

Employment stability in an age of flexibility

Evidence from industrialized countries

General editors
Peter Auer and Sandrine Cazes



INTERNATIONAL LABOUR OFFICE • GENEVA

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FOREWORD

This book aims to make a contribution to the ongoing debate among labour market experts concerning both the conditions of a labour market radically altered by globalization and advances in technology, and the new forms of social protection that are its necessary partners. “Active” and “passive” labour market policies are fundamental elements of social and employment protection, and the development of new employment-related securities depends upon the adaptation of these policies to the changed, more flexible environment.

A strong consensus exists on the persistent development of labour markets towards more numerical and functional flexibility, with some authors even predicting the end of (wage) employment, but the argument has remained largely theoretical until now. The book contributes to this important debate by putting forward recent data on the changes in the employment systems of the industrialized countries. Significantly, the data do not show a secular trend of “erosion” of the long-term employment relationship. There is little change in the average length of the employment relationship, and long-term employment relationships are shown still to be the norm for a large part of the workforce in Europe. While the percentage of long-term jobs is markedly lower in the United States, it is also rather stable. However, behind this apparent stability, some changes are noticeable: average job tenure for younger workers is decreasing, as is men’s employment tenure, while women’s tenure is increasing, as increasing numbers of women access more stable jobs. The book also acknowledges that while stable jobs still account for a large share of employment in the economies of industrialized countries, the perceived feeling of job insecurity remains high.

Employment tenure, employment mobility and job insecurity are determined in large part by the general state of the economy and the dynamics of firms and their job creation potential. However, by analysing trends in employment through cross-national data and country case studies, the book finds that an important institutional element influencing these factors is the specific pairing of employment protection and social protection. The case studies analysing these combinations show that, for example, Japan is still the prototype of a country where firms

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organize employment protection, and where until recently there was little need for social protection for those having lost their employment. Conversely, the system that developed in Denmark is one where employment protection at firm level is rather weak, but where social protection is pervasive and of a high standard. The results of these different systems are that employment mobility in Japan is low and tenure long, whereas in Denmark mobility is high and tenure is shorter. However, in Denmark the particular trade-off between employment protection and social protection (the latter consisting of generous unemployment benefits and easy access to training) also produces a lower degree of perceived job insecurity, while in Japan, compared to other industrialized countries, there are high values of perceived job insecurity.

The policy advice implications of this analysis are threefold:

- all labour markets in industrialized countries are characterized by a stable core of long-term employment, with flexibility organized around this core. This also applies to firms: differentiating by sector of operations, efficient firms operate with a stable core workforce and with a flexible workforce organized around it;
- the specific combination of stability and flexibility in countries' (or firms') labour markets is, among other factors (such as markets, sector, demand and performance), influenced by the relationship between employment protection and social protection;
- in a more volatile environment, some of the burden of employment protection borne by firms will be transferred to other social actors, such as the social partners or the State, in order to ensure employability and social protection.

For important ILO activities such as the Global Employment Agenda, the analysis shows that organizing decent and productive work is not only a task for companies or the public sector. It also requires the contribution of labour market institutions to ensure protected mobility and employability for those moving between jobs. However, in order to allow those who are employable to finally reach employment, large cores of stable employment relationships must be maintained. Both of these conditions are potential bargaining issues for social dialogue.

The results presented here are part of a broader ILO research project that will extend the question of stability and flexibility to the context of transition and developing countries, and deepen the relationship between flexibility, stability, labour market performance and productivity.

Göran Hultin
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Peter Auer and Sandrine Cazes

INTRODUCTION

1

Peter Auer and Sandrine Cazes

1.1 NO MORE STABLE JOBS?

This book is the result of a two-year project conducted by the labour market policy team of the Employment Strategy Department within the Employment Sector of the ILO in Geneva. It consists of six chapters: an introductory overview, a comparative study of the question of employment stability and flexibility in 16 countries of the Organisation for Economic Co-operation and Development (OECD), and country reports on Denmark, France, Japan and the United States.

The genesis of the project relates to concerns of policy-makers in the field of employment and labour market policies that reflect an ongoing debate among labour market experts. Put simply, the central question concerns the new forms of social protection – labour market policies, in particular – that must accompany a fast-evolving labour market. A labour market radically changed by the twin forces of globalization and technological advances, so the assumption goes, can no longer deliver the employment and social securities of the past; new securities need to be developed for the future. Labour market policies (both “active” and “passive” measures)¹ are an important element of employment and social protection, and their adaptation to the new, more flexible environment is crucial for the development of new employment-related securities.

However, this debate lacks one keynote: while a strong consensus exists on the secular developments of labour markets towards more numerical and functional flexibility, the point has rarely been empirically proved. In reality two streams of thought have coexisted, both coming to similar dire predictions of an inexorable rise in flexible jobs. One stream is made up of those economists and their followers in politics who criticized the “sclerosis” of the (European) labour markets and

¹ For the purpose of this volume we define “passive” labour market policies as income replacement due to unemployment or given on other labour market grounds (early retirement, for example) with no obligation attached to be trained or to work. “Active” policies always imply that the participants in such measures are trained or hold a non-regular job, such as in a public temporary work scheme. However, income-replacement benefits for the unemployed also usually imply that recipients search actively for work.

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saw stronger numerical flexibility as a remedy for the European employment problem. Here the increase in numerical adjustment flexibility and the demise of employment protection legislation was seen as positively underpinning economic and employment growth (numerous economists have contributed to this debate, which is also reflected in the OECD Jobs Study of 1994, advocating more flexible labour markets. For a recent discussion of this point see Pissarides, 2001). These authors predicted that flexibility must necessarily continue to rise under the increasingly competitive economies resulting from globalization and that we should therefore see a rise in more flexible jobs.

On the other side of the debate, the many authors opposing stronger deregulation and “flexibilization” of the labour market saw a real danger for working and living standards in the rise of “non-standard work arrangements”. These authors likewise acknowledged an alarming and inexorable rise in precarious jobs. What one school saw as a positive development for the globalized economies and for employment levels was perceived by the other as a negative development for the well-being of the working population, with uncertain effects on the sustainability of the economy. Some authors even came to the conclusion that the standard employment relationship was a thing of the past and that we were headed towards the end of (salaried) work (Rifkin and Heilbroner, 1995; Beck, 2000).

Mass dismissals, amply reported by the media, high unemployment and the rise of part-time and temporary jobs have augmented the feeling that the new jobs are very different from the old and that longer-term full-time employment relationships belong to the past (Neumark (ed.), 2000). Partly through personal experience, partly also because of the dominant representation of the labour market as flexible and precarious, the popular view of the (future) labour market is that of one without much employment security. As the OECD found in its 1997 study, “Perceived employment insecurity has become more widespread in the 1990s in all OECD countries for which data are available” – a view not unrelated to what was actually happening in the labour markets during that period. But has the longer-term employment relationship really gone for good?

The same question has already been asked both by the OECD (1993, 1997) and the ILO (1996). The ILO concluded that “The slight changes reported so far do not support the view that the ‘job for life’ has ceased to exist or that jobs in general have become dramatically more unstable. On the contrary, a large core of the workforce is still in stable and secure jobs, even though instability and insecurity have increased in other segments of the labour market.” Similarly, the OECD (1997, p. 150) found that “In terms of data on average job tenures with the same employer and the likelihood of remaining with the same firm, there is little overall evidence of increased job instability.”

In the wake of this, numerous economists, particularly in the United States, have contributed their opinions to the debate. All specialists on the subject came to similar conclusions. David Neumark, in the introduction to a book uniting some 20 American scholars who worked on the theme of job stability and employment

insecurity in the United States – probably the most flexible labour market in the OECD – summarized their findings as follows:

Overall, my reading of the evidence is that the 1990s have witnessed some changes in the employment relationship consistent with weakened bonds between workers and firms. Although the magnitude of these changes suggests sometimes sharp breaks with the recent past, they nonetheless indicate that these bonds have only been weakened, not broken. Furthermore, the changes that occurred in the 1990s have not persisted long enough to earn the label “trends”. It is therefore premature to infer long-term trends toward declines in long-term employment relationships, and even more so to infer anything like the disappearance of long-term, secure jobs. (Neumark (ed.), 2000, p. 23)

These findings, together with many other indices, caused us to speculate that employment has not yet become a commodity, like any other on the market, especially in Europe. There are still trade unions, there is still bargaining, there is still employment protection legislation: in fact, the institutions underpinning more stable employment relationships, while weakened, are still alive and well. Moreover, employment security continues to rank high in job desirability ratings and in workforce evaluations of job satisfaction (EC, 2001).

Nor is there convincing evidence that firms themselves would like an internal labour market with a very high degree of numerical flexibility and thus high labour turnover. If the views of the human capital school (Becker, 1964), as well as those of the “new institutionalists” like Williamson (1985), are correct, then firms, too, suffer more than profit from low tenure and high mobility. This preoccupation of micro-economists is expressed in the following statement:

High turnover means that human and organizational capital may be quickly eroded or transformed by newcomers. Even with respect to physical capital, turnover of employees plays a role, because utilization of physical capital depends on the experience of the workforce. [...] The more firm-specific capital a worker has, the bigger the loss for the firm if the worker quits. (Bingley and Westergård-Nielsen, 2000, p. 3)

Most micro-economic literature concludes that firms profit from stable employment relationships: investment in human capital has to be recouped, transaction costs such as screening and training should be low, and wages are counted over the longer and not the short term. Although human capital theory assumes decreasing returns with age (a proxy for tenure), nobody knows exactly when such decreasing returns set in and what the optimal length of tenure would be. While companies now have also to deal with increasing market volatility and more “short-termism” (shareholder values replacing stakeholder values, more product and process variety, and enterprise volatility – as is the case in the information technology sector, or as can be seen as a consequence of the recent merger and acquisition frenzy), the mature firm is rather one that has retention policies in place, regulates its turnover and appreciates experience.

Thus, both from the supply and the demand side of the labour market there are many reasons for the existence and the economic (and not only social) functionality of longer-term employment relationships. The paradox of, on the one hand, claims that stable jobs have disappeared and, on the other, recent findings of labour

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market analysts that tend to confirm microeconomic literature prompted us to look more closely at the question of how stable or unstable jobs had become over the 1990s. We found that in the member countries of the European Union (EU), in Japan and, to a lesser degree, even in the United States, there was much more stability than one would surmise from the representation of labour markets as no longer offering stable jobs. Indeed, we found convincing evidence that the longer-term employment relationship is more resilient than commonly thought. This is shown by both the average employment tenure and by tenure distribution. Although there are some changes in some countries, and the labour market has become more flexible and unstable for those entering it (the young), the overall impression is that employment relationships are still stable and the percentage of those having long-tenured jobs has remained stable or has even increased in the nineties, confirming former trends (OECD, 1997). On a country level, these findings of stability are confirmed by authors like Neumark (2000) for the United States (whose tenure is however markedly lower in European countries) and also by recent work done in Germany (Erlinghausen and Knuth, 2002). Doogan (2002) shows that in the EU, long-term jobs have grown by 14 per cent, while the growth in jobs overall has been 6 per cent. In the following chapter we shall discuss this issue in depth, using the most recent employment tenure data available (see Chapter 2, tables 2.1 and 2.2).

Implications for social and employment protection

The degree of stability found has important implications: if labour markets in developed countries are more stable than usually assumed or desired by neo-liberal economists, then they should show high unemployment as a consequence of the labour market inflexibility produced by employment protection legislation (EPL), strong unions, and so on. However, this neo-liberal view was rejected by many studies and most prominently by the OECD (1999b), which found, controversially, that EPL had no influence on the level of unemployment (although some on the structure of unemployment). Recently, Pissarides also criticized much of the literature on and the popular perception of the role of employment protection and the idea that “the less there is, the better it is” (Pissarides, 2001, p. 132). Auer (2000) also found the reduction in unemployment in four smaller European countries unrelated to changes in EPL. It was not the stringency of EPL that hindered employment growth and unemployment reduction, but a combination of macro-economic, labour market and industrial relations policy – with basically unchanged EPL – that helped these countries to recover.

However, this latter study also argued that it was never EPL alone that determined the question of mobility and job security. Various trade-offs and complementarities influenced the labour market behaviour of individuals and firms. A trade-off exists when one item is “traded” against another. In our example, employment protection stringency is “traded” against access and coverage of social protection. In its simplest form, this means that the more you have of one, the less

you have of the other. So overall protection could be the same if you have strong employment protection, which diminishes dismissals and the need for social protection, or if you have weak employment protection and more dismissals, but an extensive system of social protection, with high coverage and high replacement rates, such as generous unemployment benefits. Complementarities exist if you have protection on both counts: high EPL and high social protection (as is very often the case in continental European welfare states). There can also be low values on both counts: no or low EPL, plus no or low social protection. In the case of low values we cannot speak of complementarity, only of a negative complementarity that could, nonetheless, have an impact on supply behaviour – because there is no protection, the only security is to have a job. While in the trade-off case you might compensate for the protection lacking at the company level with social protection, this is not the case with complementarity. A “weak” definition of complementarity just denotes a positive correlation between EPL and social protection. A “strong” definition would assume that one cannot exist without the other. Discussion of some of these points is also found in another ILO paper (Bertola, Boeri and Cazes, 1999), which found several links between EPL and other labour market institutions, such as unemployment benefit schemes, wage-setting institutions, early retirement schemes and others.

The general debate on the flexibility of the labour market is therefore the context of our study. The deregulation debate, which started as an official political debate² in the era of Thatcherism and Reagonomics (at the beginning of the 1980s, some 20 years ago now), managed to succeed in shaking the popular belief in employment security. The labour market of the future was described as a market of free agents, where everyone bargained for their own terms of employment and where the longer-term commitment of firms to workers or of workers to firms was replaced by a short-term contractual relationship which left both partners free to change partners “at will”.

In terms of employment stability, this scenario would of course lead to much more job-hopping and employment termination. Workers would choose to leave, and employers would dismiss workers much more frequently and adjust workforce levels to the volatility of the (macro- and micro-) economic cycles. As a consequence, numerical flexibility would increase and employment tenure would decrease dramatically.

Such a context would lead inevitably to more mobility in the labour markets. But it would also produce more precariousness, with social protection still linked to the long-term employment relationship, a vanishing species in the new flexible environment. Therefore, the social protection system had to undergo radical changes in order to provide security in the new labour markets. The theory was simple: trend-wise, this new social protection would be increasingly decoupled from employment. The growing numbers unable to profit from stable

² As an economic debate it existed much earlier.

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employment relationships would profit from security on grounds other than employment, such as basic guarantees founded on citizenship (Standing, 1999; Supiot, 1999b).

For others in the debate, there would have to be much more risk-taking by individuals. Instead of state-secured pension schemes, individualized capital-funded schemes were proposed. The notion of individual unemployment and training accounts was put forward, and also that of insuring the four basic risks in the labour market (retirement, unemployment, training and health) with the help of individual welfare accounts, in order to reform a welfare state threatened by unemployment, job losses and precariousness (Orszag and Snower, 1997).

We suggest that these different views, based as they are on fundamental differences in the approach to the importance of the State and of individuals (for example, solidarity as opposed to individualism), have at least one thing in common: they are founded on the theory that the labour market of the future will no longer be based on employment security. Perhaps the desire of the free-market advocates for flexible labour markets, as well as the fears of those holding out against deregulation, have made them exaggerate the real state of numerical flexibility in the labour market. They may also have overlooked the fact that labour market institutions are still there and do matter – and that not only were they created in the interest of the workers, but that firms likewise adapted themselves to the working of these institutions. For example, Pissarides notes of employment security that “workers usually seek employment protection and employers do not appear to oppose it as vigorously as some economists do” (Pissarides, 2001, p. 133).

So there must be some functionality in the fact that employment relationships are more resilient than has been commonly believed. While we do not argue that a maximum of employment stability is best for firms and workers, there are some important gains in stable employment relationships. For workers, tenure is an important part of job satisfaction, second only to high earnings (EC, 2001). As longer tenure usually corresponds also to higher wages, job satisfaction is highest for those with longer tenure. For firms it might be that the best tenure is not maximum tenure but optimal tenure, though in order to assess the worth of tenure for firms an analysis of the relationship between tenure and productivity would be appropriate.

Tenure and productivity

According to many micro-theories of the labour market, longer tenure should have positive effects on productivity. Human-capital investments in firm-specific skills will usually be made only when there is a good probability that firms will recoup their investment costs, and this is usually only possible when workers stay a sufficient length of time with the firm. Transaction costs for firing and hiring are also lower when labour markets are more stable. In short, higher tenure would contribute positively to profitability and productivity, although it is acknowledged

that there could be diminishing returns with age that usually correlate closely with tenure. By contrast, for those claiming the virtue of more flexibility, long tenure would indicate “sclerotic” labour markets and thus slow the speed of adjustment to necessary changes in the number and composition of the workforce that arise from the pressures of increasingly globalized competition. According to this view, long tenure would be accompanied by lower productivity.

In this volume, we cannot present a systematic study of the relationship between tenure and productivity; a topic which merits a longer-term and more sophisticated analysis. Influences on productivity are manifold and relate to an array of factors that have to be controlled for, such as age, education and training, capital investments, sectoral distribution of gross domestic product (GDP) and employment, including the shares of public and private services, firm size, and so on. The reliability of aggregated productivity data is questionable, especially since the service sector became important, and a comparison of different measures and different data sources frequently results in contradictory results (Stille, 2002). On a very aggregate country level, taking changes in hourly labour productivity and tenure between 1995–2000, we find a negative relationship: in countries where tenure has decreased, productivity has increased.³ Similar approximations have been produced by the OECD. The result of these simple calculations was that in countries with decreasing tenure, multi-factor productivity has accelerated, whereas decelerating multi-factor productivity has been observed in countries with increasing tenure (OECD, 2001a).

If we analyse the relationship on a sectoral level (manufacturing) with much better data over time within countries, the relationship between hourly productivity and tenure appears to be positive in most countries for which we have data. While human capital theory (and, in general, neoclassical economics arguing in terms of marginal productivity) assumes a decreasing return relationship between tenure (age) and productivity, it is difficult to demonstrate such an effect empirically. Studies conducted in the United States in the fifties found some evidence of such a relationship for certain industries (for instance, footwear and furniture), but not for others (such as clerical workers). The studies concluded, moreover, that there was “much variation in output rates within each age group and that the degree of variability was not closely related to age” (Jablonsky et al., 1988). On the other hand, using our own empirical data on tenure and productivity (per persons employed) by sector, allowing for a greater number of observations, empirically observed data fit quite well the decreasing returns hypothesis, but with the flattening and reversal of the curve coming at very long tenure (around 15 years, depending on countries). This suggests the existence of an optimal tenure–productivity relationship. Initially, tenure and productivity grow together; productivity then slows with growing tenure. This seems consistent with the assumed decreasing returns between age and productivity. While this would

³ But we also find that in countries where tenure has decreased, employment has increased; and the dependent variable seems to be tenure rather than employment. This suggests that the increasing productivity can be explained by the job creation capacity of the economy, which finally depends on the economic growth rate.

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suggest that older workers are less productive than younger ones, the results are not or only weakly significant.⁴

Based on the above, and thus rather on a “guesstimate” than on systematic correlations, the relationship between tenure and productivity remains unclear. Many other variables intervene and, while we find a positive association between tenure and productivity in manufacturing, a sector in which union density is comparatively high and dismissal protection tight, our data do not permit us to draw any final conclusion. However, tenure (and age) seems not to go against productivity, or at least not in all sectors or countries: a hyperbolic relationship, suggesting low or even negative productivity for very short as well as for very long tenure, is plausible, but the analysis has to be continued in order to confirm this hypothesis. In particular, it seems difficult to isolate individual productivity in settings that demand a team effort to reach results. What is needed is enterprise data, or at least much longer observation periods for tenure and productivity, in order to establish more robust results.

Maximum tenure might also not be straightforwardly positive for workers, at least not for those who are well trained and employable. For them, some job changes might prove more beneficial in terms of wages, working conditions, career and further employability, rather than being locked into a lifelong employment relationship. Secure transitions between jobs, and between jobs and training, might be optimal from the point of view of security (the Danish case of “flexicurity”, which provides a high degree of overall employment security, is discussed in Chapter 3), as well as in terms of productivity.

Stability does not equal security

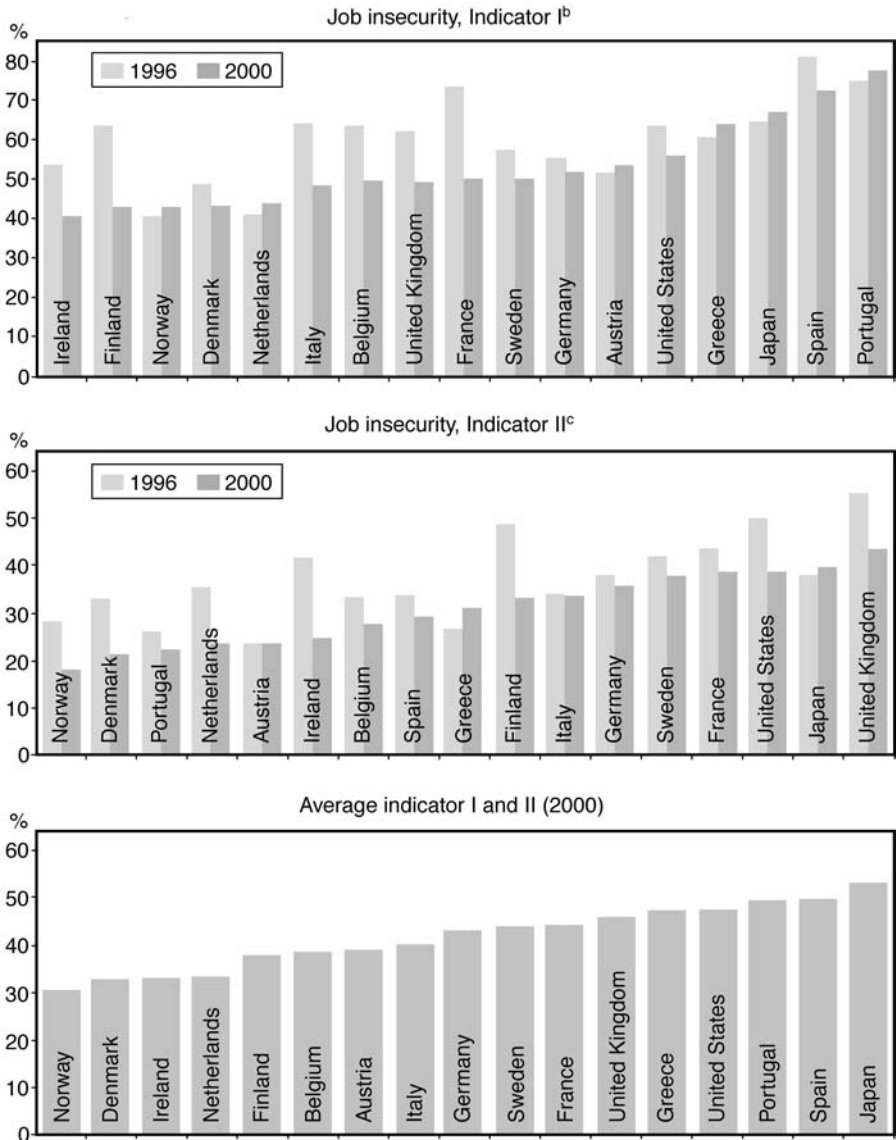
While stable jobs are more often than not associated with better jobs,⁵ the relationship between stability and the perception of security is also not clear-cut. Using data provided by the International Survey Research and citing from OECD, 2001a (data restrictions discussed above also apply here), two indicators are presented in figure 1.1. Indicator I is the percentage of those worried about the future of their company, and Indicator II represents the percentage of those unsure of a job they hold in their company, even if they perform well. A crude calculation on the correlation between tenure and the perception of employment security tends to be slightly positive.⁶ However, while this suggests that in general perceived employment security rises with tenure, the relationship is weak. Indeed, in some cases it is true that despite being employed in a long-tenured position, the personal

⁴ We do not add to this introductory chapter the different regressions between tenure and productivity, as this line of research is continuing and results are still preliminary. The analysis will be presented at a later date in a working document.

