working time flexibility*' to enable workers to combine work with other useful activities such as care, housework, education and cultural life, or a greater 'flexibility' that enables people to combine dependent work with gainful self-employment or to ease transitions in both directions between the status of dependent work and entrepreneurial self-employment. Second, TLM increase the societal 'requisite variety' in employment relations by institutional arrangements that support greater mobility or 'transitions' between education or training and employment, or temporary combinations of both. Such an institutionalisation of *life-long learning* is a requisite for "maintenance transitions", in other words, upward spirals or sustainable employment careers throughout the life-cycle for both men and women. Third, TLM use increasingly *active labour market policies* either to reduce the inflow into unemployment (*preventative transitions*) or to speed up the outflow out of (long-term) unemployment back into employment (integration transitions). In implementing these new strategies, public employment services are subject of large-scale modernisation (privatisation, decentralisation, specialisation, outsourcing), and network building between key actors at the local and regional level.

*The second key issue which this book aims to address is to identify more precisely different types of transitional labours markets, their funtional equivalents within various employment regimes, and to detect the economic and institutional conditions of labour market transitions that enhance employability.* The objective here is to identify the patterns of social and economic interaction which are prone to *exclusionary transitions* (downward spirals of transition in precarious employment, poverty and exclusion from social participation), but also the patterns which enhance *integrative transitions* (for instance fast and effective reinsertion of unemployed or smooth transition from school to work), and *maintenance transitions* by institutionalising a whole set of mobility options such as moving between part-time and full-time work, combining training or education with work or dependent employment with self-employment.

Under the concept of TLM, employment gets a new meaning. The old meaning of employment was the action of employing a person, a state of being employed or a person's regular occupation or business. The new concept of employment means a temporary state or the current manifestation of long-term employability. Whereas the prototype of the *old employment relationship was the internal labour market* consisting of predefined entries and exits, sturdy and inflexible ladders of career, the prototype of the *new employment relationship is the network labour market* consisting of flexible entries and exits contingent on opportunities and professional expertise, discontinuous and flexible paths of accumulating work experiences.

The regulatory (and not yet well developed) idea of transitional labour markets in the long-run is the end of dependent wage labour and the beginning of a *new self-employment*. The „self“ in this new relationship does not mean an independent self but an interdependent self, in which psychological identity flows from social integration which means from one's relations to others. In this sense, *social integration* means participating in various productive social networks whereby 'productive social networks' do not necessarily mean labour market work. The boundaries between work, employment, activity, and so-called inactivity get more and more blurred. However, this will be a long-term process during which traditional and modern forms of employment relationships will coexist.

From such a perspective of a changing world of work organisation, the meaning of the term transition changes too. In the old meaning, transition meant just the movement between states. In the new meaning, however, transition stands for prevailing employment cycles of change and adaptation, including stages of preparation, encounter, adjustment, stabilisation, and renewed preparation for a new job or task. The emphasis of the redefinition is clearly on evolution. From this perspective, also all easy looking and one-dimensional measures to solve mass unemployment, for instance the appeal to a basic minimum income for everybody (social dividend) or the reliance on a universal negative income tax, look doubtful. *Transitional labour markets provide a much richer and realistic concept of a proactive and co-operative labour market policy which will be the third key issue which the book is addressing.*

### **Content of the Book<sup>3</sup>**

The *introductory chapter* will outline the theoretical assumptions and the methodological issues of employment systems and transitional labour markets. It will contrast old and new definitions of essential concepts in labour market research and define the essential research

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<sup>3</sup> The results of this volume are still pending; expected publication in autumn 2000.

questions connected with these new concepts. Finally, an overview of the following chapters and their main results will be provided.

In the *first part* of the book various approaches to study the nature and change of 'Employment Systems' are presented. Whereas the first contributions focus on developing alternative (and partially complementary) theoretical and analytical frameworks, empirical application in comparative research is the focus of the other three chapters.

In the *second part* specific issues of 'Assessing Transitions' are taken up. It starts with an application of the 'transition matrix' to characterise the employment systems in all member states of the European Union. Special emphasis is given to the alleged rise of new self-employment on the basis of progressive longitudinal surveys. Further special emphasis is given to the institutional settings of successful training transitions and flexible working-time arrangements.

The *third part* deals with concrete policy issues related to the promotion of transitional labour markets. It considers legal barriers and opportunities, the range of so-called active policy measures and the important question of financing transitional labour markets, including questions of wage formation and social security.

The *concluding chapter* provides concrete policy examples of innovative transitional labour markets aimed at increasing employment intensity and preventing structural unemployment especially from Germany but also with rich illustrative material from other countries. The final considerations concern the usefulness and consequences of the transitional labour market concept for the European Union as an actor.

**The Dynamics of Full Employment**  
Social Integration Through Transitional Labour Markets  
**Günther Schmid and Bernard Gazier**

**Introduction**

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**Günther Schmid and Bernard Gazier**

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**Part IV. CONCLUSIONS**

**Chapter 14.** Transitional Labour Markets in the European Employment Strategy  
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