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DYNAMO

Dynamics of national employment models

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Project description

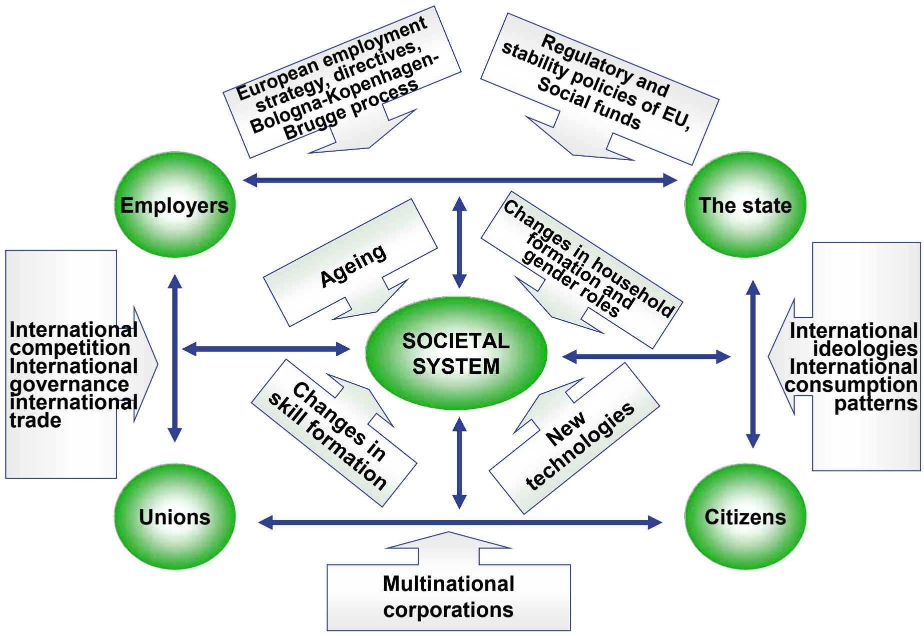
The institutional arrangements of today's capitalist societies differ quite considerably from each other. The expectation of difference applies especially to employment systems, in which it is human labour that is exchanged. Employment contracts are necessarily incomplete contracts, since the actual output required is constantly subject to new decisions after the contract has been concluded. To limit uncertainty, institutions, both formal and informal, influence not only the contractual conditions but also the rights of employees or their representatives to codetermination with regard to working conditions and the organisation of the work process. These inherently political and historical compromises inevitably give rise to varieties of employment arrangements and conditions. However, the sources of differences in the employment relationship extend beyond the industrial relations and production systems to include the societal institutions that produce and reproduce labour itself, the family and the education, training and social security systems.

This multiplicity of institutions influencing the supply, utilisation and demand for labour in a given country constitute what we call *national employment models*. In contrast to the way it is frequently used in public debate, the term "model" as used in the context of the present project and report denotes neither a role model nor an ideal type. Rather, following Ebbinghaus (1999: 3), we use this term here "as a shorthand for the way in which specific combinations of institutions and social practices govern market society relations" in a particular national context.

From an institutionalist perspective there is no a priori reason to expect growth and productivity to be hindered by those employment systems that involve both relatively strong employee protection and welfare systems. Social conciliation can be potentially productive as well as beneficial in its own terms. In Europe such arrangements are often called the European social model but are better referred to as European social *models*. For much of the post-war period there has been a shared view in much of Europe that within the constraints of capitalism there is still scope for the development and maintenance of a public space and for the protection of employees' and citizens' rights and it is these shared beliefs that are the basis for the European social models (Wickham 2005). National employment models as understood by the present authors, i.e. the universe of interlocking institutions influencing the supply, utilisation and demand for labour in a given country, are to be considered as core institutions of the respective social models. Both these institutions and the beliefs that underpinned their formation are now under challenge from both within and outside the nation states and the European Community.

Pressure to change stems from increased globalisation, the development of new technologies, new forms of governance, and the dominance of the service economy, all of which are said to be undermining the comparative advantages of distinctive national models that have their origin in outmoded or nationally specific production models. These challenges to established models coincide with internal pressures to reform welfare and employment regimes in line with long-term changes in demography and social attitudes, manifest in both the ageing and feminisation of the economically active population. These pressures to change are being articulated not only at the national level by national actors but also through the various policies of the European Union and other supranational organizations. The most significant pressures for change, and the policy areas in which they are articulated, are illustrated in Figure 1.1.

Figure 1.1: Pressures for change on EU National Employment Models



Source: own representation after Rubery/Grimshaw (2003: 47)

The pressure for change is emanating simultaneously from within and from without. However, the dividing line cannot be precisely drawn. It is not only that public discourse has become more international or that international consumption patterns and earnings expectations may replace or be superimposed on to national patterns and expectations, but that the elites, who until now were closely associated with the well-being of nation states, have exit options (such as changing their place of residence or sending their children to private or foreign schools and universities), which might weaken internal cohesion. Furthermore, the decision-making bodies of international actors such as the OECD, the WTO or the European Commission consist largely of national actors and many decisions at national level are influenced by international demands. In particular, new configurations of actors are emerging. National actors can attempt, for example, to negotiate at international level arrangements that are binding on their country, thereby freeing themselves of the need to seek compromises at national level. The internationalisation of public discourse has become closely interlocked with a widely-shared belief in the superiority of market-led solutions, which has trickled into the strategies of national and international actors who have to take on various pressures for change depicted in the graph. In fact, as Streeck and Thelen (2005: 2) suggest, most observers take the view that there has been a "secular expansion of market relations inside and across the borders of national political-economic systems" which makes it justifiable "to characterize the prevailing trend in the advanced economies during the last two decades of the twentieth century and beyond as a broad process of *liberalization*."

It is in this context that the present report takes as its theme the dynamics of national employment models in Europe. Our objective has not primarily been to analyse how employment models differ across countries. Rather it is the question of whether or not, and in what respects, they have continued to differ over the past few decades and possibly will continue to do so in the future that has been at the centre of the DYNAMO project. If there is actually something like a "broad process of liberalization" in Europe, it may indicate that national employment models are seized by a process of convergence towards an increasingly market-led way of organising the supply, demand and utilisation of labour. In fact, the question of whether such a process of convergence is actually taking place at all or whether national distinctiveness continues to be reproduced or renewed may be regarded as crucial for the future of a distinctive European social model, or as we would prefer to phrase it, of the different social models in Europe that contribute to the EU's distinctiveness relative to other regions in the world.

For the sake of clarity and as noted briefly already, we differentiate ourselves from the widespread understanding of "models" as *role* models. Not only national but also European and international actors have developed an increasing interest in the sharing of examples of both good and bad experiences across national boundaries. As a result, awareness of the various national employment models and the scope they offer for dynamic and flexible development has increased considerably in recent years. However, the process of learning from so-called best practice often relies on very partial analyses of both performance and of the need for the development of complementary institutions.[1]

The ambiguous use of the term "model" is reflected in the ups and downs of "models" in both political and academic debates. Wolf's statement (1996, as quoted by Coates 2000: 233) that whenever they "embrace a particular exemplar, it turns out to be on the verge of collapse" applies to both right and left. Fulcher (2005: 190) notes that "model status can change rapidly as economic fortunes and international judgements shift". He refers to the examples of Japan, which "went from model in the 1980s to basket-case in the 1990s", and to the USA that "went from competitive failure in the 1980s to become the model of shareholder capitalism in the 1990s but now, post-Enro/Worldcom and hugely burdened with debt, is it still a model?" More recent, and European, examples of changing "model status" which will be addressed in the present report are the UK and Sweden. Rubery et al. (2007) put their analysis of the UK model under the headline "From basket case to success story?", and Anxo et al. (2007) give a striking account of the ups and downs of the Swedish model, which to judge from the literature of the early 1990s was doomed to failure, whereas for many observers today it ranks amongst the best performing EU member states as far as the Lisbon targets are concerned. The most recent example of short-lived PR cycles ex-

[1] A prime example here is the considerable interest in the Danish so-called flexicurity system; this system, which facilitates transfer job mobility between organisations, is heavily reliant on a high tax base and high levels of benefits, but these complementary institutions are not often stressed in the debate. The European Commission has taken up the call for flexicurity but stresses flexibility and security through employability, with little emphasis on the more conventional social protection that is available in the Danish model (Keune and Jepsen 2007).

perienced by national models is Germany, which was hailed by the Financial Times (11 December 2006) as Europe's '"sick man" now turned a picture of health'.

The obvious question triggered by these examples is to what extent the Swedish model of today is the same as the one that was written off some 10 or 15 years ago, and if the German model of today is still the one that used to be the flagship of corporatism and strategic coordination in the literature of the 1980s or early 1990s. To answer this question we need to understand the character of change in each individual national employment model.

To this end, the participants in the DYNAMO project have analysed the dynamics of their respective national employment models from three different angles. The first, and basic, undertaking has been the analysis of institutional change in the employment models over the past decades. The reference periods for comparison differed across countries as the main target was to capture the most relevant period of institutional change in each country. As a second element, the perspective of analysis shifted from the traditional focus on institutions towards the individual life-cycle, i.e. to the question of the employment-related institutional support given to individuals over the life course, from the phase of education and preparation for the labour market until the end of their careers and the transition into the old-age pension system. As a third element, a range of three sectors per country were analysed with respect to their interaction with the national employment model. That is, we were interested in the effects of overall changes at the sector level and, conversely, in potential impacts on the national employment model emanating from individual sectors. The sectors were chosen in order to provide meaningful examples of the influence of particularly interesting challenges to national employment models: elderly care, as an example of how national models react to the challenge of ageing societies, the IT sector, as an example of how national models take on the challenge of new technologies and international business models, the construction industry, as an example of labour migration and EU regulations impacting on national labour markets, urban public transport, as an example of EU free-market policy impacting on an industry traditionally sheltered and run by local public authorities, the hotel and restaurant business, as one of the usual suspects for high shares of low-wage labour, and the motor industry as the arguably most prominent example of the international re-division of labour and re-organisation of value chains and their repercussions on industrial relations.

Based on these contributions from the DYNAMO project team, **Part A** of the present report is organized in five sections. In *section two,* the literature on varieties of capitalism and of welfare regimes in Europe is discussed and the problem of how to move from a mostly static view of national distinctiveness towards an analysis of dynamics is addressed. In *section three* we give an overview of the main features of change in the national employment models in the ten countries involved in the DYNAMO project. The tabular overview of individual countries will be summarised by an initial attempt to capture distinctive patterns of change in particular groups of countries. In *section four,* we assess common trends of change across national employment models and how the distinctiveness of individual employment models is reproduced amidst overriding commonalities. In *section five* we turn to an assessment of how national employment models meet the major challenges outlined in the present introduction and highlight distinctive *contradictions and incoherencies* within national employment models or particular varieties of capitalisms in Europe. Our focus on contradictions differs from what large parts of the literature on the varieties of capitalism are interested in, namely the “institutional complementarities” giving rise to “competitive institutional advantages” (Hall and Soskice 2001). Our aim, rather, is to draw attention to upcoming drivers of change and challenges to the policy agenda by examining significant incoherences and institutional *dis*advantages in national employment models.

Part B of the report focuses on the role of the European Union in promoting and shaping the direction of change and reform of European social and employment models. The EU has taken on and developed a reform agenda for European social and employment models, with the vision for their future encapsulated within the guidelines and rhetoric associated with the Lisbon agenda and in particular the European Employment Strategy (EES). This reform agenda is interpreted in opposing and contradictory ways by political actors and social analysts. For some. it offers opportunities to undermine social protection and employment rights by promoting convergence around a liberal market model (Chapon and Euzby 2002); for others, particularly DG Employment of the European Commission, it is a means of securing the future for European social models by coordinating and promoting necessary reforms to fit with new challenges and developments; for yet others, it is an agenda for spreading European social models to existing liberal market models - such as may be found in the

UK or in many of the new member states. In addition to these different interpretations of the intent of EU interventions, there are significant differences in interpretations of the impact of EU policies. These differences apply both to the effectiveness of the Lisbon agenda, based as it is on soft rather than hard law interventions, and to the importance of the social and employment agenda relative to the EU's role in both competition and macroeconomic policy.

The risk that European models will not prove to be sustainable under current social and economic conditions has been increased by the widespread national and international pressures for change and modernisation of the welfare and employment arrangements, including pressures from the EU. All institutional configurations reflect specific social and economic conditions at the time of their founding or redevelopment. As such, it is far from surprising that there is pressure to reform some of the institutional arrangements that have dominated the second half of the twentieth century. However, change brings the risks of destabilisation and dismantling of protections; rebuilding and reinstitutionalising societies is more difficult and requires more imagination and stronger political will than processes of deregulation or simple erosion of existing arrangements. This is particularly the case if the macroeconomic or product market conditions create obstacles or difficulties for the rebuilding process. Thus while the focus of this analysis is on the EU's employment and social agenda, the impact of this agenda needs to be interpreted within the wider influences of the EU on the policy context.

Main findings

A) Dynamics of national employment models (DYNAMO)

1 The state of the art and the focus of DYNAMO

The basic undertaking in the DYNAMO project was to analyse, firstly, change in the national employment models of ten EU countries and, secondly, the interaction between the overall trends in these countries and changes in selected industries. In order to discuss the questions addressed by the present report we need to go beyond a description of individual models in order to conceptualise the character of changes in a wider analytical framework. Thus, the first thing to do is to take stock of the most relevant approaches to analysis of the "varieties of capitalism" and welfare regimes.

1.1 Understanding varieties of (welfare) capitalism

Over recent decades, the stream of literature addressing major aspects of what we call national employment models has evolved from a broad range of institutional starting-points (cf. Coates 2005 for a thoughtful historical and analytical account). One major topic has been the analysis of different production models mainly in Europe, the USA and Japan (Coates 2000: 21-77). This analysis has focused very much on the emergence of various "social systems of production" in the wake of the era of Fordist mass production (Hollingsworth/Boyer 1997). Other important contributions to this broad stream of literature have taken particular sets of institutions, such as business and corporate governance systems, systems of innovation and education or systems of industrial relations and labour market regulation, as focal points for their analysis of different paths of capitalist development (e.g. Whitley 1999 for business and innovations systems, or Ebbinghaus 1999 for industrial relations and employment systems). Hall and Soskice (2001) drew on this work and on their own research and developed the analytical concept of "varieties of capitalism" which has become the label for this broad stream of literature.

Arguably the most important feature of the "varieties of capitalism" approach (referred to in what follows as "VoC") is the focus on firms, and the implications of the institutional settings in which they are operating for the growth and competitiveness patterns of national economies. Most attention is given to the manufacturing sector, and major research topics include capital structures, corporate governance, work organisation, vocational training and industrial relations. Drawing on various comparative studies of these areas, Hall and Soskice (2001) identify two contrasting trajectories among developed capitalist countries, labelled as "liberal" versus "coordinated market economies" ("LME" and "CME" respectively). According to Hall and Soskice (2001), firms in liberal market economies coordinate their activities internally primarily by means of hierarchies and externally by means of markets. In market relations, actors react to price signals and to supply and demand. They make their decisions on the basis of marginal calculations, as described in neo-classical economics, and tend not to enter into lasting inter-organisational relationships. Markets and hierarchies also play a key role in coordinated economies. Here, however, firms in addition rely heavily on non-market relations and "strategic interactions" which may be used to extend both the time span and the range of possible courses of action.

The most important difference between the two types lies in their respective "comparative institutional advantages". Hall/Gingerich (2004: 29) summarise their consecutive data analyses based on various sets of indicators thus: "when complementary institutions are present across spheres of the political economy, rates of economic growth are higher." The bottom line of the approach as described by Hancké et al. (2007 : 7) is that, "there is no 'one best way', as in arguments for neoliberal convergence, but 'two', on which middle-spectrum countries (with muddled institutional architectures) may 'divergently converge'."

Parallel to the VoC strand of the literature, there is a second strand focused on a better understanding of different *welfare regimes*, which are interpreted as comprising institutions such as the welfare state, the system of labour market protection and the family system. The flagship reference here is the work of Gösta Esping-Andersen (1990). His original typology of welfare states was based primarily on two criteria: to what extent and by what means does the welfare state contribute, firstly, to the "decommodification" of labour, and secondly, to the conservation or diminution of social and status inequality. He thus identified "three worlds of welfare capitalism": a liberal welfare regime providing low levels of decommodification and social security provisions (means-tested benefits), a social-democratic welfare state geared towards reducing income differentials and guaranteeing high levels of provision based on citizenship, and a corporatist or continental welfare regime based on the social insurance principle organized around the employment status. In a later work (Esping-Andersen 1999), he developed his typology further by paying greater attention to gender aspects, household structures and national specialisation patterns among service industries, thus extending the analysis from welfare states to welfare *regimes* which "refer to the ways in which welfare production is allocated between state, market and households" (op. cit.: 73; cf. Kaufmann 2003 and Lessenich 2003 for critical accounts of the debate).

From this perspective, most continental EU countries tend to provide strong incentives for women to stay at home once they marry and to focus their strong welfare guarantees on the male breadwinner. This aspect is most prominent in the "familialism" of Southern European welfare regimes where, beyond the privileges given to the male sole breadwinner model in line with the continental regime, the family is still an important production unit and a key institution in the system of social protection because of the important role played by small firms with family workers, the low level of social protection for all but core workers and the marginal labour market status of many young and female workers (Karamessini 2007a).

The example of Southern Europe indicates that the level of abstraction and the key criteria of typologies depend very much on the research questions, angles of approach and focus of analysis. By way of example, given the striking diversity among the group of countries serving as prototypes for CME, authors who are more interested in the configuration of actors within varieties of capitalism prefer to distinguish "corporatist" or "negotiated/consensual" from "state-led" varieties within coordinated trajectories of capitalist development (Coates 2000). Thus more descriptive typologies (such as the one used by Ebbinghaus 1999) end up with four types of capitalism in Europe: the Anglo-Saxon, the Nordic, the Central European and the Southern models. Followers of the VoC approach (Hancké et al. 2007) have taken up the importance of the state as a distinguishing factor within typologies of European models by suggesting a matrix approach to capture the state-economy relationship ("close" vs. "arms-length").

For the time being, the debates on VoC and on welfare regimes have largely taken place on what might be described as different, if neighbouring, playing fields. However, these playing fields are not separated by fences. Major aspects of the VoC typologies, such as employment protection and other elements of labour market regulation, are also crucial for welfare regime typologies. As summarised by Jackson and Deeg (2006: 19), the VoC literature has recently been extended to encompass a larger set of linkages between welfare states and models of capitalism, including (1) the impacts of welfare states on industrial relations and training systems, (2) the "beneficial constraints" (Streeck 1997) of higher labour costs (due to social protection) on employers driving them into up-market strategies and (3) the impacts of the public-private mix in pension systems on the financial system and corporate governance.[2]

Thus a more integrated approach to the analysis of national employment models, comprising the production, employment and welfare regimes, could yield substantial benefits. Amable (2003) has taken up this aspect by developing a typology based on cluster analyses. To this end, he used numerous sets of indicators on the organisation of product and labour markets, of financial systems, and of systems of education and social protection. He ended up with five types, namely the "market-based", "Asian", "Continental European", "Social-democratic" and "Mediterranean" models of capitalism. Table 1.1 gives an overview of how the national employment models analysed in the present book would be categorized in some of the widely utilized typologies.

Table 1.1: Where are the "DYNAMO countries" located in existing typologies?

Country	Esping-Andersen	Hall/Soskice	Coates	Amable
Sweden	Social-democratic	Coordinated	Negotiated	Social-democratic
UK	Liberal	Liberal	Market-led	Market-based
Ireland				Continental
France		Mixed	State-led	Continental
Germany	Continental	Coordinated	Negotiated	Continental
Austria				Continental
Hungary		Emerging		
Spain		Mixed		Mediterranean
Italy	Continental (Southern)	Hall: Mixed Thelen: Coordinated		Mediterranean
Greece				Mediterranean

Source: Own compilation based on Hall/Soskice (2001), Hancké et al. (2007), Esping-Andersen (1990 and 1999), Amable (2003), Coates (2000)

[2] Note that these links maintain the focus on firms as the core actors in any variety of capitalism, which is essential for the VoC literature. Consequently, Hall (2007: 40) has recently integrated an appreciation of variations across welfare states into his VoC analysis as "social policy is a crucial adjunct to coordination".

Not surprisingly, the typologies based on the ideal-type approach, in contrast to Amable's cluster-based grouping of countries, leave many "white spots" on the European landscape. Moreover, particular countries exhibit contradictory features. One such is Italy, which is taken as an example both for LME and CME within the VoC literature. Another is Ireland which, in Amable's work (2003), clusters with the liberal economies (where most authors would presumably locate this country at face value) as far as product market regulation is concerned, but switches to the "continental" group in the final and overall country clustering. Finally, it is important to realise that the clearest and most homogenous features in Amable's clusters are exhibited by the "market-based" economies, followed by the "social-democratic" cluster, whereas there is much less homogeneity among the "Continental European" group of countries. A similar problematic has been addressed by the VoC literature by creating a third type, namely "mixed market economies/MME", which includes countries like Italy, Spain or France (Hall/Gingerich 2004: 34). Quite obviously, however, this type is not much more than a residual category for the sake of statistical comparisons, quite similar to Amable's "continental" cluster of countries. The economies thus described are analysed as "underperforming" (Hancké et al. 2007), thus making them interesting examples for the VoC case only in so far as they demonstrate the squeeze to which countries with inadequate institutional complementarities are being subjected.[3] When it comes to a concrete analysis of individual countries, however, the limits of existing typologies become obvious.

This may be underpinned by particularly striking examples such as France, which "finds itself in a typological purgatory, neither CME fish nor LME fowl" (Levy 2006: 23), or Italy which is called a "deviant" case within the VoC literature, characterised by "a mix of logics, a high degree of institutional incoherence and an apparent absence of complementarities" (Molina, Rhodes 2007: 223). However, even a standard reference case like Germany combines a "coordinated market economy" with a "continental welfare regime", thus ending up in Amable's "continental" cluster with its "relative lack of clearly identifiable common elements" across countries (Amable 2003: 224). Thus it should be kept in mind that "typologizing is not an academic

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[3] More recently, a fourth type was labelled "emerging market economies/EME", referring to the post-transitional CEE economies "less as a separate 'variety' of capitalism as such than a cluster of countries in transition with only partially formed institutional ecologies" (Hancké et al. 2007: 4).

game but an essential first step in creating some order out of the chaos of international diversity and providing a framework within which meaningful comparisons can be made" (Fulcher 2005: 178). Typologies and ideal types are ultimately heuristic instruments and abstractions from national specificities. The real world is full of "institutional bricolage" (Crouch 2005). Hence, for the purposes of our analysis, we had to go beyond existing typologies and take into account various aspects which do not "fit" with the level of abstraction needed in the discussion of typologies. While we will often take advantage in what follows of existing typologies of varieties of (welfare) capitalism and refer to the country clusters identified by Amable (2003)[4], our analysis will focus particularly on the contradictory process of change. To this end, we look at interactions between the main elements or pillars of national employment models, i.e. the production, employment and welfare regimes (Table 1.2).[5] In addition to the three segments or pillars of employment models, we also take into account the macroeconomic management of the economy, including the monetary and fiscal policies adopted. Its relevance is underscored, for example, by the high employment growth found in the last decade in the UK (as in the USA), which cannot be explained without taking into account those countries' expansive fiscal policies.

Table 1.2: Elements of the production, employment and welfare regimes studied

Production regime	**Employment regime**	**Welfare regime**
Specialisation patterns / value added base	labour market regulation / employment protection	welfare state / social protection
Ownership / governance	Education / training system	Gender regime
Product market regulation	industrial relations system	Social services
Industrial organisation / skill development / innovation	Unemployment insurance / labour market policy	

Source: own compilation

Analysis of the interaction between production, employment and welfare regimes is important for a better understanding of the process of change in national employment models. It makes a crucial difference to a national employment model's trajectory

[4] If we refer to Amable's typology in the present report we will prefer to use the terms "Nordic" and "South European" purely for the sake of greater political and geographical precision, as justice should be done to Finland's Centre Party, which can hardly be called social-democratic, and to Portugal, which is definitely located on the Atlantic Ocean, rather than the Mediterranean.

[5] The term "regimes" reflects the concept of "institutions as social regimes" as elaborated by Streeck and Thelen (2005) as well as the move within the welfare state literature to a broader approach beyond just welfare *states* towards a wider set of institutions, including gender regimes or also education systems (Kaufmann 2003, Esping-Andersen 1999).

whether a coordinated market economy operates in a social-democratic or conservative welfare regime, as is the case in Sweden and Germany respectively. It makes a difference if a liberal production regime is matched by liberal employment and welfare regimes as in the UK or if it operates in a corporatist environment as in Ireland. The French and Austrian production and employment regimes may both be characterized by enhancement by the state, but the elitist employment regime in France will yield a totally different trajectory of change than the corporatist one in Austria. Similarly, the distinctive Southern European configuration of little coordination in an environment of strictly regulated product and labour markets and family-based welfare regimes cannot be understood simply by examining coordination among firms. In short, if we want to capture change we have to take into account the nexuses formed by production, employment and welfare regimes. Whether or not an employment regime is inclusive or a welfare regime is geared to the promotion of gender equity may have fundamental implications for the dynamics of a country's production regime. It should be noted that the importance of these interactions goes beyond the realm of academic analysis. The interlocking character of the three regimes that constitute national employment models, and the influence exerted on them by macroeconomic policy, is equally relevant for policymakers, as will be spelled out in the concluding chapter of the present book. In fact, the widespread failure to understand that employment protection and welfare provision can be productive forces rather than mere compensations for market failures is characteristic of the European project in its present shape.