⁵ Standing (1999, p. 176), for example, states: “Nevertheless, many believe that long (employment) duration indicates employment security.” Similarly, the OECD 2001 report (2001b, p. 93) concludes: “Therefore, all other things being equal, jobs with higher turnover will tend to be associated with greater job insecurity.”

⁶ Calculations have been made on the basis of moving averages of both tenure and Indicator I of job insecurity (see figure 1.1) for the years 1996–99/2000.

Figure 1.1 Perceived job insecurity in OECD countries^a



^a Ranked by values of the year 2000.

^b Indicator I = Percentage of people worried about the future of their company.

^c Indicator II = Percentage of people unsure of a job with their company even if they perform well.

Sources: Data supplied by International Survey Research; OECD, 2001a.

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feeling of employment insecurity can be strong. This is the case in Japan, for example, but also in other high-tenure countries, such as Greece or Portugal, where a high percentage of workers perceive the future of their companies (and consequently their jobs) as worrisome. The finding is not particularly surprising, as the perception of job security depends on more factors than elapsed tenure: for example, the size and frequency of lay-offs, the consequences of lay-offs in terms of income security and job-finding rates, and unemployment (OECD, 1997). A correlation between the changes in levels of unemployment and the index of job insecurity yields a significant positive relationship which can be interpreted as showing – all other things remaining equal – that the higher the unemployment rate the more people feel insecure. An additional factor shaping perceptions of job insecurity is media reporting on major job losses (OECD, 1997; Neumark (ed.), 2000).

While the feeling (or perception) of employment insecurity was increasing in the first half of the 1990s, it has generally decreased somewhat in the boom of the later 1990s. But this result varies between countries. For example, if we analyse the four countries selected as case studies in the present study, Denmark, Japan, France and the United States using Indicators I and II above, the following pattern emerges. Figure 1.1 shows that the feeling of job insecurity is comparatively low and decreased between 1996 and 2000 in Denmark (42 per cent for Indicator I and only 20 per cent for Indicator II), but is high and increasing in Japan (65 per cent for I, and 38 per cent for II). Figures for France are 49 per cent for I and 37 per cent for II, and for the United States 54 per cent for I and 37 per cent for II. In these two countries, both values decreased between 1996 and 2000.

The Danish system delivers quite good results on both indicators, reflecting a general feeling of employment security in the economy and workers' personal positive judgements of their own "employability" (well below the unweighted 26-country average of 52 per cent for I and 30 per cent for II). The United States is above average for both indicators, while France is slightly below for Indicator I but above – on a par with Japan and the United States – for Indicator II. According to these figures, the Japanese workers' perception of the state of the economy and their own job security is very negative and this insecurity is growing, which is plausible in an economy in recession.

Stable jobs are not necessarily good jobs

While stability is often associated with good or decent jobs, this positive association is also not guaranteed in all cases. The European Commission (EC) notes that "Among the main determinants of job satisfaction are: high earnings, high tenure on the job, relative job security due to a permanent contract, full-time work, supervisory job status, high-skilled work as a professional, technician, manager or legislator, and work in the public and service sectors, including sales workers", while a negative impact on (self-reported) job satisfaction occurs with "low earnings, a precarious job status due to a temporary contract, a low non-supervi-

sory job status and low-skilled, manual or elementary work, especially in agriculture” (EC, 2001). Although this implies that, all other things being equal, a longer-tenured job yields higher satisfaction than a shorter-tenured job, it also implies that one can be dissatisfied with a permanent job with low earnings, low status, and so on, depending on the weight one attaches to each factor.

It also appears that full-time jobs are usually better valued in terms of job satisfaction than part-time jobs. Although most part-time jobs are in fact longer-tenured jobs,⁷ they seem to yield less job satisfaction than permanent full-time positions. This holds especially true for long-term involuntary part-time jobs.⁸

According to these findings, although tenure seems to be positively related to job satisfaction, this is not necessarily so. Other factors – decent pay, decent working conditions, career prospects, and whether the job is full- or part-time – also influence job satisfaction.

In conclusion, long tenure is difficult to evaluate in terms of its relationship to job satisfaction and productivity. Tenure seems in any case not to be a significant stand-alone factor explaining the values of Indicators I and II above. However, all other things being equal, the contribution of longer tenure to job satisfaction seems to be clearly positive. The relationship between tenure and productivity is more difficult to determine and further analysis is needed. At this point, it seems that while in the aggregates (comparison between countries’ economies) no meaningful relationship can be established, on disaggregates (within countries or in manufacturing, for example) the relationship tends to be positive rather than negative, suggesting at least that long tenure can accompany high productivity and thus confirming some micro-theories of the labour market. It might be that the relationship is best described as a hyperbolic relationship, suggesting some optimum (and not maximum) length of tenure, corresponding with high productivity. This optimum is hard to define, but theoretical studies on the optimal degree of employment protection (Pissarides, 2001) or the optimal length of an employment contract hint at the plausibility of such a relationship.

1.2 COUNTRY EXPERIENCES: TRADE-OFF OR COMPLEMENTARITY BETWEEN EMPLOYMENT AND SOCIAL PROTECTION

Contrary to popular perception, the share of those having long-term attachment to the labour market has not decreased but increased, and the number of stable jobs has tended to increase rather than decrease. There are of course huge country differences, most notably between the United States and Europe, but also between European countries. These country differences prompted us to produce not only a

⁷ Houseman and Osawa (2000) find that even in the United States around 90 per cent of part-time jobs are non-temporary.

⁸ There is of course a dynamic aspect here: job satisfaction also depends on transitions from bad to good jobs. In the EU around 40 per cent of those classified in dead-end jobs graduated a year later to better jobs. Transition rates are highest in the United Kingdom, Germany and Austria, and are lowest in Spain.

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Table 1.1 Simplified relations between EPL (employment protection legislation) and social protection through labour market policies for Denmark, France, Japan and the United States

| | High level of social protection | Low level of social protection |
|-------------------|---------------------------------|--------------------------------|
| High level of EPL | France (21/08) | Japan (14/24) |
| Low level of EPL | Denmark (08/01) | United States (01/25) |

Note: The first number in parentheses is the ranking of countries by their EPL strictness in the late 1990s (26 countries were ranked: 1 indicates the weakest, 26 the strictest dismissal protection), the second concerns the ranking in terms of percentage points of GDP spent on active and passive labour market policies (27 countries: 1 indicating the highest, 27 the lowest percentage spent on LMP). It shows schematically the relationship between the two variables: for example, in the case of France a rather restrictive dismissal protection (rank 21 out of 26) goes together with relatively high LMP spending (rank 8 out of 27), while in Denmark weak dismissal protection (rank 8 out of 26) goes together with high LMP spending (rank 1 of 27). As will be discussed later, this is only a crude approximation of the question of trade-offs or complementarities between the two variables, as other items have to be taken into account, such as employment stability as a social norm in Japan, the consideration of which would have consequences for the country's ranking.

Sources: OECD, 2001 and 1999b.

comparative overview on the subject, but also four country reports. Country selection was based on a crude picture of how these countries organize their employment and social protection (especially their labour market policy). We saw these two dimensions as interlinked and also as a determining factor for employment tenure outcomes.

Table 1.1 presents the simplified relationship between EPL (employment protection legislation) and social protection for the four countries studied in this volume. We have preferred the term “social protection” to “labour market policies” (LMP), but refer in particular to protection against the risk of joblessness. The LMP we focus on here is that which comprises unemployment benefit systems, early retirement, invalidity pensions attributed for labour market reasons, and active LMP. We are not including the insurance of other risks often covered when participating in LMP measures – for example, insurance against sickness and pension contributions for the (registered) unemployed and those participating in active labour market measures. Social protection is related in the table to the level of EPL. EPL is usually measured by advance notice periods, administrative authorization for collective dismissals and severance pay, as well as temporary work.⁹ For a further illustration of EPL strictness levels and LMP expenditure in OECD, see Chapter 2, figure 2.1.

The four countries selected (Denmark, France, Japan and the United States) each represent different types of schematic relationship between employment and social protection. Denmark and the United States are countries with comparatively low tenure and (although it is much higher in Denmark than in the United States)

⁹ Bertola, Boeri and Cazes (2000) have called for taking the enforcement of dismissal legislation into consideration as well and have put forward arguments in favour of new measurements in order to establish meaningful country rankings.

high mobility, but have different labour market institutions. The United States combines low employment protection legislation with low social protection, whereas Denmark trades off low statutory employment protection against high social protection. France is a case in which those having the most secure employment are also those best protected once they lose their jobs. Japan is an excellent example of a country with high employment protection (although more in practice and custom than on a purely legislative basis) but low social protection for outsiders. These representations are of course very schematic; the reality is much more complicated and is clarified by the authors of the chapters to follow.

Denmark

Denmark has a unique system of labour market institutions. As Per K. Madsen shows in Chapter 3, it is a country which has succeeded in introducing “flexicurity” – that is, combining a numerically flexible labour market with a high degree of social, income and employment security. While labour turnover figures are close to those of the United States, mobility is seen as “mediated” by institutions. A constant dynamic interaction occurs between employment relationships in companies (and the quantitatively important public sector that accounts for about 30 per cent of employment) and the unemployment benefit and labour market training systems. According to the OECD, on yearly average over the latter part of the 1990s, fully 20 per cent of the labour force experiences a period of unemployment, including temporary lay-offs and voluntary quits, and around 20 per cent a period of training, including lifelong learning. While these numbers are most probably overestimated (both unemployment and training spells are usually short and recurrent, and there is some overlapping between the unemployed and those in training), this adds up to a considerable number of people in transition between periods of employment at any moment in time. Madsen shows that while Denmark has managed to have the world’s highest employment rates for both men and women, it has about 25 per cent of its labour force on transfer payments, many of them permanently. This high percentage covers mainly invalidity pensions and early retirement. Transition out of the labour force is therefore covered by labour market policies as part of social protection.

In terms of policy advice this system is important, because it shows that our acknowledged trade-off between employment and social protection can exist. For the social partners this means an enlarged bargaining area, as one cannot cut back employment protection without adding to social protection, or vice versa, if one is to maintain the “flexicurity” system. It demonstrates a working model of positive interaction between employment in companies and in the public sector and labour market institutions. For our topic of employment stability, the Danish system illustrates how a numerically flexible labour market can exist without necessarily creating more insecurity and more (wage) inequality. However, such a system does not come without cost and this is also one of the reasons why Danish taxes are among the highest in the world. But as the system is inclusive, collectively

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bargained, and its returns in terms of jobs and services rather good, Danes do not – at least, not en masse – oppose high taxes.

France

France is typically presented as a country with a very regulated labour market. Despite low union density, collective bargaining coverage is high (1 percentage point of trade union density “yields” about 10 percentage points of coverage, by far the highest density/coverage ratio in Europe) due to the legal practice of extension of collective agreements to non-union areas. State intervention is seen as very important. While dismissal protection has been relaxed, it remains restrictive, and France ranks 21 among 26 OECD countries according to an OECD employment strictness indicator (OECD, 1999b). Consequently, France is one of the European countries with high and increasing employment tenure and a high and increasing share of those with longer tenure. This seems to go together with an increasing flexibility of the younger cohorts on the labour market, as Bénédicte Galtier and Jérôme Gautié show in Chapter 4.

France is also an illustration of a “positive” complementarity of employment protection and social protection: those enjoying high employment protection are paradoxically also those enjoying the best social protection, at least in terms of adjustment measures. In reality though, this complementarity, when realized, functions as a trade-off between employment (protection) and mainly “passive” labour market policies such as early retirement. While these kinds of special arrangements exist in most European countries, they have been particularly important in France, as employment in the protected sectors is very commonly adjusted through social plans with a heavy component of early retirement programmes. In other publications, we have emphasized that “internal labour markets” (which Galtier and Gautié find in France) are in fact only operational because adjustment buffers exist (Auer (ed.), 1991; Auer and Speckesser, 1998; Mosley, 1994). In other words, long-term employment can only be guaranteed because publicly paid adjustment measures exist.

However, this specific sort of complementarity (hiding a trade-off) exists only for protected areas of the labour market (the insiders). For temporary or permanent outsiders, very often the young and to a lesser degree the older workforce or the unemployed, other trade-offs do exist: labour market policy is especially targeted at the young and compensates for a lack in employment opportunities (rather than a lack in employment protection).

Galtier and Gautié show that there is diversity in our general scheme of trade-off/complementarity, depending on specific groups in the labour market. The French case also illustrates that a highly regulated system with many state interventions is able to create employment. Although the weak employment performance of France up to 1998 (0.3 per cent average annual employment growth 1988–98) served to prove the contrary, the very recent French “employment miracle” (1.4 per cent employment growth in 1999 and

2.4 per cent in 2000) is partially explained by policies such as “youth jobs” (*“emplois jeunes”*) and the introduction of the 35-hour week (both are part of a regulatory approach rather than a market approach), together with increased economic growth. And, as Galtier and Gautié explain, mobility between jobs is high in France.

Japan

The Japanese system is our most typical example of a trade-off between low social protection and high employment protection. The concept of “jobs for life” has been closely associated with the Japanese labour market. Accordingly, there was no need for a pervasive system of social protection tied to the employment system, because companies and the public sector were bound to deliver employment security. There is, however, a complementarity between labour market policies and employment protection in Japan, as in France. In contrast to France, however, Japanese policies are geared towards employment maintenance, rather than labour market exits. For example, unemployment insurance (in Japan “employment insurance”) supports employment maintenance rather than lay-offs. The outcome is good protection of insiders: public labour market policies supporting company policies of short-term work; training; and transfers between jobs. Japan has not had the European practice of mass early retirements and social plans. The system, as a whole, has been described as an “extended internal labour market” (Inagami, 1988; Auer, 1998; Lam, 2000) with low numerical flexibility but high functional flexibility.

Olivier Passet confirms that this system persists and resists, despite long years of crisis. However, he notes that it has always been accompanied by another, more flexible element (the “marginal workers”, many of them women), to whom the lifetime-job system was never extended. He also observes that this component of the segmented Japanese labour market is quite stable; flexibility is usually not met by frequent dismissals and hiring, even of the marginal workforce, but by internal means such as reduction of overtime or wages. Both elements of the Japanese labour market are in fact relatively stable in terms of job tenure, explaining overall high tenure despite the dual labour market.

Of all employment systems in the present study, it is probably the Japanese system that is under the most pressure to change; the continuing long-term crisis of the Japanese economy is blamed on its rigid employment practices. Passet asks whether the dominant pattern of labour market flexibility, namely internal, functional flexibility, is still sufficient to cope with adjusting to structural change in the economy, or whether it should be complemented with external flexibility. He sees a trend towards a (still moderate) erosion of the core of stability and an increase in marginal work. The latter is caused by both demand-side and supply-side pressures, as can be seen from the emergence of new groups such as the so-called “*freeters*”.

The United States

While the American labour market shows about the same level of mobility as the Danish labour market, it is organized differently. In the United States, low dismissal protection and low social protection go hand in hand, and no trade-off apparently exists between the two. There is no compensation for a lack of employment security in terms of social security. Although the United States also operates a temporary lay-off system, this system seems to have failed in coverage terms. Despite these efforts, even in the United States long-term employment relationships have not disappeared. As Paul Osterman shows in Chapter 6, the American labour market is not a “bourse” labour market.

Still, some signs of increased employment instability do exist in the United States: job tenure has decreased and the rate of job dislocation has not fallen to the extent expected. In addition, contingent employment has increased, especially temporary agency work. But there are also signs pointing in the opposite direction: notably, the adoption of high-performance work organization will require more employment stability, while having a high degree of functional flexibility.

Among all labour markets in the industrialized world, the American labour market is probably the most intervention free. Union density and bargaining coverage are low, and labour law is based on “voluntarism” rather than on compulsion (although, as Osterman shows, there are many legal restrictions to the “hiring and firing at will” principle). Governments (both federal and state) do not usually run extensive labour market policies and the cost of joblessness for an individual is high. Job tenure in such a market might thus be considered to tend towards a market equilibrium, which can also be described as a power equilibrium, between the representations of labour supply (the workers) and demand (the employers). In this context, the higher European values in tenure can be considered “institutional dividend”. The institutional features of the American system mean that supply is usually not empowered by ample trade union representation or by labour market institutions, such as stringent labour law, but such a “dividend” is still evident. While the share of those with ten or more years of tenure is only 22 per cent in the (larger) non-unionized sector, it is more than double (48 per cent) in the (smaller) unionized sector. Given that basic labour market institutions in the unionized sector of the American economy are similar to those of Europe in general, it is very probable that the considerable difference in tenure between the (largely non-unionized) United States and most EU countries is explicable in institutional terms.

Trade-offs and complementarities revisited

In the light of the above, our simple scheme of comparing countries in terms of the relationship between employment and social protection can be amended on several dimensions. For example, one has to distinguish between insiders and

outsiders,¹⁰ between partial and overall employment security (the former delivered by private companies and the public sector, the latter taking into account social protection/LMP and extending beyond internal labour markets), between the legal and regulatory framework and its implementation and enforcement, and between these laws and their enforcement taken together and real measurable flows on the labour market.

Such trade-offs and/or complementarities appear to have a national (employment system) dimension, but they seem to operate differently once sub-elements of the employment system are analysed. For example, in Denmark the trade-off between relatively weak employment protection regulation and relatively generous social protection is the dominant regulatory feature of labour market functioning with regard to the legal, implementation and real flow dimensions concerning both the unemployed and the employed. The system creates a relatively small percentage of outsiders because of the high overall “flexicurity” which the functioning of the labour market creates. However, even here we find complementarities (workers protected in jobs and by early retirement regulations).

In France, as Galtier and Gautié confirm, the national feature is certainly the complementarity hypothesis, in which strong employment protection accompanies strong social protection. This yields a rather high degree of actual security for insiders, but less so for outsiders (mainly the young unemployed), for whom a trade-off operates. A low level of employment opportunities are “compensated” for in part by labour market policies.

In Japan, we have a case for complementarity for the employed, in that employment protection legislation and labour market policies are used for mutual reinforcement. However, if we look at employed, unemployed and inactives together, we impute a sort of negative trade-off: insiders are well protected but not outsiders, for whom labour market policy intervention is also weak.

The complementarity/trade-off issue is further complicated if we introduce other considerations: for example, enforcement of legislation (see Bertola et al., 2000) and custom and practice. The Japanese employment system is a case in point. If we argue in purely legal terms, employment protection might appear relatively weak, but when we introduce actual custom and practice, employment protection and the commitment of employers is strong, even if lifelong employment applies to only a minority and most workers have at least a few job changes during their career.

1.3 THE IMPLICATIONS OF THESE FINDINGS FOR EMPLOYMENT ANALYSIS AND POLICY ADVICE

In terms of labour market research, our analysis shows that there may well be too much focus on numerical flexibility and not enough on the numerical stability

¹⁰ While “insiders and outsiders” does not necessarily refer to the distinction between employed and unemployed (as it might include those with a weak attachment to the labour market who often swap insider and outsider status), it is safe to assume that much of the insider–outsider theory is in fact based on the distinction between the employed and the unemployed (Lindbeck and Snower, 2001).

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element of the labour market. All European labour markets have a dominant – and often increasing – proportion of stable jobs. We do not equate numerical stable jobs with good jobs, so one area of labour market research and policy advice should therefore deal with the question of working conditions in stable jobs. The EC and the OECD already seem to have taken up the theme; both organizations devote chapters of their recent employment reports (*Employment in Europe 2001* and *Employment Outlook 2001*, respectively) to the issue of job quality.

Job quality is also critical to the ILO's Decent Work agenda (ILO, 1999). It holds true that a rise in precarious jobs is perceptible, especially in developing countries; there is also concern about increasing flexibility for certain groups in the labour markets of advanced OECD countries, for example the young (and often women). An equally important concern should be low-quality stable jobs. From recent research we know that there is increasing stress-related illness in these stable jobs and a feeling of employment and job insecurity is pervasive, even for those in long-term positions.¹¹

Research on productivity and tenure should be continued as well. It is often argued that long tenure (which corresponds also to more advanced age) impacts negatively on productivity as skills become outdated and older workers are less willing to start training. Experience could compensate for the loss in trainability, but there is some reason to assume that the tenure–productivity curve is actually one of decreasing returns. In developed countries, the practice of early retirement has obviously dealt with this, but has turned a microeconomic solution into a macroeconomic problem. The policy of early exit will be severely cut back in the future, mainly for demographic and fiscal reasons. Will this imply that older workers will earn lower wages or will it lead to state policies compensating the productivity loss by subsidies (“in-work benefits” for older workers, special training programmes, and so on)? Will this be sufficient to motivate firms to retain their older workers?

The relationship between tenure and the perception of security is also a paradox that needs some answers. Long average tenure, while it is slightly positively correlated with the perception of employment security, in many cases does not lead to a correspondingly high perception of employment security. Japan, where tenure is long but insecurity is also high, is a case in point. Denmark, with lower average employment tenure and more mobility, shows a much higher share of people perceiving their jobs as secure.

Therefore research on optimal combinations between employment stability and employment flexibility resulting in both good productivity and security in all regions of the world is still needed. Some of the questions to be answered by such research are: What is optimal adjustment flexibility for firms? In other words, how stable or flexible must employment be for firms and/or the public sector to be productive? And how stable and flexible must employment be for workers in order

¹¹ As shown, for example, by the European Foundation for the Improvement of Working and Living Conditions' research on stress-related illness (www.eiro.eurofound.ie).

to deliver employment security? How can the needs of employers and employees be matched in this regard? Are employer and employee needs spontaneously drifting apart or are they converging? In the wake of intensified competition and rapid technological advance, and the shift from industry to the service sector, the needs of employers (the demand side) might be for increasingly rapid adjustment of the numbers of their labour force, while the labour force (the supply side) might ask for more employment stability. However, labour supply behaviour changes, too, and it might well be that larger fractions of the workforce seek less strong ties and attachment to employers. While a growing gap in demand- and supply-side needs is probable (not least because of an ageing workforce), supply-side changes have to be taken into account as they might lead to a spontaneous match in demand in certain subsectors of the labour market. Research is also needed on the life-cycle behaviour of tenure. Given the age-relatedness of tenure, important changes in life-cycle-related labour supply behaviour of individuals might impact on employment tenure. To give an example: mothers are having their first child much later today than formerly. This could have implications as mothers (and likewise fathers) might seek stable jobs later in life. It would be particularly enriching to know more about these behavioural changes in a cross-country comparative analysis.

These developments will also have wide implications for the forms of employment contracts and for labour market institutions, such as the unemployment insurance systems and active labour market policies. In general, the relationship between forms of contract, labour market institutions, and employment tenure could be subject to deeper analysis in the future. There is also much more to add to the whole debate on the future form of work-related securities:¹² employment security and social protection are changing and we need more research on the direction of these changes, as well as on the answers in terms of labour contracts and labour market institutions. If the trend is to move away from employment security being overwhelmingly ensured by the private and public sector as regular employers, who will ensure it in the future? How will responsibility be divided between individuals, companies and the State or other collective actors? What is the respective role of these actors and of labour law and collective bargaining?

The questions addressed here also imply that the bargaining agendas of the social partners should be extended. Trade-offs and complementarities between employment security and social security (labour market policies) point to the necessity that bargaining include both sides of this issue. In the new global environment, while it might not be possible to increase both employment security and social security at the same time, negotiations should at least centre on

¹² Research shows that there several forms of work-related insecurity: employment insecurity (dealing with numerical flexibility, such as hiring and firing and temporary jobs); job insecurity (sometimes also called functional flexibility); work insecurity (referring to issues of safety and health at work); labour, skill, and reproduction insecurity (defined as the access to education and training, and to form families); and representative insecurity (having a "voice" to express grievances). Here we deal overwhelmingly with the first of these insecurities. The implication of our analysis is that because labour markets are more stable than assumed, the focus should be turned to the other forms of insecurity (for a more thorough discussion of work-related securities see Standing, 1999).

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“flexicurity” arrangements, as these imply protected mobility. That this is feasible and seems to result in high job satisfaction and low perceived employment insecurity is amply demonstrated by the case of Denmark (see Chapter 3).

Our view of today’s world of work is that it is indeed better to protect the workforce not only by enforcing employment protection legislation on firms, but by providing labour market institutions which allow firms to adjust their labour force in socially responsible ways. This should not imply that companies should simply shift their social responsibility and employment protection to the State or to collectively bargained redundancy funds, and focus on their microeconomic functions. The concept is to find, on the one hand, good combinations of optimal employment security in companies and the public sector, and, on the other, publicly provided labour market policies that deliver protected mobility for workers, and thus actively support their adjustment needs.

Mobility-enhancing institutional support is generally triggered by economic difficulties in firms, whereas new possibilities of supply-driven (individual-rights-driven) means for flexibility should be sought. This protected mobility flow between private and public sector employment relationships and periods of non-wage employment, helped by labour market policies and/or institutions, is at the core of newer policy concepts such as “transitional labour markets” (Schmid, 2002; Gazier, 2001). Seen from another perspective, such a pattern of protected mobility flows between employment and labour market institutions would also be the result of the introduction of individual drawing rights (Supiot, 1999a) or vouchers (Schmid, 2002). These individual rights would enable individuals to draw “non-employment” periods (that could be of any sort: training, sabbaticals, parental leave, and so on) and to return to employment once the period has expired. This would increase the flows between employment and non-employment, as could other mediating policies and institutions.

Flow-enhancing policies and institutions that match demand and supply could be in the form of “passive” unemployment insurance/lay-off systems (for short-term and temporary adjustments to business cycles) and active labour market policy measures, in particular labour market training for longer-term structural changes. However, there is also a need for company-based active labour market policies in order to render people employable in internal labour markets and to act to prevent dismissals. The general policy approach should be based on the idea that a fully functioning labour market corresponds to a well-oiled interplay between labour market policies and institutions on the one hand, and “employment-responsible” private enterprises and the public sector on the other.

In short, the political agenda arising out of this study is that labour market policy has to work both on flows (unstable jobs) and stocks (stable jobs). The resilience of the stable employment relationship means that more attention has to be paid to the quality of these numerically stable jobs. We also call for the extension of bargaining agendas beyond the narrow considerations of employment security or social security: the linkage between the two has become even stronger

(not weaker, as some claim), and access to more stable jobs is an important condition for the fulfilment of the aim of decent work.

In general, the importance of employment stability and employment flexibility for the Decent Work agenda needs to be analysed. Following on from what was said above, it holds that employment stability is functional for workers and firms alike. A life-cycle approach to the issue would show that for workers, stability becomes more and more important with age, family responsibilities, and so on. However, there is also a need for flexibility and change. For work to be decent, both elements must be considered. But in order to be economically viable and sustainable, this supply-side need must be matched with demand-side needs for stability and the flexibility of firms.

Good politics can design and implement an institutional network providing for or mediating all of this. The challenge lies in finding the right balance between stability and flexibility, so that it corresponds to the needs of workers and their families and firms alike, and leads to more decent jobs and a better working life that is also more productive. This might seem impossible to attain, involving as it does the matching of many diverging interests. Furthermore, in a life-cycle approach, these diverging interests and needs are dynamic: they change with the life-cycle events of individuals and firms. Utopian as it might sound, it is a real political agenda that the market alone cannot cope with. It needs the involvement of the relevant social partners and a genuine social dialogue, and it requires governments that not only set the rules of the game but that are also active players.

This volume deals with the labour markets of developed market economies. The findings are also of relevance, however, for developing countries. If the most developed countries of the world show considerable stability in their labour markets, this stability must be linked to the level of development that these countries have reached. Core labour market stability is a necessary condition for higher levels of development. Consequently, the institutions supporting this form of efficient stability, such as social dialogue, and active and passive labour market policies, need to be built up or reinforced. Efficient institutions are those that take into account the security needs of workers, as well as the adjustment needs of firms.

THE RESILIENCE OF THE LONG-TERM EMPLOYMENT RELATIONSHIP

2

Peter Auer and Sandrine Cazes

2.1 INTRODUCTION

This chapter tries to shed some light on the actual changes in terms of flexible and stable jobs that have occurred in the labour markets of the European Union (EU), the United States and Japan, using stock and flow data from different sources, though primarily labour force survey data up to 2000. It opens with a presentation of some evidence on job stability measured through employment tenure – that is, the length of time a worker has been continuously employed by the same employer – and separation rates.¹ The level and structure of this indicator (by age, sex, industry, occupation, and so forth) provide the main basis for empirical work, which is supplemented with other data on, among other things, the proportion of temporary to total employment over time. The direct investigation of job stability over the past ten years does not support any alarmist view: while it shows that flexibility is indeed on the rise in many countries, it identifies no dramatic universal trend towards increased instability across the major industrialized economies. The second part of the chapter turns to the question of job security in an attempt to elucidate the apparent paradox of an increasing feeling of job insecurity at a time when the employment system shows more stability than is usually assumed.

2.2 EVALUATING JOB STABILITY

Indicators of job stability

As we have said, the length of time employed individuals have spent with their present employer, or employment tenure, is a commonly used variable in studies of the labour market that focus on labour market stability. In the following we are mainly interested in the question of whether or not there has been a marked change

¹ The separation rate is the ratio of the total number of workers having left or lost their job during a given period (a month or a year) to the total number of workers (at the beginning of the period or on average over the period).

in average tenure over time and across countries of the industrialized world, which would indicate a trend towards a labour market with more flexible, shorter-term jobs.

What determines employment tenure: Theoretical background

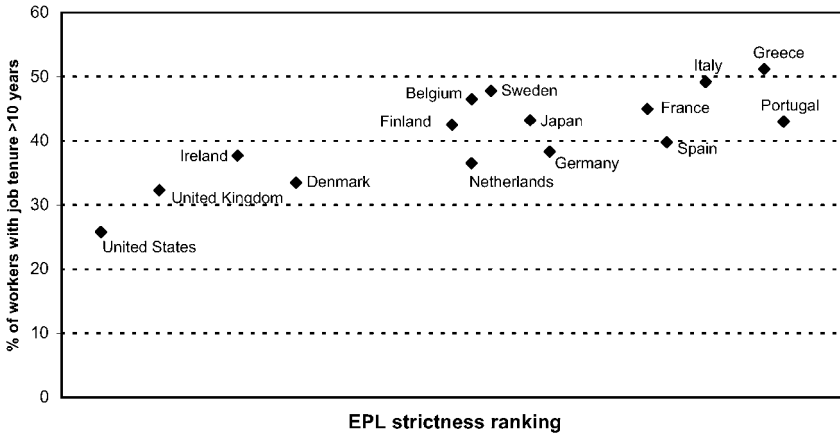
The high incidence of long-term employment relationships is one of the most remarkable features of labour markets in industrialized countries. On average, about 56 per cent of employees in the Organisation for Economic Co-operation and Development (OECD) hold a job with a duration of over five years (OECD, 1997). Another remarkable feature is that firms tend to hoard labour during recessions, even if this behaviour involves the cost of paying a wage rate that is higher than labour productivity (Hamermesh, 1989). These two pieces of evidence tend to suggest that both workers and firms attach a positive value to long-term employment relationships. Economic theory provides different – and possibly complementary – explanations for these observed patterns.

The first explanation refers to the existence of firm-specific human capital, which creates an obvious incentive for both workers and firms to establish long-term employment relationships. According to this theory, the relationship will be terminated if a production shock is sufficiently negative to offset the value of the specific capital. In this respect, two opposite tendencies have emerged in industrialized economies in recent years. On the one hand, information and communication technology (ICT) and globalization require a higher degree of flexibility in production and a more rapid adjustment to changes in demand. On the other hand, the growing importance of knowledge as a factor of production is likely to increase the return to training and to raise the importance of firm-specific human capital. The net impact of these two tendencies on employment tenure is then ambiguous: while globalization and ICT may shorten employment tenure, the increasing importance of human capital may act in the opposite direction.

Secondly, institutional settings, and in particular employment protection legislation (EPL), may explain why employment tenure differs across countries. Indeed, theoretical models indicate that employment should be more stable and individual employment relationships more durable when EPL is stricter: given a constant (or any other) cyclical wage pattern, higher firing costs stabilize employment in downturns but also deter employers from hiring in upturns. More stringent EPL should therefore be associated with smoother dynamic employment patterns (for a complete survey, see Bertola, Boeri and Cazes, 2000). On this basis, we would expect jobs to last longer in countries with stringent job security provisions. However, employment tenure also depends on the quit-rate component of separations, so the overall outcome does not give us a clear picture of the extent to which one effect may dominate the other. It follows that determining the effect that employment protection has on labour market outcomes is mainly an empirical question. In fact, looking at cross-country evidence, we find that employment tenure correlates quite well with the degree of employment protection (figure 2.1).

Employment stability in an age of flexibility

Figure 2.1 Employment tenure and employment protection legislation, 1998: Percentage of workers with tenure over 10 years and EPL ranking



Sources: Eurostat; national sources; OECD, 2001b.

Finally, it has been argued that the variability in employment tenure is the result of workers' heterogeneity. According to this theory, a decrease in employment tenure, for example, would reflect a change in workers' attitude towards a higher preference for mobility.

What do employment-tenure data tell us about job stability?

The findings, tables and figures presented in this section are based on Eurostat data, supplemented by national aggregate data from Japan and the United States (for details on data and sources, see the annex to this chapter). Table 2.1 presents average tenure in most of the EU countries, the United States and Japan.² In 2000, average employment tenure for the 14 EU countries was 10.6 years. Shortest tenures (8.2 years on average) are found in the United Kingdom, followed by Denmark, the Netherlands and Ireland, with average tenures under 10 years. The longest average tenures are found in Greece, Italy and Portugal, followed closely by Belgium and Sweden. Germany is slightly below the European average of 10.6 years, as are Finland and Spain. But cross-country differences are more pronounced in the distribution of employment across tenure classes, especially at the two extremes: the proportion of workers with tenures under one year is particularly high – over 20 per cent – in Denmark, Finland, Ireland, the Netherlands and Spain, and it is particularly low – less than 12 per cent – in Greece, Italy and

² Data for Austria are excluded because they are unreliable. Data for the United States and Japan for 2000 are not available at the time of going to press.

Table 2.1 Average employment tenure (years) and distribution of class of tenure (% of labour force), 1992–2000

| Country | Average tenure (years) | | | Tenure under 1 year (% of labour force) | | | Tenure 10 years and over (% of labour force) | | |
|--|------------------------|-------------|-----------------------|--|-------------|-----------------------|---|-------------|-----------------------|
| | 1992 | 2000 | % change 1992–2000 | 1992 | 2000 | % change 1992–2000 | 1992 | 2000 | % change 1992–2000 |
| Belgium | 11.0 | 11.5 | 4.5 | 10.4 | 13.6 | 30.8 | 45.3 | 46.2 | 2.0 |
| Denmark | 8.8 | 8.3 | – 5.7 | 17.9 | 23.0 | 28.5 | 33.6 | 31.1 | – 7.4 |
| Finland ^a | n.a. | 10.1 | – 5.6 | n.a. | 21.6 | 22.7 | n.a. | 42.1 | 6.3 |
| France | 10.4 | 11.1 | 6.7 | 13.8 | 15.8 | 14.5 | 42.9 | 44.8 | 4.4 |
| Germany | 10.7 | 10.5 | – 1.9 | 14.0 | 14.8 | 5.7 | 41.7 | 39.7 | – 4.8 |
| Greece | 13.5 | 13.5 | 0.0 | 7.2 | 9.4 | 30.6 | 53.0 | 53.2 | 0.4 |
| Ireland | 11.1 | 9.4 | – 15.3 | 12.1 | 21.8 | 80.2 | 42.1 | 33.6 | – 20.2 |
| Italy | 11.9 | 12.2 | 2.5 | 7.0 | 11.1 | 58.6 | 48.8 | 50.7 | 3.9 |
| Japan | 10.9 | 11.6 | 6.4 | 9.8 | 8.3 | – 15.3 | 42.9 | 43.2 | 0.7 |
| Luxembourg | 10.1 | 11.4 | 12.9 | 17.4 | 11.6 | – 33.3 | 38.8 | 45.5 | 17.3 |
| Netherlands | 8.9 | 9.1 | 2.2 | 14.5 | 20.5 | 41.4 | 34.5 | 36.1 | 4.6 |
| Portugal | 11.1 | 11.8 | 6.3 | 17.0 | 13.9 | – 18.2 | 48.8 | 44.6 | – 8.6 |
| Spain | 9.9 | 10.1 | 2.0 | 23.6 | 20.7 | – 12.3 | 39.7 | 40.3 | 1.5 |
| Sweden ^a | n.a. | 11.5 | 8.5 | n.a. | 15.7 | 6.1 | n.a. | 46.7 | 17.6 |
| United Kingdom | 8.1 | 8.2 | 1.2 | 15.6 | 19.3 | 23.7 | 31.5 | 33.3 | 5.7 |
| United States ^b | 6.7 | 6.6 | – 1.5 | 28.8 | 27.8 | – 3.5 | 26.6 | 25.8 | – 3.0 |
| European Union (EU-14) ^c | 10.5 | 10.6 | 1.6 | 14.2 | 16.6 | 17.0 | 41.7 | 42.0 | 0.6 |
| Average | 10.2 | 10.4 | 2.1 | 14.9 | 16.8 | 12.5 | 40.7 | 41.1 | 0.8 |

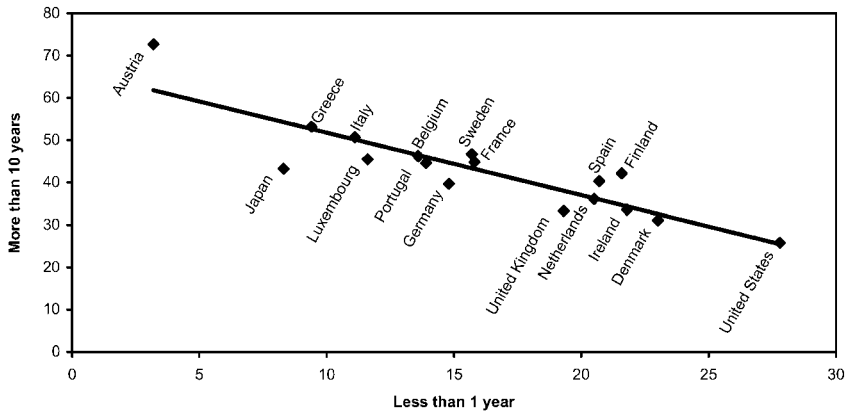
^a Change from 1995 to 2000. ^b Average tenure data refer to 1991 instead of 1992. For US and Japan, data refer to 1998 instead of 2000. ^c Without Austria. n.a. = not available.

Source: Authors' calculations, based on Eurostat and national sources.

Luxembourg.³ If we compare the United States and Japan to the EU we find a contrasting picture. The American labour market shows an average tenure far below the EU average (using data from 1998 for the United States), a much higher percentage of short-tenured jobs and a much smaller proportion of long-tenured jobs. Japan, on the other hand, has higher average tenure than the EU, and a lower percentage of short-tenured jobs. Thus, the often-acknowledged greater flexibility/volatility of the American labour market is evident in both the average and the distribution data.

³ A more refined analysis shows that there are also significant differences in the proportion of workers with 20 or more years of tenure between, say, the United Kingdom or the United States (11.5 and 9 per cent respectively for 1998) and Greece, France, Italy or Sweden (more than 22 per cent).

Figure 2.2 Distribution of employment by job tenure, 2000



Note: Data refer to 1998 for Japan and the United States.
Sources: Eurostat; national sources; OECD, 2001b.

Figure 2.2 shows that the countries with a low percentage of workers having tenures of less than one year are usually also those characterized by a high percentage of workers with long tenures. This distributional pattern shows up in Austria, Greece, Italy and Japan, for example. Conversely, countries with a high percentage of workers with short tenures are also those with the lowest proportions of workers with longer tenures (the United States, for example, but also Denmark and Ireland). While this picture holds generally true, developments over time show a modest trend in the EU towards polarization at both ends of the distribution. Both short-tenured jobs and long-tenured jobs have tended to grow.

The inter-country differences, however, seem to be consistent over time: OECD studies (1993, 1996) have already found significant differences in employment tenure between North America, on the one hand, and most European countries and Japan, on the other. More recently, the OECD (1997) confirmed the heterogeneity between countries, with Japan and most European countries still characterized by considerably longer tenures than the United States. Table 2.2 shows the changes that occurred in the distribution of tenure between 1992 and 1999 in most of the EU countries, the United States and Japan, by presenting the mode and frequency of tenure distribution.

The analysis of the mode shows that labour markets in industrialized countries are still characterized by a high incidence of long-term employment relationships. In 1999, the typical duration of employment tenure, as measured by the mode, appeared to be between 10 and 20 years (except for Germany where the typical duration was 5–10 years in 1999), with about a quarter of workers having a job of this duration. In comparison to 1992, the mode decreased only in Germany⁴ and

⁴ Employment tenure probably decreased because of mass lay-offs following reunification.

Table 2.2 Mode and frequency of tenure distribution, 1992–99

| Country | Tenure in years | |
|----------------|--------------------------|--------------|
| | Mode (frequency) 1992 | 1999 |
| Belgium | 10–20 (0.25) | 10–20 (0.25) |
| Denmark | 2–5 (0.20) | 10–20 (0.18) |
| Finland | 5–10 (0.23) | 10–20 (0.23) |
| France | 10–20 (0.25) | 10–20 (0.23) |
| Germany | 10–20 (0.22) | 5–10 (0.23) |
| Greece | > 20 (0.27) | 10–20 (0.26) |
| Ireland | 10–20 (0.23) | 10–20 (0.18) |
| Italy | 10–20 (0.27) | 10–20 (0.27) |
| Japan | n.a. | n.a. |
| Luxembourg | 10–20 (0.22) | 10–20 (0.25) |
| Netherlands | 2–5 (0.23) | 10–20 (0.21) |
| Portugal | 10–20 (0.23) | 10–20 (0.22) |
| Spain | 10–20 (0.21) | 10–20 (0.20) |
| Sweden | 10–20 (0.23) | 10–20 (0.25) |
| United Kingdom | 2–5 (0.25) | 10–20 (0.21) |
| United States | n.a. | n.a. |

Source: Auer et al., 2001.

Greece (from 10–20 years and more than 20 years, to 5–10 years and 10–20 years, respectively), while in all the other countries it remained constant or even increased (the latter is the case for Denmark, Finland, the Netherlands and the United Kingdom), showing that the high incidence of long-term employment relationships has been a persistent feature of labour markets during the last decade. A similar pattern in tenure seems to emerge by looking at the changes in the average tenure (table 2.1). Between 1992 and 2000, average tenure decreased in Denmark, Finland, Germany and Ireland, but increased or remained unchanged in all other countries. Figure 2.3 shows these patterns for both sexes, which tend to differ. First, in almost all countries, average tenure is shorter for women than for men. Female tenure, however, generally increased over the period. This certainly reflects the changing career patterns of women, including their higher labour force rates and their growing access to more qualified jobs that, in turn, entail longer careers, and a trend towards stabilization of jobs, even if they are part-time. Male tenures remained broadly stable or increased in most countries,⁵ though they declined slightly in the United States. In Ireland the shortening of average tenure

⁵ Although not presented here, data for Denmark, Germany and Portugal also indicate a slight decline for male tenure.

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since 1993 is quite marked, whereas in Japan average tenure increased over the 1980s and the 1990s, for both men and women.

This direct investigation of job stability over the past ten years does not therefore support any alarmist view, nor confirm the belief that there has been a general increase in job instability in recent years in the industrialized countries. However, these patterns have to be interpreted carefully, because aggregate trends in employment tenure may also reflect changes in the demographic composition of the labour force and economic cyclical variations. Average tenure is indeed highly dependent on the age structure of the working population: workers change job more often when they are young – either because they want to accumulate different experiences and get promotions by changing jobs or because they are a target for dismissals. As a result, a country with a relatively young population (such as Ireland) will exhibit shorter average tenures than one with an ageing population (such as Japan). The same phenomenon occurs over time: given that older workers have longer tenure on average, an ageing population could be masking a shift towards less secure jobs.