Thus the underlying concern of the present report is how to understand basic trends of *change* within and across countries, rather than just "categorizing" them. The typologies are effectively static and although they do identify differences in the institutional frameworks and resources that can be drawn upon to effect changes, there are always specific political, economic and social factors in each country that are not taken into account in typologies and which in practice may be critical in explaining processes of change. It is to this problematic that we now turn.

1.2 Change – a contentious issue

The evolution of national models has become a prominent topic in recent publications within the VoC stream of literature (Hancké et al. 2007). This move is an explicit reaction to one of the most pertinent criticisms of the VoC approach. As Crouch and Farrell (2002) argued, the approach brings with it a risk of “institutional determinism”, and Jackson and Deeg (2006: 37) stated that, “the whole effort to describe and classify capitalism presumes institutional stability”.

In the original formulation of their approach, Hall and Soskice were already aware of this problem as they dedicated a chapter to the necessity of “analyzing change in national systems”. The argument there goes as follows (Hall/Soskice 2001, p. 62 f.): “We see national political economies as systems that often experience external shocks emanating from a world economy in which technologies, products, and tastes change continuously. These shocks will often unsettle the equilibria on which economic actors have been coordinating and challenge the existing practices of firms. We expect firms to respond with efforts to modify their practices so as to sustain their competitive advantages, including comparative institutional advantages. Thus, much of the adjustment process will be oriented to the institutional recreation of comparative advantage.”

It is evident that the problem of functionalism is far from being solved. The idea of leading actors seeking ways to re-establish institutional complementarities does not go beyond the concept of path dependence. One critical aspect is the assumption that major actors maintain their interest in an institutional setting similar to the earlier one. This interest, however, cannot be taken for granted. The attitudes and roles of major actors and their interaction with existing institutions will be central when it comes to analysing change.

Thus one core criticism of the VoC approach is that it undervalues conflicts of interest and the balance of power as sources of *variation across countries* and of *variation over time*, starting with the emergence of individual models in the first place. As argued by Pontusson (2005: 165), “conflicts of interest enable us to understand why institutional equilibria might come undone, and the power balance among political-economic actors provides the most obvious point of departure for an explanation of why institutions or policies change in a particular direction.” In Pontusson’s (ibid.) view, “the Hall-Soskice framework provides a solid foundation for exploring the institutional sources of comparative advantage, but leaves a great deal to be desired if we want to explain distributive labor-market outcomes or understand the politics of welfare-state restructuring in the current era. A more comprehensive and inclusive framework (which) might be built by treating efficiency/coordination and distribution/power as interrelated but separate, equally important analytical dimensions."

From a different angle, but in a similar vein, Streeck and Thelen (2005: 5, 2) suggest that "contemporary scholarship both on 'varieties of capitalism' and on the welfare states seem to be producing analyses that understate the magnitude and significance of current changes", insofar the "secular expansion of market relations" as the "prevailing trend in the advanced economies during the last two decades of the twentieth century and beyond", is not fully appreciated in either of the leading research paradigms. The research agenda suggested by these authors, in turn, is a greater focus on how incremental change is taking place, leading either to "reproduction by adaptation" or to "gradual transformation", i.e. "incremental change with transformative results" (ibid.: 9).

Ultimately, given the vigour of the "broad process of liberalization" (ibid.: 2), it may prove to be the case that "although the institutional structures of 'trust-based' capitalisms may remain in place, their substance will not" (Coates' 2000: 260). It is for the coordinated market economies that his assessment that "the architecture of institutional arrangements may not be changing, but what the architecture delivers (especially for workers) definitely is" may be justified (idem).

Thus, it is the sustainability of national employment models which *differ* from the alleged "one best way" of liberalisation that is at stake and at the centre of debate when it comes to the analysis of change. In his most recent contribution to this discussion, Hall (2007: 41) aims to "put the institutional changes occurring today into historical perspective" and suggests that VoC be "best seen, not as a set of stable institutional models, but as a set of institutionally conditioned adjustment trajectories displaying continuous processes of adaptation". The insights produced by this fruitful consideration, applied to critical periods of change in Sweden, Germany, France and the UK over the past 50 years, include the observation that the same developments, such as the "liberalization" process, "can have impacts that vary across institutional settings". Thus "despite important common trends, the political economies of Europe are not converging rapidly on a common liberal model" (idem: 78).

It is against the background of this debate that the most salient features of change in ten EU countries are analysed in the present report. Our analyses take the commonalities between the national employment models within country clusters or types of capitalisms as a starting point (following Amable's concept in this respect). We are interested to ascertain, first, to what extent or in which dimensions national employment models are converging or at least displaying increasing institutional commonalities. Our second objective is, conversely, to investigate the possibility of a renewal or revitalisation of country or cluster-related distinctiveness. Finally, we look at the interactions between the three pillars of national employment models, i.e. production regimes, employment regimes and welfare regimes, in the process of change. This aspect is particularly relevant when liberalization in one regime gives rise to incoherences within the wider set of institutional arrangements. In other words, while the focus of the VoC debate so far has been very much on institutional complementarities and the comparative advantages they may imply, we want to shift the focus towards the new incoherences emerging in the process of change and the "comparative institutional *dis*advantages" they may generate.

Our focus on contradictions differs from what large parts of the literature on the varieties of capitalism are interested in, namely the "institutional complementarities" giving rise to "competitive institutional advantages" (Hall and Soskice 2001). Our aim, in contrast, is to draw attention to upcoming drivers of change and challenges to the policy agenda by pointing to the important incoherences in and institutional *dis*advantages of national employment models.

2 The reproduction of national distinctiveness amidst international commonalities

The analyses of change in national employment models in ten EU countries conducted in the present report provide a multifaceted picture. In what follows, we suggest how to make sense of this multitude of features. We will start by looking at distinctive patterns of institutional change across countries or groups of countries, before turning to discussion of a possible convergence within a mainstream of liberalisation.[6]

[6] A more detailed account and analysis is provided by the DYNAMO reports (http://www.dynamoproject.eu/)

2.1 Patterns of change across and within country clusters

Reviewing our ten country cases, it appears that it is primarily the two “antipodes”, i.e. Sweden and the UK, that are characterised by a high degree of continuity, insofar as they have adapted their institutions to changing conditions. This has had the effect of reinforcing their respective development paths. At the same time, this adaptation has given rise to considerable change in both cases.

Concerning the UK, the European reference model for *liberal market economies*, the (at first glance) contradictory observation is that social elements of the model have been strengthened, rather than weakened as might have been expected given the across-the-board trends identified in the preceding chapter. This applies in particular to the introduction of an effective minimum wage and to the increase in public spending for health and other social purposes. This move, however, does not call into question the basic character of the UK as a “liberal market economy”. The introduction and frequent increases in the minimum wage are a logical corollary of effective in-work benefits and means-testing anti-poverty policies when soaring public expenditures are to be avoided. The expansion of public spending for social services, too, implies a reinforcement of the liberal model, as it is closely linked with an increase in outsourcing and tendering policies. The “market state” is the concept in which both aspects of this New Labour strategy of modernizing social services merge. The UK may be the most striking example of continuity through institutional change. This change is also reflected in the *outcomes* of the employment model, as the UK is one of the few EU countries where earnings inequality, although already high, have not widened further (see below for comparative details). Thus, continuity on the liberal “path” is not necessarily identical with an aggravation of the social symptoms widely perceived as negative implications of LMEs. As Rubery et al. (2007) conclude, “The UK thus scores much higher in promoting quantity than quality of employment for the mass of the working population. Inequality and segmentation is still an inherent feature of the labour market, even if there are more jobs and higher basic employment standards.”

Sweden, the flagship model among the *coordinated market economies*, has also experienced continuity through institutional change. The main aspects of this adaptation process are the reform of collective bargaining and of pensions. After the breakdown of centralized bargaining in the early 1990s, which entailed a severe loss of capacity for macroeconomic governance as well as resistance among the public to attempts to adapt the welfare state to the alleged needs of globalisation, a new approach to collective bargaining was found in the latter half of the conflict-ridden 1990s. This created a new balance between centralised and decentralised elements which has re-established, for the time being, the social actors' contribution to macroeconomic governance. A similar logic was behind the pension reform, which included a strengthening of private elements in order to stabilise the still dominant public scheme.

Continuity through change, however, does not necessarily entail continuity in the *social outcomes* of institutions. By way of example, the rising, if moderate, rates of earnings inequality indicate that the Swedish model is paying its tribute to "liberalisation" within the institutional setting of a role model CME. However, contrasts in major social policy indicators such as employment rate or earnings inequality between Sweden and the UK on the one hand, and EU averages, on the other, remain stark (Table 2.1).

Table 2.1: Key social outcomes indicators for national employment models (UK, SE, EU 25)

	UK	Sweden	EU 25
Employment rate (%) (2005)	71.7	72.5	63.8
Gini coefficient (2003)	0.35	0.23	0.29

Source: Employment in Europe 2005 (for Gini coefficient) and 2006 (for employment rate)

Among the reference CME countries, the contrasting example to Sweden is Germany. The changes in the German model identified by Bosch et al. (2007) are characterised upheaval and fragmentation. This holds, according to their analysis, irrespective of the current economic upswing, which has once again turned Germany, as so many times over past decades, into the major economic engine within the EU. The crucial point is that the familiar features of the German model are shrinking and are gradually being confined to the manufacturing core that accounts for much of the export success of the economy. In fact, this high-skill, high-quality productive system has renewed many of its regenerative capacities. However, for numerous reasons spelled out in the German report (reunification and the subsequent high levels of unemployment, international low-cost competition in manufacturing, rising shares of non-unionised sections in private services and the east German economy, an aggressive roll-back stance among some public employers and, last not least, a widely publicised perception of the 'demise' of the German economy), the "generalising institutions" which provide for a combination of the high value-added engine and a comparatively low level of social inequality have been damaged substantially. Moreover, the continental welfare regime, which used to be complementary to the production regime, has turned into an obstacle to gender equity in the labour market, to the fostering of social investment and to the development of services. From this wider perspective it becomes obvious that Germany has lost a great deal of its earlier institutional complementarities.

The diversity amongst CME countries[7] increases further when we look at the Austrian case. In contrast to both Sweden and Germany, the traditional Austrian model was based on a combination of strong corporatism (the literally institutionalized "social partnership") and a strong state that owned and governed key parts of the economy. This is why it could be justified to put (pre-liberalised) Austria as much in the group of "coordinated" as in the group of "state-led" economies. Both views of Austria are interesting if we look at the process of change. Viewed as a CME, its similarities with Sweden are striking, in particular when it comes to the key role of corporatism, as indicated by the (still today) almost full coverage by collective bargaining. But this is just the formal institutional aspect. In contrast to Sweden, Austrian corporatism has always contained an important wage dispersion, which reflected the dualistic structure of the whole economy. Moreover, again in contrast to Sweden, the Austrian economy used to be sheltered. The removal of the shelter has been key economic change over the past two decades. The important aspect here is that corporatism has not only been preserved but actually contributed actively to this change. What is more, the state was a key player in the process. It pushed the economy on the new path and at the same time dismantled large parts of its own economic assets through privatisation, thus giving private capital the decisive boost for this opening process. It is evident that this key role of the state distinguishes Austria sharply vis-à-vis both Germany and Swe-

[7] Given the divergence among CME countries, the decision on the usefulness of the term "coordinated market economies" will depend, maybe more than ever, on the focus of analysis. The focus on comparative institutional advantages and institutional complementarities will remain pertinent in a VoC perspective focused on growth and (particularly manufacturing) competitiveness. As to the wider employment and social model, however, this perspective is losing persuasive power and Amable's (2003) approach, which singles out the "Social-democratic" type or cluster will be more useful. As to the residual "Continental" cluster, however, its heterogeneity is so striking (as Amable himself is well aware of) that its value as an analytical tool is as questionable as the MME concept.

den. In this respect Austria is close to France, which is regarded in the literature, if at all, as the European reference for "*state-led economies*" (Coates 2000).

France is arguably the most striking example of the dictum that "the state no longer controls the economy, but is one player (a major one, of course) among many" (Desai 2002: 300). Consequently, the "new configuration of actors" is at the centre of the French country report (Berrebi-Hoffmann et al. 2007). Similarly it was France that inspired Levy (2006: xi) to declare that "state activism has shifted, rather than falling away", as in France, after the "liberalizing reforms" of the past 25 years, "virtually nothing remains of *dirigiste* industrial policy …, and yet, during the same period, state spending has continued to expand". Thus, for Levy (ibid.: 367), France is the paradigmatic case illustrating the more general role played by contemporary states across varieties of advanced capitalism "from market direction to market support". To some extent, however, certain particularities of "state-led" varieties appear to be reproduced. As Berrebi-Hoffmann et al. (2007) and Flecker et al. (2007) similarly note, both the French and the Austrian states make use of their regulatory power to try to foster or stabilize corporatism (see next chapter for details) – notably with much more success in the latter than in the former country. Thus, if we regard these two countries as being formerly "state-led", there is a common move towards a "state-enhanced" model (Berrebi-Hoffmann et al. 2007), as private capital has gained supremacy in both countries. Nevertheless, the distinctions between the elitist French and the corporatist Austrian variety has remained as marked as ever.

Interestingly, the fact that there used to be many more "state-led" capitalisms in Europe than just the French has attracted not much attention amongst scholars dealing with the varieties of capitalism. In fact, if certainly for different reasons, the "most" state-led capitalisms in Europe used to be *Southern European* countries. In the late 1980s, the share of total value added produced by state-owned firms in Spain, Italy and Greece outweighed even the French share (Karamessini 2007a). Moreover, these countries used, and continue, to have the strictest product market regulations (Amable 2003). In stark contrast to France, however, the state was not geared to actually *leading* the economy, rather than primarily "compensating" for failures elsewhere (Hancké et al. 2007: 26). The Italian "cassa integrazione" usually serves as a prime example here, and the continuing protection of core, in particular public-sector, workers highlighted by the Italian way of coping with the re-regulation of public urban transport may add to this picture (Latniak/Wickham 2007). However, for a better understanding of common patterns of change in South European employment models, it would be useful to look beyond Italy which, in its northern and central parts[8], still ranks amongst the most advanced capitalisms in the world and used to be the exemplar of the "industrial districts" type of economy. Greece, in comparison, has been gradually breaking from a "state-led familial capitalism" (Karamessini et al. 2007) over the past two decades. This suggest similarities with Italy and Spain, insofar as the family has been the primary locus of solidarity, with social security organised around the male breadwinner/ female carer family model and those without a normal working career having to rely for support primarily on the family. The crucial element of change shared by these three countries is a drift towards liberalised ownership and labour market structures, accompanied by a dramatic increase in female labour market participation, without adequate compensation or support from the state. The state does not provide sufficient services and income support for families and individuals, and by themselves market liberalisation and privatisation do not create competitive advantages. In short, what appears to characterise the change in southern European models is the lack of institutional complementarities amidst a process of breathtaking economic and social upheaval and dynamic. This gives rise to doubts about the sustainability of their trajectories. Simonazzi et al. (2007) identify the lack of reform of the welfare system as an obstacle to change in the Italian model, since the need to reconcile care and paid work, in the absence of any adequate public support, has given rise to problems such as the drastic fall in fertility rates and the abundant use of cheap and often illegal immigrant labour. Similarly, Karamessini et al. (2007) are sceptical if the Greek model has the potential to move "towards a liberal de-familialised capitalism" because liberalism in Greece does not improve competitive advantage and a de-familialised capitalism would require a considerable expansion of public social expenditure. Finally, Miguelez et al. (2007) raise doubts about the economic and environmental sustainability of an employment model which depends to a large extent on the persistence of the construction boom.

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[8] The ongoing North-South divide in Italy has found, for the time being, its counterpart in the East-West divide in Germany. However, these well-known examples should not blind us to spatial divisions in other countries, such as Hungary or Ireland, where the underlying logic of the economic dynamic includes both sectoral and spatial concentration.

To conclude, different though comparable problems may also become dominant features of the *post-transitional models,* whose most salient characteristic, and possibly one of their very few truly common characteristics, may be regarded as the prevalence of dynamics in *search* of a model. As demonstrated by our Hungarian case, which will differ in many aspects from the other CEE countries, the economic and social trajectory is fragile as the "life cycle" of a low-road, FDI-driven trajectory is coming to an end. The future of the welfare state is highly controversial, since the country is "tempted by the different faces of Europe" (Neumann et al. 2007). This "model-seeking" characteristic of disputes as to the future direction of welfare provision combined with a fragile value-added base is reminiscent of the trajectories of EU countries which started on their catch-up race one or two decades earlier.

Interestingly, Ireland, the one major role model for post-transitional countries in Europe, has experienced a success story based on initial conditions that are hard to attain for CEE countries engaged in their economic catching-up race. Wickham and Schweiger (2007) describe the Irish model as a "Ryanair model of development". It is characterised by considerable externalisation of problems, including very low corporate taxes, which in turn attracts huge waves of FDI inflow. At the same time, Ireland has been in receipt of considerable amounts of EU funding, thereby benefiting both directly and indirectly from other EU countries' taxpayers' contributions. The Irish model is further characterised by a high degree of income inequality and increasing dependence on highly skilled immigrant labour. Maybe paradoxically, the other crucial element of the Irish success story, that of competitive corporatism, is equally hard for CEE countries (with the possible exception of Slovenia) to copy because their industrial relations systems are fragmented and weak.

The patterns of change summarised here suggest that distinctive features of national employment models, and of features shared by groups of national models, are being reproduced in the course of the "broad process of liberalization". It is to this contradictory development that we now turn.

2.2 Common trends of change

Not surprisingly, given the "broad process of liberalization", an analysis of the DYNAMO country cases confirms the pertinence of across-the-board institutional trends, albeit amidst a continuing diverseness of institutions. Table 2.2 provides a rough indication of obvious overlaps in institutional trends observed in all of the ten national employment models. In the table, major commonalities in the orientation of institutional changes are attributed to some of the challenges to national employment models summarised in Figure 1.1.

Neither the enumeration nor the attribution is exhaustive, since individual changes may be attributable to more than one of these challenges. However, the similarity of the direction in which national or international actors have tended to react to these challenges over the past two or three decades becomes obvious. For example, it may be argued that the changes in the pension systems are attributable, to say the least, as much to liberalisation as to changes in the age structure. The changing age structure is undoubtedly a challenge, but this challenge is taken up by a configuration of actors with conflicting interests (in the case of pension systems it is basically the intergenerational and, even more important, *intra*-generational distributional effects of ageing societies on pension systems that lie at the heart of these conflicting interests), and the shifts in the balance of power amongst these actors impact upon the outcome of these conflicts. Since the late 1970s, "liberalisation" has become the key international ideology and has influenced the strategies adopted by national and international actors in the face of the other pressures for change. As a consequence, it is as much a trend affecting the way challenges are tackled as a challenge in its own right.

Two reservations have to be added. Firstly, the weight or importance of common trends in the adaptation of institutions may differ across countries. Secondly, and most importantly, one major challenge listed in Figure 1.1, namely "changes in household formation and gender roles", does not appear in Table 2.2 as this fundamental societal change has not been met by a *common* trend of institutional adaptation across countries so far (we will come back on this issue in Section 3).

The commonalities listed in Table 2.2 drawn from the DYNAMO reports are supported by evidence gathered over the past two decades (regarding production regimes cf. the overview in Gospel/Pendleton 2004: 14; regarding employment regimes cf. the overview in Pontusson 2005; regarding welfare regimes cf. the overview in Leibfried/Mau 2007). More specifically, the DYNAMO sector studies on the motor and IT industries and on local transport provide insights into the dynamics of the international re-division of labour and the EU-driven privatisation of utilities respectively (Banyuls/Haipeter 2007, Grimshaw et al. 2007, Latniak/Wickham 2007). The same analyses, however, provide ample evidence of the ways in which common trends are modified by national policies and institutional settings. These modifications are even more marked when it comes to country-specific answers to widespread challenges such as labour migration (cf. Recio 2007 on construction) and ageing (cf. Simonazzi 2007 on elderly care; cf. section 3 below for details).

Table 2.2: Across-the-board trends in institutional change

Challenges	Production regime	Employment regime	Welfare regime
Globalisation / MNCs	International reorganisation of value-added chains -> re-division of labour		
Liberalisation / international governance	Rising stock markets Shifting balance financial <-> real economy Privatisation of formerly state-owned banks and other mfg + service companies	Increase in non-standard employment Cut-back of unemployment compensation	Gradual shifts towards means-testing
Regulatory policies of EU	Privatisation of utilities Product market deregulation		
Ageing			Gradual shifts towards private elements in pension systems
New technologies / changing consumption patterns + skill requirements		Expansion of higher education	

Source: DYNAMO reports, own compilation

Thus, both the country reports and the sector analyses of DYNAMO provide a mixed picture of common trends and continuing diversity. Our overview of changes in national employment models also suggests that commonalities are not identical with convergence. While it is true that European employment models are adapting to a greater or lesser extent to liberalisation pressures, which gives rise to common institutional trends across countries, there is also a great deal of ambiguity involved. This becomes apparent once we take a look at how institutions change.

2.3 Different types of change

One particularly interesting aspect of Streeck and Thelen's (2005) approach is the concept that liberalisation pressures will lead to "incremental change with transformative results". In the interests of a more differentiated understanding, they identify five types of change. Arguably the most visible type of change is “displacement”, which is defined as a “slowly rising salience of subordinate relative to dominant institutions”. A second type is called “layering”, which indicates an attachment of new elements to existing institutions leading to a gradual change of their status and structure. “Drift”, thirdly, denotes a “deliberate neglect of institutional maintenance in spite of external change resulting in slippage in institutional practice on the ground”, whereas “exhaustion” indicates a “gradual breakdown” of institutions over time by way of “depletion”. “Conversion”, finally, stands for a “redeployment of old institutions to new purposes”.

Each of these types of change is present in one or more of our country cases. Though *“displacement”* is, in principle, closest to rupture, it is rightly defined by Streeck and Thelen as a gradual process of “institutional incoherence opening space for deviant behaviour” and a “rediscovery and activation of dormant or latent institutional resources” (referring here to Colin Crouch’s concept of “dormant” institutions gaining increasing dominance over time, and Barrington Moore’s concept of “suppressed historical alternatives” being reactivated; ibid.: 20). An obvious example of this type of change to which Streeck and Thelen also refer are changes in the German financial system which give, for example, greater leeway to US or UK based institutional investors looking at shorter-term profits at the expense of the traditional “patient capital” predominant in “Germany plc”. However, the example also calls for caution as “the ‘new’ institutional forms have not (yet?) come to dominate the old” (ibid.: 21). Rather, there is a shift in their relative importance, with actors with differing interests adopting competing approaches.

As the German country studies for DYNAMO suggest, there is an even more striking example of at least partial “displacement”, namely the fragmentation within the country’s industrial relations system. The “dormant” model was characterised by a lack of independent bargaining power for trade unions or works councils in many small manufacturing establishments and, even more so, in greater parts of the private service sector. In many bargaining rounds, the benchmark rate was set by “pacesetting” plants or regions, with the bulk of the industry moving behind in the slipstream. From a VoC standpoint, employers outside the pacesetting elements of an industry would be regarded as benefiting from the comparative institutional advantage of large-scale bargaining. The more recent German experience, however, tells a different story. As argued in the German report, the comparative advantages of a stable industrial relations system are no longer taken for granted by increasing numbers of employers. This move by parts of the business sector amounts to nothing less than a calling into question, implicitly or explicitly, of the compromise on industrial relations that was reached in West Germany in the conflict-ridden early 1950s (i.e. a "suppressed historical alternative" has been revitalised). The constraints on employers inherent in this compromise have been gradually regarded as less beneficial than short-term advantages, which have become achievable as a result of the decline of trade union power. As Thelen (2001: 74) rightly points out, "non-market coordination, far from being a self-sustaining feature of particular systems, in fact involves a political settlement and indeed one that has to be renegotiated periodically." Still, if trade unions decline, and if there is no government action to fill the gap, fewer and fewer employers feel the need to negotiate, let alone *re*negotiate.[9] As a result of the recent changes in collective bargaining, sheltered and unsheltered parts of the economy now co-exist and regime competition within individual industries is growing.[10]

"Displacement" will be encountered most frequently wherever product market deregulation and privatisation of utilities are involved. By way of example, the obligation to introduce competitive tendering in local transport, stemming from EU regulation, introduces a market that may completely alter the rules by which public transport service providers operate. The fact that this may be counterbalanced by national regulation shows that displacement of institutions, and the extent to which it happens, may be subject to deliberate strategic decisions taken by actors at various policy levels.

The same applies to *"layering"* of institutions. The expansion of French active labour market policies during the 1990s, which led to increases in both public spending and

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[9] While Thelen (2001) rightly points to the importance of conflicts of interest on the employers' side regarding the stability of industrial relations institutions, it must be borne in mind that the ultimate factor which impacts on the balance of power in these conflicts is the influence of organised labour. The clue to understanding the upheaval in the industrial relations system in Germany is the story behind conflicts of interest amongst employers, that is the dramatic decline of trade union power in the post-reunification decade.

[10] It should be added that "displacement" is not the only angle from which this change can be analysed. In the sheltered parts of the economy there is also a great deal of "conversion" involved, comparable with the "supply-side corporatism" highlighted earlier by the example of Austria. This intertwinement of various types of institutional change can be observed in many other cases mentioned in the present chapter. Thus the present analysis is illustrative in nature and far from providing an exhaustive picture.

precarious employment, illustrates this type of change. A second example from France would be the decentralisation of collective bargaining in the course of the introduction of the 35-hour week. The working-time legislation that stipulated that the payment of subsidies to employers granting shorter working hours to their workers should be coupled to the existence of a local agreement gave a boost to local collective agreements in the French economy at the beginning of the present decade. While this side effect was explicitly intended by the socialist government, the trade unions' local organising and bargaining power did not keep pace. Thus decentralisation led eventually to greater employer supremacy in the bargaining system rather than a rebalancing of the bargaining levels.

Particularly prominent examples for "layering" are the labour market reforms in Spain in the 1980s and in Italy in the 1990s. The basic logic in both cases was to maintain employment protection for core workers (most of them being employed in medium-sized and large manufacturing firms and in the public sector) but to introduce leeway for employers to hire temporary and agency staff. In Spain this gave a boost to temporary employment which accounts for roughly a third of all employment today (during the 1990s, about 90% of all newly hires were temps). In Italy, where the labour market reforms were intended more to facilitate labour market entry for young people, this has given rise to a highly segmented and dual labour market. The "citadels of garantismo" (Simonazzi et al. 2007) certainly come closest to what Streeck (2004) called "islands in a liberalized sea".

Intentionally or not, this "layering" of new institutions may lead to the *"exhaustion"* of the old ones. The demise of the familialist gender and welfare regime may serve as a striking example of exhaustion. The "family as a last resort" approach in Greece and Italy in particular, but also, to slightly lesser degrees, in Spain and Germany is no longer consistent with changing gender roles and the expectations of young women entering the labour market. It is in the countries with familialist welfare regimes that fertility rates are the lowest in Europe. Given the explicit objective of "family policy", this trend highlights a dramatic policy failure and, in fact, the exhaustion of the institutional setting. So far the reaction of policy makers, however, has not been to break from the familialist model but to add institutional layers. In Germany, for instance, programmes to expand child care facilities and provide other forms of support for working parents have been launched over the last few years without touching upon the existing substantial subsidies for the traditional breadwinner households. It is not obvious that the German welfare state has the financial resources to maintain its support for both alternative household models. Thus, “exhaustion” does not necessarily imply “gradual breakdown” of institutions, as expected by Streeck and Thelen (2005), but may also give rise to growing conflicts within society over the orientation of public spending.

While “exhaustion” is to be understood as an outcome of depletion, the term *“drift”* denotes the weakening or demise of institutions due to “deliberate neglect”. This concept proves to be particularly fruitful with respect to vocational training (COMIFO 2007). In most countries, vocational training systems have diminished significantly in importance over recent decades. But even in countries like Austria or Germany, where major actors continue to support the systems and have undertaken sweeping reforms (far from being ineffective!), it has not been possible to maintain the usual high levels of vocational training coverage over the past decade. Apart from other factors that may hamper the attractiveness of the system, vocational training has drifted, or been manoeuvred, into a squeeze between the deficiencies of the school system and the increasing attractiveness of bachelor degrees as a gateway into employment. In this situation, the neglect of vocational training has caused serious labour shortages in those countries that have specialised in areas where vocational skills are needed.

One striking example here is Hungary, whose economic development over the last decade has been very much driven by FDI in manufacturing. Now, as the wages of Hungarian workers are rising, cost competitiveness is at stake. The answer given in some regions is to upgrade in terms of quality and specialisation and to form regional supplier networks. This move towards a high-road strategy, however, depends on the availability of skills. While the end of the low-road, FDI-driven trajectory is approaching, the skill base required to enter a new development cycle is not in place. The repercussions on the whole of the employment model, that is the interaction between production, employment and welfare regimes, are serious, since they threaten to undermine the value-added base of the highly appreciated welfare state, which represents the “second face of Europe” (Neumann/Toth 2007).

In contrast to “drift” and “exhaustion”, the term *“conversion”* denotes a type of change which most presumably takes place in stable institutional environments. Industrial relations in German or also Spanish car plants may serve as an obvious example here, as the influence of unions and local employee representatives continues to be important but the content and orientation of their endeavours have gradually moved towards "supply-side corporatism" (Traxler 1993). This mode of change has been described by Flecker et al. (2007) as typical of the whole national employment model of Austria, where "political and social change … was actually facilitated through institutional continuity." Of course, as they hasten to add, change is occurring at a slow pace and social outcomes may be regarded as moderate by "liberal" standards, but the orientation of economic policy has shifted "from an Austrian postwar exceptionality to what may be called a neoliberal mainstream" (ibid.).

The Austrian experience, however, includes a lesson which goes beyond the ones discussed by Streeck and Thelen and may be regarded as paradigmatic of the convergence/divergence issue under consideration here. Austria provides an example of the influence of existing institutions, and of the interests of leading actors in these institutions, on further institutional change and its social outcomes. "Supply-side corporatism" geared to promoting economic competitiveness yields social outcomes that may differ substantially from those emanating from a poorly regulated environment, even if actors in both countries are following more or less (neo)liberal guidelines. The leading actors in the Austrian employment model continue to support the collective bargaining system as a core institution of what is known in Austria as the system of "social partnership". The effectiveness of "conversion" in Austria may have fuelled employers' support, in contrast to Germany where "conversion" was not the preferred choice for large sections of the business world. The Austrian state played an important part here too, as new employment regulations were passed stipulating, for instance, that flexible work schedules must be based on collective agreements. This, in turn, gave rise to close to full-coverage collective agreements in the IT sector, where in most EU countries this kind of industrial relations is exceptional. Thus institutional change by conversion may entail a "rub-off effect" which, quite in line with what followers of the VoC approach might expect, cushions or curbs the destabilizing (or "exhausting") impacts of structural change on the existing institutions.

Comparing the Austrian with the German case is interesting. As long as leading actors support the basic institutional setting, there will be a comparatively strong "rub ff effect". If major actors draw back, thus leaving the employment model increasingly "unsustained", the rub-off effect will eventually fade.[11]

Thus examination of modes or types of change can give another twist to the analysis of dynamics in three respects. First, it reveals the "rub-off effect", which moderates the impacts of the broad trend of liberalisation on both institutions and outcomes. Second, it shows the potential of non-market-led employment models to revitalise themselves, as demonstrated most prominently by the Swedish case. While it is understood that the liberal mainstream impacts on the social outcomes of the model, the basic story does remain one of continuity *through* institutional change, which entails a moderating rub-off effect on outcomes. Third, there is another story on continuity through change in Europe, which reflects the growing importance of social elements in the flagship liberal model of the UK. The paradoxical message of the UK experience in the past decade is that the support of institutional complementarities in that variant of an LME has included an enhancement of the (albeit residual) welfare regime. Far from signalling a convergence towards any kind of continental, let alone Nordic welfare state, it reflects the incorporation of market principles into the increase in social expenditures, which is leading the UK farther away from the US model than it used to be. Whether or not this is a sustainable solution will depend very much on future economic growth. Nevertheless, as is the case with the Swedish and Austrian examples, it is another important demonstration of the ambiguity in the process of change. The adaptation of national employment models to liberalisation pressures may well include a reproduction of distinctiveness, and even liberal models may require a search for new equilibria between market-led and social elements.

Obviously the reproduction of distinctiveness amidst common trends cannot be understood without taking into account the importance of political choice, which interacts with existing institutions without being determined by them. Far from providing an exhaustive explanation we will give, in what follows, just a few indications of the importance of changing power relations amongst actors.

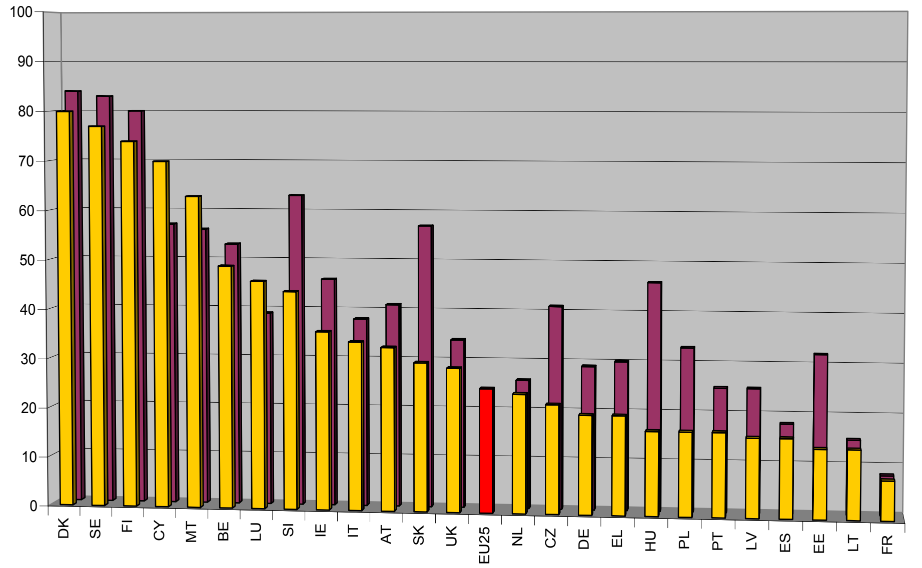
[11] Of course there continues to be a great deal of rub-off effect in Germany too. However, the current example of major actors trying to block the use of existing and well-established institutions such as the extension procedure for collective agreements on sectoral minimum pay sheds light on the problem of dwindling consensus that is at the heart of change in the German model.

2.4 Configurations and orientations of actors

As discussed briefly in section 1, the distribution of power among actors with conflicting interests is at the heart of change in national employment models as it impacts on the ways major challenges (cf. Figure 1.1) are taken up by major actors and translated into strategies for institutional change.

Arguably a major element within this process of change in the distribution of power is the decline of organised labour. Figure 2.1 shows the drop in trade union density over the past decade in most EU countries.

*Figure 2.1: Trade union density, EU-25, 1995-2004**



	DK	SE	FI	CY	MT	BE	LU	SI	IE	IT	AT	SK	UK	EU25	NL	CZ	DE	EL	HU	PL	PT	LV	ES	EE	LT	FR
2004	80	77	74	70	63	49	46	44	36	34	33	30	29	25	24	22	20	20	17	17	17	16	16	14	14	8
1995	84	83	80	57	56	53	39	63	46	38	41	57	34		26	41	29	30	46	33	25	25	18	32	15	8

*„Net" union density is defined as the total number of gainfully employed members (excluding unemployed, students or retired) divided by the total wage earning population of the country; EU-25: weighted average. For EU country codes see Annex.
Source: Van Gyes et al. (2006)

Not surprisingly, the drop in union density was most marked amongst CEE countries. It was also quite significant in countries such as Ireland or Greece where employment rates soared, so that a drop in union density may be linked with a rise in absolute membership numbers as was the case in Spain. Note also that if we focus on CME countries with their supposedly strong trade union influence, the drop in union density was much smaller in Sweden than in Germany (let alone the contrasting density levels), and that union density in the latter country has dropped below the EU 25 average in the course of the past decade. Quite obviously, these shifts may impact on both the configurations and the capabilities of major actors within national employment models.

For the purposes of the present analysis, the interesting aspect here is the interaction between unions and the state, which may explain some of the differences across countries. It is not just the fundamental institutional setting which counts (e.g. the so-called Gent system, in which unions are involved in the administration of unemployment benefits as in Sweden,[12] or the statutory membership of employers in their bargaining organisation, as in Austria). It is also the use or neglect of these settings by major actors, including the state as well as employers and unions, that accounts for the different trends in labour union density. The post-unification crisis in the union movement and the hostile attitude of some public-sector employers to the unions in Germany is one of these stories. A contrasting story is the innovative use of the law on flexible working-times by the Austrian government, which has reinforced corporatism and collective bargaining by trying to give its content a more liberal flavour.

The interaction between industrial relations and political action taken by the nation state has been highlighted by the motor industry study within the DYNAMO project. As Haipeter and Banyuls (2007) note, the state can be a decisive stabilizer of labour relations under the conditions of globalisation. By way of example, it was the state as an actor in the national employment pact that enabled the other actors to rebuild the system of industrial relations in Italy. And in Spain it is the state that guarantees a high coverage rate of collective bargaining agreements, despite relatively weak actors, by declaring them generally binding. Contrasting examples are provided by the state refraining from supporting the collective agreement extension procedures in Germany, and even more so, in Hungary where the stabilisation of industrial relations could benefit from political support.

A similar lesson, if with a very different background, can be drawn from the analysis of the hotel and restaurant sector. The most prominent feature of this industry is its high share of low-wage workers. For various reasons spelled out in the report, low-wage work in the accommodation business appears to be "socially accepted" across

[12] An arrangement that may be called into question by the current government.

country borders. However, as a comparison between France and Germany reveals, the actual share of low-wage earners (defined as those earning less than two thirds of median hourly pay) in these two countries differs substantially, with 12.7 % in France against 20.8 % in Germany. The contrast in the accommodation industry is even more pronounced. In Germany, 58 % of all full-timers in the hotel/restaurant business are low-wage earners, in France the rate is at about one fourth of all full-timers (Jany-Catrice/Ribault 2007). It is significant that France has a statutory minimum wage (SMIC), whereas in Germany this is no more than a highly controversial issue for the time being and fewer and fewer collective agreements are being made generally binding by the extension procedures provided for in the Collective Bargaining Act. Thus Caroli et al. (2007) conclude that "the higher the SMIC, the lower the incidence of low-paid work".

Consequently, in any attempt to gain a better understanding of the differing trajectories of national employment, as much attention needs to be paid to the importance of political choice as to the analysis of institutions. In short, it is not just the configuration but also the orientations of actors that count. While it is true that, to some extent, the political orientations of major actors, and in particular their approaches to macroeconomic policy, may also be inherent parts of individual national models (Soskice 2007), this does not tell the whole story. The approach to public spending adopted by the New Labour government, and the shifting approaches for that matter from one Austrian government to another, may serve as striking examples here.[13]

The present findings support the view that scope for political action exists at the level of the nation state. Maybe paradoxically in the era of globalisation and the growing importance of supranational organisations and institutions such as the EU, this room for manoeuvre at the national level, and the responsibility of key actors at this level, are on the rise.

[13] The cases of Sweden, Germany and the UK demonstrate that this also holds for political *strategies*. The policies of social-democratic governments inspired by "third way" ideas may contrast across institutional settings and political "cultures" even if, at first glance, there is considerable overlap (privatisation of utilities, combination of tax/insurance-based and private elements in the pension systems, ALMP, "investment friendly" corporate tax reforms, etc.). We will return later to the case of utilities, which reflects the different capacities of national employment models to "digest" product market deregulation and the differing "rub-off effects" produced by similar political approaches.

Table 2.3: Government policy in Germany and Sweden - Stylised features 1990 onwards

Policy area	Germany	Sweden
Fiscal policy	Main target: to increase private investment by cutting state revenues and spending Reduction of public employment Reducing public deficits by austerity All-time low for public investment Weaker R&D expenditures Tax reforms -> weakening of tax base + tax cuts for higher incomes	Main target: to increase both employment and private investment without endangering public revenues and spending Safeguarding most of public employment Turn towards austerity but focus on reducing public deficits by growth Recovery of public investment Soaring (mainly private) R&D expenditures Tax reforms -> widening of tax base + lower tax rates
Monetary policy	Euro Maastricht-centred	Independent Support of turnaround by devaluations of Swedish Crown
Education	Low priority	High priority
Gender approach	Continuing promotion of "modernised" male breadwinner model; recently additional support for dual-earner households	Continuing promotion of dual breadwinner model
Industrial Relations approach	Drift towards gradual fragmentation supported by state as employer	Urge for recovery of centralised coordination with strong elements of decentralization
Labour market reforms	Background of weak economic growth; substantial cuts in benefits of long-term unemployed; weakening of training in ALMP	Background of accelerating economic growth; continuing emphasis on training

Source: Own portrayal based on Bosch et al (2007) and Anxo et al. (2007)

The importance of political choice for the direction of change can be highlighted in a particularly striking manner by the examples of Sweden and Germany. As can be illustrated in a stylised manner (Table 2.3), the Swedish and German governments have made many contrasting decisions over the past 15 years that would be difficult to explain either as "inherent" to either variant of the coordinated market economy or as a consequence of political-economic shocks such as German unification. While there is some truth in both explanations, the ultimately most important one is that national employment models that diverge from "liberalization" must be supported actively and thoughtfully by major actors. Hancké at al. (2007) point to changes in institutions and their social outcomes, including the emergence of dual labour markets and a rising income inequality, which are most marked in some CME countries. As they rightly argue (ibid.: 34), “the nature of the coordinated economy has become more contested and its reaffirmation and renegotiation less amenable to consensus-based solutions”.

To summarise, the coexistence of common trends with continuing diversity is far from being the same thing as “path dependence”. It is in CME countries in particular that the wider public may be increasingly sceptical about the sustainability of national models simply because the model has less support from leading actors. Conversely, national employment models diverging from market-led “one best way” approaches need broad public support if the principal actors are to remain conscious of and take advantage of their “beneficial constraints”.

While it may be true that national distinctiveness continues to be reproduced amid common trends, that distinctiveness remains *institutional* in nature. Thus Coates (2000: 260) may be right when he claims that, “*continuity of institutions* is less important than *discontinuity of outcomes*; and here it is clear that the changing balance of global social forces is producing a convergence of effects.” In the following chapter, the trends in income inequality and in the risk of poverty will serve as examples for the discussion of this problematic.

2.5 Does institutional distinctiveness still matter?

Arguably one of the most important indicators of whether or not European employment models are converging towards liberal market economies is the trend in earnings inequality. While employment and unemployment rates may be quite similar in contrasting employment models, earnings inequality will differ (cf. the example of Sweden and the UK, Table 2.2).[14] The equality vs. inequality issue lies at the heart of the distinctiveness of any given social model. In fact, the challenge faced by employment models geared to reducing inequality and poverty risks is on the rise.

The trend towards greater inequality is closely connected to numerous internal and external pressures for change impacting jointly on national employment models. Apart from the obvious impact of persistent unemployment on the balance of powers

[14] The implication is the absence of a positive impact of earnings inequality on employment, which is supported by various statistical analyses (Employment in Europe 2005: 193). The exploration of the importance and meaningfulness of various indicators for a more quantitative evaluation of employment models was not part of the DYNAMO project and cannot be spelled out here. For a critical assessment of indicators of economic and social wealth cf. Gadrey/Jany-Catrice (2007).

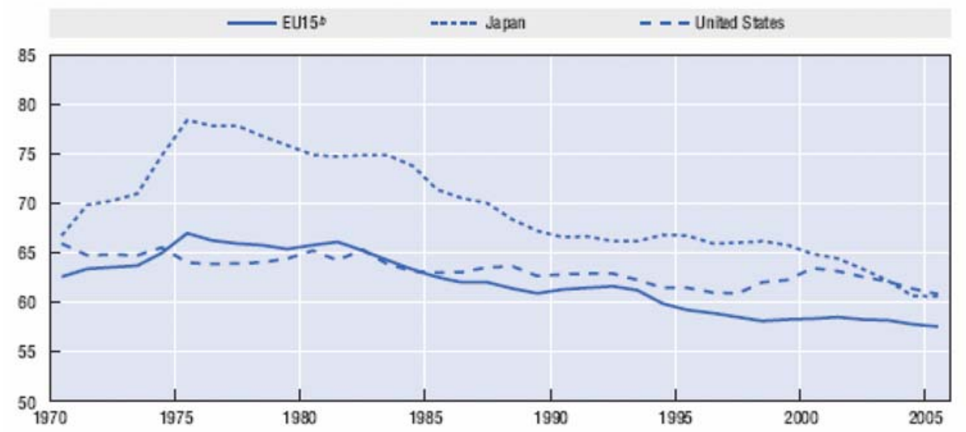
in the labour market, these pressures include, first, the upgrading of the skills hierarchy in labour demand in the advanced countries due to international competition and technological change at a time when international labour migration and failures of national education and training policies tend to produce an oversupply of unskilled labour in many countries (Miguélez et al. 2007).[15] Second, in Continental and Southern European countries in particular, so-called “labour market reforms” have given rise to precarious segments and a dualisation of labour markets (Karamessini 2007b). Third, changing consumption patterns linked with soaring female labour market participation have boosted the demand for public and private services which must be affordable, imposing the chronic “cost disease” on the more labour-intensive of these service activities (Bosch/Wagner 2005b). Fourth, the continuously shifting international division of labour includes the permanent temptation in the more advanced, but job losing, countries to trigger races to the bottom for the sake of safeguarding endangered low-skilled jobs by gradually drifting towards the low road (Haipeter/Banyuls 2007). Similarly, the recent analysis by Buchele and Christiansen (2007) of the United States shows that the shifts in labour’s share in GDP are attributable to a multitude of pressures resulting from an increasingly integrated global economy, including the combined effects of pressure on wages and jobs (particularly those exposed to international competition) and unemployment. Thus, it is for a bundle of reasons that inequality has become a permanent and major challenge to welfare regimes, which may have repercussions on the employment and production regimes. As the DYNAMO reports indicate, national employment models of various types “digest” this challenge in different ways.

To begin with, the evidence on the pertinence of this challenge is beyond dispute. Wages in the EU have suffered a long-term dual squeeze. The first one is reflected in the share of wages relative to profits, which has fallen continuously since the mid-1970s (Figure 2.2). As the OECD Employment Outlook (2007: 113) notes, “the wage share of national income has declined quite sharply since 1980 in the EU15 and Japan,

[15] The impact of labour migration here does not necessarily stem from unskilled workers but rather from workers prepared to do unskilled jobs at low wages irrespective of their educational attainment.

and more gently in the United States, implying that average wages have failed to keep pace with labour productivity".[16]

Figure 2.2: Wage share of national income in EU15, Japan and the United States, 1970-2005



a) Total labour compensation, including employers' social security and pension contributions and imputed labour income for self-employed persons.
b) GDP-weighted average of the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom.
Source: OECD estimates using the OECD Economic Outlook database.

Source: OECD Employment Outlook (2007: 117)

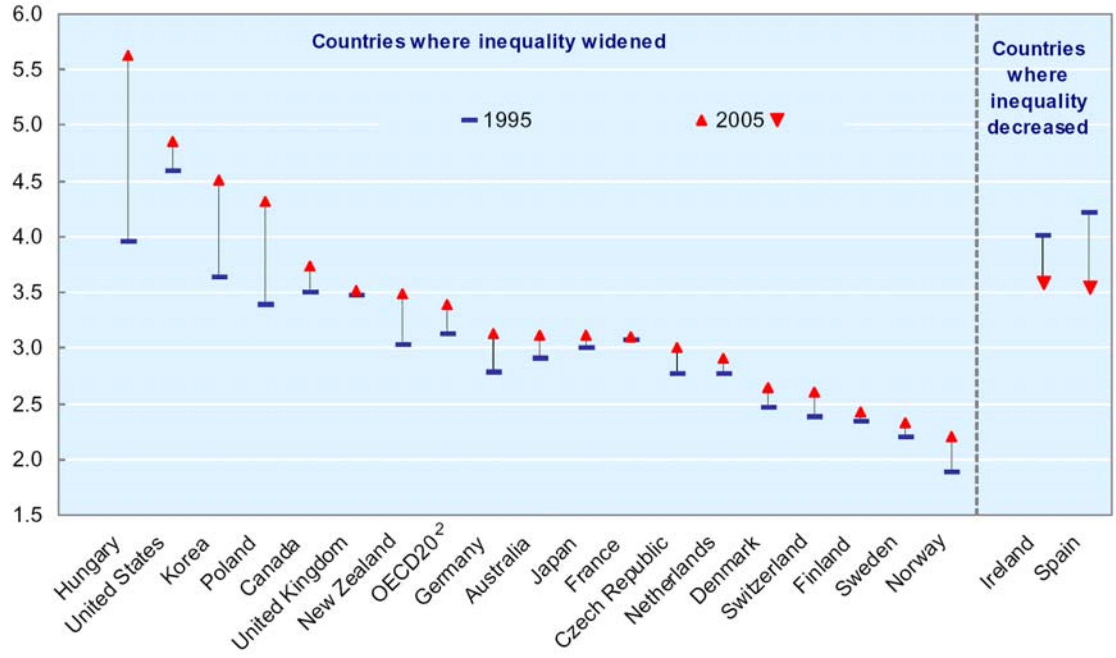
The second squeeze has impacted on wage distribution, as the earnings dispersion has widened considerably in all EU countries save Ireland and Spain[17] over the past decade (Figure 2.3). As the diagram shows, however, it would be misleading to interpret these data as convergence. Rather, they indicate a trend pointing in the same direction in almost all countries, starting from different levels of inequality, without narrowing substantially the gap between the countries with more and those with less earnings inequality. The most dramatic widening occurred in Hungary (from an already high level), whereas earnings inequality almost stagnated in the UK. Note that, according

[16] As for the US, note that the decline is less "gentle" once the top 0.5% share of wages is transferred from labour to capital (Buchele/Christiansen 2007).

[17] The OECD data on decreasing inequality in Spain are qualified by the finding of Alvaredo and Saez (2006) that "during the last two decades, income concentration has increased significantly but this phenomenon is concentrated in the top 1%, and especially in the top fractiles within the top 1%. A large fraction of the increase is due to a surge in realized capital gains following the stock market boom of the late 1990s, which might disappear if the stock market does not recover in coming years. The data also show evidence of an increase in top salaries, which has contributed to the increase in top income shares." Similar analyses for other EU countries would undoubtedly differentiate the picture but not call into question the overall trend towards greater earnings inequality revealed by the OECD data.

to these data, inequality soared in some flagship CME countries, most markedly in Germany.