In order to take account of this effect, the 1992–99 variation in the average tenure was broken down into two components (see Auer, Cazes and Spiezia, 2001): one reflecting the variation due to changes in the age distribution and another showing the variation in the average tenure that would have occurred if the age distribution had remained that of 1992. After controlling for age, it becomes apparent that eight of the fourteen European countries in the samples show some reduction in average tenure. In Belgium, for example, the increase in tenure seems mainly due to the “mechanical” effect of population ageing.

Another effect to consider stems from the economic cycle. As average employment tenure is a distribution, it is clear that the hiring rate matters as much as the separation rate. This implies that changes in hiring and firing do affect tenure, which will therefore depend, among other things, on the business cycle. How does tenure react to the economic cycle? It could be assumed to increase in boom periods – since firms are more inclined to offer stable jobs in times of economic buoyancy – and to decrease in recession periods, as people are laid off and general economic uncertainty induces firms to increase the flexibility of their labour force. Theoretically, the impact of the economic cycle on employment tenure is uncertain: during the upward phase of the cycle, tenure may either decrease (because of more quitting and the shorter duration of newly created jobs) or increase (because of fewer lay-offs). In times of recession, not only quitting decreases (tenure increases) and lay-offs increase (tenure decreases) but available evidence also shows that job destruction occurs mainly for jobs of shorter duration (tenure increases again). Therefore, if we were to compare tenure at two points in time and these two points belonged to different economic cycles or to different phases of the same cycle, we might conclude that tenure has decreased whereas this variation was simply due to the economic cycle.

In fact, research finds that flows both in and out of employment tend to be countercyclical, so average employment tenure declines in upswings and increases

in downturns (ILO, 1996). This countercyclical behaviour can be explained by different effects.⁶ As mentioned previously, when economic growth and employment recover, more people are hired; this mechanically has the effect of reducing tenure as newly hired labour comes in with zero tenure. Voluntary quits also increase, because workers are offered better opportunities and change jobs. These two factors tend to shorten average employment tenure. But at the same time lay-offs are reduced, which has the opposite effect of lengthening tenure. So the resulting effect will depend on the quit rate and the lay-off rate: typically, the tenure-reducing impact of voluntary quits offsets the tenure-increasing effect of reduced lay-offs, thus generating an overall increase in the number of separations and a decline in length of tenure during economic upswings. The opposite happens in a recession: average tenure increases because the reduction in voluntary quits offsets the increases in lay-offs.

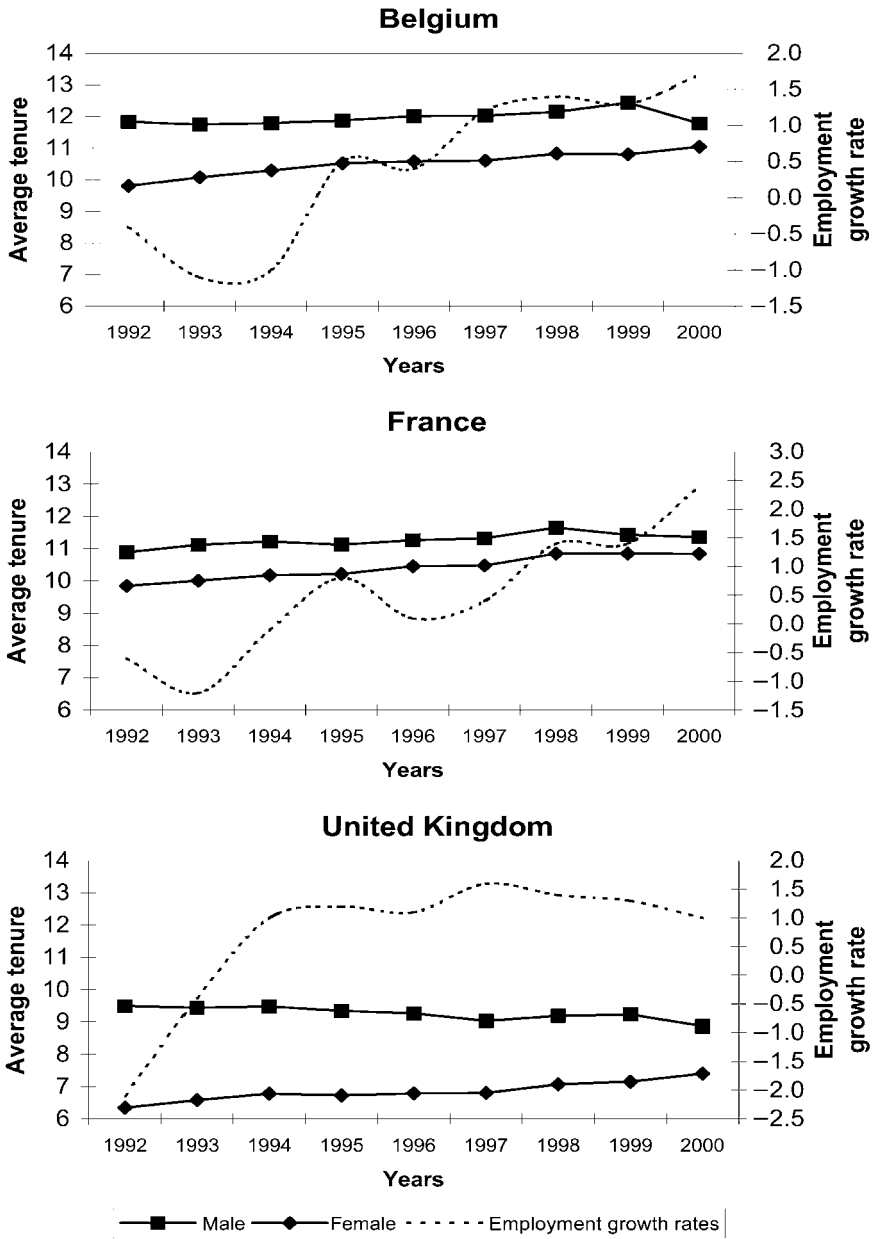
However, the picture becomes quite complicated if the distribution of lay-offs by tenure is considered as well. Voluntary quits usually concern more workers with shorter tenures. So, an increase of voluntary quits would result in lengthening the average tenure of those remaining. However, those quitting voluntarily also take new jobs and come in as newly hired labour, thereby shortening average tenure. For dismissals, labour market institutions have to be taken into account. For example, while firms usually apply an explicit or implicit rule of seniority (last in first out), early retirement rules reverse this: it is then the older staff with long tenures who will depart first, which has a shortening effect on average tenure (overall and by age group). Generally speaking, a labour market characterized by high mobility exhibits shorter average tenure than a more static one, and a high rate of job creation has a shortening effect on average tenure.

Figure 2.3 clearly shows the countercyclical effect, at least for male tenure, in almost all countries. In fact, the decline in employment tenure observed in recent years could reflect the economic recovery that has taken place in some countries, such as the United States, rather than a structural shift towards increased job instability. In Ireland, employment tenure has been decreasing since 1993, in clear contrast to the country's strong employment creation. To some extent, the recent slight shortening of employment tenure in Portugal and Denmark also coincides with employment growth. Similarly, an increase in employment tenure in other European countries could be the result of economic slack and hide a medium-term decline in job stability. In order to investigate whether there has been a tendency towards job instability, we have tested the existence of a time trend by carrying out a panel regression analysis (across industries and over time) for each country of the EU and each age group, taking into account the economic cycle effects: we do not find any general and systematic trend toward declining tenure over the period

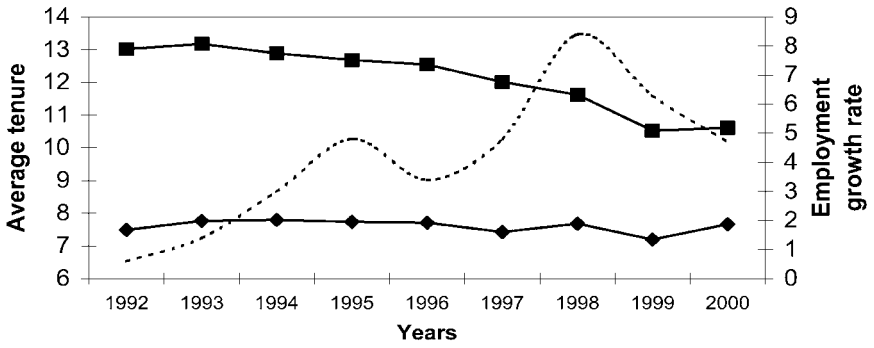
⁶ This countercyclical behaviour of average employment tenure suggests that labour markets are driven more by the supply side (expectations of workers) than the demand side (expectations of firms). Firms might indeed look for exactly the opposite: more job stability for their existing workforce in economic upturns and tight labour markets, and more voluntary exits in recessions and slack labour markets.

Employment stability in an age of flexibility

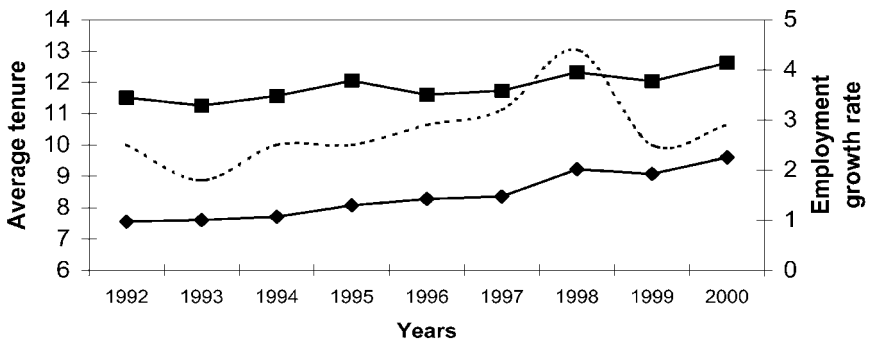
Figure 2.3 Average employment tenure and employment growth rates over time, by sex



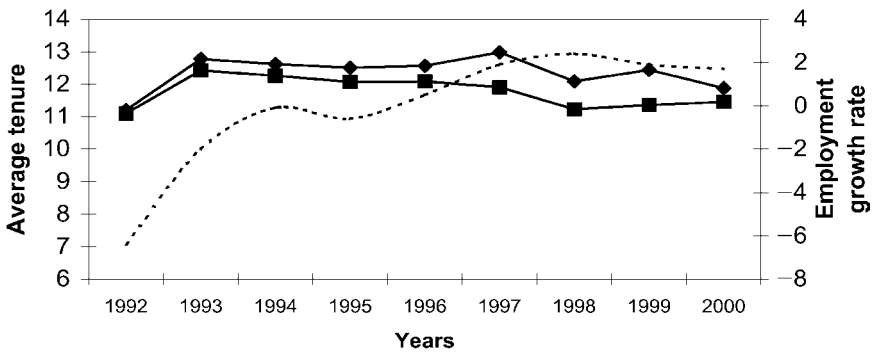
Ireland



Luxembourg



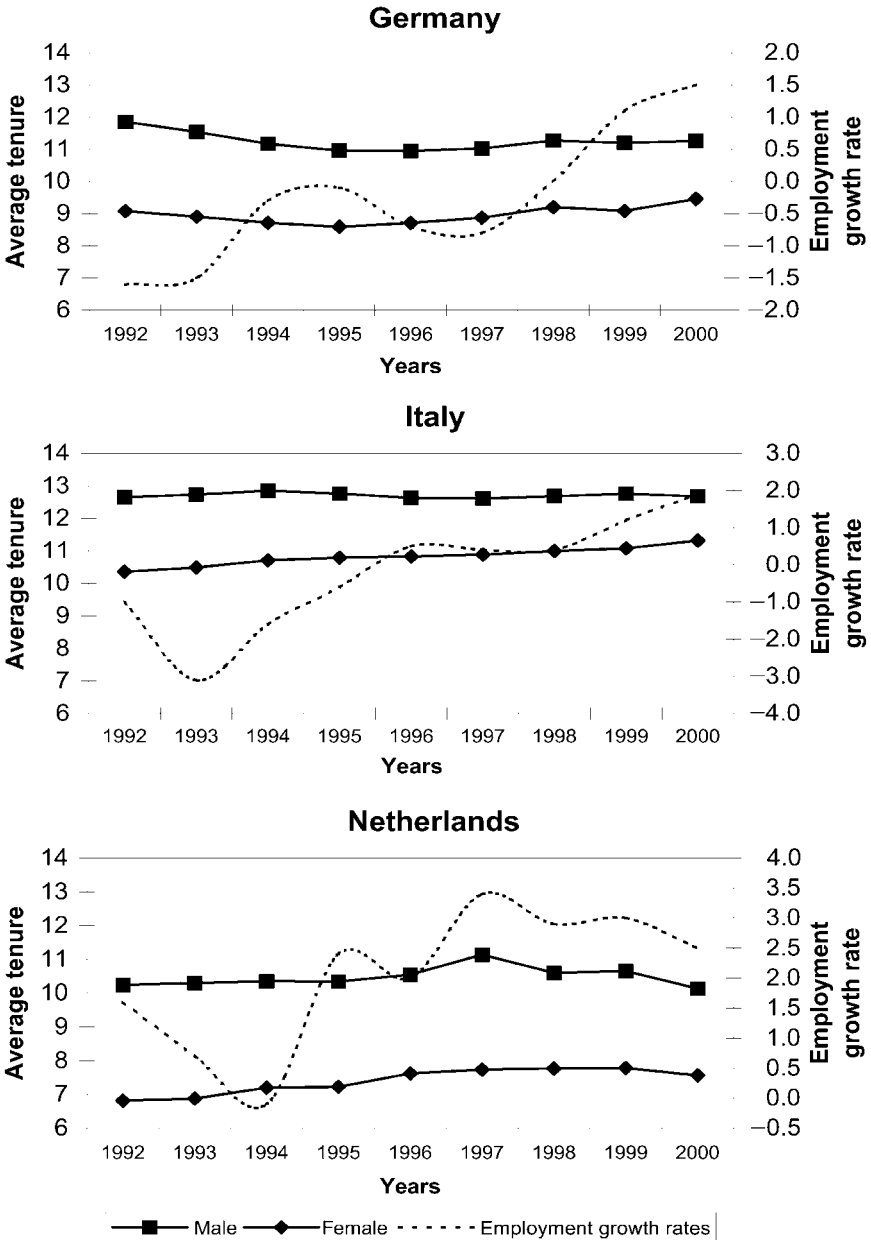
Portugal

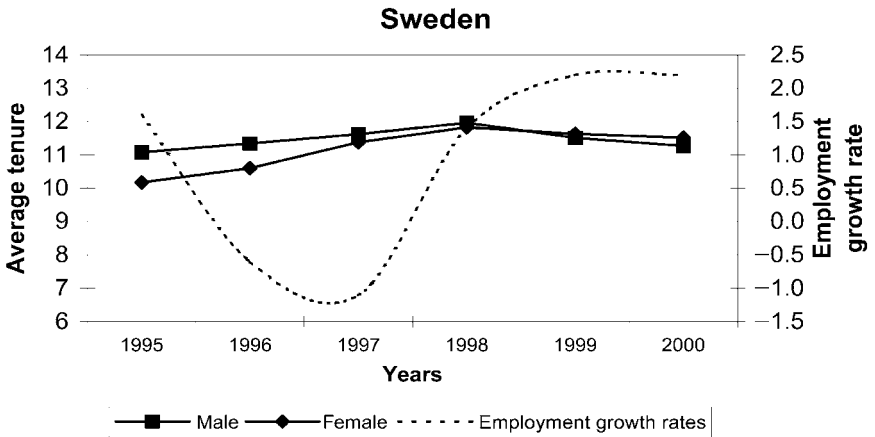
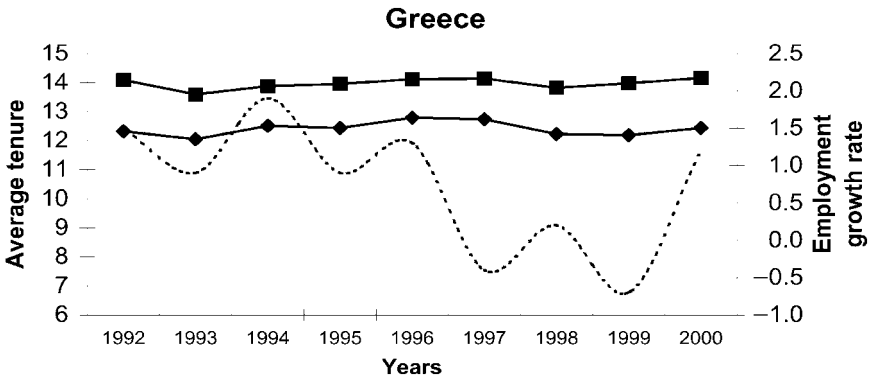
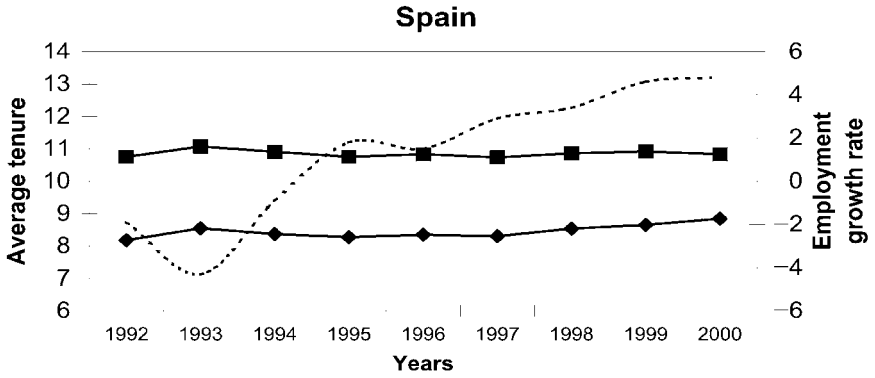


■ Male ◆ Female - - - - Employment growth rates

Employment stability in an age of flexibility

Figure 2.3 (Continued)

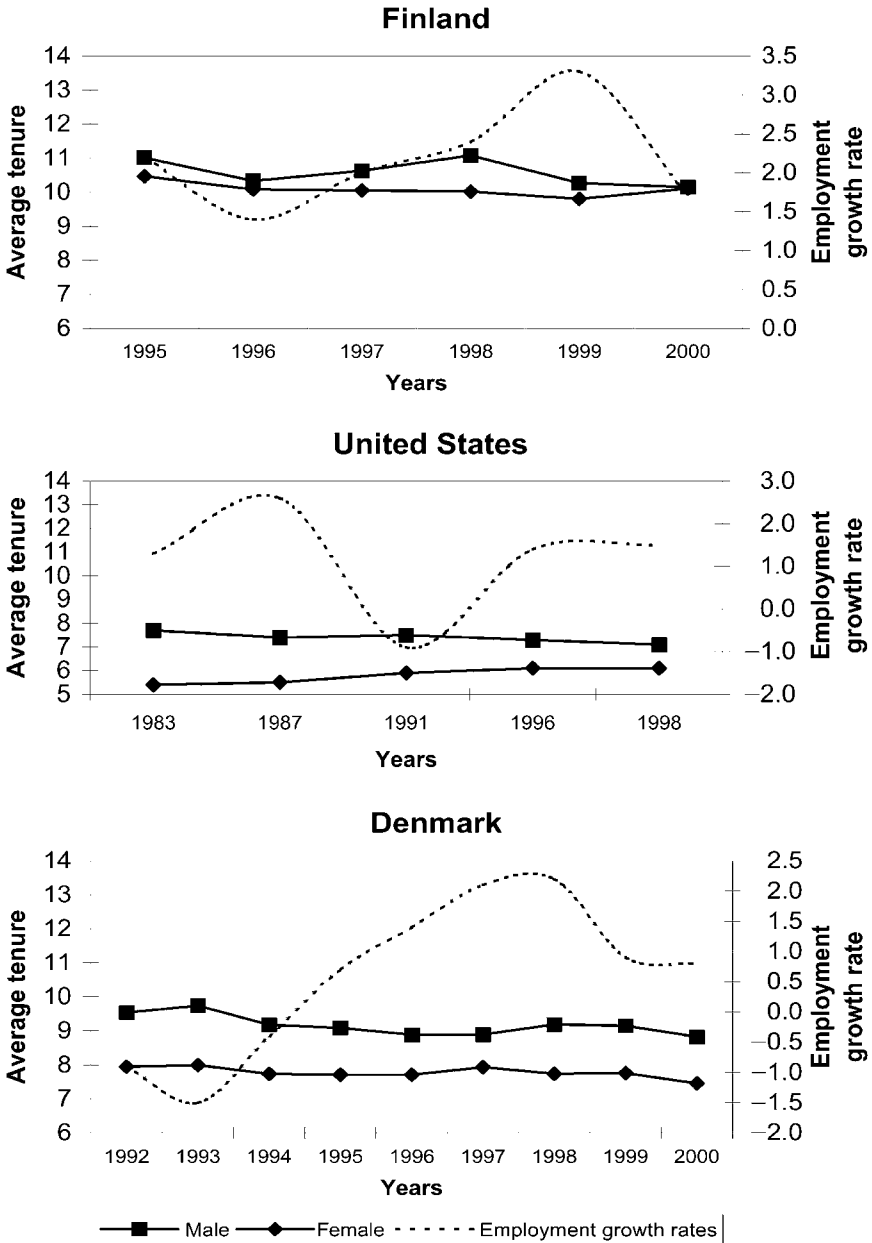


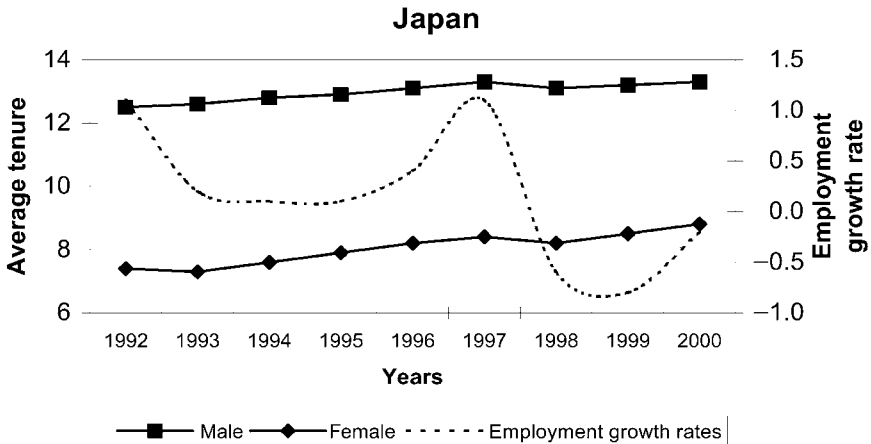


Male
 Female
 Employment growth rates

Employment stability in an age of flexibility

Figure 2.3 (Continued)





Sources: Eurostat; national sources; OECD, 1999 and 2001b, for employment growth rates.