Figure 2.3: Ratio of the 90th to 10th percentile earnings



Note: The figure shows that in all countries except Ireland and Spain, the earnings of the 10% best-paid workers increased more than the earnings of the 10% least-paid workers, over the 1995-2005 period (*i.e.* earnings inequality widened).

1. Full-year, full-time workers. The data shown are consistent over time, but not entirely comparable across countries owing to differences in pay reporting periods and coverage of workers.
2. Unweighted average of countries shown in the figure.

Source: OECD database on Earnings Distribution.

Source: OECD Employment Outlook (2007: 286)

To summarise, while it is true that the broader trends point in similar directions, both the speed of change and level of inequality continue to differ across countries.[18] The Nordic countries in particular, represented in the DYNAMO project by Sweden, are diverging further from the bulk of the other EU countries in general, and from other CME countries in particular (with the possible exception of Austria).

What we are witnessing here is, again, the reproduction of diversity amidst common trends, but equally important is the lesson that policy matters. In their analysis of long-term trends in income distribution in the US, Levy and Temin (2007: 39) note that "stability in income equality where wages rose with national productivity for a

[18] The same applies to an EU-US comparison; cf. Rosenberg (2007).

generation after the Second World War was the result of policies that began in the Great Depression with the New Deal and were amplified by both public and private actions after the war. This stability was not the result of a natural economy; it was the result of policies designed to promote it." Thus, they argue, it was a shift in political priorities that initiated the new long-term trend that has seen wages losing track with productivity increases over recent decades.

Table 2.4: Risk of poverty before and after social transfers (2003**)*

	Risk of poverty before social transfers (%)	Risk of poverty after social transfers (%)
HU	15	10
SE	29	11
FR	26	12
AT	24	13
DE	24	15
EU 25	*24*	*15*
UK	26	18
ES	22	19
IT	22	19
EL	24	21
IE	31	21

* Risk-of-poverty rate: the share of persons with an equivalised disposable income below 60% of the national median equivalised disposable income. This share is calculated before social transfers (original income including pensions but excluding all other social transfers) and after social transfers (total income). ** except FR, HU, SE (2002), IT, EU-25 (2001)
Source: Employment in Europe 2005, p. 123

The combined importance of capacities of institutions and orientations of actors becomes even more crucial when it comes to tackling this inequality challenge. Data on poverty rates may provide evidence here, as poverty rates correlate highly with social spending (Förster / Mira d'Ercole (2005: 29). As is clear from Table 2.4, poverty risks both before and after social spending differ substantially across EU countries.

Among the countries covered by DYNAMO, the risk of relative poverty based on market income, i.e. before social transfers, is the second highest in Sweden, whereas in the same country the poverty risk is second lowest after social transfers. Next to Sweden, poverty is least tolerated in the three countries with continental welfare regimes. Given the high market earnings dispersion in Sweden and also in France (where it equals the UK level), this represents an obvious and major challenge to the redistributional capacities of these welfare states.

Not surprisingly, the UK ranks above the EU-25 average on both indicators, but the reduction of the poverty risk by social transfers is almost as great as in Germany (the reduction rate is even higher in Ireland but social transfers cannot fully compensate for the market-initiated poverty risk in that country). This underscores the finding of the British DYNAMO report that, although the UK's residual welfare state functions in an environment more tolerant of inequality than in other European nations, it has over the past decade been increasingly required to tackle the poverty problem. It is true that substantial relief to public spending has been provided by the statutory minimum wage, which sets limits on indirect subsidies for bad jobs in private services. It should be noted, however, that the opportunity for the UK government to increase anti-poverty spending, including in-work benefits, has been provided by high growth rates, which may not continue in the medium-term. As Rubery et al. (2007) summarise, "the prosperity of the UK is based on relatively fragile conditions that might undermine its sustainability. Perhaps most important is its over reliance on credit. It is also vulnerable to the political cycle and if the increased expenditure on public services is not deemed by the electorate to have delivered high volume and quality, the next phase of the political cycle might see retrenchment and a return to lower growth and public expenditure. The current method of financing the expansion of the public sector also raises the spectrum of future generations paying a far too high price to the private sector for its current investment."

The implication of the UK experience for catch-up countries like Hungary[19] that are trying to combine an LME-type production regime with a continental welfare regime is that this approach may not be successful, as Hungary does not have the value-added base in high-value services that makes the UK way feasible for the time being. On the other hand, a move towards high-road manufacturing is hampered by the lack of commitment to vocational training. In addition, the growing problem of a large undeclared sector further limits the capacities of the welfare state (Neumann/Toth 2007). Given the soaring earnings inequality of recent years, the problems facing the welfare state in future may be even greater than suggested by figures for 2002 shown in Table 2.4.

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[19] Note that the positive picture on Hungary in Table 4.3 is based on 2002 figures and may be not fully up to date as earnings inequality has soared rapidly in this country over recent years (cf. Figure 4.3 for more recent figures), which may also increase the risk of poverty.

The three countries with Southern welfare regimes are strikingly similar: initial poverty risks are below the EU average but social transfers make only a minimal contribution to poverty reduction. As analysed in the Italian and Greek DYNAMO reports, this mainly reflects limited capacities rather than a simple circumvention of social obligations. Ultimately it is still the family that acts as a safety net for those exposed to the social risks associated with the large and ever growing precarious segments in the labour market. This contributes to the further expansion of the extensive informal sector, which official statistics fail to capture. The informal sector, in turn, erodes the fiscal base and thereby reduces the scope for developing more comprehensive welfare systems.

The starting point of the present chapter was Coates' (2000: 250) claim that "the models have stopped working". While he is right on the whole that "the changing balance of global social forces is producing a convergence of effects" (or at least a common trend in effects, which is not the same thing), the data on earnings inequality and poverty risk do not support his gloomy verdict on the diminishing importance of institutions. The different institutional settings across EU countries continue to produce different social outcomes. However, it is true that welfare regimes face ever greater challenges as a result of the growing pressures towards inequality. Thus it is not simply the *capacities* of employment models that count, it is also the dominant *orientations* of major actors and among the public that are becoming increasingly crucial. The latter is demonstrated by the narrowing gap in earnings inequality between Germany and the UK as well as by the fact that the level of social spending on the reduction of poverty risks has become almost similar in these two countries. The importance of the orientations of key actors and the public is also demonstrated by the Swedish case, whose welfare regime has to digest an ever growing inequality challenge produced by the market. Saying this, and keeping the latest Swedish elections in mind, it becomes evident that it cannot be taken for granted that major actors (and the public, i.e. the taxpayers) will remain as prepared as they have been to actually use and develop further the capacities of the respective employment models.

This leads us to the contradictions and tensions inherent to individual employment models or employment model clusters and to the varying capacities of national employment models to reconcile these contradictions.

3 Capacities and contradictions

Once national employment models meet new challenges, the existing institutional setting may “fit” well with the new demands. In most cases, however, there will more probably be tensions. These tensions, in turn, may be used creatively in order to produce new institutional solutions that help to make the best of the new challenge (Crouch 2005). Conversely, they may cause harm by producing “exhaustion” or “drift” without paving the way for renewal or revitalisation. Thus challenges may produce opportunities for some and risks for many national models.

One of the most striking examples of the opportunity-risk mix produced by challenges is the rise of the IT industry which from its early days has been an industry governed by transnational companies and standards. Table 3.1 summarises the “fits” and tensions or conflicts between national institutions, on the one hand, and the IT industry, on the other.

Table 3.1: Tensions between sectoral employment conditions and national employment systems: the example of the IT industry

		Examples of ‘fit’ with national model		**Ongoing areas of conflict/ tension?**
		Partial	**Full**	
Coordinated market economies	**AT**	High use of self-employed	New sectoral agreement for collective bargaining Strongly developed VET	Firms show weakening preference for hiring intermediate qualified workers
	DE	No specific sectoral agreement for collective bargaining; patchy provision from other sector agreements	Strongly developed VET, extends also to further training	Increasing use of graduates potentially conflicts with national investment in VET Very weak enforcement of works council provisions
State-led market economy	**FR**	Flexibility exercised outside the Aubry working-time legislation	Full-time, permanent contract the norm Divided, weak trade unions	High mobility of IT workers conflicts with traditional stability of internal labour markets
Liberal market economy	**UK**	Exceptionally high use of freelancers Risk to job security posed by outsourcing and offshoring	Limited joint regulation of wages and high use of ‘market rates’ and individualised bonuses Strong reliance on expanding pool of graduate job applicants Employment protection legislation applies to outsourced IT workers	Outsourcing and staff transfer brings unionisation to non-union US-owned IT firms Firms’ disinterest in vocational training conflicts with national policy efforts to extend and deepen vocational programmes
State-led familial market economy	**EL**	High use of individual wage bonuses Firms avoid formal definition of working time	Minimum employment conditions covered by national collective bargaining agreements	Strong preference for graduates conflicts with investment in VET Relatively low rates of self-employment conflict with firms’ use of subcontractors Weak formalisation of IT profession

Source: Grimshaw et al. (2007)

If we take an expanding IT sector as an indicator of the potential for future growth and competitiveness, it becomes obvious that there are different institutional gateways to that future, quite in line what would be suggested by a VoC approach. At the same time, tensions and contradictions become evident under all circumstances. Even in an LME environment, which in principle offers the best “fit” with many of the sector-specific requirements of the IT industry, there are paradoxical tensions emerging, such as the unionisation challenge to US firms that are taking advantage of the outsourcing strategy of the public service in the UK, which in fact has given a major boost to the industry over recent years in that country. In a nutshell, changes in the production regime may cause tensions with the employment regime and, conversely, contradictory repercussions may radiate from the employment regime towards the production regime.

It is this interaction between production regimes, employment regimes and welfare regimes that gives rise to numerous tensions and incoherences within national employment models. While most of the literature on varieties of capitalism has focused on institutional complementarities, we want to shed light on some major contradictions within national employment models that have emerged in the course of change. The incidence of contradictions is relevant for capitalisms of all breeds, be they “co-ordinated” or “liberal” in nature. There are distinctive linkages, however, as particular contradictions are more evident in certain types of employment models than in others.

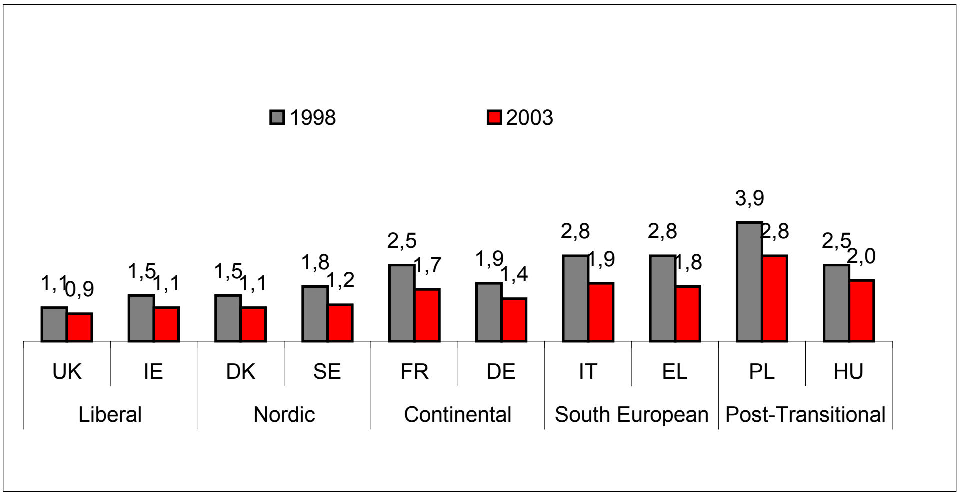
In what follows, we will examine two of the major challenges to national models in order to highlight some of these contradictions (cf. Figure 1.1 for a summary of these challenges). We will focus, first, on the regulatory policy of the EU and other drivers of product market de- or re-regulation and, second, on the combined challenge of ageing societies and changes in gender roles. Both sets of challenges give rise to particular configurations of tensions or contradictions within the triangle of production regimes, employment regimes, and welfare regimes that are characteristic of certain types or clusters of national employment models. It will, again, become obvious that the ability to tackle such challenges differs substantially across national employment models. Challenges may be a risk for certain countries but turn out to be opportunities for others.

3.1 Tensions within the production regime - employment regime nexus

Explicitly and deliberately, the EU's regulatory policy is one of the major drivers of product market deregulation in Europe. Obviously, this move impacts on labour markets and their regulation. In many European countries, labour standards have depended not only on employment regulations but also on product market structures and regulations. It is easier for unions to organize workers and negotiate collective agreements in public enterprises, since the European welfare states are more willing than private employers to accept unions and collective bargaining more. Many public enterprises were monopolies and price-setters, a position which made it easier for them to pay comparatively high wages and provide good working conditions even for jobs requiring limited vocational qualifications. In addition, trade tariffs, regulations on competitive behaviour (including restrictions on prices and requirements to pay collectively agreed wages) and market entry regulations often helped to take wages out of competition and created a supportive environment for collective bargaining and labour market regulation. Because of these close linkages between product and labour markets, it has been argued that product market deregulation decreases the bargaining power of workers and that product and labour market regulations can be regarded as substitutes for each other. A related implication is that sequencing reforms such that product markets are dealt with first could make it easier to overcome political opposition to subsequent labour market deregulation (Fiori et. al 2007: 27). Some case studies on the impact of product market deregulation on labour standards in the USA seem to support this straightforward argument (for example Belzer 2000 and Philips 2003). The question is whether this nexus between product and labour market deregulation is strong only in the USA and other liberal economies, with their decentralized and fragmented collective bargaining structures, or whether it also applies to coordinated capitalist economies in Europe, with their multi-employer and centralised bargaining arrangements.

Over recent decades, many of these product market regulations have been weakened or abolished to a large extent as a result of EU competition policy and of other international agreements, such as those of the WTO. The OECD has developed a wide range of indicators in order to monitor the change in product market regulations. One of these indicators summarizes the deregulation in energy, transport and communication, i.e. industries that have to be deregulated as a result of EU directives. The indicator shows that some European countries, especially the UK but also the Nordic countries, started the deregulation of these industries by privatising public enterprises, abolishing entry barriers and implementing other measures in the 1980s, before EU directives made it mandatory. Some Continental countries, such as Germany, started to implement the directives mainly from 1995 onwards, whereas France and the Southern European countries have continued to drag their feet (Conway/Nicoletti 2006). Using Amable's (2003) clustering of production regimes as a broad guideline for the grouping of countries and comparing the levels and recent developments (1998-2003), we see that in liberal production regimes the product markets in some industries had already been deregulated in the 1980s and other industries had only been lightly regulated for a long time, so that only relatively slight adjustments have had to be made in recent years in response to EU directives. One perhaps surprising finding is the low level of product market regulation in the Nordic countries, whose regulatory index now hovers around that of the liberal economies. The other three groups of countries are moving more slowly from a generally higher level towards the Nordic and Liberal countries (Figure 3.1).

*Figure 3.1 Composed indicator of production market regulations, 1998-2003, selected countries**



* This indicator is calculated as weighted average of a number of lower level indicators such as size and scope of public enterprises, barriers to entrepreneurship and barriers to trade and investment.
Source: Convey / Janod / Nicoletti (2005: 59)

The question is how these substantial changes in product market regulation are affecting the different national employment models. It seems that the nexus between product market and employment regulations differs substantially across countries. In the

Scandinavian countries, product market deregulation has so far not significantly influenced labour market regulations. Labour standards there are based not on product market regulations but on statutory and collectively agreed regulations with extensive spheres of application. The same standards apply equally to state and private, to domestic and foreign companies. Attempts by foreign service companies to provide services (such as construction work) in Sweden or Denmark at the pay rates of the countries of origin have been prevented by trade union blockades, which have now even been declared permissible by the European Court. All service providers responding to calls for tender must adhere to these standards, so that there can be no undercutting at the expense of social standards. Such strong and comprehensive labour market regulation, which was independent from the product market, was probably one of the reasons why deregulation of product markets was widely accepted within the Nordic countries. Generally binding collective agreements with legal minimum wages have the same effects in Austria, France, Belgium and the Netherlands and also in Italy, Spain and Greece. The privatisation of public utilities in the UK, however, led to more decentralised bargaining at company level, accompanied by an extensive use of outsourcing often to non-unionised firms, so that the effect was to weaken employment protection overall in the sector (Hall 2000). In Germany also, the lack of generally binding pay conditions gave rise in some industries, after privatisation, to an underbidding 'war' between firms bound by collective agreements and those not so bound. This so far has not been the case in the energy industry (gas and electricity), where public monopolies were mainly replaced by private monopolies. In the more labour-intensive industries or the more labour- intensive sub-sectors of industries (such as call centres in telecommunications), however, wage competition triggered a wave of concession bargaining and led to a fragmentation of collective bargaining and considerable increases in low-wage employment. Product market deregulation has had similar effects on labour markets in most of the Central and Eastern European countries, with their mostly decentralised industrial systems (Kohl and Platzer 2004).

The opening of local transport to competitive tendering provides an example of different approaches to EU product market regulation across national employment models (Latniak/Wickham 2007). Due to EU regulation, new private-sector actors have emerged that are increasingly shaping the very frameworks within which public transport is delivered. The more local transport markets are opened up and (large) private companies enter via the competitive tendering process, the greater will be the drive towards rationalisation, the application of economies of scale and the outsourcing and contract-based delivery of non-core tasks. As far the approaches adopted in the countries covered by the DYNAMO studies of local transport are concerned, three different types of trajectories can be identified. The first, and maybe most clear-cut, case is Sweden which was the European leader in competitive tendering and privatisation in this industry. In contrast to LME-type countries, however, wages continued to be fully protected within the centralised and virtually comprehensive bargaining system. Moreover, wages were allowed to rise against a background of widespread privatisation and comparatively high service quality.

The contrasting approach has been practised so far in Italy, Hungary and, maybe surprisingly, Ireland. The rationale in each of these cases has been different, reflecting the "swaying between the two faces of Europe" dilemma in Hungary and the defence of the "citadels of garantismo" approach in Italy. The Irish case, on the other hand, may demonstrate the "power of local resistance to a simple neo-liberal model" (Neumann/Toth 2007; Simonazzi et al. 2007; Schweiger/Wickham 2007). Admittedly in different contexts and by different means, the drive towards privatisation and competitive tendering in local transport services initiated by EU regulations has been by and large blocked or postponed so far in these countries. In Italy, for example, this approach has been implemented by providing a general guarantee for employment conditions in the sector, which has made it unattractive for private companies to bid for individual services. With the exception of Sweden, potential private suppliers of transport services appear not to be interested in, or prepared to adopt rationalisation measures that may make the service more cost-efficient without affecting wages. This fits with the approach of public authorities who do not appear to be willing to invest further in public urban transport in order to improve service quality.

Germany and Austria provide examples of creeping or staggered privatisations. The continuous reduction of subsidies and the actual tendering procedures (implemented to a moderate degree in Austria) are subjecting wages in the publicly owned companies to considerable pressure and causing non-core services to be outsourced. While the high quality of integrated services based on continuous technical investment and the high degree of coordination among companies involved have not yet been hampered substantially, the impacts on collective bargaining have been significant, since high levels of coverage have been safeguarded only at the expense of greater fragmentation within the industrial relations system and the establishment of sector-wide concession bargaining.

To summarise, national or regional authorities continue to enjoy a certain degree of freedom to set quality standards for services, which influences the demand for certain qualifications and skills among the workforce. However, the provision of financial resources for transport services remains limited. Thus, the decision on the level of service required is a purely political one that determines the price to be paid by passengers and the level of public subsidy required. This establishes the framework for determining both wages and the potential profitability of the transport operations. The lower the level of public commitment is, the greater the pressure on employment conditions will be. This brings existing labour market regulations into play. The more they relied primarily on the public character of ownership in the past, the greater the strain on labour standards will be in a less regulated environment. The bottom line here is the increasing importance of more general protection of employment conditions at national level once traditional product market regulations begin to be eroded. The interaction and mutual dependence between product and labour market regulations is equally important in the construction industry, even though the underlying story is different. As the DYNAMO sector studies show (Recio 2007), two major types of employment models in construction have so far coexisted in European countries. The high-road type has focused on guaranteeing professional development through the combination of training processes, division of tasks, and institutions that provide employment security in a context of seasonal fluctuations, mobility of manpower and great product variability. The low-road type is based on learning on the job, strong competition between workers and subcontracting, which leads to poor working conditions and insufficient safety nets, only palliated in recent years by the strong growth in the countries where this model is predominant.

In recent years, the high-road trajectory has been threatened by changes such as the limitation of recognised fields of professional activity and the challenge of international subcontracting. In a certain but modest counter-move, countries on the low-road construction trajectory have adopted new regulations on products, health and safety and subcontracting, but the overriding pressures of labour migration, international outsourcing and the EU internal market strategy remain dominant. National norms, such as the German craft system or the Swedish collective agreements, continue to be effective in mitigating the worst impacts of these pressures as far as labour standards are concerned. Still, these regulations are under continuous pressure and there is growing evidence of foreign subcontractors being used to undermine labour standards and national norms (taxes, wages, etc.).

The bottom line here is that the ongoing Europeanisation must be accompanied by effective regulatory frameworks at national or sectoral level if cut-throat competition impacting on labour standards is to be prevented. In this regard, both collective agreements as well as statutory regulations can be useful. The example of other industries covered by DYNAMO, such as the hotel/restaurant sector (Jany-Catrice/Ribault 2007), show that the "posted workers problem" is not limited to the construction industry.

So there are clear signs that, in some countries, the deregulation of product markets has removed some of the important pillars supporting labour standards and that they have not yet been replaced by substitutes in the employment systems. As we learned from the experiences in other European countries, such substitutes could be provided by either generally extended collective agreements or very high trade union density. The EU directives leave it to the national states to introduce new labour regulations where necessary in order to prevent negative impacts on labour standards arising out of the deregulation of product markets. In the case of the postal services, Germany created a regulatory authority that could require each new competitor to pay the local wage rates. However, this has not been implemented since the state traditionally does not interfere directly in industrial relations. Since the new competitors have not joined an employers' organisation, there is no industry-wide collective agreement to be declared generally binding, which would have been the traditional protective mechanism in the German system of industrial relations. New labour standards are not easy to implement in employment systems in which trade union density is low or industry-wide bargaining has been weakened or even abandoned altogether in the affected industries without a substantial change in the system of industrial relations. So national actors have choices but some actors may no longer see the need for national compromises. Furthermore, the traditional employment system might be an obstacle to non path-dependent reforms. So there are good reasons to argue that EU regulatory policies are increasing divergences between EU member states and endangering labour standards in some EU countries.

Since we are observing a moving target and the product market deregulation required by the EU has not yet been fully implemented in all member states, it is yet not clear how stable the labour market regulations are or whether they will be able to withstand new pressures generated by intensified competition in product markets. So, for example, is not yet clear whether the hitherto well-protected positions of male sole breadwinners in industries in Southern Europe that have hitherto been shielded from competition will, in the medium term, be put at risk by deregulation. The negative impact of product market deregulation on labour standards in some EU countries was the major reason why the draft service directive met with strong resistance in many member states and in the European parliament. Due to new actor groupings – new coalitions of unions, political parties, governments and members of the European parliament – concerned to link product market regulation with labour standards, the directive had to be revised. The country of destination can now require that services have to be provided under their own labour standards and not – as the European Commission first proposed –with the labour standards of the country of origin. However, the question remains whether all countries will be willing and able to implement this provision.

To summarise, the interaction of product and labour market regulation used to create potential for virtuous circle effects, i.e. for a mutual reinforcement of production and employment regimes fostering high-road trajectories in certain industries (as demonstrated here by the example of construction). The more this "equilibrium" is being endangered from the production regime end, the more important the employment regime end becomes as a counterbalance. Thus the importance of the nation state and of the national or sectoral frameworks in which employment regimes are shaped is clearly increasing.

3.2 Tensions within the employment regime - welfare regime nexus

While changes in the age structures of European societies and changes in gender roles and in household formation are different in societal nature and impact, they are closely linked to each other when it comes to their implications for national employment models.

The basic challenge to national employment models posed by changing gender roles results from soaring female labour market participation. The core process here is a fundamental shift from unpaid labour inside households towards paid labour offered on the labour market, which increases demand for a wide range of services and for childcare and elderly care services in particular. The latter establishes a link between the two challenges. While the need to expand child and elderly care services is widely regarded as a major challenge for existing welfare regimes, increasing demand for both public and private services is arguably amongst the most effective drivers of economic and employment growth. Ultimately, the positive demand effects may pay the bill for, and even outweigh, the welfare challenge, but quite obviously distributional interests are at stake.

For their part, changing age structures have implications for current approaches to work organisation and working conditions, which need to be adapted in order to meet the challenge of rising employment rates amongst older workers. One particular challenge is the pressure exerted on existing pension systems as distributional conflicts get more intense.[20] As far as public pension systems are concerned, the general assumption is that income inequality and poverty rates will increase the more the pension formula is limited by institutional reforms that scale down the relative value of pension entitlements (Soede at al. 2004).