1992–99, but young workers have experienced some decline in their average tenure (Auer et al., 2001).

Tenure profiles of different categories of workers

Table 2.3 presents average employment tenure by sex, age group, sector and educational attainment for 2000. As already highlighted in comparing unweighted averages across countries, men have longer tenure than women, except in Portugal and in Sweden where women now have longer-tenured jobs than men. The gender gap is particularly significant in Ireland, Japan and the Netherlands. The analysis by age group shows that tenure rises sharply with age and varies much more across countries for workers over 45: in the United States, average employment tenure is about 11 years for this age group, whereas 17 years is the average of all EU countries. It is particularly long in Belgium, Greece and Italy.

While overall employment tenure of this age group has slightly declined, the findings of the previous econometric analysis also indicate that the tenure of young workers (the 15–24 age group) has declined in several countries over the last decade. This result, however, does not imply a generalized increase in job instability for young workers, though it might reflect increased segmentation and longer waiting time before labour market entry. One key issue here is whether young people have to “queue” in temporary jobs while waiting for a permanent job, or whether they are “trapped” in insecure, secondary jobs with no bridge to stable employment. Since age is by definition a temporary characteristic, the first hypothesis would imply that young workers would only temporarily be “outsiders” of the labour market. The interpretation of our results would therefore need further investigation in the light of the different theoretical tracks presented above.

Employment stability in an age of flexibility

Table 2.3 Average tenure by sex, age, sector and education, 1996 and 2000 (years)

| Average tenure 1996 and 2000 | Belgium | | | Denmark | | | Finland | | |
|--|-------------|-------------|-----------------------|------------|------------|-----------------------|-------------|-------------|-----------------------|
| | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 |
| Total | 11.4 | 11.5 | 0.3 | 8.4 | 8.3 | – 1.7 | 10.2 | 10.1 | – 0.7 |
| Men | 12.0 | 11.8 | – 2.0 | 8.9 | 8.8 | – 0.7 | 10.3 | 10.1 | – 1.8 |
| Women | 10.6 | 11.0 | 4.4 | 7.7 | 7.5 | – 3.3 | 10.08 | 10.11 | 0.3 |
| Gap between men and women | 1.4 | 0.7 | – 48.6 | 1.2 | 1.4 | 16.5 | 0.3 | 0.0 | – 85.5 |
| <i>Age</i> | | | | | | | | | |
| 15–24 years | 1.8 | 1.7 | – 6.2 | 1.5 | 1.6 | 7.0 | 1.4 | 1.3 | – 6.1 |
| 25–44 years | 8.8 | 9.2 | 3.8 | 6.1 | 6.2 | 1.1 | 7.2 | 7.7 | 8.0 |
| 45 or more years | 20.3 | 21.3 | 5.0 | 15.0 | 13.6 | – 9.3 | 16.6 | 15.9 | – 4.1 |
| <i>Sector</i> | | | | | | | | | |
| Agriculture, hunting, forestry, fishing | 15.5 | 14.8 | – 4.1 | 11.1 | 12.4 | 11.1 | 15.3 | 14.7 | – 3.8 |
| Manufacturing, mining, quarrying | 12.0 | 11.7 | – 2.5 | 8.3 | 8.8 | 5.4 | 11.2 | 11.1 | – 1.0 |
| Construction | 9.4 | 9.3 | – 1.6 | 8.1 | 7.9 | – 2.4 | 8.5 | 7.4 | – 12.6 |
| Trade, transport, storage, communication, hotels | 10.6 | 10.6 | 0.6 | 7.3 | 7.0 | – 4.6 | 9.5 | 8.9 | – 6.5 |
| Financial intermediation, business activities | 10.3 | 9.5 | – 7.4 | 8.7 | 8.2 | – 4.8 | 9.2 | 9.1 | – 1.0 |
| Public administration, education, health | 12.2 | 12.9 | 5.7 | 8.6 | 8.3 | – 3.2 | 9.9 | 10.6 | 7.5 |
| <i>Education (1996–98)</i> | | | | | | | | | |
| Low | 13.26 | 13.34 | 0.6 | 7.0 | 7.6 | 7.7 | 13.6 | 13.4 | – 1.6 |
| Medium | 10.8 | 11.1 | 2.2 | 8.5 | 8.7 | 2.3 | 9.0 | 9.7 | 7.8 |
| High | 10.4 | 10.6 | 1.3 | 9.3 | 9.0 | – 2.4 | 9.1 | 9.7 | 5.8 |

Table 2.3 (Continued)

| Average tenure 1996 and 2000 | France | | | Germany | | | Greece | | |
|--|-------------|-------------|-----------------------|-------------|-------------|-----------------------|-------------|-------------|-----------------------|
| | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 |
| Total | 10.9 | 11.1 | 2.1 | 10.0 | 10.5 | 4.7 | 13.6 | 13.5 | – 0.7 |
| Men | 11.3 | 11.4 | 0.8 | 10.9 | 11.3 | 2.9 | 14.1 | 14.2 | 0.3 |
| Women | 10.5 | 10.8 | 3.7 | 8.7 | 9.5 | 8.5 | 12.8 | 12.4 | – 2.8 |
| Gap between men and women | 0.8 | 0.5 | – 36.4 | 2.2 | 1.8 | – 18.9 | 1.3 | 1.7 | 30.1 |
| <i>Age</i> | | | | | | | | | |
| 15–24 years | 1.6 | 1.5 | – 5.0 | 2.3 | 2.34 | 1.7 | 2.4 | 2.7 | 11.2 |
| 25–44 years | 8.4 | 8.9 | 5.9 | 7.3 | 8.5 | 16.5 | 8.7 | 9.7 | 11.5 |
| 45 or more years | 17.9 | 17.3 | – 2.9 | 16.7 | 16.0 | – 4.3 | 22.7 | 21.2 | – 6.9 |
| <i>Sector</i> | | | | | | | | | |
| Agriculture, hunting, forestry, fishing | 13.5 | 13.8 | 2.2 | 13.2 | 12.9 | – 1.8 | 21.5 | 21.1 | – 2.0 |
| Manufacturing, mining, quarrying | 12.0 | 12.2 | 1.6 | 11.5 | 11.8 | 2.4 | 11.4 | 12.5 | 9.8 |
| Construction | 9.6 | 9.8 | 2.2 | 8.3 | 9.0 | 7.7 | 13.1 | 12.9 | – 2.3 |
| Trade, transport, storage, communication, hotels | 9.5 | 9.7 | 2.0 | 9.1 | 9.2 | 1.0 | 11.0 | 11.1 | 0.9 |
| Financial intermediation, business activities | 10.2 | 9.8 | – 3.7 | 9.2 | 9.1 | – 0.6 | 10.9 | 11.1 | 1.6 |
| Public administration, education, health | 11.4 | 11.9 | 4.8 | 9.9 | 11.1 | 11.6 | 12.2 | 12.8 | 5.2 |
| <i>Education (1996–98)</i> | | | | | | | | | |
| Low | 12.0 | 12.4 | 4.0 | 9.2 | n.a | n.a | 17.3 | 17.1 | – 1.4 |
| Medium | 10.6 | 11.2 | 5.0 | 9.8 | n.a | n.a | 9.32 | 9.26 | – 0.6 |
| High | 9.8 | 10.0 | 1.4 | 10.8 | n.a | n.a | 10.6 | 10.8 | 2.1 |

Employment stability in an age of flexibility

Table 2.3 (Continued)

| Average tenure 1996 and 2000 | Ireland | | | Italy | | | Luxembourg | | |
|--|-------------|------------|-----------------------|-------------|-------------|-----------------------|-------------|-------------|-----------------------|
| | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 |
| Total | 10.7 | 9.4 | – 12.5 | 12.0 | 12.2 | 1.6 | 10.4 | 11.4 | 10.0 |
| Men | 12.5 | 10.6 | – 15.5 | 12.6 | 12.7 | 0.4 | 11.6 | 12.6 | 8.8 |
| Women | 7.7 | 7.7 | – 0.6 | 10.8 | 11.3 | 4.5 | 8.3 | 9.6 | 16.0 |
| Gap between men and women | 4.8 | 2.9 | – 39.2 | 1.8 | 1.4 | – 24.4 | 3.3 | 3.0 | – 9.2 |
| <i>Age</i> | | | | | | | | | |
| 15–24 years | 2.0 | 2.0 | – 3.8 | 2.6 | 2.5 | – 6.9 | 2.3 | 2.2 | – 6.7 |
| 25–44 years | 8.4 | 8.4 | – 0.1 | 8.8 | 9.6 | 8.4 | 8.2 | 9.2 | 12.5 |
| 45 or more years | 20.0 | 16.9 | – 15.4 | 20.1 | 19.3 | – 3.8 | 18.9 | 18.7 | – 1.2 |
| <i>Sector</i> | | | | | | | | | |
| Agriculture, hunting, forestry, fishing | 19.2 | 16.7 | – 13.2 | 14.6 | 13.6 | – 6.4 | 14.4 | 17.3 | 19.7 |
| Manufacturing, mining, quarrying | 9.4 | 9.1 | – 3.7 | 11.2 | 11.8 | 5.8 | 13.8 | 15.1 | 9.6 |
| Construction | 10.6 | 7.8 | – 26.5 | 10.5 | 10.2 | – 3.1 | 9.0 | 9.9 | 10.0 |
| Trade, transport, storage, communication, hotels | 8.9 | 7.7 | – 13.2 | 11.7 | 11.7 | – 0.1 | 9.2 | 10.4 | 12.2 |
| Financial intermediation, business activities | 8.6 | 7.6 | – 10.9 | 10.9 | 11.0 | 1.0 | 8.4 | 9.4 | 11.6 |
| Public administration, education, health | 10.5 | 11.5 | 8.9 | 13.2 | 13.6 | 3.4 | 11.1 | 11.6 | 5.3 |
| <i>Education (1996–98)</i> | | | | | | | | | |
| Low | 13.9 | n.a | n.a | 12.78 | 12.81 | 0.2 | 9.9 | n.a | n.a |
| Medium | 8.7 | n.a | n.a | 10.7 | 11.0 | 2.1 | 10.8 | n.a | n.a |
| High | 8.6 | n.a | n.a | 12.3 | 12.4 | 1.2 | 10.8 | n.a | n.a |

Table 2.3 (Continued)

| Average tenure 1996 and 2000 | Netherlands | | | Portugal | | | Spain | | |
|--|-------------|------------|-----------------------|-------------|-------------|-----------------------|-------------|-------------|-----------------------|
| | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 |
| Total | 9.3 | 9.1 | – 2.6 | 12.3 | 11.8 | – 4.4 | 10.0 | 10.1 | 1.3 |
| Men | 10.5 | 10.1 | – 3.9 | 12.1 | 11.4 | – 5.3 | 10.8 | 10.8 | 0.0 |
| Women | 7.6 | 7.6 | – 0.8 | 12.6 | 11.9 | – 5.5 | 8.4 | 8.8 | 5.9 |
| Gap between men and women | 2.9 | 2.6 | – 12.0 | – 0.5 | – 0.4 | – 11.4 | 2.5 | 2.0 | – 20.0 |
| <i>Age</i> | | | | | | | | | |
| 15–24 years | 1.9 | 1.8 | – 6.8 | 2.6 | 2.8 | 8.5 | 1.2 | 1.8 | 51.0 |
| 25–44 years | 7.5 | 7.4 | – 1.4 | 8.7 | 9.1 | 3.8 | 7.1 | 7.9 | 11.3 |
| 45 or more years | 16.8 | 15.1 | – 10.0 | 19.7 | 18.7 | – 5.0 | 17.7 | 17.0 | – 3.9 |
| <i>Sector</i> | | | | | | | | | |
| Agriculture, hunting, forestry, fishing | 13.4 | 12.5 | – 7.0 | 18.3 | 18.9 | 2.9 | 13.0 | 12.2 | – 6.0 |
| Manufacturing, mining, quarrying | 10.6 | 10.7 | 1.6 | 11.5 | 11.1 | – 3.1 | 11.3 | 11.0 | – 2.5 |
| Construction | 9.7 | 9.2 | – 5.2 | 7.8 | 7.9 | 1.4 | 6.7 | 6.8 | 1.7 |
| Trade, transport, storage, communication, hotels | 8.4 | 8.0 | – 4.8 | 11.2 | 10.3 | – 7.9 | 9.1 | 9.2 | 1.2 |
| Financial intermediation, business activities | 8.2 | 7.2 | – 12.5 | 10.9 | 8.9 | – 18.4 | 9.0 | 9.4 | 3.9 |
| Public administration, education, health | 10.0 | 10.3 | 3.0 | 13.1 | 12.3 | – 6.3 | 10.4 | 11.5 | 11.0 |
| <i>Education (1996–98)</i> | | | | | | | | | |
| Low | 9.6 | n.a | n.a | 13.0 | 10.8 | – 17.0 | 10.7 | 10.6 | – 0.8 |
| Medium | 9.5 | n.a | n.a | 8.8 | 8.1 | – 7.5 | 8.3 | 8.6 | 4.1 |
| High | 8.7 | n.a | n.a | 11.9 | 10.7 | – 9.5 | 9.4 | 9.7 | 4.0 |

Employment stability in an age of flexibility

Table 2.3 (Continued)

| Average tenure 1996 and 2000 | Sweden | | | UK | | | EU ^a | | |
|--|-------------|-------------|-----------------------|------------|------------|-----------------------|-----------------|--------------|-----------------------|
| | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 |
| Total | 11.0 | 11.5 | 4.8 | 8.1 | 8.2 | 1.4 | 10.59 | 10.61 | 0.2 |
| Men | 11.34 | 11.27 | – 0.7 | 9.3 | 8.9 | – 4.2 | 11.3 | 11.1 | – 1.5 |
| Women | 10.6 | 11.5 | 8.7 | 6.8 | 7.4 | 9.0 | 9.5 | 9.8 | 3.1 |
| Gap between men and women | 0.7 | – 0.2 | – 133.4 | 2.5 | 1.5 | – 40.6 | 1.8 | 1.3 | – 25.6 |
| <i>Age</i> | | | | | | | | | |
| 15–24 years | 2.0 | 1.9 | – 2.1 | 2.0 | 2.0 | 0.3 | 2.0 | 2.0 | 0.0 |
| 25–44 years | 7.7 | 8.6 | 12.7 | 6.8 | 7.4 | 8.6 | 7.8 | 8.4 | 7.3 |
| 45 or more years | 16.7 | 16.8 | 0.8 | 12.9 | 12.0 | – 6.8 | 18.0 | 17.1 | – 4.8 |
| <i>Sector</i> | | | | | | | | | |
| Agriculture, hunting, forestry, fishing | 15.1 | 15.9 | 5.9 | 12.7 | 11.6 | – 8.3 | 15.1 | 14.9 | – 1.1 |
| Manufacturing, mining, quarrying | 11.8 | 12.3 | 4.4 | 9.0 | 9.2 | 1.9 | 11.1 | 11.3 | 2.2 |
| Construction | 10.9 | 11.9 | 8.9 | 9.6 | 9.0 | – 6.4 | 9.4 | 9.2 | – 2.3 |
| Trade, transport, storage, communication, hotels | 9.8 | 9.6 | – 2.1 | 6.8 | 7.0 | 2.6 | 9.4 | 9.3 | – 1.4 |
| Financial intermediation, business activities | 9.0 | 8.5 | – 6.3 | 7.3 | 7.1 | – 3.3 | 9.3 | 9.0 | – 3.7 |
| Public administration, education, health | 11.1 | 12.7 | 13.8 | 8.6 | 8.9 | 4.2 | 10.9 | 11.4 | 5.2 |
| <i>Education (1996–98)</i> | | | | | | | | | |
| Low | 13.2 | 14.8 | 11.8 | 8.2 | n.a | n.a | 11.7 | n.a | n.a |
| Medium | 10.1 | 11.3 | 12.5 | 8.0 | n.a | n.a | 9.5 | n.a | n.a |
| High | 10.1 | 10.9 | 7.3 | 8.2 | n.a | n.a | 10.0 | n.a | n.a |

Table 2.3 (Continued)

| Average tenure 1996 and 2000 | Japan ^b | | | USA* | | |
|--|--------------------|-------------|-----------------------|------------|------------|-----------------------|
| | 1996 | 2000 | % change 1996–2000 | 1996 | 2000 | % change 1996–2000 |
| Total | 11.3 | 11.6 | 2.7 | 6.7 | 6.6 | – 1.5 |
| Men | 13.1 | 13.1 | 0.0 | 7.3 | 7.1 | – 2.7 |
| Women | 8.2 | 8.2 | 0.0 | 6.1 | 6.1 | 0.0 |
| Gap between men and women | 4.9 | 4.9 | 0.0 | 1.2 | 1.0 | – 16.7 |
| <i>Age</i> | | | | | | |
| 15–24 years | 2.5 | 2.4 | – 3.6 | 1.3 | 1.3 | – 1.0 |
| 25–44 years | 9.5 | 9.2 | – 3.2 | 5.5 | 5.4 | – 2.8 |
| 45 or more years | 18.0 | 18.4 | 2.1 | 11.7 | 11.4 | – 2.5 |
| <i>Sector</i> | | | | | | |
| Agriculture, hunting, forestry, fishing | n.a | n.a | n.a | n.a | n.a | n.a |
| Manufacturing, mining, quarrying | 14.4 | 14.4 | 0.0 | 8.7 | 8.9 | 2.3 |
| Construction | 11.2 | 11.6 | 3.6 | 5.1 | 5.1 | 0.0 |
| Trade, transport, storage, communication, hotels | 11.8 | 12.1 | 2.5 | 6.6 | 6.6 | 0.0 |
| Financial intermediation, business activities | 9.8 | 10.4 | 6.1 | 6.4 | 6.0 | – 6.3 |
| Public administration, education, health | n.a | 8.9 | n.a | 7.4 | 7.4 | 0.0 |
| <i>Education (1996–98)</i> | | | | | | |
| Low | 15.3 | 16.3 | 6.5 | 5.3 | 7.2 | 35.8 |
| Medium | 11.4 | 15.2 | 33.4 | 7.2 | 5.3 | – 26.4 |
| High | 9.5 | 11.1 | 16.9 | 7.3 | 7.3 | 0.0 |

^a The EU without Austria (data were not consistent over time for this country).

^b Data for sector and occupations use the national classification systems and are regrouped to correspond approximately to NACE (Rev. 1) and ISCO-88. For details, see Auer et al. (2001).

Employment stability in an age of flexibility

Employment tenure also varies considerably across industries: the longest tenures are found in agriculture and in public administration, and the shortest in financial intermediation. The wholesale and retail trade, and catering and tourism industries (which tend to employ a large number of young people) are also characterized by short average tenures. By education, higher-skilled white-collar occupations, such as “legislators, senior officials and managers”, have the longest employment tenures, while semi-skilled and unskilled manual jobs, as well as lower-skilled white-collar occupations (such as service or sales workers), have shorter tenures. The degree of dispersion of tenure by industry and occupation is rather similar across countries.

Average employment tenures by educational attainment show that in only four of the 14 countries considered do workers with high educational attainments have longer tenures than workers with a low level of education (table 2.3). The reverse applies to the majority of the countries considered. This finding may seem surprising, as less qualified people might have been expected to have less job stability. The finding that workers with low educational attainments have longer tenure is confirmed by recent empirical research based on a disaggregated analysis of the changes in employment tenure. For example, Burgess and Rees (1998) found that post-compulsory educational qualifications in Britain were associated with shorter employment tenures for both men and women. The figures in table 2.3 show few differences between those with medium education and those with higher education. However, a study of the EU countries reveals that, controlling for differences in sex and age distributions, individuals with the lowest level of education have the shortest employment tenure, while those with an intermediate level of education have the longest (OECD, 1997). The data on the distribution of tenure by firm size are somewhat limited,⁷ but general findings suggest a rather consistent pattern across countries. Although the influence of firm size is not monotonic, the employees of larger enterprises in the EU (50 or more employees) have significantly longer employment tenure than do those in enterprises with fewer than ten employees. In Japan, employment tenure clearly increases with enterprise size: from 9.6 years in enterprises with 1–99 employees to 11.1 years in enterprises with 10–999 employees, and 14.8 years in enterprises with 1,000 or more employees in 1998 (Japan, 1999). Here also, the findings of microeconomic research are consistent with those of aggregate analysis. A recent empirical analysis of employment tenure in (western) Germany found that employees stay on longer in larger enterprises and in production industries (Bellman, Bender and Hornsteiner, 2000). In another paper comparing employment tenure in Britain and Italy using micro-level data, Burgess, Pacelli and Rees (1997) also find that employment tenure increases with firm size. These authors suggest that the employees of larger firms are given more on-the-job

⁷ The breakdown used by Eurostat includes categories which are not exclusive such as “11–19 persons” and “do not know, but more than 10 persons”, so data are difficult to compare systematically.

training, hence their inclination to stay longer in their jobs. Aside from the enterprise-size effect, the employees in service industries seem to accumulate less specific human capital than do those in the production industries. The pattern of tenure by enterprise size may be partly explained by the fact that EPL is less restrictive for very small firms, which therefore face fewer constraints on lay-offs. As discussed in Chapter 1, employment tenure correlates quite well with the degree of employment protection (see also figure 2.1). Finally, the pattern of tenure by firm size may also be due to the existence of internal labour markets.

Retention rates and potential employment tenure

Other measures of the stability of the employer–employee match refer to the probability that an individual will still be with his or her current employer in the future and thus give some indication of how long that job will ultimately last.⁸ To obtain such indicators it is necessary first to compute the so-called “retention rates”⁹ and then to derive “potential employment tenure”, that is to say the probability that an individual with a certain accumulated tenure will eventually attain a given employment tenure. Potential employment tenure is to job stability what life expectancy is to life duration. In other words, even if accumulated tenure is stable, eventual tenure could shorten if the probability of keeping a job for a certain number of additional years were to decline significantly over the given period.

Analyses generally suggest that job retention rates remained fairly stable over the 1980s and the early 1990s (OECD, 1997). However, the analysis of disaggregated retention rates by worker characteristics and job characteristics does reveal changes for some groups. In the United States in particular, retention rates have declined significantly among the youngest workers, notably for secondary-school dropouts and secondary-school graduates relative to university graduates, and for blacks relative to whites (Diebold, Neumark and Polsky, 1997; Marcotte, 1999). The OECD (1997) has found that, in most countries, retention rates increase from young through to prime-age workers and then decline as employees approach retirement (particularly in Japan). The most significant changes in retention rates are recorded in respect of workers with the lowest educational level.