Changing gender roles and changing age structures will have combined effects on employment models, as they can produce either a virtuous or a vicious circle. In principle, support for female labour market participation and for greater gender equity in the labour market offered by welfare regimes can be one of the most effective answers to the strain on welfare states caused by an ageing population. In this case, there will be a complementary relationship between the production and employment regimes, on the one hand, and the welfare regime, on the other. This relationship is ultimately driven by the "double job multiplier" (Esping-Andersen 2002: 69) of women moving

[20] While the incidence and pertinence of these distributional conflicts do not depend on the nature of pension systems, the latter may impact on the outcomes as public pension systems are ultimately wage-based, whereas private systems are linked to the profit share of GDP which may provide a competitive edge in distributional conflicts as long as private systems coexist with public ones. The pension-wage link is a direct one in Bismarck-type insurance-based systems and indirect in tax-based systems. In the latter there may also be a link to other sources of income, depending on the nature of tax systems, i.e. the share of non-wage bases of taxation.

into paid employment, with its implications for social and human capital investment and for households' purchasing power.

The same logic, however, may work the other way too. Inadequate provision for gender equity in the labour market may worsen the impacts of an ageing population, as women will either reduce their labour market participation (reduction of working hours offered, marginal part-time, under-utilisation of educational attainment), thereby reducing the tax base, or fertility rates will drop due to a work environment incompatible with the raising of children. In this case, the relationship between production / employment regimes and welfare regimes will be contradictory and harmful, rather than complementary.

Table 3.2: Female employment rates (in % of population aged 15-64 and in full-time equivalents), 1995 and 2006

	1995	2005	FTE 1995	FTE 2005	*Δ FTE*
Italy	35.4	45.3	33.8	40.3	*+ 6.5*
Greece	38.1	46.1	36.9	44.5	*+ 7.6*
Spain	31.7	51.2	28.9	44.9	*+ 16.0*
Germany	55.1	59.6	46.1	45.2	*- 0.9*
Ireland	41.6	58.3	36.4	49.0	*+ 12.6*
Hungary	45.2*	51.0	44.5*	49.9	*+ 5.4*
Austria	59.0	62.0	53.4	50.0	*- 3.4*
France	52.1	57.6	46.2	50.8	*+ 4.6*
UK	61.7	65.9	47.0	51.5	*+ 4.5*
Sweden	68.8	70.4	58.5	60.8	*+ 2.3*
EU 25	*51.1***	*56.3*	*n.a.*	*47.6*	*n.a.*

* 1996, ** 1997
Source: Employment in Europe 2006

Looking at the data on female labour market participation, the overall trend appears to be evident (Table 3.2). The share of women of working age entering the labour market has increased significantly over the past decade in all EU countries. Of the countries covered by DYNAMO, the increase has been most marked in Southern Europe, with Spain way ahead with an employment rate soaring by roughly 20% within one decade. The picture is more mixed, however, once full-time equivalents (FTEs) are taken into account. Here, again, the increases have been substantial in many countries, including Southern Europe and Ireland. Note, however, the contrast between Ireland and Spain, on the one hand, where FTE employment rates have leapt forward by 12.6 and 16.0 percentage points respectively (and above the EU 25 average in the case of Ireland), and Germany and Austria on the other, where FTE employment rates have dropped by 0.9 and 3.4 percentage points respectively (and below the EU 25 average in the case of Germany). The German case in particular reflects the impact of marginal part-time work, which continues to be subsidised within the continental welfare regime. Such employment opportunities have helped to increase the overall female employment rate of women, but at the same time have contribute to a drop in FTE. Given the rising average level of educational attainment among women, it is evident that Europe's largest economy is wasting a considerable proportion of the skills the country produces.

As to whether rising employment might, in the medium term, help to make welfare regimes more sustainable, it is obvious from this evidence that the immediate potential is greatest in countries with low levels of female labour market participation (Soede at al. 2004). However, the indirect implications for fertility rates and the multiplier effect connected to social and human capital investment also have to be taken into account. Hence Soede at al. (2004: 13) summarise their analysis of various scenarios with the assessment that "a 'Nordic' policy … could have favourable effects on sustainability, while limiting the distributive implications of the ageing process." Thus, the strategies welfare regimes adopt in order to encourage and support women's employment become crucial.

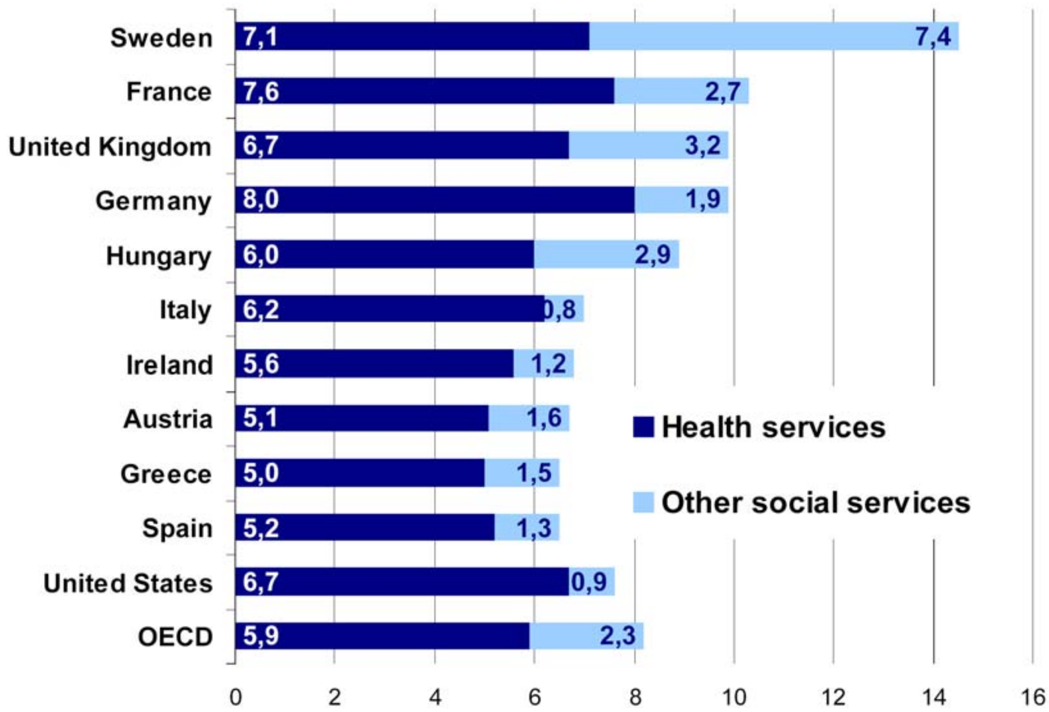
A rough indicator of the incidence of such strategies is provided by the OECD statistics on gross public expenditures on social services as a percentage of GDP (Figure 3.2). Note that the data exclude cash benefits and refer solely to services for social purposes paid for by public bodies.

Apart from health services, which account for the bulk of social services expenditures, it is obvious that expenditures on other social services differ substantially across the EU countries covered by DYNAMO, ranging from 0.8 % in Italy to 7.4 % in Sweden. On the basis of the typologies relevant to national employment models, Sweden can be singled out as the flagship of the Nordic model at the top end [21], while the Southern countries, together with Ireland, bring up the rear. This contrasting picture of Nordic vs. Continental and familialist welfare regimes accords fully with what would be

[21] Sweden is an outlier even among Nordic countries, but the ranking of these countries relative to other European countries remains unchallenged: Public spending on "other social services" as % of GDP is 6.3 % in Denmark, 4.9 % in Norway, 4.8 % in Iceland, and even Finland with 3.7 % ranks way above the OECD average (OECD 2007b).

expected within welfare regime typologies. The picture for the other Continental welfare regimes is less homogenous. Austria and Germany seem to form a group that is very close to the familialist group of countries, whereas the provision of social services in France is much more advanced, thanks to the developed child care system. Interestingly, Hungarian social services appear to be as well funded as those in France, which reflects a split in public attitudes between an LME-type production regime and a Social-Democratic orientation when it comes to the welfare state. Maybe surprisingly, the UK as the LME flagship ranks second among DYNAMO countries. Obviously, an LME may, in principle, be compatible with a high level of social services as long as the value-added base in the economy allows for it (which is of course true for any other variety of capitalism). This condition is given in the UK but not in Hungary, where the contradiction between production regime and welfare regime is evident (Neumann/Toth 2007).

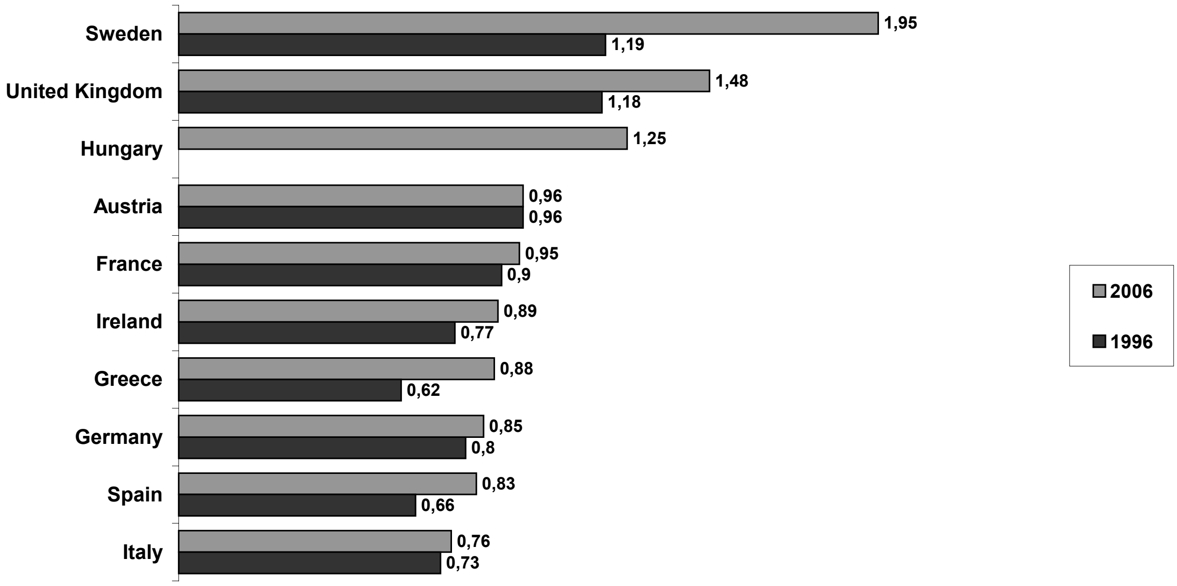
Figure 3.2: Gross public expenditure on social services in % of GDP



Source: OECD (2007b)

It should be noted, however, that the picture based on public expenditure data may be incomplete or even misleading, since social services may be provided by private or not-for-profit organisations rather than just by public organisations, and paid for by private households. Thus it is useful to include data on labour input into social services irrespective of the funding structure of the organisations delivering the services. As individual services may be categorized differently across countries (e.g. childcare or elderly care may be categorised as education or health services respectively), Figure 3.3 shows the weekly hours worked per capita in education, health and other social services in order to give the full picture of the labour input into social services in a wider sense. This measure differs from the ones usually applied in the literature, such as "the share of service employment in total employment". Our indicator - "total hours worked per capita of population" - shows the importance of social services for labour markets irrespective of other variables, such as the share of manufacturing or the age structure in a given country (for the rationales behind different tertiarisation indicators and the NACE codes for service industries cf. Bosch/Wagner 2005a).

Figure 3.3: Weekly hours worked in social services per capita of population*



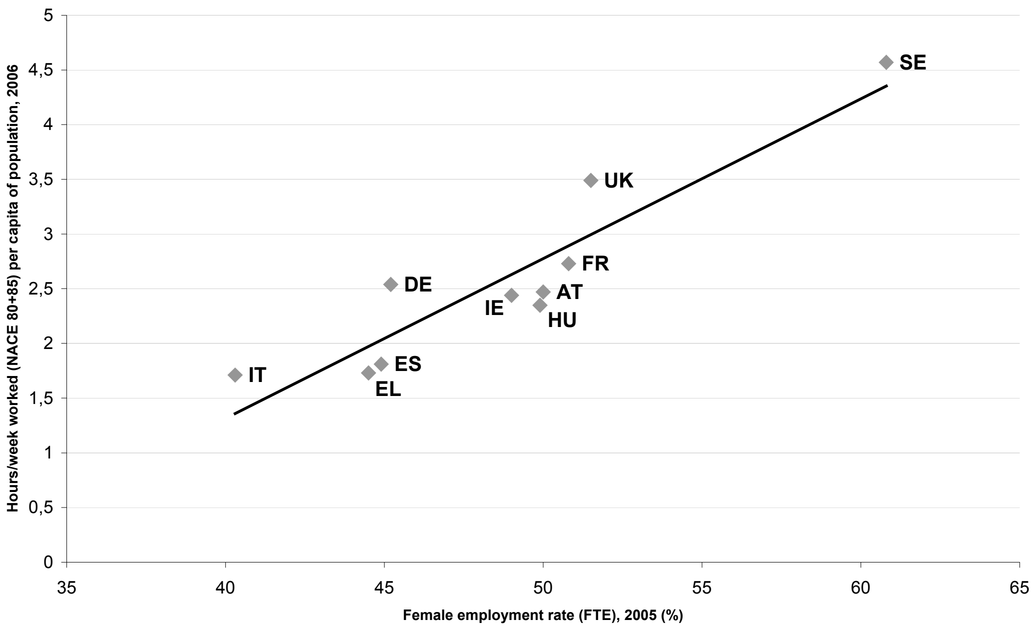
* Education, health and other social services (NACE 80 + 85)
Source: ELFS, own calculation

[22] Sweden is an outlier even among Nordic countries, but the ranking of these countries relative to other European countries remains unchallenged: Public spending on "other social services" as % of GDP is 6.3 % in Denmark, 4.9 % in Norway, 4.8 % in Iceland, and even Finland with 3.7 % ranks way above the OECD average (OECD 2007b).

By and large, the data on trends in labour input into social services over the past decade support the picture provided by social expenditure data. Sweden and the UK as the high-end countries have rapidly expanded the hours worked in social services as a whole. Remarkably, the build-up of social services has been fastest in the UK of all the countries covered. It should be noted, however, that this build-up has taken place within the UK government's "market state" strategy, in which social services are being increasingly supported by cash benefits given to private households and service provision is being increasingly outsourced rather than being delivered within the public service. Interesting additional insights include the finding that Ireland and the Southern countries, with the possible exception of Italy, are catching up much faster than the Continental welfare regimes in Austria and Germany. The division between the latter group of countries, on the one hand, and the two flagship social-democratic and liberal welfare regimes, on the other, remains as pertinent today as it used to be, as shown by the data on social expenditures.

The interim assumption based on these data is that the complementarity between the provision of social services and female labour market participation appears to be particularly strong in Sweden and the UK, whereas it is weakened in continental / familialist welfare regime environments. Between two and three times more working hours per capita are put into social services in Sweden than in Italy, and the ratio of public expenditure on social services other than health care is more than 9:1. There is a strong correlation between labour input into social services and female FTE employment rates in the countries covered by DYNAMO (Figure 3.4).

Figure 3.4: Labour input into social services and female FTE employment rate***



* Total hours worked in education, health and other social services per capita of population, 2006
** 2005 (Correlation: 0,92*** significant at the 0,001 level)
Source: ELFS, own calculation

These data reflect an institutional complementarity, which does indeed appear to be a comparative advantage for some countries but a comparative *dis*advantage for countries with continental and southern welfare regimes. However, it should not be forgotten that female employment rates are increasing irrespective of limited social services provision. The consequence in countries with continental / familialist welfare regimes is that increasing female labour market participation is accompanied by fertility rates way below the EU average. In the UK, on the other hand, the potential lynegative effect on fertility rates of childcare services lagging behind the rapidly increasing demand is outweighed by means-tested benefits and, most importantly, the relatively young age at which graduates start their careers (Rubery et al. 2007), which obviously allows to become established in their careers before starting a family.

Moreover, in some countries - and Germany is the most prominent example here - women continue to enter the labour market on reduced working hours, thereby not making full use of the qualifications they have acquired. As a consequence, the value-added base needed to meet the demographic challenge to welfare states in the short run is being restricted, as is the potential to modify demographic trends in the longer run.

The insights provided by the sector studies in elderly care within the DYNAMO project serve to flesh out this general picture. As Simonazzi (2007) points out, the interaction between care regimes and national employment policies has led to very different results in terms of the quantity and quality of labour supply and can explain differences in care labour shortages and the use of immigrant labour. Care regimes differ in their capacity to create a market for care, either primarily formal or mixed formal-informal, with major contributions possibly being made by unpaid family members or informal immigrant labour (Table 3.3).

Table 3.3: Care regimes

Predominantly formal care market	Sweden, France, UK
Important informal care market (predominantly family carers) and growing share of formal market	Germany, Austria
Predominantly informal care market (family carers and immigrant labour)	Mediterranean countries

Source: Own compilation based on Simonazzi (2007)

Systems relying on in-kind provision, contracting out and "tied" cash allowances (to be used to hire private carers) are the most effective in creating a formal market. Those systems relying mostly on unconditional cash allowances (monetary transfers) have slowed down the creation of a formal market for care, encouraging instead the supply from the informal market, either family carers or carers hired by the family in the market. In the Southern European countries this process is still under way, because the limited amount of public funds for elderly care has not yet been able to create a formal market. This is slowly changing in Spain, for instance, particularly since the Dependent Persons Act was passed, and there is a general trend towards the regulation and formalisation of the elderly care labour market. Thus the interaction between the care regime and the national employment model can lead to very different results in terms of the kind of employment that is created and ultimately determines whether the increasing demand can be met internally or whether immigrant workers are needed in order to make good labour shortages.

The UK, Sweden and France fall into the first category, i.e. the creation of a market for care, but have different experiences in terms of the supply of domestic care labour. In the UK, care service jobs have been traditionally classed as manual work and have required no formal qualifications for entry (in line with many manual jobs in the UK labour markets). With the increasing marketisation of services, cost pressures have further encouraged the development of a low-paid and casualised workforce (Anxo and Fagan, 2005). Low wages and other poor employment conditions, low levels of educational attainment, a negative public image of social care work, organisational aspects which reduce job satisfaction (e.g. constant change, poor management) and the stress of the work are at the basis of the difficulty that the sector faces in work-force recruitment and retention. The increasing role of the private (mainly for profit) sector in care services in the UK may be exacerbating these problems.[23] In contrast, Sweden's system of long-term care services is designed to support women in the workplace and to professionalize care-giving to older people needing help. Compared to other countries' caregivers, Sweden requires the highest levels of education and pays the highest salaries. Anxo and Fagan (2005: 140) observe that "the qualifications levels required for entry to home care work have generally been rising in Nordic countries, from a base that is already high compared to the situation in some other countries such as the UK. Thus in Finland and Sweden, three years of training in upper secondary school is now a typical entry requirement".

Table 3.4: Use of insurance allowance: Germany and Austria

	Germany	Austria
	% of recipients	% of recipients
Cash allowance	50.4	80
In kind	19.1	5
Residential care	30.5	15

Source: National Reports

Germany and Austria share two common features: a care system based on mandatory care insurance, largely paid in the form of cash benefits with no strings attached (Table 3.4). The combination of an unconditional money transfer, favouring informal care, with a highly regulated system of qualifications and professional degrees has produced a dualistic market.

In Italy the limited amount of public funds spent on elderly care has been used in large part to compensate family carers, but this money has mostly been redirected to pay migrant workers in the underground economy. Both types of allowances coexist.

[23] The impact of high cost pressure on job quality in private services was highlighted, in the DYNAMO project, by the example of the hotel/restaurant sector. Jany-Catrice and Ribault (2007) summarise the dilemma in this industry by pointing to the contradiction between the persistent call for higher service quality and a simultaneous deskilling or de-professionalisation of jobs as a response to competitive pressures and to the international division of labour.

As Simonazzi (2007) notes, both quantity and quality of care are strictly related to workers' qualifications and job quality. Countries with more regulated elderly care labour markets have been more successful in securing an adequate supply of native workers to meet demand. In these countries, the quality of long-term care is usually considered to be fairly high. Conversely, where labour markets are deregulated or where service buyers have been free to spend their benefits with no restrictions, the market has not been able to produce a sustainable solution in terms of quantity and quality of care labour.

The elderly care sector study adds to our knowledge of emerging contradictions between employment and welfare regimes in the face of the challenges posed by an ageing population and changing gender roles. The first lesson is quite in line with the data on social expenditures and labour market trends and provides further support for the social investment strategy (Esping-Andersen 1999) pursued within Nordic welfare regimes. The Nordic way kills two birds with one stone as far as the challenges under discussion are concerned. It entails, however, an increasing tax burden, which makes the combined challenges of social services quality and gender equity in the labour market controversial and high-priority issues in the public debate. Furthermore, they are from time to time the object of considerable political pressures and consequent turmoil. Social investment is arguably the most viable way to meet the challenges discussed here, but it is also a strategy that is becoming increasingly problematic for policy makers. Given the tax burden issue, it is fair to assume that pressures to drift off towards a neo-liberal response, which would increase the burdens on (mostly female) workers in social services and on private households in general (with increasing burdens for the welfare states coming through the back door), may increase in the future.

The LME way in the UK, in contrast, works differently to what could be expected from the general labour market and social expenditures data. While it is true that female labour market participation is supported by the provision of social services, the "market state" approach links this to even greater cost pressures than is the case in the tax-based "social investment" approach. As a consequence, social divisions particularly among women are on the rise. High employment and fertility rates give rise to high levels of inequality in the labour market and poor labour standards in the expanding social services. The inequality challenge, including significant shares of child poverty, may place different kinds of strain on the welfare state in future.

The most obvious contradiction with long-term implications is the one faced by the Southern countries, as well as the Continental welfare regimes. While it is true that female employment rates and, to some extent, also public spending on social services in the Southern countries are catching up rapidly (with the partial exception of Italy), the gap between them and the most advanced countries remains wide. More importantly, this catch-up race is severely hampered by the widespread practice of tax evasion, which feeds into the vicious circle suggested at the beginning of the present chapter. Even though this problem is much less serious in the more advanced Continental welfare regimes of Germany and Austria, the lack of political support for a strategy of social investment (given the lack of public preparedness for a shift towards a clear-cut market-state approach) is causing these countries to drift into the dual trap of a constrained female labour supply (including a polarisation by educational attainment) and low fertility rates, which limits these countries' ability to meet the challenge of a changing age structure.

4 Conclusions

The European employment models are currently under strong pressure to change; this pressure is both internal (from the ageing population, rising female participation rates etc.) and external (globalisation of production, governance and ideology). Moreover, the EU's regulation policy and the EES, as well as the monetary policy pursued by the European Central Bank within the Euro zone, suggest that pressures for change are also emanating from within the EU.

In the face of these pressures for change, the different institutional settings across EU countries continue to produce different social outcomes. However, the challenge for the welfare regimes is exacerbated by the growing pressures towards inequality. Thus it is not simply the *capacities* of employment models that count, it is also the dominant *orientations* of major actors and among the public that are becoming increasingly crucial.

Our examination of two modernisation challenges has revealed the capacities of the various employment models to meet these challenges.

In many EU member states, the deregulation of product markets, driven primarily by the EU Commission as well as by international trade agreements, has led to a fragmentation of industrial relations and a decline in associated employment standards. Product market deregulation is putting many European employment models at risk. As many of the pillars of social standards in product markets are removed, comprehensive systems of social protection encompassing all categories of employees have become essential. Such systems, however, do not exist in all EU member states.

Thus, to a greater or lesser degree, most employment models face the challenges of major restructuring. This becomes equally evident from examination of the employment and welfare implications of the rise in female labour market participation. The continental and, to an even greater extent, the Southern European models have significant weaknesses when it comes to the restructuring of their welfare regimes in order to increase employment rates among women. The UK, for its part, is much more advanced when it comes to integrating women into employment. However, this is achieved to a considerable extent by women working part-time and, moreover, is associated with substantial earnings inequalities and with considerable pressures on job quality.

The lower employment rates for women in post-transitional Hungary is attributable less to traditional structures than to the massive loss of jobs following the collapse of the socialist economy. However, the way out of this dilemma is not easy to find, since the value-added base is fragile and the tax base is weakened further by tax evasion due to the expanding informal sector.

It is clear from our analysis that the Nordic type of employment model, represented here by Sweden, appears best able to deal with these challenges. The Nordic way entails, however, an increasing tax burden, which makes the combined challenges of social service quality and gender equity in the labour market controversial and high priority issues in the public debate and also exposes from time to time to considerable political pressures and turmoil. Social investment is arguably the most viable way to meet the challenges discussed here, but is also an increasingly problematic strategy for policy makers.

B) The Influence of the EU on the Evolution of National Employment Models (Conclusions on Policy Implications from DYNAMO)

1 The EU and the change agenda

Reform and modernisation of European employment and social models is being called for from a number of divergent perspectives. First there is the need to adapt to social and economic change. Models that emerged in the Fordist era oriented towards manufacturing and the male breadwinner household are no longer fully appropriate to meet the needs of a more diverse labour force, changing family and gender relations and the dominance of the service economy. Here change is required to support both new behaviours and new needs of citizens and also to extend the scope of the social model to be more inclusive. Second there is the apparent need to respond to external threats or challenges (Hay, Watson and Wincott 1999). New economic and political conditions- in particular the extension of globalisation - are said to require new approaches to employment and welfare that emphasise flexibility. Many advocates of change to counter external threats regard economic growth as best achieved by adjusting to the dictates of the market and reject a longer term approach based on the development of unique institutional and societal arrangements to confer comparative advantage. Consequently, aspects of the models that provide protection for current modes of activity need to be removed with incentives to change and to flexibility increased. Some go further to suggest that in this new economic era it is no longer possible for the state and the employer to shelter labour from economic risks so that instead the orientation of the welfare state models must be to create more self reliant and employable individuals who are better able to respond to risks (Jepsen and Serrano- Pascual 2006: 31). Third there is the public finance issue. The argument is made that the ageing of European society on the one hand and the need to promote flexibility on the other mean that the age of decommodification of labour through generous and passive benefits- both unemployment benefits and early retirement pensions- is over. The agenda must now be to maximise the employment rate of the prime age population and indeed to extend prime age into old age as longevity increases.

It is in this context that the EU has engaged in promoting the reform of European social and economic models. From the EU's perspective, reform is required if Europe is to achieve its stated goals in the Lisbon agenda to become a powerful player in the knowledge society and to achieve this objective while ensuring the development of a cohesive and inclusive society. By placing the goals of competitiveness and productivity alongside those of cohesion and inclusion, the EU is appearing to continue to mark out European social and economic models from pure market based models and to recognise the need to meet social as well as economic objectives[24]. Even within the employment model there is a recognition in the chosen language or rhetoric of the need not only for more but also for better jobs. From this perspective the EU can present itself as the saviour rather than the destroyer of Europe's distinctive social and economic models. Without the EU to persuade and nudge the member states into reform, the likely scenario is presented as stagnation, resulting in a future need for more dramatic cutbacks in welfare as the economies of Europe fail to compete under the challenges of globalisation and the move to knowledge rather than manufacturing based economies. This active role for the EU in promoting a vision for a reformed ESM[25] emerged primarily in the mid 1990s with the development of the European Employment Strategy (EES) and the associated open method of coordination whereby member states follow common guidelines in producing action plans but can move at different spends and according to their own specific path of development. . The scope of the agenda has been increased with the inclusion strategy- now including health and pensions. These soft law developments have been in part incorporated into the acquis that new member states have been expected to introduce in preparation for membership, such that there is now a relatively clear vision of the type of welfare and employment system that new members of the EU should aspire to. However, this agenda to modernise employment and welfare systems took active form precisely at the time that the EU was increasing its influence on member states through other elements of its policy agenda, namely macroeconomic policy and product market regulatory policy.

[24] Zeitlin (2007) points out that there are marked differences in interpretation of the Lisbon agenda; some see productivity and social cohesion as equal in status in the objectives, others see that productivity and competitiveness dominate the social agenda.

[25] Jepsen and Serrano Pascual (2006) in fact argue that it is this vision of the ESM embodied in the Lisbon agenda that constitutes what is meant by the European social model; it is in fact a construct of the European project.

This conjuncture of influences thus requires a number of interrelated questions to be explored concerning the role of the EU as a force for change in European social and employment models. The first issue is the appropriateness of the particular model or models that the EU has adopted as implicit 'best practice' examples for meeting its productivity and social cohesion/inclusion goals. The second issue is the scope for influence by the EU and the relative importance and effectiveness of the different policy levers that the EU has at its disposal. And the third issue is to trace the actual experience of EU member states under the influence of not only the EU's employment and social model policy initiatives but also the more indirect but potentially important influences on employment and welfare stemming from macroeconomic and product market policy. This discussion will inevitably not be able to fully identify the direct role of the EU and separate it from the pursuit of policies along similar or associated lines generated within national political debates. However, the working assumption is that the debate on change in social and employment models at the EU levels is likely to have some form of indirect influence on national internal debates, even if mapping the intersections between discourse at European and national levels in shaping action at a national level is somewhat beyond the scope of this paper. The exploration of these three questions in the following sections of this paper provide a basis to return in the final section to the question of whether the dynamics of change within national social and employment models in Europe is likely to produce new sustainable models, capable of generating growth and social welfare or whether the contradictions in both EU and national agendas for change may result in a long term undermining of European welfare capitalism.

2 The European Employment Strategy as a means of securing the future of the European Social model?

To evaluate the appropriateness of the EES as a modernising agenda for the ESM we first need to establish the purposes and functions of a European social model. Social protection can be provided through employment protection and regulation or alternatively may focus primarily on provision of welfare benefits and redistribution. European social models have tended to combine both employment and social protection elements . There is a major divide in the policy debate between those who see the social elements as ideally add-ons after the market is allowed to work efficiently and according to universal values, and that therefore do not attempt to shape or influence the production model, and those who see social models as a means of building comparative advantage within the capitalist system, through development of interlocking institutions that in turn create distinctive strengths and capacities that have in the past enabled European economies to compete successfully on the world stage. For the former group the issues with respect to renewal of the ESM is to identify the form of market arrangements that best fit current competitive conditions and then to design a welfare system that interferes least with the demands of the market; under these codntions, far from promoting decent work conditions, social welfare should only compensate for poor work conditions where these are dictated by market conditions. For the latter group the social and institutional arrangements are not to be traded-off against efficient markets but are part of the development of institutional comparative advantage. The latter approach has resonances with the varieties of capitalism literature (Hall and Soskice 2001) where the development of collective public goods or resources facilitates the adoption of a high road development path including high road employment practices. The analogy at the firm level is the contrast between the neoclassical analysis of the firm as a passive responder to market signals and the resource based view of the firm (Barney 1991), where competitiveness depends on path-specific development of human capital, tacit knowledge and social capital that is relatively unique and inimitable. It is also important to note that in the European context the high road development model has been strongly associated with a social partnership model of governance. High skill and high efficiency are seen as dependent upon the development and maintenance of high trust relations.

While this debate between the espousers of universal markets and those who see the potential for varieties of capitalism is now well established, the ever growing importance of services within national economies has posed a new dilemma for the varieties of capitalism school. Historical experience has provided extensive evidence of the importance of institutional arrangements to the development of and success in specific types of markets, products and organisations in manufacturing (Appelbaum and Batt 1994) but there is much less known about how configurations of institutional arrangements may promote comparative advantage in services (Bosch and Lehndorff 2005). Furthermore, while institutions can be identified as of importance in, for example, the creation of the City of London as a world financial centre, the evidence that this success is related to specific aspects of employment organisation or workforce capacities is much less developed. The continuing focus on manufacturing within varieties of capitalism literature has thus left the argument exposed to the full force of the free marketers. To the extent that skills are required for a flexible service economy, the focus has turned to education as the main way to provide flexible general skills. However, these skills are provided by the education sector to the employer and their utilisation at the workplace is regarded as universal, individualised and market driven. Beyond the graduate labour market segments, the services economy is held to only require soft skills, to be acquired through appropriate socialisation and without the need for technical knowledge or capacities. Furthermore, the development of the service economy is identified more with achieving the most appropriate incentives for consumers to increase their demands for services- through the growth of low wage jobs that allows for price elastic personal services to be more widely consumed (Baumol 1967).

The European Employment Strategy and the Lisbon agenda clearly reflects this weak state of knowledge on the linkages between employment models and comparative advantage. The early stages of the EES and the initial development of the Lisbon strategy did promote the notion of social policy as a productive factor (Hermans 2005) such that a creative and innovative society had to be founded on high trust relations. This argument was put at an EU presidency conference in 1997 shortly before the EES was launched.

> "If social cohesion and stability are thus recognized as productive resources, then surely the contradiction between social justice and economic efficiency breaks down. Social policy can then no longer be perceived as leading to consumption related benefits, taken out of an efficient economy by distributive politics. Social policy itself becomes a productive resource which, instead of countering economic policy by protecting or 'decommodifying' labour, comes to play a part in improving the economy's performance potential. From this perspective, social policy and economic performance are closely, perhaps even indissolubly, interconnected". (Hemerijck 1997 quoted in Hermans 2005 : 8)

However the EES even from the beginning steered clear of any EU policy with respect to promoting good practices in work organisation or industrial relations from a productivity perspective. References to social partnership were not only limited but in practice primarily used to exclude issue of workplace organisation from the direct responsibility of national governments or the EU. The focus thus was on the employment/ welfare state and not on the employment/ production interface. As such it linked to the varieties of welfare states debates (Esping-Andersen 2002) not to varieties of production systems and this focus increased in the second phase of the EES when the Employment Taskforce chaired by Kok (2003) argued for a refocus on growth and competitiveness, with social objectives to be subordinated to a second tier objective.

The Lisbon strategy only has one target with respect to knowledge development and that is related to research and development expenditure, an indicator that is strongly oriented to science and by implication to manufacturing. Issues of developing either Rand D or skills and capacities in the service economy have not been directly addressed. Furthermore, the growth of services is seen primarily as a means to fulfil objectives with respect to the quantity of employment, such that there is no perceived conflict between promoting low wage service work and the goals of being at the forefront of the knowledge society. Achieving comparative advantage in services is implicitly viewed as an issue of product market regulation- or rather deregulation- and responsible fiscal policy: provided the market incentives are right, the employment growth is expected to follow. From this approach the main objective in the employment strategy can be reduced to maximising the quantity rather than the quality of jobs.

The result of this delinking of national models with comparative and long term institutional advantage is that the focus on economic issues within the debate on modernising employment and welfare systems is narrowly focused on two issues; first the need to ensure that the labour market does not inhibit the development of new firms, sectors and employment expansion; second, the need to keep down the costs of social guarantees, an objective best achieved by both reducing the generosity of benefits and by maximizing the employment rate, thereby minimizing the number of people dependent on benefits. These economic objectives are still to some extent tempered by social objectives or social rights that either legitimise the policy or modify the policy to fit with expectations of European citizens. Thus flexibility should be tempered by security, as means of improving the acceptability of the strategy to European citizens and to create a more cohesive and inclusive society. Incentives should be provided to enter or remain in wage work, not only to achieve employment rate targets and minimise welfare dependency but also because employment is believed to be the best route out of poverty. Similarly part-time work should be promoted as it apparently not only serves to provide employers with flexibility but also allows for better work life balance and the promotion of women's employment opportunities. In the absence of a detailed investigation of the impact of these policies on productivity and job quality many of the potential contradictions between policy agendas fail to be identified. Employment is identified as the best route out of poverty, but this is assumed to be assured by the market , requiring little intervention to ensure job quality and long term career paths. There is likewise no debate on whether the promotion of flexible or low wage employment might drive out a high road approach to services development. Nor do the policy documents address the problems that part-time work may pose for women's careers, economic independence and indeed for work life balance, if organised to meet the needs of employers rather than families. Even lifelong learning is primarily seen as a means to allow people to remain longer in employment[26] and not primarily a means of developing and extending skills in the workplace to promote comparative advantage. The need for high trust relations at the workplace to develop comparative advantage is notably not included in the policy message.

The main gap in the approach, to link back to the ILO policy agenda, is to implant the notion of decent work firmly within the objectives of reformed European employment and social models, The overriding agenda of modernisation and change has focused attention on employment security and employment maximisation in contradiction to both job protection and passive welfare payments, seen as the hallmarks of traditional but now outdated European employment and social models. However this dynamic approach has been adopted, we will argue, at the expense of attention to the building blocks needed to sustain social welfare and protection, that is the development of

[26] Examples from the Kok report (2003) show that the focus on training is primarily about maintaining employability, not about the skills needed for dynamic and innovative firms. The employability objective is argued to have social as well as economic legitimacy but the economic arguments are not related to developing distinctive capacities at the national or European level. 'Sweden, with the highest employment rate of older workers, also provides a striking example of the value of emphasising the importance of lifelong learning for all ages. In contrast to most Member States, the participation in training of older workers is about the same as for the rest of the workforce.' (Kok 2003:43) 'Specific measures are also necessary to improve equality of access and effective take-up of training schemes for the low-paid, the low-skilled, older workers and non-permanent workers. Participation of the low-skilled in training varies from 10.5% in Sweden to 0.1% in Greece.' (Kok 2003:53)

labour markets that offer sufficient decent work opportunities that most of the prime age population does not need continuous and active support from the social welfare system. Decommodification of labour comes about through combinations of both decent work and social welfare and to neglect the need for a decent work dimension to social protection increases the burdens placed on the social welfare system as the entry to employment may not provide the hoped for route out of welfare dependency if there are no or only limited policies to promote the quality of work opportunities.

To promote this approach to employment policy the EES guidelines and dialogue make implicit and often explicit references to specific types of employment and welfare systems. These are effectively divided into those which are judged as appropriate or in line with the EES and those which represent the abstract model of the old fashioned, inflexible employment and welfare model that the EES is designed to fight against. However, the use of the specific country examples in developing the EES is selective and not designed to identify the full interlocking nature of the employment systems; as such policies may be presented as good practice without attention to some of the preconditions for this best practice policy to be effective or the downsides that may emerge on other elements of policy.

This selective use of best practice examples means that the ideal-type ESM underpinning the EES model is inherently eclectic. While the Swedish model provides the largest number of examples of best practice policies with respect to achieved high levels of employment levels, based on strong activation, late retirement and high female employment, there is also widespread reference to both the Danish and the Dutch models with respect to flexicurity (Kok 2003: 9), the Irish model with respect to new forms of responsible social partnership and of course the UK with respect to a really flexible labour market and major opportunities for flexible working. These best practice examples do provide very different approaches, each of which not only has both advantages and disadvantages but also is dependent on complementary institutional arrangements or social and political conditions that could not necessarily be established within other member states. For example, the Danish flexicurity system provides protection for employees who are laid off or dismissed through high benefits counterbalanced by strong and efficient activation and retraining policies. This arrangement is highly dependent upon country-specific institutions and practices, not least of which is the high societal level subsidy through taxation to employers who wish to shed labour costs during recession (Madsen 2004, Gazier 2006). The Dutch model of flexicurity is based in contrast on a policy of reducing the security of those on full-time standard contracts in return for higher levels of security attached to non standard – part-time and flexible- contracts (Wilthagen and Tros 2004). This approach however not only promotes the use of flexible contracts but also involves high levels of lifetime inequality between women and men due to very low levels of full-time working (Plantenga). Moreover its significance for the male labour market segment is dependent on the strong social norm favouring shorter working time in the Netherlands. The Swedish model of high employment involves both relatively high tax rates and indeed high levels of gender segregation, with women concentrated in the public sector (Gornick and Jacobs 1998). The Irish model, despite its adoption of European social partnership arrangements, continues to have wide wage dispersion and a large gender pay gap (Plantenga and Remery 2006) and access to , and the UK not only has one of the highest rates of part-time working but also the largest gender pay gap for part-time workers (CEC 2002) in contrast to, for example, part-time work in Sweden which does not incur high wage penalties as it is largely based on reduced hours working within standard employment and not on the development of specific part-time work at low wage rates.

The ideal type model implicit in the EES is thus in practice very much a hybrid, with examples drawn from a range of very different systems and with policy examples having very different impacts, with respect to both economic and social objectives. The characterisation of the traditional or outdated ESM model to which the EES is set up in opposition is also essentially a hybrid and thus an abstract model that is given form through reference to specific examples from individual member states. Some member states appear frequently within the group where more efforts are needed but nevertheless the particular problems where action is needed vary significantly. Thus it is countries such as France, Spain, Italy and Portugal where employment security is seen as too high for flexible labour markets (Kok 2003: 32); France and Germany that have too short working hours[27]; Germany, Belgium and Finland that may have too high welfare benefits that disincentivise job seeking (Kok 2003: 35) but Greece and

[27] In the latest Joint employment report too short working hours in the Netherlands is now being identified as a problem which to some extent is at odds with the identification of its flexicurity policy as a best practice example.

Italy that have limited development of activation policies (Kok 2003: 39); Germany, Italy and Spain have too little wage differentiation by region (Kok 2003:23); while France and Spain have too high tax wedges, including social security contributions that disincentivise job creation. Low female employment is seen as emanating from tax disincentives in Germany (Kok 2003:41) but from lack of part-time work opportunities in southern countries (Kok 2003: 30 and 32[28]) ; and Austria, Belgium, Italy and France still allow too many to leave the labour market early due to early retirement provisions (Kok 2003: 15, 44).

The European Employment Strategy: Positive and Negative Policies and Practices

Positive models

Sweden (activation, employment for women, older workers)

Denmark(flexicurity)

Netherlands (part-time work, flexicurity, social partnership)

Ireland (social partnership and flexibility)

UK (employment rate, flexibility)

Negative models

Too high employment security (France, Southern countries)

Too constrained working hours (Germany, France)

Too high welfare benefits (Germany, Belgium and Finland)

Limited activation (Greece, Italy)

Too high tax wedges/ social security payments (France, Spain)

Too little regional wage differentiation (Germany, Italy and Spain)

Low female employment (tax issues Germany- part-time work restrictions Southern countries and nms)

Too much early retirement (Austria, Belgium, Italy and France and nms)

The argument can be made that this eclecticism in fact justifies the whole open method of coordination approach which provides for member states to approach common objectives and to deal with common challenges by pursuing their own policies, reflective of their historical path of development and their stage of development.

[28] A prime example of the lack of holistic analysis is that there is no reflection on the fact that Portugal is along with Greece a low user of part-time work but unlike Greece has a high female employment rate.

However, the methodology of using partial and selective examples generates a cross sectional cut on particular areas of policy and impedes a detailed follow through of the implications of policy innovation in one area of policy and outcomes in another area. There is, therefore, no scope for the more holistic analysis of interlocking institutional arrangements which not only typifies the varieties of capitalisms approach (Hall and Soskice, Maurice and Sorge) but is also implied by the decision to allow member states to follow their own development path and not to be overly prescriptive as to the form or pace of policies. Such an analysis is also needed if the full costs as well as benefits of learning and borrowing from other examples are to be really understood. Moreover the open method of coordination appears to avoid the need to move from a national to a pan European employment and social model, by allowing for policies to reflect both levels of and path-specific patterns of development but thereby does not confront the tendencies in other elements of EU policy to place the different models in more direct competition with each other. This issue , as we discuss below, came to a head through the controversy over the services directive which in its first formulation adopted the country of origin principle that would have allowed for service workers operating in the same national services market to be paid according to the principle of different national employment models, with posted workers covered only by the minimum standards of the home not the host country.

Particular problems with this piecemeal approach also arise in presenting an ideal-type model of the ESM to new member states. There is no real attempt to sketch out alternative and potentially equal valid routes towards developing an employment and welfare system appropriate for their particular economy; instead they are presented with patchwork examples and effectively invited to pick and choose. Moreover, despite formal institutional and legal requirements to adopt and develop a social partnership approach, in practice these institutional arrangements have remained weak and dominated by national governments, hence leaving the path clear for the adoption of a more Anglo-Saxon liberal model (Lafoucriere and Green 2006).

3 The leverage of the EU: rules , resources, rhetoric and recommendations

To clarify the potential role of the EU in reshaping national employment and social models we need to distinguish between different types of policy levers and the different conditions under which those levers may have impact. There are four main routes by which the EU can in principle influence the actions of the member states: the first is through rules that it can and may enforce; the second is through the rationing of access to resources; the third is through the development and sustaining of a European discourse or rhetoric on what constitutes the European project and what member states should be doing to achieve the common goals; and the fourth is through recommendations and other comments on member states that may induce responses for reputational reasons. In practice these levers may be interconnected; the rhetoric and recommendations may have more impact where these are mirrored in the requirements to gain access to resources. Furthermore the distinctions between rules and rhetoric or hard and soft law may not always be that strong; hard laws may be transposed into national laws but weakly or ineffectively enforced; following soft law recommendations may have the merit of unleasing access to structural funds or in the case of applicant member states be seen as the route to gaining membership of the EU in the first place.

The strongest levers that the EU has to operate with are by and large not directly related to employment and welfare systems. While there is a raft of hard law legislation in employment and welfare the EU has not always enforced its transfer into national law (some member states are extremely slow in this regard (Karamessini 2007)) and certainly there are limited efforts to ensure that the law is enforceable once transposed. A very different approach applies with respect to product market regulations where the EU has and does take cases against member states when it considers that the rules on internal markets are not being complied with; obviously compliance still varies but the product market regulations have teeth. The rules , as we shall discuss below, have considerable implications for employment and welfare models but through indirect effects; for example the rules on privatisation impact on the national models through the change from public to private sector employment. Other indirect effects on employment and welfare from the creation of the single market include the creation of more open capital markets- with the implication of a trend towards shareholder capitalism- and the creation of a single market for labour that with enlargement has reduced the scope for member states to operate as if they had a closed labour market.

Monetary union and the growth and stability pact also constitute rules of the European Union and non compliant member states can and have been fined. However, there has also been more accommodation made than anticipated to the problems of rectifying budgets in periods of recession, such that enforcement is applied with reference to emerging political conditions. For example, the constraints of EMU were largely ignored by Greece in the run up the Olympic games and even stronger efforts by the EU to enforce the rules further would probably not have been effective. This flexibility in enforcement has itself caused resentments, with countries such as Portugal making more efforts to come back into line than big countries such as Germany (Busemeyer 2004). Whatever the precise enforcement regime, there is however no doubt that the EMU has had and continues to have a major impact on the refashioning of the European Social Models. This impact was particularly strong for those countries that had to demonstrate a change towards fiscal and monetary probity, given a history of lax financial management, in order to be accepted in the EMU in the first place. It has also had major impacts on member states such as Italy that regularly used devaluation as a means of restoring competitiveness in its export markets.

One of the major consequences of ESM is that it does not allow for any major catching up process by member states that have as yet to develop a universal and strong welfare system, Constraints on public finances are independent of the level of development of the welfare state or the size of public sector employment. The scope for a uniform European social model to emerge is thereby much reduced. This approach also placed particular constraints on new member states. Furthermore the focus on the public sector debt ratio has provided further impetus to forms of privatisation, again with implications for employment and welfare models.

The EU's role in redistributing resources across member states through structural and other funds can prove another extremely powerful lever in member states where expectations of redistribution are high (we will not consider agricultural policy here, the other main area of redistribution). The structural funds are the main means by which member states may be able to catch up with more developed members through both infrastructure projects and through funding for projects and policy interventions- such as active labour market policies- that are in line with the objectives of the soft law strategies. Structural funds are not available, however, to enable member states to catch up in areas of basic welfare rights and entitlements such as pensions or unemployment benefits. The emphasis on reform is activation rather than on extending benefits to all groups, even if the latter is a more obvious immediate need on social justice grounds.

The influence of the European discourse, and its soft law aspects such as the provision of member state level recommendations, is much the most intangible, but not necessarily without impact. This impact, however, as we will discuss in the following section, depends clearly on responses at the member states level which vary not only across member states but also within member states, according to internal political priorities and the changing fortunes of different political parties and personalities. While many member states have seen significant changes over the past decade in their own internal policies and priorities, the rhetoric at European level has been based on a somewhat sustained approach to the priorities for the refashioning of employment and welfare systems. Since the Kok report in 2003 there has been more focus on employment rate targets and the influence of objectives such as gender equality or job quality has declined. Nevertheless, the sustained nature of the message from Europe, followed up by oft repeated recommendations to member states, has undoubtedly served to increase the potential influence of the EU approach to modernising employment and welfare systems. With a sustained message the probability increases that at some stage, some actor or actors within the political arena of the member state will draw on the European dialogue to promote a particular policy or to demonstrate a willingness to change or modernise[29]. This parallel dialogue can thus be considered as a resource available to the participants in the national debates. The likelihood of influence by the EU on the national agenda will depend on specific contexts; applicant countries may respond positively to the dialogue when making an application but soon forget about the approach once in membership. Politicians may choose to ignore an area of policy where the national outcome is poor but by so doing lay themselves open to opposition politicians or social partners taking up the cause and using the EU discourse to support their position. Where an approach to policy was already deeply embedded in the national model prior to the development of the EES, the influence of Europe on this area of policy is hard to identify and indeed the influence may be more from member states to the EU than vice versa, but where the policy was not devel-

[29] The actors may also seek to distance themselves and their policy from the European dialogue in contexts where there is political mileage in stressing national independence form Brussels .

oped prior to the EES or to joining the EU, the influence of the EU may be more significant, even if the outcome in the policy area is still weak compared to member states where the policy approach has been long established. Purely quantitative measures of outcomes therefore provide poor indications of underlying influence.

4 The EU and change in national employment and social models: examples from ten member states.

To simplify the discussion we will divide the influences of the EU into those related to hard law (or rules) and those to soft law (rhetoric and recommendations); there is no hard and fast boundary between these influences and the complementarities, synergies and contradictions between these influences will be considered throughout the discussion. For a similar reason we will consider the influence of access to resources- through the structural funds- as a factor that strengthens or otherwise the impact of soft and hard law. We draw here for our examples on the experience in ten EU member states, that is on the ten member states represented within an EU framework 6 project on the dynamics of national employment models. Selective examples only will be provided[30].

4.1 Hard law or EU regulation and change in national employment and social models

As we have already argued, there is hierarchy of hard law regulation, from product market regulation where the EU is most likely to pursue active enforcement, through macroeconomic regulation (where the common interest rate is clearly enforced but pubic expenditure and deficit targets more weakly enforced) to employment and

[30] This paper draws on papers produced as part of an EU FP6 project on the dynamics of national employment models covering Germany, UK, France, Italy, Spain, Greece, Ireland, Hungary, Austria, Sweden. Reference is made in the text to some specific papers all of which can be found on the dynamo website but information may have also been drawn from other material not specifically cited, also on the dynamo website- http://www.dynamoproject.eu. In addition the paper draws on knowledge and information on the European Employment Strategy admits impact on national models accumulated through tend years of evaluating national action plans on employment from a gender equality perspective through the first author's role as coordinator of the EU 's experts groups on gender, social inclusion and employment. Details of this work can be found using the following websites: http://ec.europa.eu/employment_social/gender_equality/gender_mainstreaming/gender/exp_group_en.html; http://www.mbs.ac.uk/ewerc/eggsie

social legislation where the level of enforcement is more determined within the nation state than by the efforts of the EU.

i) Competition policy

It is through competition and product market regulation policy that the EU can be argued to have had and is continuing to have the most profound impact on the underlying EU employment models. However, until the recent controversy over the services directive (Bosch et al. forthcoming), the specific link between competition and product market regulation and the nature of European employment and social models was not explicitly made within EU circles. The strength of the opposition to the services directive in its first published form forced a review of the directive and thus for the first time effectively introduced a linkage between competition policy and employment models within EU debates.