Over time, the pattern of potential tenure distribution also shows broad stability for many industrialized countries according to an ILO study (ILO, 1996). Another striking finding of the same study is the high and stable incidence of long-term jobs, especially among men. In France and Germany, around 60 per cent of male wage workers can expect to keep their jobs for more than 15 years, as against 45 per cent in Canada and 35 per cent in Australia. In the United States, 54 per cent of workers were in jobs expected to last eight years or more, a proportion which

⁸ Following the methodology developed by Hall (1982) and completed by Ureta (1992).

⁹ The “*n*-year” retention rate is the probability that an individual will still be with his or her current employer “*n*” years later.

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remained stable from 1979 to 1991. Institutional regulation of employer–employee relationships, such as national labour legislation or seniority rules, is a possible explanation of the differences in long-term job attachment across countries. This, however, would imply that only tight protection against dismissal can induce firms to retain workers over the long term. Yet there are also good reasons (independently of regulations) for firms to engage in long-term commitments, including investment in human capital and the need for a committed and motivated workforce.

To sum up, the foregoing analysis of patterns of tenure confirms the results of most of the recent studies that have examined tenure data for evidence on job stability. Although their results are not completely consistent, these studies generally find little, if any, decline in job stability in the industrialized countries over the past two decades. While showing that in a number of countries some groups of workers (young workers or those with less education, for example) experienced less job security than in the past, these analyses mostly indicate that there was no dramatic, systematic change in the duration of jobs over time.

Temporary jobs

Temporary jobs in the sense of the labour force surveys are usually defined as those jobs for which workers hold contracts with a specified time of expiry, such as on completion of a project. They are short-term contracts concluded either directly by employers or through intermediation of temporary work agencies. These forms of contract have clear implications for employment tenure, as statistically evidenced by the strong correlation between the ratio of temporary to total employment and the incidence of employment tenure below one year ($r^2 = 0.7$ in 1998). This is hardly surprising as we expect all those on temporary contracts to be among those with low tenure. Also unsurprisingly, the same data on temporary work show no correlation at all with the incidence of employment tenures of more than ten years. One might also assume that countries with high proportions of temporary employment have the lowest average tenures and vice versa. But there are countries with both high proportions of temporary employment and comparatively high average tenures (Greece, Finland, Portugal and Sweden) and countries with both small shares of temporary employment and low average tenures, such as the Denmark, Ireland and the United Kingdom (see table 2.4). Similarly, to hold a permanent contract does not necessarily mean to have long tenure. For example, “permanent” contracts account for around 90 per cent of Danish employment but mobility is high and tenure comparatively short (see Chapter 3). In sum, the prevailing form of contract can prove a misleading indicator from which to make inferences regarding tenure.

Between 1991 and 2000 the share of temporary employment (fixed-term contracts and temporary agency work) increased considerably in several countries, most notably in Belgium but also in the Netherlands and France, and more lately in Portugal, though it is still small in Austria, Belgium, Greece, Ireland, Italy,

Table 2.4 Fixed-term contracts as a percentage of total employment, 1991–2000

| Country | 1991 | 1992 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Change 1991–2000 |
|----------------|------|------|------|------|------|------|------|------|---------------------|
| Austria | 6.2 | 6.3 | 6.4 | 6.3 | 6.3 | 6.3 | 6.4 | 6.4 | 3.2 |
| Belgium | 4.2 | 4.1 | 4.4 | 4.8 | 5.3 | 6.7 | 8.1 | 7.5 | 78.6 |
| Denmark | 10.3 | 9.7 | 10.6 | 10.2 | 9.8 | 9.1 | 8.9 | 9.1 | – 11.7 |
| Finland | 15.9 | 15.8 | 15.9 | 15.9 | 15.9 | 15.4 | 14.8 | 14.4 | – 9.4 |
| France | 9.3 | 9.6 | 11.4 | 11.7 | 12.3 | 12.9 | 13.3 | 13.8 | 48.4 |
| Germany | 9.2 | 9.4 | 9.4 | 10.0 | 10.5 | 11.1 | 11.6 | 11.4 | 23.9 |
| Greece | 6.2 | 5.1 | 5.1 | 5.5 | 5.6 | 6.7 | 6.7 | 7.0 | 12.9 |
| Ireland | 6.6 | 6.9 | 8.0 | 7.5 | 7.3 | 5.9 | 4.1 | 3.8 | – 42.4 |
| Italy | 5.2 | 5.2 | 5.4 | 5.4 | 5.8 | 6.3 | 7.0 | 7.5 | 44.2 |
| Luxembourg | n.a. | 3.1 | 4.6 | 3.9 | 3.8 | 4.6 | 4.8 | 4.9 | 58.1 ^a |
| Netherlands | 7.0 | 8.3 | 9.3 | 10.0 | 9.9 | 10.6 | 10.5 | 11.9 | 70.0 |
| Portugal | 10.8 | 10.0 | 8.7 | 9.7 | 11.1 | 12.4 | 13.6 | 14.8 | 37.0 |
| Spain | 26.2 | 27.0 | 28.3 | 27.4 | 27.5 | 27.2 | 27.2 | 26.7 | 1.9 |
| Sweden | 7.7 | 8.3 | 11.0 | 10.8 | 11.3 | 12.0 | 12.6 | 13.1 | 70.1 |
| United Kingdom | 5.0 | 5.2 | 6.3 | 6.5 | 6.7 | 6.5 | 6.2 | 6.2 | 24.0 |
| EU15 | 9.2 | 9.4 | 10.0 | 10.2 | 10.6 | 11.0 | 11.3 | 11.4 | 23.9 |

n.a. = not available. ^a Data from 1992 to 2000.

Source: EC, 2001.

Luxembourg and the United Kingdom (measurement could be a problem in the last case, however, because employment protection only takes effect after two years). In 2000, in three European countries (Denmark, Finland and most notably Ireland) temporary work declined. Temporary employment accounts for less than 15 per cent of total employment in all countries except Spain, the latter having a share of more than 25 per cent. Data on the United States suggest its share of temporary employment is slightly increasing – especially through temporary agency employment (see Chapter 6) – and the same applies to Japan with some increase in the number of contract workers. In the EU, temporary jobs are more likely to be held by women, though the overall gender gap is rather small (about two percentage points). There is often some overlap between temporary and part-time work: in the EU in 1998, while only 10 per cent of the men with a full-time job held a temporary contract, more than 30 per cent of male part-timers held this type of contract. For women, the proportion was lower: only 15 per cent of female part-timers held a temporary contract. This seems to indicate that a part-time job is generally a “regular” form of work for women (and mostly “voluntary”, as it is defined in labour force surveys), while it is an exception for men, a large number of whom work part time on temporary contracts in the absence of regular full-time jobs. Temporary work operates as a way into employment for the unemployed, but

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also as an exit from employment into unemployment, precisely because of its temporary nature.

Broadly speaking, there has been a tendency towards significant deregulation of temporary contracts over the 1990s. In a number of countries (Belgium, Denmark, Germany, Italy, the Netherlands, Sweden), fixed-term contracts and/or contracts with temporary employment agencies can now be used in a wider range of situations than at the beginning of the 1990s. In Denmark and Sweden, all restrictions on the types of work for which agency employment is legal have been removed; and in Italy and Spain, temporary employment agencies can now contract for certain types of work, whereas such contracting was previously illegal in all circumstances. In Spain, fixed-term contracts were liberalized in the late 1980s, though some restrictions were recently re-imposed in response to the dramatic increase in their use.

While one cannot speak of an explosion in temporary work either in Europe or in the United States (see Chapter 6), its growing share of total employment has certainly contributed to the view that the standard employment relationship is a thing of the past. But again, this point relates to stocks of temporary workers, not to flows in and out of employment of workers with temporary contracts. The only evidence available on such flows is sparse: in the late 1980s in France, when annual stocks of temporary workers were around 4 per cent, 70 per cent of all the workers hired by firms with more than 50 workers initially had a temporary contract. In Germany, stocks and flows then stood in a relation of 5.6 per cent to 43 per cent. In addition, exit (outflow) from employment is often due to the expiry of fixed-term contracts: in 1987–88, 38.5 per cent of all jobs in France were terminated because of the expiry of a temporary contract; the proportion was 30 per cent in Germany (Auer and Büchtemann, 1990). More recent figures continue to show high values for inflows and outflows for France (see Chapter 4). Even modest growth in the *stock* of temporary contracts suggests that in many countries such contracts may be playing a larger role in the overall dynamics of the labour market.

Being employed on a fixed-term contract at some point in the course of a career is therefore the rule rather than the exception: hence, perhaps, the image of a very volatile labour market. And, indeed, it seems that mobility and flexibility are largely concentrated in that contractual segment of the labour market (especially among young people) where it is not uncommon to have a “revolving door” effect between temporary jobs and unemployment. However, fixed-term contracts can also be shown to offer an important gateway into the employment system generally. Such transition rates between temporary and permanent contracts are quite substantial in some countries. In Germany and Austria, more than 40 per cent of those in temporary contracts in 1995 were in permanent employment one year later. Overall, transitions from temporary to permanent contracts concerned more than 30 per cent of temporary workers. Another 15 per cent moved into unemployment, and another 10 per cent out of the labour force (EC, 2001, p. 70).

2.3 JOB SECURITY VERSUS JOB STABILITY: HOW TO MEASURE JOB SECURITY?

Job security is difficult to measure directly, so data on employment tenure and contingent employment have very often been used as proxies for examining this issue. But since average employment tenure is determined by both voluntary and involuntary turnover, it makes an ambiguous indicator of security per se. Besides, ordinary workers do not typically know about trends in average employment tenure and such analytical indicators are not widely reported in the media. So whilst job stability is indeed linked to job security, it is not perceived in the same way as the more dramatic stories of major job losses, continuous downsizing and the ever-increasing contingency of jobs, which feed perceptions of deteriorating job security.¹⁰ The “anxiety” conveyed in the media that job security has declined may therefore stem from labour market changes that are, in part, unrelated to overall employment tenure.

OECD (1997) evaluates the evolution of job security over the past 20 years, using both measures of workers’ perceptions and measures of employment tenure and retention rates (see Chapter 1, figure 1.1). Workers’ perceptions of their job insecurity are determined by a complex set of subjective and objective considerations that are difficult to quantify precisely. Among the various factors, however, general macroeconomic conditions and the perceived risk of losing one’s job are certainly determinant. Data that reflect the reasons for job changes (lay-offs, plant closures, or voluntary quits) are therefore important to make proper inferences about job security: workers who quit voluntarily are likely to improve their well-being, whereas those who are dismissed are more likely to end up worse off. Thus, if the proportion of the latter rises, workers may generally feel less secure (see Dominitz and Manski, 1996). Ideally, job security should thus be measured by indicators of economy-wide job losses and by the difficulty of finding employment after job loss or the difficulty of finding a first job.

Some evidence on job security

Outflows from employment

As mentioned above, average employment tenure emphasizes the evolution of stable jobs, while short-term jobs or labour market “churning” are best captured by separation rates (the rate at which individuals leave or are dismissed by their

¹⁰ As shown by Neumark and Polsky (1998) for the United States: “Beginning in the 1980s and continuing into the early 1990s, the media have kept up a steady drumbeat of stories describing declining job stability and job security in the American economy. This theme began to appear in 1983 and perhaps reached its culmination in the 1996 *New York Times* series ‘The Downsizing of America’, perhaps a classic example of anecdotal reporting. *Time* (22 Nov. 1993) may have best summed up the prevailing media view, suggesting that ‘Americans are realizing that the great American Job is gone’, and that we ‘forget any idea of career-long employment with a big company’” (p. 78). The story of the big transformation of work and downsizing is also ubiquitous throughout most of the European press.

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employer). Separation rates can be broken down into moves from employment to non-employment (mainly involuntary separations) and moves from employment to employment (mainly voluntary). As with employment tenure, separation rates vary with the economic cycle: they decline in recessions and increase in upswings, despite the opposite behaviour of lay-offs and early retirements.

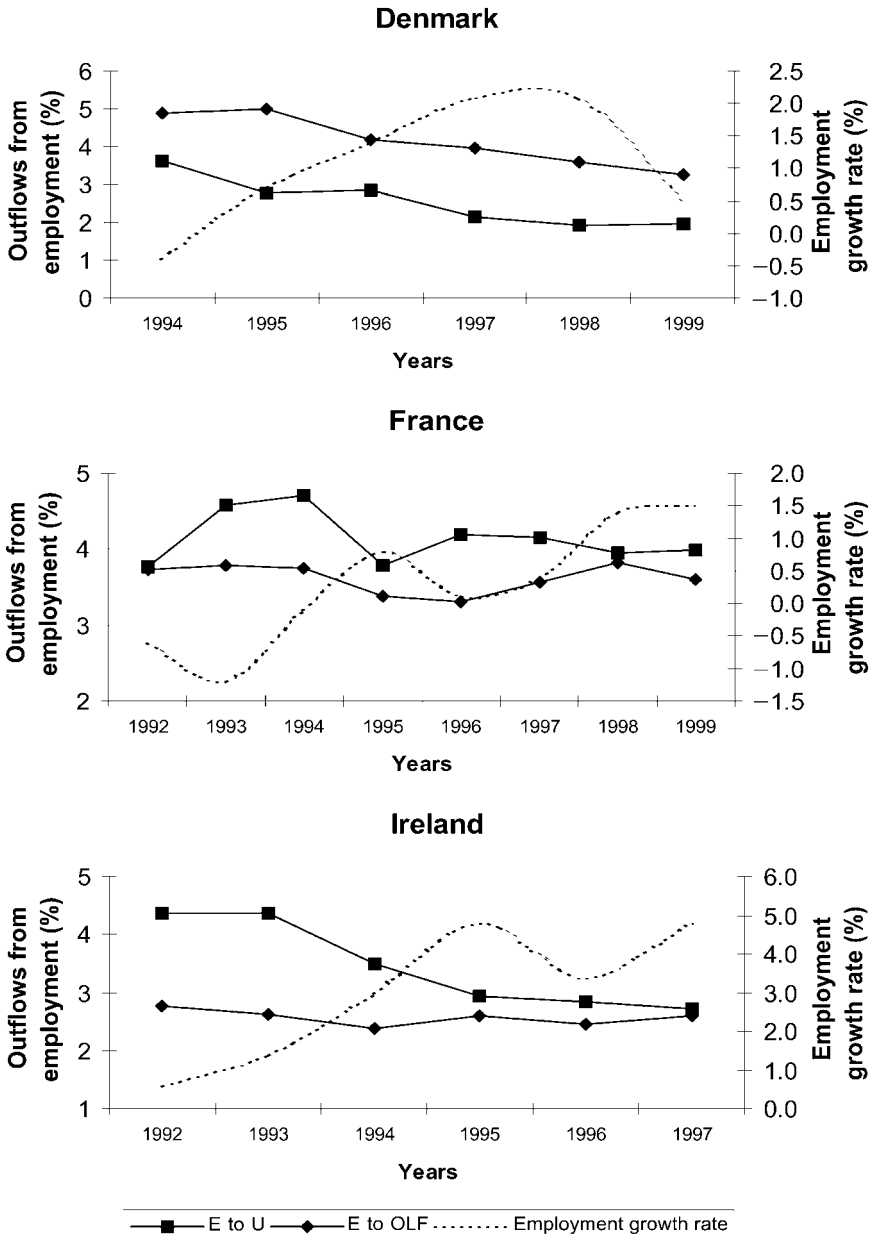
Figure 2.4 presents the evolution of annual separation rates by destination over the period 1992–99, broken down into employment-to-unemployment moves and employment-to-inactivity moves.¹¹ These two flows are generally countercyclical. The incidence of employment-to-unemployment moves declined in most countries after 1994 (except in Spain and the United Kingdom, where the decline set in earlier). Only in Greece have outflows from employment to unemployment increased with some regularity, reflecting a deterioration in labour market conditions. Evidence for the United States shows no increase in one-year separation rates over the period 1983–95 (Gottschalk and Moffitt, 1999). However, there were modest increases in the rate of involuntary separations, which were more marked for older and longer-tenured workers (Polsky, 1996). A similar finding is reported by O’Toole and Valletta (1997), who point to a small (but statistically significant) upward trend in the rate of dismissals throughout the 1980s and early 1990s. This trend indicates that, for any given unemployment rate, the number of jobs that end in dismissal and generate a spell of unemployment has been rising for the past 20 years.

A comparison of employment-to-inactivity flows with employment-to-unemployment flows yields interesting results. First, the rate of outflow to inactivity generally fluctuates smoothly with the business cycle, except in Ireland, Spain and the United Kingdom, where it is acyclical and stable. In Denmark, it seems to follow the same downward trend as the rate of outflow to unemployment. Second, the rate of employment-to-inactivity moves is higher than that of moves to unemployment in Denmark, the Netherlands and the United Kingdom, while the opposite holds true of France, Ireland and Spain (figure 2.4). This could be due to differences in accompanying measures. In the Netherlands, for example, flows into inactivity could be due to the existence of an invalidity scheme, which, for labour market purposes, obviously serves as an equivalent to the early retirement mechanisms that operate in other countries, such as Denmark. While a relatively large share of employment-to-inactivity flows may thus reflect a high degree of protection for dismissed (older) workers, in some countries it could simply mean that the unemployment system does not cover certain categories of workers. However, more research would be needed to verify such hypotheses.

To sum up, outflows from employment to unemployment (workers losing their jobs) or to inactivity (mainly early retirement or discouraged people) appear to have declined rather than increased in the countries under review. For Japan, no

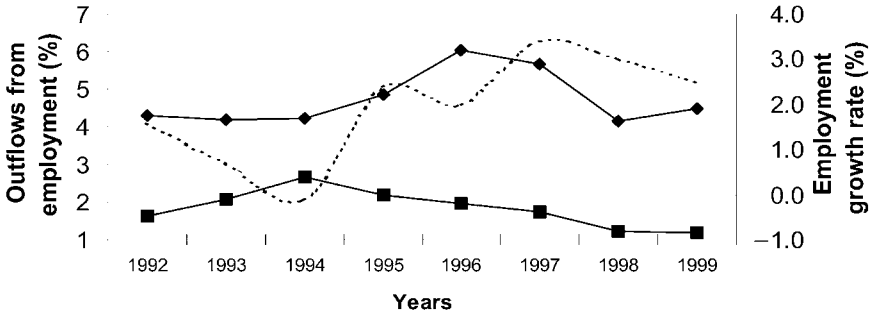
¹¹ Unfortunately, data on job-to-job moves were not available. Given here, therefore, is only the ratio of the total outflows from employment to non-employment during a year to the total number of workers at the beginning of the period.

Figure 2.4 Separation rates by destination, 1992–99

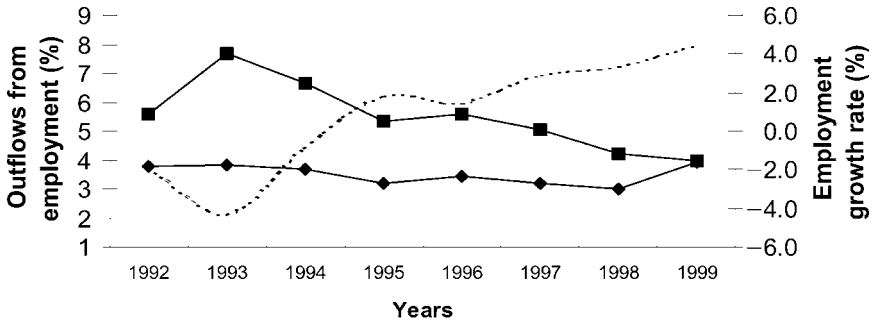


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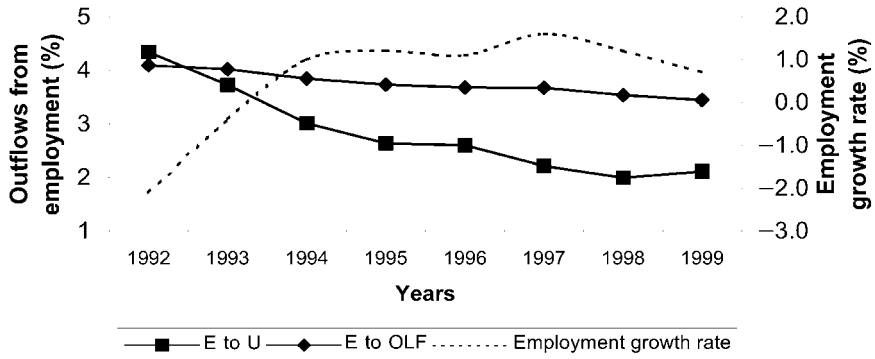
Netherlands



Spain

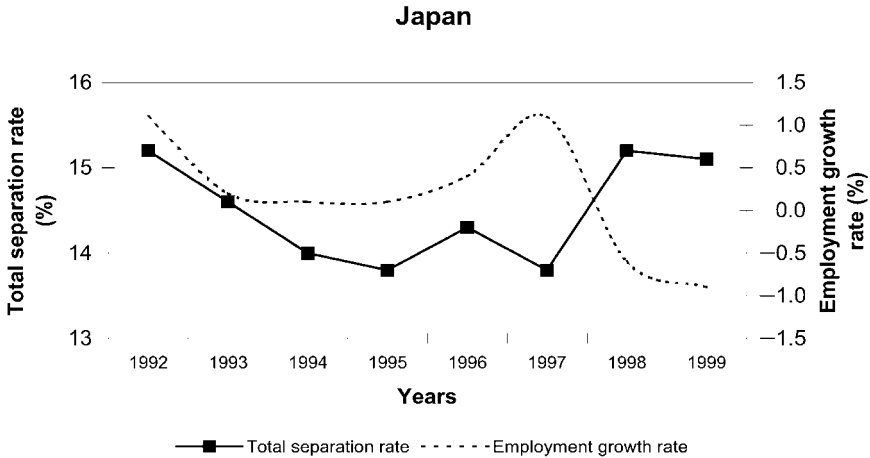


United Kingdom



Note: Quit rates are defined as the ratio of total outflows from employment to total employment at the beginning of the period (left scale). E to U = employment to unemployment; E to OLF = employment to out of labour force. Sources: OECD, 1999a and 1999b.

Figure 2.5 Annual separation rates, Japan, 1992–99



Sources: OECD, 1999a; national sources.

breakdown of outflows was available, which explains why figure 2.5 shows only the trends in the total separation rate (the total outflows from employment, including moves to unemployment, inactivity and *to other jobs*). This indicates a rising trend towards more separations. However, since the aggregate separation rate also reflects job-to-job moves, it may mainly reflect increasing labour turnover in Japan. There is some evidence that the hiring of mid-career workers – a comparatively rare occurrence in the Japanese employment system – seems to have increased and now accounts for a proportion of the job-to-job moves (see Chapter 5).