There are three main ways in which the EU is shaping future employment and social models through its competition regulations. First by opening up the internal market it puts into more direct competition with each other the different employment and protection models, with particular implications for employment standards. It was this issue that sparked the controversy over the services directive as it would in its first form have allowed competition within national markets based on employment standards established in the home rather than the host country, thereby establishing similar forms of competition as have been common in manufactured commodities but with the difference that workers might be operating in adjacent locations serving the same market but covered by different minimum employment standards. The logic of such an approach, in contrast to the apparent approach of the open method of coordination would be to move more towards an EU employment model based inevitably on lower minimum standards than those that prevail in many of the more developed economies and in particular in those that have developed through principle of strong employment regulation. Even with the revised formulation, where host country standards have to apply, the policy has varying implications for member states, according to the ways in which employment standards have been protected. As has already been found with the posted workers directive and the opening up of utilities' markets to competition, some member states have regulatory systems that facilitate the extension of labour standards to new sources of competition, including those from other member states. In particular standards are easier to maintain in those member states that either have legally binding collective regulations extended to all companies (Austria, France, Italy, Spain and Greece out of the ten member stats considered here) or that have operated effective trade union pressure to ensure common standards apply (Scandinavian countries including Sweden). In Hungary, Ireland and the UK the only protection of common standards is found in the national minimum wage but Germany faces the most major difficulties of all as it no longer extends collective agreements but has yet to establish any national minimum wage. Even when regulations have been put in place to provide for establishing minimum standards in an industry- for example in the postal services post privatisation- these regulations have not been utilised because of the strong social norm that the state does not interfere in collective bargaining (Bosch et al. forthcoming).

The second influence is through its competition rules as applied to public ownership and procurement. Here the influence of the EU is clear in those member states where the policy has been resisted; in Germany and France there are still efforts to maintain some public control- in France at the national but in Germany more at the local level. In Greece union opposition has postponed compliance and resulted in only partial privatisation. In contrast the UK and Sweden pursued these policies without direct reference to EU policy and regulations, as did Hungary but the impetus here was both the model that was 'recommended' by international institutions in the transition period and the preparation for a bid for EU entry. These policies have been promoted by the EU based on two interrelated beliefs; first that competition particularly from the private sector will enhance innovation and growth and second that public sector monopolistic provision gives rise to segmented labour markets with overprivileged insiders who benefit from protected markets at the expense of both labour market outsiders and the general consumer. Thus, although these policies are pursued under the auspices of competition policy, they are also driven by a belief that labour markets should be organised as competitive markets and that employment protection primarily acts to create divisions among the workforce and not to provide a basis for the development of decent work, even providing perhaps a good practice example for the private sector as Crouch has suggested (Crouch et l. 2001, Wickham 2005). The impact of these policies have had varying impacts on member states, in part according to their starting positions. Austria is an example where the move towards private ownership and the opening up of markets associated with EU membership is having a major impact on the traditional corporatist model in Austria, with a notable growth in shareholder orientation and distribution towards dividends, together with a reduction in commitment to the dual training systems since privatisation started in earnest in 1993 (Flecker and Hermann 2007). Italy, Spain and Greece, while following the requirement to privatise- if with rather a lag- have to date mainly transferred public sector rents to the private sector and have not done a great deal to disestablish either monopolistic arrangements or change the protected position of the employees although again there has been at the macro level a redistribution towards the profit share (Simonazzi et al. 2007, Miguélez et al. 2007, Karamessini 2007). Sweden demonstrates, however, that even the policy of privatisation does not have fully predictable outcomes: not only did it pursue privatisation independently of and prior to joining the EU (Anxo and Niklassen 2006) but it has succeeded so far in maintaining high employment standards within privatised activities.

More significant effects have occurred or are anticipated to occur both in the Anglo Saxon countries of the UK and Ireland and in France and Germany. In both sets of countries the lack of enforceable strong sectoral level standards opens up the scope for destabilisation of the decent work conditions associated with public sector employment. While this occurred in the UK in the 1980s and 1990s with respect to utilities and transport it is still an unfinished process, with increased contracting out of service activities, with consequences for employment standards and decent work. There has been some successful push back from the trade unions on this, to reduce the risks of downgrading of employment conditions but with success only really evident in the health sector (DH 2007). The scope for further change in public sector employment within EU member states as a result of this push for privatisation and the implementation of the services directive is enormous; there is little reason to think that once more consumer oriented services have been subject to EU competition rules that there will not be a further extension to health and education as originally planned when the services directive was first mooted. Until or unless this issue is resolved national models will remain in a state of flux and the issue of the impact of the EU reform agenda on the quality of work will remain an open question. However, the long term opening up of all such areas to private and unregulated competition is by no means a foregone conclusion; even in the UK both trade unions for lower skilled staff and for professional groups[31] have limited the state's capacity to make changes to employment arrangements as the delivery of public services is highly dependent upon a specifically skilled workforce can the quality of pubic services remains a significant electoral issue in most European states. Wickham has argued convincingly that the attack on the role of the state in providing public services and public employment, as embedded in EU competition policy, may undermine the commitment to the public realm and the legitimacy of the state that sets the European social model apart from the US variety of capitalism; however it is also the case the belief in the public realm may ultimately limit the extent to which the citizens of Europe will tolerate provision of public services by the private sector.

The third significant influence of competition policy relates to capital markets, the liberalisation of which is part of the European project. Again this policy has very different implications for member states according to their particular path of development or their variety of capitalism. Germany is the most obvious example of a country with a model based on an alternative form of capital market to the short term open markets favoured by the EU project; the result of recent change has been a reduction in the availability of 'patient' capital with the ending of the holding of cross over shares by banks and big companies. Evidence still suggests that the capital market works somewhat differently in Germany than elsewhere (Deeg 2005) but the change within the national model is nevertheless significant. Most of the member states have followed capital market reforms although in Italy the impact of reforms has apparently been limited. Not all of these changes were associated with the EU; the UK has long had liberal capital markets and Sweden liberalised its market in the mid 1980s. In contrast Austria had to make significant changes just before accession in 1993, although foreign direct investment was already an important element in its market. Changes in capital markets have been influential in shaping the evolution of national models. The UK has in fact moved further ahead as a dominant finance centre in part because of recent onerous legislation introduced in the US after the Enron scandal (Sarbanes –Oxley act 2002). In Spain the availability of short term financing has helped boost its construction boom that has underpinned its recent period of

[31] In the NHS doctors have been able to negotiate significant improvements to their rewards and civil servants have been able to stave off most of the proposed cuts to pension entitlements .

growth (Miguélez et al. 2007). Hungary provides an example of the lack of sustainability of a model of development based on free flows of capital. Foreign direct investment was the main means of funding the initial transition phase but the recent problems in the Hungarian model were exacerbated in part by decreasing capital inflow (Neumann et al. 2007).

ii) Macroeconomic policy

We have already identified that the competition agenda of the EU has had differential impacts on national models. A similar diversity of impacts is found when we turn to macroeconomic regulation. This diversity is in part related to whether the countries in question are in the Eurozone or in the case of Hungary applying to join the Eurozone. The survival of the European employment and social models is strongly bound up with whether or not they can deliver growth and employment; when unemployment is high or rising the pressure for reform of the underlying social institutions increases even if the unemployment is not directly linked to problems in institutional arrangements. It is undoubtedly the case that the high unemployment in Germany has increased pressure for reform of the labour market and the implementation of the Hartz reforms that reduced the length and level of unemployment benefits, as Germany came to be labelled as a failing model even at a time of very strong performance in manufacturing exports . It is not yet clear whether the labour market reforms will support or undermine its long term manufacturing strength[32]. The macroeconomic problems faced by Germany can in part be attributed to the Eurozone rules that require a deflationary stance but these rules were both to a large extent drawn up by Germany, thereby consigning itself in practice to major pressure to change some of the fundamentals of the very model that the rules were supposed to protect (Hay et al. 1999) the but also assisted in the effective devaluation of German prices with the rest of Europe, through the application of strict wage controls, thereby boosting its export success. In contrast Italy, Greece and Spain report a loss of competitiveness due to overvalued currencies; Italy in particular had made regular use of devaluation to

[32] The recent upturn in the German economy and its expert strengths are leading commentators to regard the Hartz reforms as the basis for the renewed strength but the expert success in high end industries is not likely to be related to policies aimed at getting the long term unemployed back into work. Moreover if the longer term outcome is to undermine the cohesiveness of the German model , the current strong elements of the model may be weakened.

restore its external competitiveness and has yet to find an alternative mechanism for external adjustment (Simonazzi et al. 2007) For France the EMU is very much a continuation of the restrictive monetary policy started back in 1983 and maintained under the franc fort policy (Berrebi-Hoffmann et al. 2007) but for Austria membership of the EU and the EMU in the 1990s meant an end to its largely Keynesian deficit spending policy and introduced a new era of austerity (Flecker and Hermann 2007). Greece provides an example where internal political priorities can still override the EU rules at least in the short term, as the deficit spending rules were entirely ignored during the run up to the Olympics, with positive impacts on the rate of growth in the economy (Karamessini 2007). This change round came after a period before 2001 when Greece had to demonstrate extreme probity in its finances in order to gain entry to the EMU. Now post Olympics it is again under pressure to meet Eurozone rules. Hungary has also recently come under pressure to adopt an austerity policy: from 2000 to 2006 it had been pursuing a more neo-Keynesian policy, associated with attempts to develop a national model that followed more a Rheinish than an Anglo-Saxon capitalist model but the deficit problems led to a major U turn in 2006 involving a reduction in public spending to bring the economy back in line with the EMU requirements (Neumann et al. 2007). Thus freedom to experiment with alternative development paths as under the OMC process, is in this case clearly constrained by the Eurozone requirements although the impact of the change of government on the U turn must also be taken into account.

Sweden and the UK, while clearly not free of the influence of the macroeconomic regime established for the Eurozone, nevertheless have much wider scope for determining their own approach and for allowing change in the valuation of their currencies. This freedom has been more explicitly used by the UK since 1997 to promote stable growth and to facilitate a significant increase in public expenditure on health and education. In contrast Sweden independently adopted a policy of stricter monetary policy since the early 1990s following a major financial crisis due in part to the adopting of accommodative monetary policy(Anxo and Niklassen 2006), while the UK had allowed its public services to run down during 17 years of macro policy tied to minimisation of public expenditure. However the EMU rules have had some influence on the form of expansion adopted by the UK, with much of the renewal of the capital infrastructure carried out through private finance initiatives in order to keep those outside the public sector funding requirements.

The importance of this macroeconomic environment for the development of national models is immense and impacts directly through affecting the overall level of employment and growth and indirectly though effects such as the funding and form of pension provision, the distribution of jobs between public and private sectors, the wage share in the economy and the ability of actors to resist further changes to the model in an effort- possibly vain- to use supply side measures to adjust to new macroeconomic conditions.

The focus on public sector deficits has also clearly speeded up pension reforms in many EU countries, and here we can see the impact of policies applied equally across member states without regard to their level of development. Thus Italy has inadequate coverage of pensions but instead of a reform aimed at providing more inclusive and more equal cover the impact of the reform has been to exclude even more of the younger generations while reserving the rights of the current insiders (Simonazzi et al. 2007). Thus, while the macroeconomic conditions could be expected to stimulate a rethinking and modernisation of the welfare system, the direction of travel is not necessarily towards a more inclusive system to meet the needs of the changing labour market including the higher share of workers on non standard contracts and the higher share of female participation. Instead it is primarily motivated by a need to reduce the future costs which is often easiest achieved through reducing rights of the young who are furthest away from retirement.

iii) employment and social rights

The third area of hard law relates directly to employment and social protection, that is the raft of directives that member states are required to transpose into national law if they offer standards that are below those set by European legislation. Again the impact of the rules depends upon the starting point of the member states. Greece, Hungary and the UK stand out among the ten member states considered here where the EU employment legislation has made a significant difference to the set of legal labour standards, even if problems of enforcement are still an issue particularly in Hungary where unions are weak. In all three countries it is EU legislation that has led to the expansion of legal employment rights, particularly in the areas of equal opportunities in all three countries and rights for workers on non standard contracts in Greece where such rights were underdeveloped. In Greece health and safety legislation has also been important but this area of law was already well established in the UK. In Greece and Hungary the attention paid to issues such as equal opportunities was also reinforced by the inclusion of such criteria in the reporting requirements of the structural funds; that is the attention paid to elements of the legislation is reinforced by the linkage to access to resources. In both cases, however, the enforcement mechanism remains weak even if the EU has been able to put new issues on the policy agenda. The story is somewhat different in the UK where the attention paid to EU law was in part driven by the trade unions who have actively utilised the law to further collective bargaining agendas. They have been able to do this in part because of the existence of a relatively well used enforcement mechanism and the trade unions have supported individual cases through the employment tribunal systems to put pressure on employers to adjust pay, working time and other employment arrangements in the interests of equal opportunities. They also successfully mobilised the acquired rights directive to prevent the deterioration in terms and conditions of workers outsourced from the public sector. This active use of European law by trade unions in the UK is somewhat unusual and can perhaps be explained by the sharp confrontation between relatively strong unions and a hard line conservative government in the 1980s; in the absence of any social compromise the unions found it necessary to resort to European law to make any progress against the downgrading of employment rights. Other member states have either made more use of social compromises or the trade unions and/or the legal framework for enforcing employment rights have been too weak for such a strategy.

At the other end of the spectrum the impact in Sweden has been limited by the fact that labour standards in Sweden exceed those included in European legislation. Nevertheless there has had to be some accommodation to European legislation as traditionally employment rights were left entirely in the sphere of collective bargaining. The law still remains largely subservient to collective regulation but some changes in the responsibility for equal opportunities policies had to be introduced as a result of EU entry (Rubery et al. 2003). Germany, France and Austria also have had to make relatively few adjustments to labour standards except in the area of equal opportunities where the EU legislation has improved awareness and rights. Spain and Italy have in principle been more affected by the laws but have adopted policies of half hearted and delayed implementation as employment rights are still primarily limited to sectors covered by collective regulation. Nevertheless the series of labour law reforms in Italy (for example the Biagi laws) and Spain to introduce greater flexibility through reduced employment protection for standard contracts and reductions in impediments to the use of non standard contracts have been motivated by a need to confirm with EU legal principles, in particular the extension of minimum employment rights to non standard workers as part of the flexible labour markets agenda. Hard law is certainly thereby reinforcing pressures towards change in employment models embedded in soft law guidelines[33].

The right to labour mobility is a key principle embedded in the EU treaty from the beginning. However, it is only since enlargement that there has been a strong debate about this principle and restrictions in fact imposed on mobility from new member states to old member states in all cases except for the UK and Sweden. However, while the UK has experienced very large flows of migrants, Sweden has only had rather modest flows, possibly due to the high costs of living as well as problems of language. Total migration flows are not in any case determined by policies towards the new member states; Spain has restrictions on mobility but the largest overall pool of migrants. Migration in general is in many cases reinforcing segmentation within national labour markets, either within the formal sector by promoting flows of labour for low paid if formal employment or it is promoting the continuation or growth of the hidden economy. Migration is said to be keeping pressure on wages down at the bottom of the labour market and could thereby serve to halt improvements in minimum wages or even fuel a process of downgrading. However, in Germany the prospect of high migration once restrictions are lifted in 2009, coupled with the threat of undercutting of wages through the posted workers directive, are driving a debate on introducing minimum wages to supplement the traditional reliance on collective bargaining in setting minimum standards. At the least minima will be introduced in vulnerable sectors such as construction but there is a lively debate about a national

[33] It should also be noted that hard law also reinforces one of the soft law principles that is the concept of social partnership and social dialogue. There are opportunities for social partners to be engaged in the implementation of directives (for example the working time directive) as well as directives on information and consultation that provide for opportunities for new forms of both national and European level employee involvement systems to develop.

minimum wage which might not have taken pace without the prospects of posted workers and migrants through enlargement.

4.2 Soft law, the European employment strategy and change in national employment and social models.

In this section we focus on the role of the EU in influencing employment and social models though its non binding interventions and the associated development of an EU dialogue or rhetoric on how European employment and welfare system should develop and operate. For some writers, as we have already noted, the notion of a European social model is in fact a construct of the EU and in particular the Commission's own rhetoric and agenda (Jepsen and Serrano Pascual 2006) to provide legitimacy to the role of the EU institutions and to differentiate Europe implicitly from the American model. Whatever its function there is no doubt that the rhetoric and dialogue over the ESM as sustained since the 1990s has introduced new concepts and terminology into the welfare and employment debates: in the 1980s the terms employability, activation, flexicurity and gender mainstreaming would hardly be recognised within employment policy debates[34]. Even the term social partnership that has been diffused throughout the EU through documents and policies was not a known concept in either the English language or in parts of the EU including the UK and indeed many of the new member states.

The focus of this section is on the European employment strategy and the associated open method of coordination although the impact of these policies are reinforced by the wider European dialogue on employment, social policy and social dialogue, including the development of the so-called acquis for new member states that is based on both hard and soft law elements and by the embedding of the EES in the criteria for the structural funds assessments.

The European Employment Strategy is by design expected more to shape the policy agenda and orientation rather than to produce specific and common policies and outcomes. As such its influence is necessarily diffuse and unclear. The openness of the process also allows member states to interpret the goals in a highly flexible manner,

[34] These terms were not all invented by the EU/EES but have been diffused through the EES and other EU activities

such that it is equally possible for two member states as diverse as the UK and Sweden to claim that the EES agenda is effectively synonymous with their own national employment and social agendas. Indeed for several member states there are grounds for regarding the EES as having been influenced by strategies adopted by the member state prior to the EES rather then the influence being from the EES to the national model. Thus the EES has borrowed the strong commitment to activation for men, women and older workers from Sweden, the promotion of flexibility, in-work benefits and the downgrading of unemployment benefits from the UK, the notions of flexicurity from Denmark and the Netherlands and provision of childcare from Scandinavian countries and France. The EES is not operating in isolation from international policy developments. The EES when first launched put a certain distance between its flexibility with social cohesion policy and the strict deregulation recommended by the OECD and its 1994 Jobs Study but nevertheless reinforced the international promotion of a change agenda for employment and welfare regulations. Recently there has been a further convergence of approach, with the EES stressing more the growth and flexibility agenda and the OECD conceding that there are a range of possible policy packages in employment and social protection that can delver growth and high employment.

The influence of the EES is clouded further by differences between member states in the public awareness of the process (Zeitlin 2005); it is hardly recognised by political commentators in for example the UK and Germany while the drawing up of the national action plans is subject to formal tripartite scrutiny- for example in Luxembourg. Furthermore member states vary in the extent to which the EES has change the policy agenda. In Greece for example the EES can be credited with introducing entirely new areas of policy in the public debate- including active labour market policies, lifelong learning and gender equality. Furthermore the role of the EU in promoting non standard contracts has been sustained and has been actively resisted at national level by the trade unions over along period. For Greece- and for other Southern and transition economies - it is the embedding of the EES within the criteria for access to the structural funds that has opened up all these policy areas. This influence of structural funds is related to their importance for the national or regional economies[35]. Spain, Italy, Greece, Ireland and Eastern Germany have all been major recipients of structural funds and Hungary stands to receive 3 to 3.5% of its GDP in this form by 2010/12. The main areas supported apart from infrastructure are employment and social policies- particularly policies promoting activation, training, equal opportunities etc. As such the structural funds reinforce the employment and inclusion strategies by promoting approved approaches to employment and welfare systems rather than filling in the gaps between the welfare systems in the less well off member states compared to those with more developed systems. However, where the EU policy is to introduce new areas of social infrastructure - such as childcare- in the interests of promoting more employment, there is less of a difference between the development of the welfare state and its reorientation.

Even where there is limited public debate, and limited impact form structural funds the ideas behind the EES and the Lisbon agenda may still have percolated national debates. In Germany the Hartz reforms that reduced the length and size of income related unemployment benefits is not only in line with the focus in the EES on activation and making work pay but also contrary to the protection of occupational status at the heart of the German model. The national debate drew on examples from other European countries on how to activate workers through financial penalties, not just through improving job match through vocational training (Kemmerling and Bruttel 2005). There are also strong similarities between the prescriptions of the EES and the direction of travel in many member states with respect to employment regulation even if the changes to laws and regulations are not directly attributed the EES or their timing fully in line with the EES. To further identify the influence of the EES principles in the reshaping of national models we will consider four main areas of European policy[36] - i) promoting employment -activation, active ageing, and make work pay, ii) promoting flexibility- flexibility and flexicurity iii)promoting women's employment and gender equality iv) the use of social partnership and social dialogue.

[35] Although even where the overall contribution is high, the impact may be limited if, as for example in Italy there is limited evidence of any process of learning between regions.

[36] Other issues such as lifecycle and lifelong learning policies, reducing the hidden economy, skills matching etc will be addressed within these areas, according to their relevance.

i) Promoting employment- Activation, active ageing, and make work pay

One of the main influences of European employment policy, even before the launching of the EES has been to promote an active rather than a passive approach to the management of unemployment. In adopting this policy the EU was clearly borrowing from the Scandinavian and indeed the German experience of active labour market policies but the notion of proactive policies to encourage the unemployed back into work was new to several member states including most of the Southern European countries. In part this lack of development of active labour market policies was due to the limited development of unemployment benefits in particular in Italy and Greece so the presumption of a public sector cost to passive policies was not fully valid. Through the EES some member states' policy solutions have been generalised to other societies where neither the problem nor the solution had previously formed a significant part of the national model. Low employment rates in some Southern European countries were clearly more related to lack of labour demand than to over generous welfare payments but the result of the EES has been to focus policy activity primarily on the supply side[37]. For most member states the EES can be said to have had some impact on the approach to the management of unemployment. Where active policies were weak and the public employment service underdeveloped, most member states report some developments and progress, although in countries such as Greece the extent of the active labour market policy programme is highly dependent on EU funding. In Hungary the experience of following the EES has been to place more focus on assistance for specific vulnerable and disadvantaged groups, again with a whole raft of specific programmes supported by EU funding.

The impact of the EES has not only been to promote assistance for the unemployed but also to require the unemployed to demonstrate a more active approach to job seeking. Requirements on the unemployed to participate in active job seeking have tightened, even in member states such as Austria with strong traditions of active policies. Some member states such as the UK have stressed more the restrictions on levels of benefits than active policies, although the new deal programmes launched by Labour after 1997 happened to coincide with the start of the EES and marked a chan-

[37] In recognition of the demand side gaps some of the Southern countries – for example Greece, Spain and Italy – have provided subsidies for hiring, particularly into permanent jobs, but the long term effectiveness of the subsidies are in doubt in the absence of underlying labour demand.

change from the solely punitive approach by the conservative governments (Barbier). In France there has been some development of activation policies but these have been combined with a continuing commitment to social solidarity in the form of minimum income guarantees for those entering low paid work. In Spain the impact of activation has been to increase the supply of workers for low paid and temporary work without social guarantees. Sweden has traditionally combined high social guarantees with activation, a pattern yet to be fully emulated in other member states where the focus has been on activation and financial penalties through lower benefits and or threats of withdrawal of benefits. Sweden has modified this policy recently but only cutting replacement rates for unemployment benefits from 80% to 70%, still much higher than average. Germany has succumbed to pressure to focus more on forcing the unemployed off benefits through restrictions on entitlements and removal of earnings related benefits after a period; this approach has actually led to a reduction in the availability of vocational training for the unemployed so that Germany is moving more towards the UK than the Swedish approach and reducing the focus on matching people and their skills and qualification to job vacancies in preference to a work first policy (Bosch et al. forthcoming, Kemmerling and Bruttel 2005).

While there has been a general trend towards activation, the approaches to activation reflect specific national priorities. In the UK there is a particular national concern with reducing workless households, particularly lone parent households, associated with the high use of means-tested benefits in the UK and there is a much weaker concern with overall activation strategies, with those without jobs but not claiming benefits not considered an issue (Rubery et al. 2006). This provides an example of how the EES objectives have been moulded to fit national objectives, with the UK more concerned with reducing welfare dependency than with raising employment levels per se. Moreover, this approach has underpinned the focus on make work pay policies in the UK, with household-based means tested in-work benefits. The focus is on moving households off benefits and not on the problems that this policy implies for the incentives for second income earners or women to enter employment. Germany provides another example where there are contradictions between elements of its employment policy, given the overall set of EES objectives: its main make work pay policy- the promotion of mini jobs outside of tax and social protection- is facilitated by its income splitting household taxation system even though this arrangement has been criticised by the EU for being at odds both with gender equality objectives and indeed employment promotion objectives, except for mini jobs. Thus responses to the make work pay agenda may create considerable inconsistencies with other elements of the EES espoused agenda and may even prop up the traditional employment models that the EES is supposedly modernising. Austria has also developed in-work benefits combined with subsidies to lone parents and single earner households that effectively encourage the development of male breadwinner households with a spouse who at most works part-time. France, Greece and Hungary have also introduced some limited in work benefits but their impact on participation patterns is reported to be weak in France[38] and as yet not evaluated in Hungary and Greece as they are recent policies.