Short-term instability

The initial employment relationship of a new labour market entrant or a worker moving from one job to another is an important step towards long-term integration in a stable job. The extent to which first jobs and re-entry jobs have become more insecure can be assessed by examining both the incidence of short tenure and labour turnover and their evolution over time. Following the work of Gregg and Wadsworth (1995) and OECD (1997), the failure rate of new job matches can be calculated for the interval between one and two years of tenure. This measure is based on a comparison of the number of workers with less than one year's tenure relative to the number of those with one to two years' tenure.¹²

¹² This index should be interpreted with caution, as it is subject to considerable measurement error. Moreover, it does not capture a number of separations that occur during the first year. It does, however, give a rough assessment of short-term turnover.

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Table 2.5 Measures of labour turnover (percentages)

| Country | Employment tenure under 6 months (%) | Failure rates of new job matches from 1 year to 2 years ^a | | | |
|----------------|--------------------------------------|--|-----------|------|------|
| | | 1998 | Mid-1980s | 1990 | 1995 |
| Belgium | 6.9 | n.a. | n.a. | 28.4 | 30.8 |
| Denmark | 12.6 | n.a. | n.a. | 51.2 | 38.3 |
| Finland | 11.9 | 46.2 | 31.5 | 45.1 | 47.8 |
| France | 8.7 | n.a. | n.a. | 41.6 | 38.2 |
| Germany | 7.5 | 25.0 | 24.0 | 27.2 | 28.9 |
| Ireland | 8.5 | n.a. | n.a. | 30.4 | 29.1 |
| Italy | 5.8 | n.a. | n.a. | 45.9 | 22.0 |
| Netherlands | 9.4 | n.a. | n.a. | 26.1 | 10.8 |
| Portugal | 8.6 | n.a. | n.a. | 36.4 | 39.9 |
| Spain | 20.7 | 15.6 | 62.4 | 85.0 | 63.1 |
| Sweden | 7.7 | n.a. | n.a. | n.a. | 36.8 |
| United Kingdom | 10.4 | 40.5 | 43.3 | 42.9 | 36.8 |
| United States | n.a. | 60.5 | 63.4 | 65.9 | n.a. |

^a This rate is calculated as the difference between the number of workers with tenure of less than 1 year in year t , which represents the source population, less the number of workers with 1 and under 2 years' tenure in year $t + 1$, as a percentage of the source population.

Sources: Eurostat and national sources for 1998; figures for previous years are from OECD, 1997.

Table 2.5 presents the “one to two years” rates for most of the countries under review. Contrary to what might be expected, these rates do not show much cross-country variation: they stand at around 30–40 per cent in most of the countries under review in 1998. The Netherlands and Spain are the exceptions, with failure rates of 10.8 and 63.1 per cent, respectively, in 1998. The interpretation of the rate is straightforward: it means that in Spain, for example, 63.1 per cent of the workers with less than one year's tenure in 1998 failed to stay longer than two years within the same firm. This figure is consistent with Spain's comparatively high percentage of workers with less than six months' tenure (20.7 per cent in 1998) and its high level of temporary work. Since Spain also shows tenure rates which are only slightly below the European average of 10.5 years, one could argue that there seems to be a clear segmentation of the labour market into a stable segment and a volatile one. In the Netherlands, by contrast, the volatility of the employment system seems to have decreased and only 11 per cent of those with less than a year's tenure failed to stay beyond the two years' threshold.

Table 2.5 also shows the trends in failure rates of new job matches from the mid-1980s through the 1990s for the European countries and the United States. In Belgium, Finland, Germany and Portugal, the rates have increased slightly,

whereas the United Kingdom has experienced a slight decline in its rate since 1990. In Spain, the rate rose sharply from a low of 15.6 per cent in the mid-1980s – corresponding to a low of 15.6 per cent in the proportion of temporary total employment in 1983 – to 85 per cent in 1995; in 1998, it reverted to its 1990 level. This was still by far the highest of the European failure rates and was roughly equal to the rates of the United States, which had increased slightly during the 1990s. Between 1995 and 1998, Denmark’s rate displays a remarkable fall, corresponding to the improvement of its labour market.

However, it is difficult to draw firm conclusions about these trends because data on short-term turnover are highly sensitive to the business cycle, and not enough information is available to correct for this effect. Yet the data presented in table 2.5 suggest that many job matches “fail” very early. Although there is no evidence of a general increase in the incidence of “failures” over time, it may well be that the high proportion of job matches that fail early affects individual perceptions of insecurity.

2.4 EXPLAINING THE PARADOX

The analysis of employment tenure data and separation rates by destination over the 1980s and 1990s does not show any dramatic changes in job stability in most of the industrialized countries under review. Average employment tenure remained generally stable and, in those countries where it did decline, labour market improvements run counter to the claim that job insecurity has increased dramatically. Moreover, employment-to-unemployment moves did not increase significantly, except in Spain until 1993. Nonetheless, there is still a sense among many labour market observers – and not only in the United States – that the long-term employment relationship has been radically destabilized. Job insecurity has become a focus of media attention, and it is by and large suggested that “Americans should forget any idea of career-long employment with a big company”. The data used in the present study show that this view is exaggerated and premature even in regard to the flexible employment system of the United States. Why is there such a gap in interpretation between the media, management consultants¹³ and labour market research? One explanation – already suggested above – is that average employment tenure makes an inadequate indicator of job security, because it mainly measures job stability. Another possibility is that the vulnerability of workers may have increased because the consequences of separation have worsened. In the context of this argument, the perception of job security derives in part also from the general macroeconomic environment. In a country with good economic and labour market performances, it is easier to obtain a new job. This, in turn, impacts favourably upon the perceived security of workers. In the United States, however, job prospects have been good for many years now, but

¹³ Peters (1999), for example, believes that over 90 per cent of all white-collar jobs – the ones most people hold today – “will be totally reinvented/reconceived in the next decade”.

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the feeling of insecurity and volatility seems to have persisted at least until the mid-1990s (OECD, 1997). The evidence of the rising incidence of involuntary job loss in the United States probably has a greater effect on worker anxiety regarding the labour market than does overall job stability.

There is of course the problem of inadequate media reporting. The media usually construct generalized “facts” from scarce evidence of a few micro-level cases, sometimes even from individual cases. Media reporting has also largely focused on job loss. Many observers have in fact suggested that the media’s reliance on anecdotal evidence may lead to misleading conclusions about trends (Neumark and Polsky, 1998).¹⁴ Research, too, especially on non-standard work arrangements, has greatly contributed to building up the image of an unstable and flexible labour market. Admittedly, parts of the labour market (particularly those with a high proportion of women) are characterized by a high degree of flexibility. But from this it has been inferred that the whole labour market in all countries is shifting towards unstable employment relationships. However, labour markets are better described as being segmented than as generally “flexibilized”. Numerical flexibility (of an involuntary nature) is still very much concentrated on young workers (both men and women) and on women workers.

Because job losses contribute greatly to the perception of insecurity it has also been suggested that the issue was raised more vocally because new categories of skilled, white-collar workers – those with a voice – also experienced job losses. Another possible explanation for the discrepancy between media accounts and empirical evidence, which suggests little or no change in job stability, is that media reports may identify more recent changes while there is a certain time lag in the reporting of data gathered from research. However, the latter is a constant of research and fails to explain why earlier findings of unchanged job stability (1993, 1996 and 1997) are confirmed by data in 1999. Of course, the future is unknown and change always tends to creep in from the margins, but all the empirical evidence on employment tenure so far suggests an astonishing resilience of job stability, with (numerical) flexibility increasing but only marginally so.

Concluding remarks

The evidence adduced in this chapter suggests that in most of the industrialized countries labour markets are more stable than is usually assumed, including over the longer term. Job stability as measured by employment tenure seems to be generally stable in the great majority of these countries, even in the light of the latest available data for 2000. This confirms earlier findings on the subject. There are, however, inter-country differences in job stability between the United States and Europe (around 4 percentage points on average); but these differences too are stable over time, suggesting that labour market institutions and labour market behaviour are major explanatory factors.

¹⁴ During the first months of 1996, economic insecurity became a focus of media attention in the United States (see footnote 11).

Controlling for the effects of age and the business cycle on employment tenure, econometric analysis shows several countries to have experienced some decline in average tenure. Such a trend was not general for all workers but affected mainly young workers. This, in turn, possibly points to changing demand patterns (firms offering only temporary contracts at entry level) and changes in supply behaviour on the part of groups that have historically held the shortest-tenured jobs (young people getting more selective about jobs and readier to quit inadequate jobs). But decline in average tenure might also be due to strong job creation, rather than to structural change in the employment relationship.

Even the growth of contingent employment – as crudely measured by overall stock data – does not seem to be generating any alarming trend towards the structural demise of more stable employment relationships. There is some evidence that temporary jobs are very important in flow terms (both in and out of employment), but many of these jobs tend to be transformed into permanent jobs, hence the relatively low stocks of such employment relationships. Analysis of all the factors considered in this chapter goes against the popular views that most of today's employment relationships are of a temporary nature and that long-term employment relationships are a thing of the past. Its findings suggest that the bond between workers and their firms may well be weakened, but certainly not broken (Neumark and Polsky, 1998). Rather, they point to segmented labour markets in which the stable core still accounts for the dominant form of employment, while the periphery (which has grown) constitutes a marginal form of employment, at least if one takes a long-term perspective on most individuals' professional trajectories. Segmentation between a more stable core and a flexible periphery seems to be particularly pronounced in countries with both high ratios of temporary-to-total employment and long average tenure, such as Spain.

Thus far, the picture of a rather stable labour market with flexibility growing on the margins seems to be confirmed for the industrialized countries. What does this mean in terms of the broad framework for new forms of security that should accompany a changed labour market? A first conclusion would be that the search for such new forms of security has to proceed very carefully and should avoid radical solutions that could prove ill adapted to a system that is changing only marginally. In particular, covering those excluded from stable (core) employment, building bridges to the stable part of the employment system and redesigning policies for full employment and decent work based on more permanent labour force attachment are still on the agenda.

As regards the functioning of the labour market, the resilience of the long-term employment relationship has several important implications both for research and for development policies. This chapter has suggested that the labour markets in most industrialized countries function with a segment of core numerical stability and a segment of marginal numerical flexibility.¹⁵ Rather than some optimal degree

¹⁵ This view also holds true on the micro level (within firms, for example). This does not refer to functional or internal flexibility, the level of which has been rising despite the resilience of the long-term employment relationship.

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of labour market flexibility, optimal combinations of stability and flexibility in the labour markets should be sought. To that end, research needs to delineate elements of stability and of flexibility in the labour markets and to examine the effects of their combinations with growth, employment and wages, social welfare, and so on. The aim is to find “good practice” combinations of stability and flexibility which underpin decent work and development. These combinations can take different forms and should certainly not result in a “one best way” solution.

For development policies, these combinations are of great significance: if the message is not to search for optimum (or, worse, maximum) flexibility, but for an optimal combination of stability and flexibility, then the lack of stability rather than that of flexibility becomes apparent. But how can core stabilities that are economically sustainable be introduced in labour markets which critically lack them? This leads on to the question of what labour market institutions can do to produce such core stabilities. At this point, all of the evidence from research on labour market institutions in the industrialized countries proves at least one thing: core stability is not provided by firms, public administrations or other employers *alone*; it also requires a network of economic, political and social institutions, regulations and policies to make it sustainable.

ANNEX 2.1 SOURCES AND DEFINITIONS OF DATA

Data sources

Employment tenure statistics generally refer to the length of time a worker has been with his or her current employer. Sometimes the tenure question is: “When did you start working for this employer or in self-employment?” or “How long have you been working continuously for your present employer?” The wording is very important as it may result in different responses. The use, for example, in the Current Population Survey (CPS) supplements of the term “job” was ambiguous, as a promotion could be interpreted by the respondent as a change of job. Usually tenure questions are asked in household surveys; the only exception here is Japan, where most of the data come from employer responses.

European Union

Unpublished data from the European Community Labour Force Survey provided by Eurostat are used for employment tenure. These data are available from 1992. The month and the year when each person started working for his or her current employer or as self-employed are recorded. Average and median employment tenure data are provided in months.

Japan

Tenure data are from Chingin Kozo Kihon Tokei Chosa Hokoku (Basic Survey on Wage Structure), Policy, Planning and Research Department, Ministry of Labour. This is a yearly survey of private sector enterprises and public corporations under the National Enterprise Labour Relations Law or the Local Public Corporation Labour Relations Law. It includes establishments with ten or more regular employees and excludes agriculture, forestry and fisheries. Regular employees include persons hired for an indefinite period, as well as those hired for a fixed period longer than one month and temporary or daily workers hired for 18 days or more in April and May.

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United States

Data on employment tenure are unpublished figures from the CPS supplements. Data refer to wage and salary workers.

Quality of the data

An issue that arises when examining employment tenure data is their quality. Information on how long individuals have worked continuously for their current employer is available periodically. Yet this information is often viewed as being relatively crude, given that durations are sometimes measured in years and the frequency distributions tend to exhibit spikes at years that are multiples of five. Hence the information may contain substantial recall or rounding errors. Evidence from the Panel Study of Income Dynamics, for example, indicates that the responses to employee tenure questions were often inconsistent with calendar time (Brown and Light, 1992, pp. 219–257).¹

¹ For example, in a particular year an individual might claim to have been working for an employer for three years, but in the subsequent year the same person would claim to have been working with the same employer for six years.

“FLEXICURITY” THROUGH LABOUR MARKET POLICIES AND INSTITUTIONS IN DENMARK

3

Per Kongshøj Madsen

3.1 INTRODUCTION

In recent years, Denmark has aroused international attention. There has been a rapid reduction in Danish unemployment and the economy has been enjoying an inflation-free upswing since 1994. These developments can be explained by a number of background factors (Madsen, 1999). Denmark's industrial structure is dominated by small and medium enterprises, weak employment protection, and generous unemployment benefits, the interplay between which results in a high level of job mobility. There is also a well-developed system of public labour market education and training which functions in close relation with the social partners and with the skills needs of firms, sustained by a long-standing tradition of close cooperation between the social partners and government. In addition, Denmark has a number of public institutions that promote collective agreements and the involvement of social partners in the policy process. Among the latter are the trade unions, whose priorities shifted significantly during the 1980s away from short-sighted wage claims and towards acceptance of broader and longer-term goals regarding working conditions and income.

However, these are not the only reasons for the rapid change in Denmark's economic situation since 1994. The positive macroeconomic effects of a traditional demand-driven upswing made possible by a solid surplus on the external balance must also be taken into account, as must the effects of the new design of labour market policy implemented from 1994 onwards. This policy has included a more proactive and flexible approach to active labour market programmes, as well as the concept of combining the fight against unemployment with the fulfilment of other goals, through leave schemes and job rotation.

This chapter takes a closer look at a specific subset of explanatory factors related to the interplay between the flexibility of the employment relationship on the one hand, and labour market and social policy, on the other. Behind the interest in this specific nexus lies the idea that part of the success of the Danish model can be attributed to a unique combination of flexibility in the employment relationship,

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and the economic and social security of employees. Employees not covered by the unemployment benefit system are covered by a mainly state-financed system of unemployment and social security benefits. Thus, the Danish model is in contrast to other national institutional frameworks, where legislation or collective agreements provide the employee with a high level of protection from dismissal. In Denmark, the direct costs of protecting the employee are borne to a large extent by the State – and therefore by the country’s taxpayers and not by individual firms. The term “flexicurity” is often used to summarize this characteristic feature of the Danish employment system.

Another important feature of the Danish model is the new design of labour market policy mentioned above, known as “activation”. “Activation” is the result of a shift away from passive benefits towards active labour market programmes, and it implies a much more active role of the unemployed in seeking a job. From 1994 onwards, the individual’s right to economic support during periods of unemployment has been increasingly affected by requirements to participate in job training, educational programmes and other active labour market measures.¹

These elements – flexibility in the employment relationship, a generous system of unemployment benefits, and the new labour market policy of “activation” – constitute the three corners of the Danish “golden triangle”, the popular model often used to describe the country’s success. We shall be looking at these three elements and the interplay between them in the current Danish system.

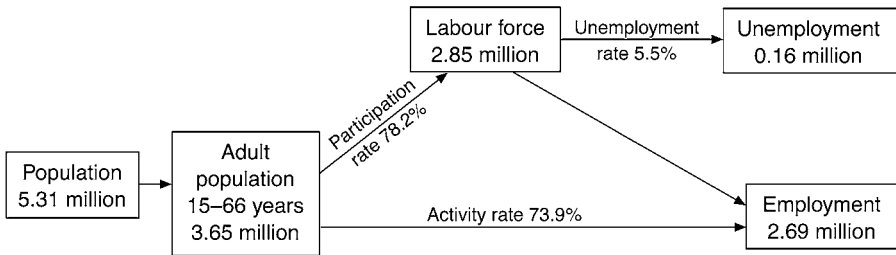
First, we shall discuss empirical data on employment stability and flexibility, based on the evidence of labour turnover and job turnover, and on the mobility between work and unemployment. We shall look at employment security as determined by legislation and collective agreements, and in the light of descriptions of employment security as perceived by employees. We shall also examine the role of active and passive labour market policies in terms of flexibility, including a survey of current policies and evidence of the micro effects of active measures.

Our emphasis then moves outside the “golden triangle”, to new evidence of inclusion and marginalization in Denmark and the macroeconomic effects of “flexicurity” on the Danish economy. In conclusion, the Danish model is evaluated as a unique and sustainable combination of a flexible employment relationship, economic and social security for employees, and low unemployment and stable economic growth, by looking at its positive aspects along with some of its failings.

3.2 THE FLEXIBILITY OF THE EMPLOYMENT RELATIONSHIP

To give an introductory overview, figure 3.1 presents some general information about the Danish labour market. Of special note are the high levels of the

¹ “Activation” has been described as a new balance of rights (transfer payments) and duties (such as active job search), but there are warnings against turning activation into workfare (Auer, 2000).

Figure 3.1 Some general information on the Danish labour market, 1999

participation rate (the share of the adult population in the labour force, employed and unemployed) and the activity rate (the share of the adult population both in the labour force and employed), and the correspondingly low rate of unemployment.

Analysis of actual mobility

Labour turnover and job turnover

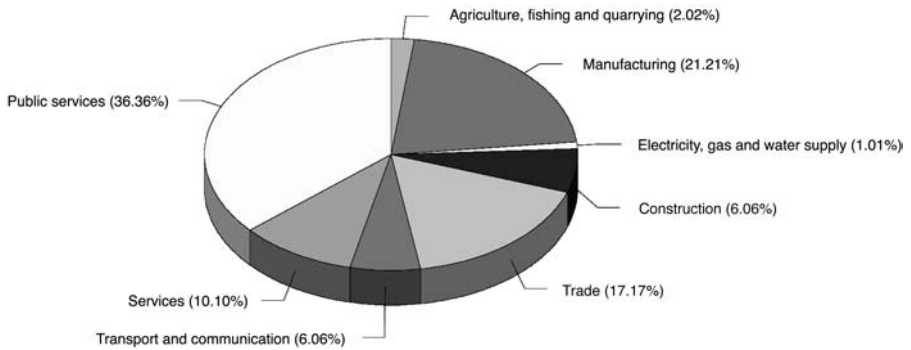
For some years a high level of mobility of workers between jobs has been a “stylized fact” of the Danish labour market. This observation has been attributed to the lack of strict regulations on dismissals and to the high share of small and medium-size firms in the Danish economy. Furthermore, the high level of numerical flexibility has been supported by a system of unemployment benefits, which has made the resulting frictional and seasonal unemployment acceptable to workers and trade unions. Thus, this high level of mobility has been one of the characteristics of the Danish employment system, and thus the “golden triangle”.

The empirical evidence supporting this stylized fact has, however, been based on estimates of mobility only in the manufacturing sector (Albæk and Sørensen, 1998) or on indirect evidence based on information on the average tenure of employees, as we shall see below. This situation has now changed, since a recent study published by the Centre for Labour Market and Social Research (CLMSR) contains calculations of job and worker flows for the Danish labour market as a whole and for a long time period (1980–95). The study (Bingley et al., 1999) gives an elaborate presentation of the rapidly growing international literature on job and labour turnover (by Haltiwanger, Hammermesh and others), the methods used, and a detailed description of the data and the results. Here we shall briefly summarize and discuss the results of this important new research.

The CLMSR study used data from administrative registers containing all establishments and residents in Denmark to establish the connections between individuals and firms. The “pairing” took place annually (on 1 November). Based on this data set, labour turnover (hires and separations) is measured in the

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Figure 3.2 Employment by sector, averages for 1980–95



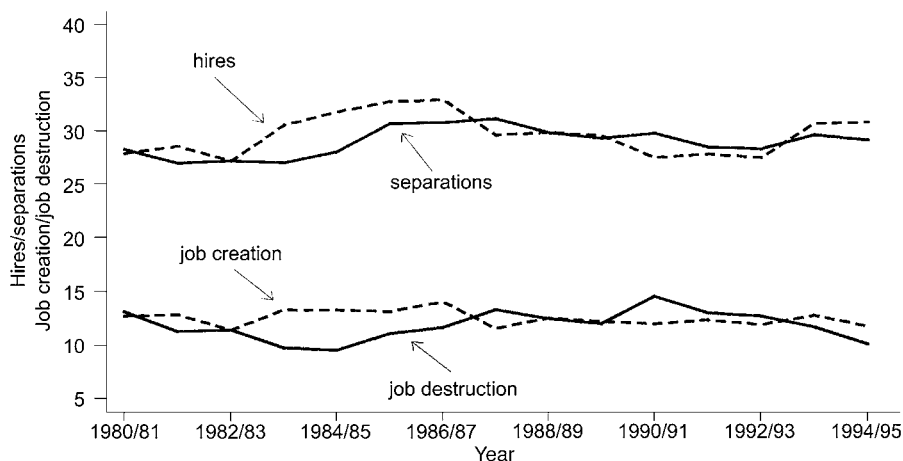
Source: Bingley et al., 1999.

following manner. An employee who is observed at one establishment in November of one year and in another establishment in November of the next year will be counted as a separation from the first establishment and as a hire in the second establishment. No distinction can be made between lay-offs and quits. The estimate does not include workers shifting jobs several times within a given year (from November to November).

The data set also allows for calculations of job turnover (job creation and destruction). Here, job creation measures the total number of new jobs in newly started firms or firms expanding their employment. Similarly, job destruction is calculated as the number of jobs disappearing from firms closing down or reducing total employment from one November to the next. Since the number of jobs is based on counting the number of employed, unfilled jobs (vacancies) are not included in the estimate. The aggregate data for labour and job turnover are presented as rates by dividing by total employment.