The three main elements of make work pay policy are reforms of tax, benefits and wage structures. Wage structures have received relative little attention although the UK and Ireland have introduced minimum wages and Hungary, Spain and indeed the UK have raised the level of the minimum wage rate although from an extremely low level in the case of Spain (Recio 2001) . In Hungary the policy of making work more attractive has been put in jeopardy by the change in policy approach from 2006 due to the budget deficit. The UK's improvement to its minimum wage is designed in part to keep down the cost of the in work benefits. Greece has introduced a pay premium for those on short part-time jobs in order to overcome prejudice against this form of employment, but with limited impact so far. Overall, however, the main focus has been on taxes and benefits not wage structures. Several member states have responded to pressure under the EES to both reduce taxes for employees at the low income end and to reduce the tax wedge on low wage jobs, thereby apparently promoting both the creation and the filling of low wage jobs. Sweden has moderated its tax levels on low incomes and interestingly also varied the cost of childcare to reduce the effective tax faced by mothers, thereby reinforcing its activation approach. Italy and Spain have focused more on reducing the tax wedge for employers, in part to reduce the size of the black or hidden economy, but with limited effects so far. Germany as we have

[38] France has also extended subsidies to mothers of now two children to stay out of the labour market and has even provided some subsidy for mothers with their first child (previously this subsidy was only available after the third child) and the result has been a drop in participation rates, contradicting the promotion of female employment and the make work pay agenda

already discussed has not changed its income splitting system but has 'managed' the negative impacts on participation by promoting the growth of mini jobs.

The EES strategy of activation and make work pay also links to the policy of encouraging more older workers to stay in the labour market and not to retire[39]. In practice most of the active ageing policies have involved changes to pensions, through restrictions on, or phasing out of early retirement and through changes to contributions years or date of standard retirement for full pensions. These changes have been motivated by public sector deficits, both current and projected, and there has been little evidence of positive policies to promote employment amongst older workers, although some countries have introduced specific activation programmes for older workers (UK, Greece, Hungary), some have restricted eligibility for long term unemployment benefit or disability benefits to reduce the slippage into inactivity (Germany, UK), and some have increased incentives to remain in employment through bonuses for late pension claimants (Spain, UK). The pension reforms introduced have either changed the method of pension entitlement calculation and contribution such that there is a considerable switching of risk from the society to the individual, through a switch from defined benefit to defined contribution schemes (the reform adopted in Sweden and Italy for example) or there is an intensification of the need to conform to the male breadwinner model of full-time continuous employment until a late age in order to have the security of a full pension. There are, therefore, considerable contradictions involved in the policy adopted towards active ageing, for while promoting the longer employment of older workers, it often does so at the expense of pension entitlements for those on more diverse employment trajectories, despite the policy objective of promoting flexible employment. In some cases these effects have been modified by greater pension credits for time spent caring. However, in most cases the impact of the changes are postponed and will only really impact on perceptions of the employment and social model in place a couple of decades down the line when the real changes in entitlements become manifest. There is the further complication that although public subsidies to early retirement have largely been phased out or reduced, employers still may favour the use of early retirement as a means of restruc-

[39] The third route of increasing the employment of older people and that is improving the re-entry rates of women after childbirth has not been explicitly addressed within the active ageing policy which tends to focus on the behaviour of the typical male employee.

turing (for example in the Hungarian public services) or as a means of reducing labour costs (for example in Spain). The active ageing policy presumes that there are sufficient jobs to more than meet the demand for employment but the policy of promoting longer employment for older people is challenged in a context where demand for labour falls below supply, particularly of younger workers.

The size of the pension funding problem in many member states has meant that the issue of how to reform the social model to take into account the ageing population is an issue that would appear on national policy agendas irrespective of the EU's interventions. However, the EU has still played an important role in promoting these reforms in three respects through: i) the focus on public sector deficits under the EMU rules ii) the requirement to equalise male and female retirement ages which may have been a trigger for a wider debate on retirement ages and iii) by providing an employment rate target for older workers of 50% by 2010 and raising concerns about early retirement and the need to support an ageing population. It is the general debate over pensions that has perhaps allowed countries such as the UK which currently have relatively low projected deficits to introduce later retirement even in a context where the problem may be more low provision rather than excessive provision ; and these concerns about active ageing have also kept issues of inadequate pension coverage off the agenda in countries such as Italy and instead focused attention on the raising of retirement ages and reductions in pension costs.

ii) promoting flexibility- flexibility and flexicurity

The promotion of so-called flexible labour markets has been at the heart of the European project. Member states which operated restrictions on the use of non standard workers have been under pressure over the long term to remove these obstacles to flexibility and have continued to come under pressure under the EES system. Greece in particular has been introducing legislation to regularise non standard work even though it has both been resisted by trade unions and so far has not had a rapid uptake. There is more evidence that this approach has been changing the model in Spain where female employment has risen partly associated with a significant growth in part-time work. Short part-time working has been stimulated in Germany under the mini jobs policy and is also growing in Austria. The other side of flexibility is the protection offered in permanent jobs and many member states have reduced that protection over recent years- for example in Italy through the Treu and Biagi laws and in Spain where the focus has been on attempting to reduce segmentation and the very high level of temporary contracts through incentives to hire staff on a permanent contract, offered with still high but reduced protection. However the lack of success in this area despite reductions in legal rights suggests that the notion that a permanent contract really is permanent still holds sway in Spain, despite changes to legal rights, and that employers therefore still prefer the explicitly flexible contract.

Another dimension to flexibility is flexibility in scheduling of working hours; here the UK stands out with both long and highly flexible working hours protected by the use of the opt out from the working time directive (Boulin et al. 2006). Hungary has also provided for collective bargaining agreements to allow for derogations from the working time directive requirements but, given the weakness of unions in Hungary, the employers have been able to use these derogations bring in more flexible scheduling and working hours . In France greater flexibility over scheduling was part of the price that labour had to pay for the 35 hour week and even if working time is now extended again under the new government the scheduling flexibility is likely to remain (Charpentier et al. 2006).

Despite the discourse on flexicurity there have been very few measures to promote flexibility and security as combined objectives, except through the implementation of EU directives on fixed term and part-time employment. Indeed the overriding emphasis has been on flexibility and the lowering of protection for outsiders without significant extensions of rights for the insiders. In practice the objective of flexibility has taken precedence over the extension of rights to non standard workers; in Italy for example there has been no expansion of welfare protection to include non standard workers and the welfare system remains concentrated on employees in large companies even though they constitute an even smaller share of the working age population an of actual employment. The main positive example of flexicurity is in Sweden[40] where flexibility is conceived as providing opportunities to reconcile work and other the activities over the life course and the welfare system is designed to provide a smoothing of access to income to facilitate a lifecourse approach to working life.

[40] Measures have been to encourage the movement of work from the hidden to the formal economy, a form of flexicurity policy but by and large these measures-for example in Italy and Greece- have been largely unsuccessful with a strong preference still revealed for hidden economy work over formal flexible employment.

While this approach may lie at the heart of the flexicurity debate, it is more noticeable by its absence from other member states. Indeed in many states because of the reform to pensions those opting for more diverse working hours and contractual arrangements may be increasingly disadvantaged in lifetime income.

iii)promoting women's employment and gender equality.

One of the most frequently cited impacts of the EES is to have put or kept gender equality issues on the policy agenda (see for example five year review of EES in 2002). Further analysis of these claims tends to reveal that this is not because of the huge efforts being made to reduce gender equality but because of the likelihood of complete gender blindness in employment policy if the EES had not originally included equal opportunities as one of the four pillars of the strategy, then asked for all policies to be gender mainstreamed and finally set a female employment rate target of 60% for 2010, followed up with targets on the provision of childcare to facilitate achieving the target. Without these measures it is highly unlikely that most member states would have mentioned gender at all in their national action plans; evidence in support of this contention comes from the almost complete absence of references to gender issues since the development of new guidelines in 2006, with the integration of the EES in the National Reform Programme. Under the new guidelines the gender guideline disappeared and gender issues are only mentioned under other guidelines with no headline requirement to report on gender equality. As a consequence most mentions of gender issues relate solely to the employment target, with some references to childcare or to the promotion of part-time working as part of the flexible labour market agenda (Rubery et al. 2006).

However, interpretation of these trends is made more complex by the fact that some developments in promoting gender equality are now taking place without them being headlined in the NRPs; the EU may still have been an influence or a catalyst by placing gender equality on the internal policy agenda. Examples of member states with important recent new gender equality measures include Spain with its dependency and equality acts[41], the UK with its new requirement on public bodies to promote gender

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[41] The dependency act is particularly notable as it gives elderly people the right to receive care for he first time when they are living with their children, thereby breaking with the assumption of care in the family (Rubery et al. 2006)

equality and its improvements to the availability of childcare, (Rubery et al. 2006), Germany with its move towards income related maternity leave and recent expansion of childcare for the under 3s, France with its series of acts requiring that social partners bargain over gender equality, and Sweden with its moves to include childcare in marginal taxation calculations, its extensions of leave exclusively for fathers and its requirements on employers to undertake and publish pay audits. Italy also introduced improved parental leave arrangements in 2000, with special leaves for fathers even though these measures were not really implemented following a change of government. .

The significance of the EU in promoting gender equality in part depends upon the development of gender equality principles within the country prior to joining the EU. At one extreme Sweden already had well established principles of gender equality before joining and one of the factors in the campaign for a no vote for joining the EU was that gender equality measures would be reduced rather than enhanced. At the other extreme the EU has been the main driver behind gender equality measures and policies in Greece, including first through the legal framework and latterly through the EES, evident in the development of policies for childcare, extended leave and even processes for gender mainstreaming of policy. Here the reinforcement of the same principles through the structural funds may also have an impact.

If the specific policies associated with the EES are considered, a very mixed range of policies with highly variable implications for gender equality can be identified. First there is very limited attention to issues of job quality, either with respect to issues of gender segregation or to the gender pay gap, with the exception of Sweden. The gender pay gap is a particular problem in the UK and the trade unions' use of EU law to promote gender pay gap issues has been influential in the development of a platform for action, but this stops short of compulsory action by employers such as Swedish-style gender pay audits. Turning to policies to promote activation, we find the most positive area of development is childcare, where most member states have improved availability of childcare and issues of childcare have emerged on the policy agenda in countries such as the UK, Germany, Greece and Hungary. France and Sweden already have good childcare availability but Austria, Spain and Italy have low availability –at least for under 3s – but limited evidence of action to improve supply. Another popular activation measure has been to promote part-time employment although this approach has highly variable implications for gender equality. Spain, Italy, Greece and Hungary have traditionally discouraged part-time work through regulations and higher overhead costs but most of these have now been removed under pressure from the EU. However, the impact on take up of part-time work has been much higher in Spain than in the other three countries (Rubery et al. 2006); social norms in all three countries still mean that informal work is more common than formal part-time work. Furthermore to the extent that part-time work has begun to rise for women, there is very limited development of security dimensions to this flexible form; part-time remains concentrated in low paid and insecure segments and there has been very limited development of rights for employees to work reduced hours in their current employment, following the Swedish model. In Germany and Austria there has been a major growth in short part-time jobs, fuelled by favourable tax treatments but this type of work is known not to provide good career prospects.

Inconsistencies and contradictions are evident between the espoused values of the EES to promote women's employment and actual policies pursued with respect to both taxation and leave. Hungary has persisted with its very long parental leaves of three years even though this creates problems for reintegration of women in the labour market. Some measures are being taken to promote integration but all within the three year framework. France and Austria have developed new policies that in practice encourage mothers to leave the labour market or at most- in the case of Austria - work in short part-time jobs. Germany has continued with its income splitting systems that creates similar incentives towards inactivity or short part-time work and the UK has introduced more extensive working tax credits that incentivise lone parents and main breadwinners to enter employment but have negative incentive effects for the second income earner. These contradictions have by and large not been picked up by the EU in making recommendations back to member states on how far their policies fit with the objectives of the EES, the only exception being the German income splitting system that comes in for criticism. This suggests that a gender blindness still remains at the heart of the EES, despite the apparently innovative embrace of both gender equality and gender mainstreaming in the formulation of the policy.

iv) social partnership and social dialogue.

This fourth topic – social partnership and social dialogue – is not so much promoted as a major policy point in the EES but assumed to be a standard part of the governance structure of European employment and social models. The impact of this assumption on actual practice varies widely. In the UK it has been firmly ignored by both Conservative and Labour governments who have been at pains to maintain the exclusion of trade unions from national policy-making. The EU has also had limited impact on promoting social partnership where this was a firmly established element of the national model before entry, as in corporatist Austria and social democratic Sweden. At the other end of the spectrum Ireland in the 1980s rediscovered and reinvented its social partnership agreements that had been established in the 1940s but which would not have been adopted as a major element of economic management if it had not been for the support of the EU for social partnership approaches (Wickham and Schweiger 2007). Indeed without the promotion of social partnership by the EU such an approach would be difficult to sustain in an economy with a high presence of US and UK MNCs. Italy and Greece provide further examples of member states where trade unions have been brought more into employment policy negotiations that would have been the case without the promotion of such dialogue by the EU. Indeed entry in the EU in Greece became associated with the development of a more consensual industrial relations system and a marked reduction in adversarial industrial relations (Karamessini 2007). Hungary has also been affected by the social partnership agenda and introduced some of the institutions for social partnership and social dialogue as a result of the negotiations with the EU over the acquis – for example introducing both national tripartite bodies and workplace –based works councils. However the trade unions have remained too weak for these to have any strong impact. Lafoucriere and Green (2006) have argued that in many new member states including Hungary the response to the acquis has been to set up tripartite bodies for social dialogue where the state is dominant and social partners often do not even attend meetings.

In some member states the main impact of the EU has been to introduce new topics on to the agenda- for example in Spain and Greece equal opportunities and active labour market policies were not discussed within collective bargaining prior to joining the EU and the EU has also led to the involvement of social partners in negotiating proposals for labour law reforms. This extension of the agenda for social partnership can be interpreted both as a necessary modernisation of the social partners' agenda- to deal for example with the interests of the growing number of women among trade union members- but also as evidence of the impact of the sustained rhetoric, reinforced by, for example, persistent high unemployment overall or for the young- on the need for flexibility and change, such that the social partners become engaged in that debate often against the better judgement of the trade union parties.

The impact of the EU on social partnership at the workplace is primarily through hard law initiatives on European Works Councils and the information and consultation directive. In Germany 140 out of the 180 European companies now have European Works Councils and this development is internationalising the approach to industrial relations. The impact in, for example, the UK is likely to be much weaker where there is no domestic tradition of works councils.

5 The EU and the future of the European social model(s)

On the basis of this review of the main EU policy levers and examples drawn from experiences in the ten member states, we can make the following observations on the evolution of the European social model or models. First - and this is relevant to the debate on whether European social models are outmoded or stagnant - there is significant change taking place within the models. Second, there are common directions of change - towards more activation policies, greater flexibility, the prolonging of working life through pension reform and the establishment of a form of dual-earner society. These common themes relate to common issues or problems that would, in many cases, have undoubtedly become part of the domestic agenda without any prompting from the EU: ageing populations, changing gender roles and high unemployment related to economic restructuring are challenges facing individual member states as well as the EU as a whole. Nevertheless, the EU has clearly played a role in generalising particular policy approaches. It has, for example, introduced activation into countries where there was no such tradition, promoted more flexible forms of work by pressing for the removal of regulatory obstacles and encouraged the adoption of make-work-pay policies based on a mix of sticks (reduced benefits or entitlements) and carrots (in-work benefits) in order to persuade unemployed people to move off benefits, as well as incentives for employers to create jobs in low-wage segments or for vulnerable groups. Provision of childcare is one particular example of a policy that would not have moved on to the policy agenda in as many member states as it has without EU support. The third observation is that there is still an evident commitment to social policy and welfare provision, such that there is no clear convergence with the US. Pensions have been reformed but not abolished. Social protection may be more tied to activation but is still more available than in the US and in some cases has been extended to new groups. In many instances, indeed, commitments to improving the work-life balance and childcare provision are actually extending the functions of the welfare state as families become less able or willing to provide care services. Social partnership and social dialogue are still key features of most European social and employment models, even if in the new member states they are often weak and, where present, largely dominated by the state (Lafoucriere and Green 2006).

So how do these observations relate to the key question of the potential for the survival, modernisation and strengthening of the European social model or models? Is there evidence of evolution towards a more modern and appropriate form, more in line with changing competitive needs and the changing aspirations and behaviour of European citizens? Or are the changes taking place undermining the key characteristics of the European employment and social models, particularly their association with conditions of decent work? And are current developments helping Europe to achieve the Lisbon objectives - that is to combine the need for comparative advantage in the world economy with the development and maintenance of a cohesive society? And furthermore, are European social models converging or is there evidence of continued and even increased divergence?

If we turn to the last question first, our overview has first of all made it clear that the process of convergence in European models - to the extent that it exists - relates primarily to the orientation of policies rather than the level of social provision. In this respect, the EU may be a source of continuing divergence rather than convergence, since the rules of the EMU relate public expenditure and debt limits to percentages of GDP and not the development of public services. As such the EU does not provide, except through the structural funds, for a catching-up or harmonisation of levels of social support. The structural funds do support infrastructure but not social benefits. In addition, they promote policies in line with the approved orientation, such as activation and flexibility. However, merely promoting such policies is hardly sufficient to bring about convergence towards a modernised welfare state, since member states do not have the capacity to undertake the major investments needed to move from, for example, a domestic or family system of service provision to provision through public services. The celebration of difference within the OMC allows the EU to hide behind the fact that, even if the EES was in part inspired by the Swedish model, the EU's regulatory approach precludes the emergence of new Scandinavian welfare states within the EU. This concern with convergence in the orientation rather than the substance of policies fits with the view that the European project is concerned with the 'harmonisation of ideas, visions, norms of action, rather than of institutions and regulation' (Jepson and Serrano Pascual 2006: 35). However, unless there are long-term processes leading to some degree of harmonisation of the substantive systems, this convergence of political vision may in fact reinforce the current differences in levels of social protection and decent work. This is likely because such an approach actually reduces the scope for really innovative institution building in the area of employment and social policy in those member states where social policy is currently underdeveloped, while at the same time exposing them to the rigours of competition in the areas of product markets and macro policy.

Another factor in the lack of real convergence is that assessments of policy initiatives within the broad approved fields, such as activation, flexibility or gender equality, are not subject to detailed scrutiny; furthermore, they are not carried out with reference to some form of quality threshold that would measure the likelihood that the initiatives in question will contribute to modernisation of the employment model. Interactions and contradictions between policy areas remain unexplored and unnoticed; that policies may make work pay for some groups but not for others is not highlighted by governments nor brought out by EU policy assessments. Flexibility policies such as the promotion of part-time work are not evaluated for their actual impact on gender equality. The variety of approaches is legitimated within the EES on the grounds that, firstly, the EU has limited competence in social policy (Scharpf 2002) and, secondly, that the various historical paths and trajectories of development have their own intrinsic value, as demonstrated within the varieties of capitalism literature. However, this celebration of diversity does not in fact allow for criticism of any policies that may undermine rather than support a particular variety of capitalism. For example, France has historically had a reasonably high employment rate through its policies that support women to stay in work. However, new policies that encourage women to stay out of the labour market when they have their second child have not been criticised at EU level for moving way from the joint employment targets of 70% overall and 60% for women, or indeed potentially undermining commitments to gender equality. This lax approach to policy evaluation coupled with the very different traditions of social policy and indeed degrees of development make it highly unlikely that there will be any strong move towards convergence in social policy. This openness may have some upsides, for example it may enable those countries with already developed social policies to retain a higher than average level of social protection. However, the downside is that there is very limited evidence that application of the orientation promoted in the EES is leading to the development of coherent new social models; member states only have to point to some policy change that appears roughly in line with the orientation and do not have to provide a comprehensive analysis of the interactions between the various policy approaches.

This tolerance of diversity in fact reflects the trend away from regarding social policy as a major source of future productivity and development for European societies. In the early days of the EES, there was a belief - articulated by the then Director General of DG Employment - that social policy should be regarded as a productive factor. Accordingly, the development of an appropriate social policy should not only provide for social cohesion and inclusion but also help to achieve the goals of a productive and knowledge-based society (Herman 2006). However, after the review of the Lisbon strategy by Kok (2003), the objectives of the EES came to be defined more narrowly. Economic objectives were not only to be given priority but were also to be considered separately from social policy, as the key recommendation was for 'new impetus and attention to policies that both accelerate employment growth and boost productivity' (op.cit: 17). Arguably, the EMU restrictions act as a barrier to member states embracing the notion of social policy as a productive factor, although outside DG Employment the argument has always met with some scepticism. Rather, the focus in those DGs dealing with competition is to promote the role of the market in creating comparative advantage. Privatisation and the removal of obstacles to trade are the primary requirements identified for a productive society. Social policy is to be productivist only in the sense of creating more self-reliant individuals, able to be flexible across their working lives and to respond to market changes through willingness to change employment, hours and develop skills through lifelong learning. So social policy should be geared to facilitating market functions but not to create distinctive collective capital on which the EU project as a whole can draw. It is not, however, only in social policy that the EU is weak in boosting collective capital: raising research and development is the main such EU policy but it is so far an area of limited impact, with all countries other than Sweden and Germany falling well below the EU target of 3% of GDP. Reforms of university systems are taking place, but this lies in principle outside the EU as it has no competency in education, although the Bologna process would not have taken place without the presence of the EU.

Two identifiable problems emerge from this neglect of the notion of social policy as a productive factor. First, the importance of the labour market and job quality for the achievement of social protection has not been taken into account. As Wickham argues, policies to destabilise labour markets through privatisation and competition may in fact serve to undermine the basis for a European social model.

The creation of a market for services is thus part of the process of negative integration within the EU, in which national barriers are politically torn down but no social policies created that would provide for positive integration (Scharpf, 1999). In the short term, these processes enhance the power of those EU institutions concerned with market expansion but in the long term may well undermine the rationale of the European project itself. (Wickham 2005 :14)

Such policies increase the need for social protection by reducing job protection but destabilise the conditions under which social protection can be readily funded - that is by people in stable, often full-time jobs earning wages at levels where they are able to make contributions to social protection funds. The stabilisation of employment contracts and systems and the development of welfare systems have historically gone hand in hand (Deakin and Wilkinson 2005). The notion of the flexible, self-reliant, infinitely adjustable labour market participant is a figment of the EU's imagination; the only model that resembles this approach within our sample of ten countries is that of Sweden. However, the Swedish model is based on highly developed institutional arrangements that shape the operation of the market in order to socialise risks across the life course and provide access to high levels of support as a back-up to policies designed to promote flexible labour markets. Moreover, in these 'exemplary' flexicurity models – which include Denmark as well as Sweden - the complementary institutional arrangements serve to shore up the quality of jobs and work experiences; in a context of high levels of low-quality work, flexibility would not be so widely accepted, even if social benefits were relatively generous. Flexible labour markets without these such institutional support structures, which cannot in fact be constructed due to restrictions on economic policy in the EU, will not provide a basis for both flexibility and protection. The EU has not yet recognised the contradictions in promoting women's employment in order to solve the fiscal crisis of the ageing society, while at the same time allowing and even encouraging women to accept flexible, short-hours part-time jobs, where neither employer nor employee makes significant contributions to social protection. The argument here is that, while the policy of promoting employability over the life course clearly has the merit of facilitating adjustment to sectoral, organisational and technological changes, employment protection should not be protected at the expense of policies to develop and maintain job quality- or to promote decent work. Employability and activation as policy measures intended to create inclusive labour markets need to be combined with attention to decent work characteristics - including wage levels, employment stability, skill and career development- if the outcome of the restructuring of models is not to place more burdens on social protection systems in order to compensate for the reduced protection from risk previously provided within the labour market. One of the motivations for promoting the flexicurity agenda is in part the previous concentration of benefits on insiders – in particular on male breadwinners in full-time employment. However, reforms undertaken in the name of greater inclusiveness may in fact lead to the second major contradiction in the policy approach. As welfare states evolve to become less exclusive by extending rights to non-standard workers and reducing the differentiation between insiders and outsiders, the result is often to extend but lower social protection, thereby creating more divisions through increased reliance on, for example, private provision for income in retirement. Lower general provision leaves more scope for private provision that is even more exclusive than public provision provided to core workforces[42].

The survival of the European social model as a means of promoting both a productive and a cohesive society is thus dependent on the rediscovery of two important linkages. Firstly, social policy, in so far as it develops capacities within the population of

[42] However often even the policy of extension is partial; the reform of models may be justified in the name of promoting rights for outsiders but fiscal restraint may lead in practice to policy agendas that have negative impacts on the outside or vulnerable groups: for example in many cases pension reforms have increased the relative costs of pursuing diversified employment careers involving part-time and temporary or self employed work.

Europe, should be seen as a core element of the strategy to create a productive knowledge-based society. This being so, we need to refocus on the employment-production nexus in developing Europe's comparative advantage. Secondly, we need to focus not only on how the reform of welfare systems can help people into work but also on how trends in the development of the quality as well as the quantity of jobs impact upon the ability to provide social protection. A more extensive and inclusive social protection system covering flexible and non-standard employment requires that the characteristics of high-quality jobs be extended to a wider range of employment forms and employees if the virtuous circles hoped for in the European employment strategy are to be achieved.

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