As background information on the sectoral distribution of employment in Denmark, figure 3.2 presents the average distribution of the total number of employees by sector for the whole period from 1980 to 1995. The figure illustrates the importance of the public sector as an employer (more than one-third of total employment) and the limited role of agriculture in the Danish labour market. Private sector services account for another third of the total number of employees, while manufacturing and construction count for slightly less than a third. During the same period the average level of wage-earner employment was 2.2 million persons: an increase of 9 per cent over the period. The highest yearly growth in employment was found in 1985 (85,000 persons or 4 per cent), and in most years the net change in employment was less than 2 per cent. The highest growth rates over the whole period were in private services (15 per cent) and in the public sector (11 per cent). Employment in manufacturing increased by only 2 per cent, while wage-earner employment in agriculture fell by 5 per cent from 1980 to 1995.

Figure 3.3 Job turnover (creation and destruction) and labour turnover (hires and separations) for the Danish economy, 1980–95 (percentages)



Source: Bingley et al., 1999.

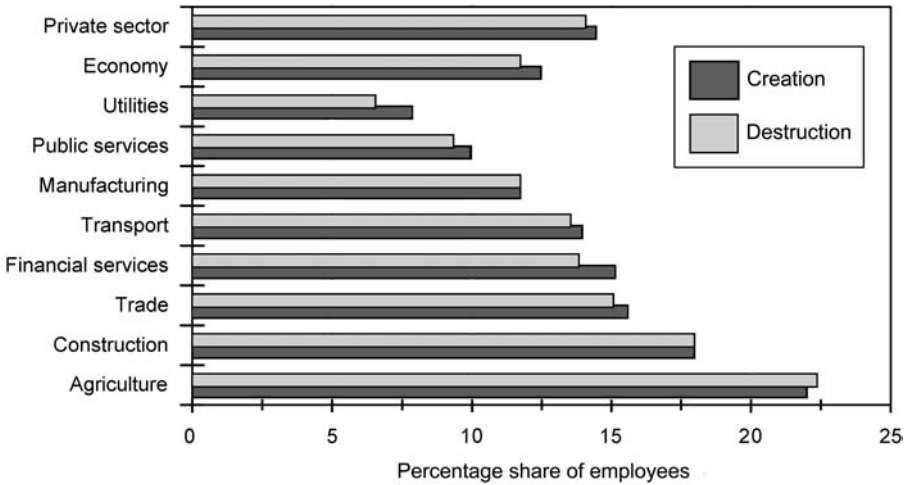
Compared to the modest net changes in employment, the underlying circulation of workers among jobs (labour turnover) and the level of both job creation and job destruction (job turnover) are found to be surprisingly high. In figure 3.3 the main results concerning hires, separations, job creation and job destruction are shown on a yearly basis for the period 1980 to 1995.

Some significant observations can be made from figure 3.3. First, the overall level of both hires and separations for the period as a whole is high. Some fluctuations are related to the business cycle, but on average the level of both hires and separations is about 30 per cent and in no year less than 25 per cent. During periods of economic expansion (for example, between 1983 and 1986), the level of hires is above the level of separations. Also, the level of job creation and job destruction is much higher than the level of yearly net changes in employment. The overall average is around 12 per cent, with the same cyclical pattern as for labour turnover.

The levels of labour and job turnover could be expected to differ across sectors of the economy for a number of reasons, but the actual differences depicted in figures 3.4 and 3.5 are rather small. The highest mobility levels are found in agriculture and construction – the two sectors with the highest level of seasonal fluctuation in their production. At the other end of the spectrum, a very low level of mobility for public utilities is observed. With regard to public services, it is worthy of note that the differences between public services and manufacturing and other parts of the private sector are minor, especially when it comes to labour turnover. In this respect, the public sector is almost as dynamic as the rest of the economy.

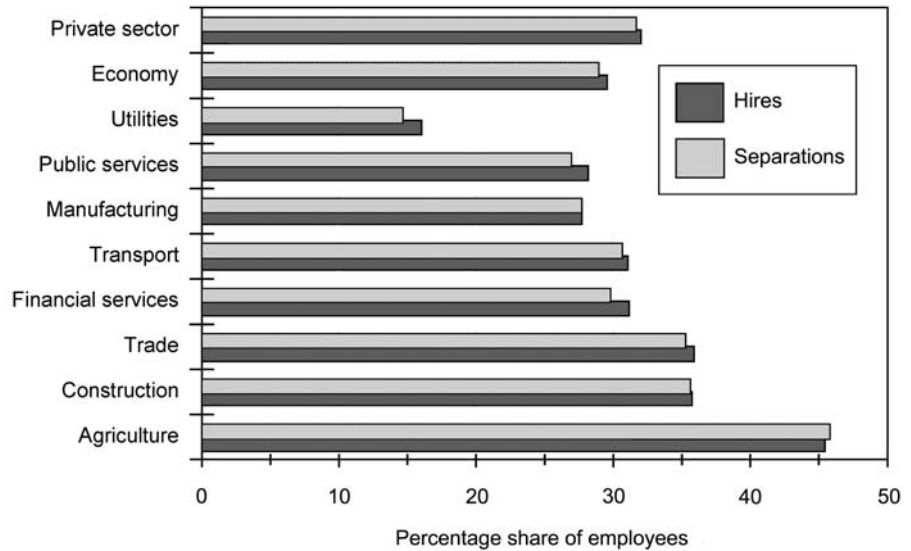
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Figure 3.4 Job turnover (creation and destruction) across sectors, averages 1980–95 (percentages)



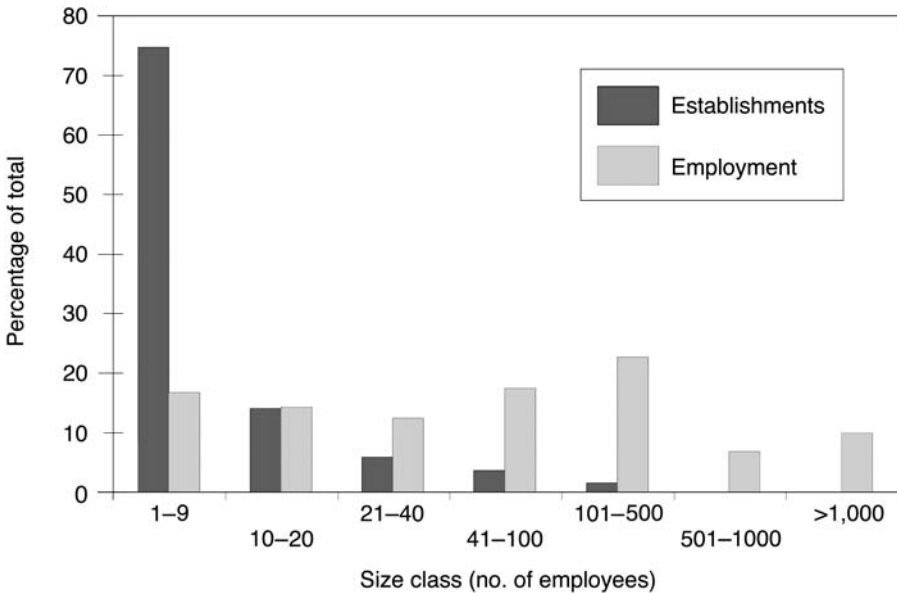
Source: Bingley et al., 1999.

Figure 3.5 Worker flows (hires and separations) across sectors, 1980–95 (percentages)



Source: Bingley et al., 1999.

Figure 3.6 Establishments by size class and employment by size of establishment, averages 1980–95 (percentages)



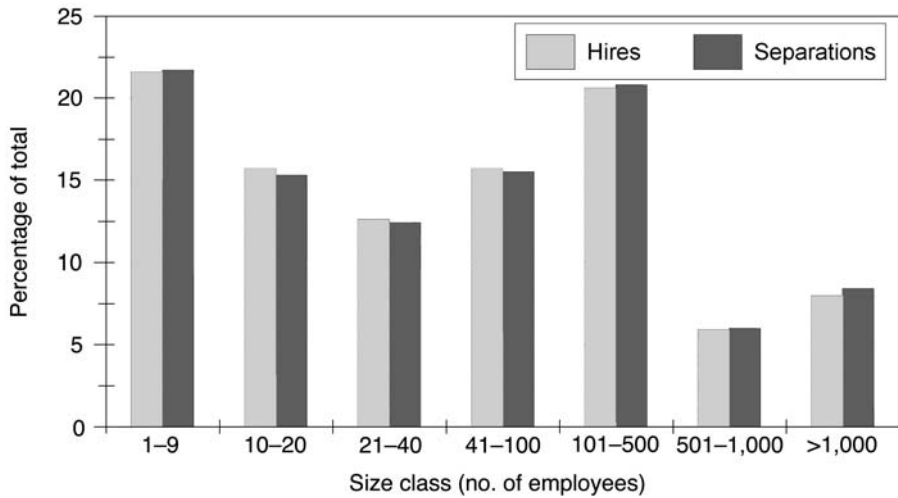
Source: Bingley et al., 1999.

It could be expected that both job mobility and worker mobility be related to firm size. Small firms (establishments) often have a short lifespan and thus contribute more to job creation and destruction. Also, larger firms will develop internal labour markets and perhaps a higher level of functional flexibility, and thus contribute less to the size of worker mobility. Figure 3.6 shows the distribution of Danish firms (establishments) and employment by size of establishment, giving a clear impression of the dominance of small (micro) establishments in the Danish economy. Almost 80 per cent of establishments have fewer than 10 employees. On the other hand, more than 80 per cent of the employees are found in establishments with fewer than 500 employees.

As shown in figures 3.7 and 3.8, the expectation concerning the higher level of worker and job flows in small establishments is confirmed by the data. Furthermore, the larger firms with more than 500 employees have a rather low level of both worker and job flows. However, note that distribution is actually somewhat hump-shaped, indicating that medium-size establishments with 101–500 employees (and to some degree those with 41–100 employees) also seem to show a high level of mobility: for job creation and destruction the level for firms with 101–500 employees is similar to that of the smallest firms, and the level of labour turnover is also considerable. Medium-size firms thus seem to represent a very dynamic segment on the Danish labour market.

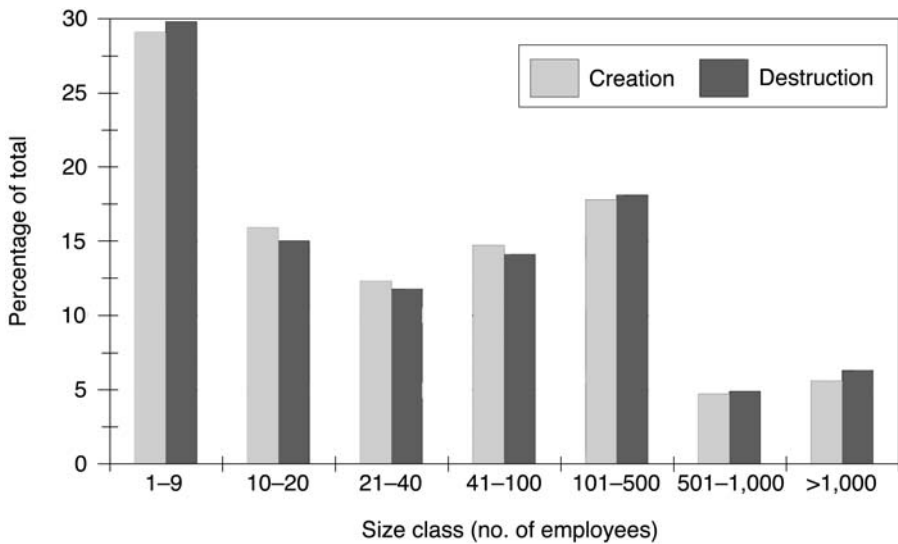
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Figure 3.7 Labour turnover (hires and separations) by size of establishment, averages 1980–95 (percentages)



Source: Bingley et al., 1999.

Figure 3.8 Job turnover (creation and destruction) by size of establishment, averages 1980–95 (percentages)



Source: Bingley et al., 1999.

The findings reported in the CLMSR study (Bingley et al., 1999) indicate that there is a considerable homogeneity of job turnover between establishments in a given size class, regardless of their industry. Labour turnover, on the other hand, is more homogeneous within a given industry, regardless of size class. Thus it seems that the specific traits of technology, market conditions and industrial relations which characterize a given industry have an important influence on labour turnover, while job turnover is more governed by dynamics related to the size of businesses.

Unfortunately, the CLMSR study does not include data on the mobility of different groups of workers. Here the latest data are from a study covering the period from 1980 to 1989 (Vejrup-Hansen, 1995). Nonetheless, the basic data used for these two studies are similar and, given the substantial overlap in time periods, adding the later years to the analysis probably would not imply significant changes in the results.

However, the study by Vejrup-Hansen (1995) looks only at job creation and job destruction, and not at the total number of hires and separations. Thus we have information only on the number of jobs created in new or expanding firms and the number of jobs destroyed in firms closing down or reducing employment within each category of workers. Bearing in mind these limitations, the main conclusions from the study are that there are significant differences in the level of job creation and destruction between groups. The lowest job-turnover levels are found for white-collar workers (around 9 per cent of total employment of the group), and for blue-collar workers in general the level is 13 per cent. Young unskilled workers have a level of job creation/job destruction of almost 18 per cent. The differences between the groups are stable over time. In a separate analysis of the employment sensitivity of different groups to changes in the business cycle, it was found to be below average for white-collar workers and above average for unskilled workers.

Thus, the involuntary mobility caused by job creation and destruction varies across different groups of employees. The greatest burden is on the unskilled groups; white-collar workers are exposed to smaller demands on their flexibility. This situation may be interpreted within standard labour market theory, as the costs of job-specific training are normally higher for white-collar workers, and white-collar workers perform tasks that are less sensitive to short-term changes in the level of production. A further explanation of a more institutional kind could be that the employment relationship of white-collar workers – even within the liberal regime of Danish employment protection legislation – is somewhat more protected than for blue-collar workers.

The research reported in this section has given some interesting results concerning the stylized facts of job and worker flows in the Danish economy:

- Across the business cycle, there is a level of labour turnover (hires and separations) of about 30 per cent of total employment every year.
- The level of job turnover (creation and destruction) is also high, at 10–15 per cent of total employment every year.

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- The level of worker and job flows varies somewhat across sectors, but there are only minor differences between the public and the private sector.
- Across establishments of different sizes there is some variation in worker and job flows, with the highest level in the smallest and medium-sized establishments.
- Significant differences exist in the level of job turnover between groups. The lowest level is for white-collar workers, and the highest for young unskilled workers.

The important general observation is, therefore, that the Danish labour market shows a high level of worker and job turnover, which is far from the traditional preconceptions of the “institutional sclerosis” and inflexibility of the Scandinavian welfare societies. As shown below, this high level of flexibility is also found when looking at other labour market indicators.

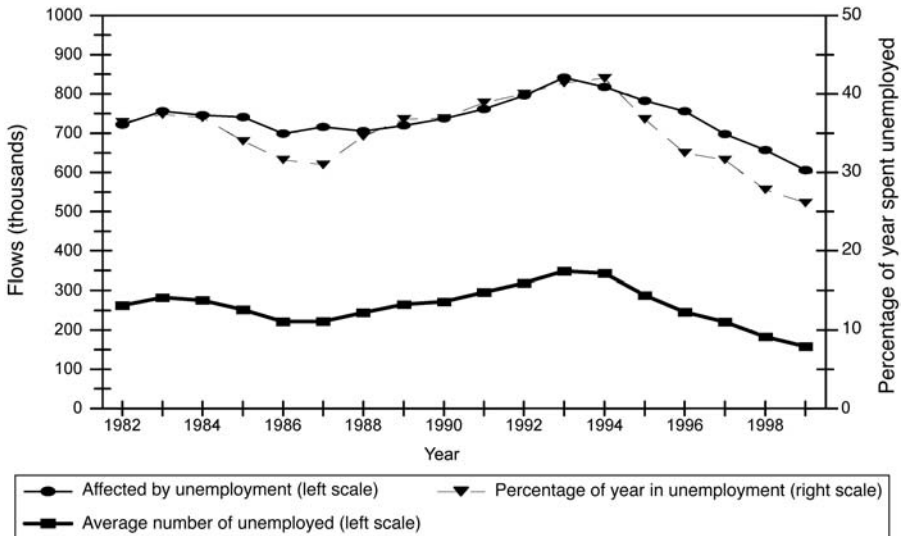
Mobility and unemployment

While the previous section looked at mobility between jobs, this section presents available data on the movements in and out of unemployment. The unemployment register enables Statistics Denmark to calculate not only the average number of registered unemployed during a given period, but also the total number of persons affected by unemployment during that period and the duration of their individual unemployment. The relationship between the average number of unemployed and the total number of persons affected by unemployment is, of course, a measure of the average share of the period in which a person is unemployed. The share of the year in unemployment can be calculated not only as an average figure: the distribution of the unemployed according to the share of the year spent in unemployment can also be studied.

Figure 3.9 shows the development of the number of people affected by unemployment (flows), the average number of unemployed (stocks), and the average percentage of the year spent in unemployment from 1982 to 1999. The latter figure is measured on the right axis. The average number of unemployed can be calculated as the product of the number of people affected by unemployment and the average share of the year that each person is unemployed. All three curves on the graph tend to move in parallel, indicating that, for instance, a rise in the average number of unemployed can be attributed both to an increasing number of people being affected by unemployment and an increase in the average share of the year in which each affected person is unemployed. In general, the relative change is larger in the average share of the year spent as unemployed. One exception is from 1996 to 1997, where the fall in average unemployment is caused solely by a decreasing number of people having been affected by unemployment.

As can be seen from figure 3.9, around 700,000 persons – or about a quarter of the workforce – are affected by unemployment every year. For the majority this is due to lack of full-time work, but the registration as short-term unemployed may

Figure 3.9 Number of people affected by unemployment (flows), the average percentage of the year in unemployment and average number of unemployed (stocks), 1982–99



Source: CRAM.

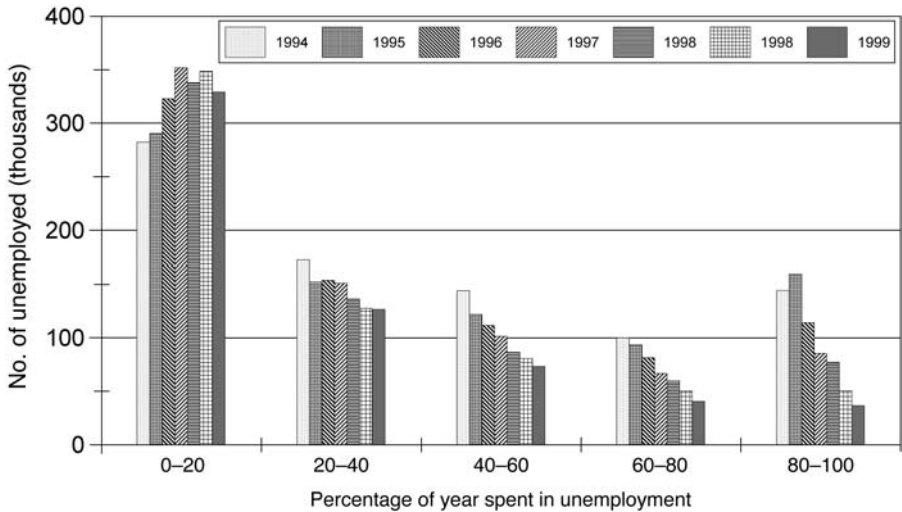
also be caused by receiving special holiday benefits (for those not eligible for normal employer-paid holiday payments) or by being registered as recipients of supplementary benefits (for those who are insured on the basis of full-time work, but only work part time).

On average each unemployed person is on the unemployment register for around 30 per cent of the year – depending on the business cycle. There is, however, a wide dispersion around this figure. For any given year, the number of people with different degrees of unemployment can be calculated. As shown in figure 3.10, a large number of those affected by unemployment (around 300,000 people every year) experience only short spells of unemployment of less than 20 per cent of the year. At the other end of the scale are the long-term unemployed, who are unemployed for more than 80 per cent of the year. This group numbered approximately 150,000 in 1993–94 but has diminished in recent years. During the upswing from 1994 onwards, there was actually an increase in the number of people affected by short unemployment spells, while there is a tendency for the number of people with longer spells to diminish.

One important observation should be made when interpreting figures 3.9 and 3.10. The degree of unemployment is defined within one given calendar year. Thus a person becoming unemployed on July 1 and leaving unemployment on June 30 of the following year will have a degree of unemployment of 0.5 in each of the two calendar years. Furthermore, the unemployment spells are affected by

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Figure 3.10 Number of people affected by unemployment by the share of the year spent in unemployment



Source: Databanks of Danmarks Statistik.

participation in active labour market programmes, since participants are not counted as unemployed. Therefore the statistics cited in figure 3.9 underestimate long-term unemployment interpreted as a marginal position in the labour market for a longer time period.

In a recent report from the Ministry of Finance (Finansministeriet, 2000a, Chapter 5) estimates are made of the “marginal group” in the labour market. For the purpose of this study, the group was defined as people having been openly unemployed or in activation (including paid leave for educational purposes) during more than 80 per cent of the past three years. Measured by this indicator, the marginal group diminished from 125,000 people in 1994 to about 70,000 in the second quarter of 1999. The marginal group is characterized by a low level of education and an over-representation of older people. Thus 50 per cent of the marginal group has only a basic education, compared to 33 per cent of the people in employment. Furthermore, 10 per cent of those in the marginal group are immigrants from less-developed countries, compared to 2 per cent of the employed.

There is considerable circulation into, but also out of, the marginal group. Of those entering the marginal group in 1998, about half were in employment in 1994, while 20 per cent were unemployed. The remaining people entering the marginal group in 1998 were in activation, in education or receiving some form of transfer income in 1994. In a similar manner, about 27 per cent of those in the marginal group younger than 50 years old in 1996 were in employment in 1998, while 21

per cent were unemployed. The remaining half were in activation, on leave or receiving some form of transfer income.

Other evidence on mobility

Another indicator of the high mobility in the Danish labour market is data on the average tenure of employees. The Organisation for Economic Co-operation and Development (OECD) data illustrated by Auer and Cazes in Chapter 2, figure 2.1, shows that measured by average tenure Denmark is in the low range, together with countries such as the United Kingdom and the United States.² By contrast, the other Nordic countries in the sample, Finland and Sweden, have much higher levels of average tenure – Sweden being in the top range together with Italy and Greece. The average levels, both for Denmark and the other countries, are rather stable over time, suggesting that the level of average tenure is an inherent structural characteristic of the employment system for each country. Moreover, during the time span covered by the data, there are no signs of an overall decline in the stability of the employment relationship when looking across the countries.

Another indicator of the flexibility associated with the normal employment relationship on the Danish labour market is the low share of people with temporary contracts, indicating that the general flexibility in the standard employment relationship fulfils the employer's needs without calling for a large number of special hiring arrangements. Thus, in the fourth quarter of 1999, a total of 91 per cent of all employees had no time limit in their employment contracts. The remainder were trainees of various kinds or substitutes, and "miscellaneous" (Danmarks Statistik, 2000a).

Assessment of employment security

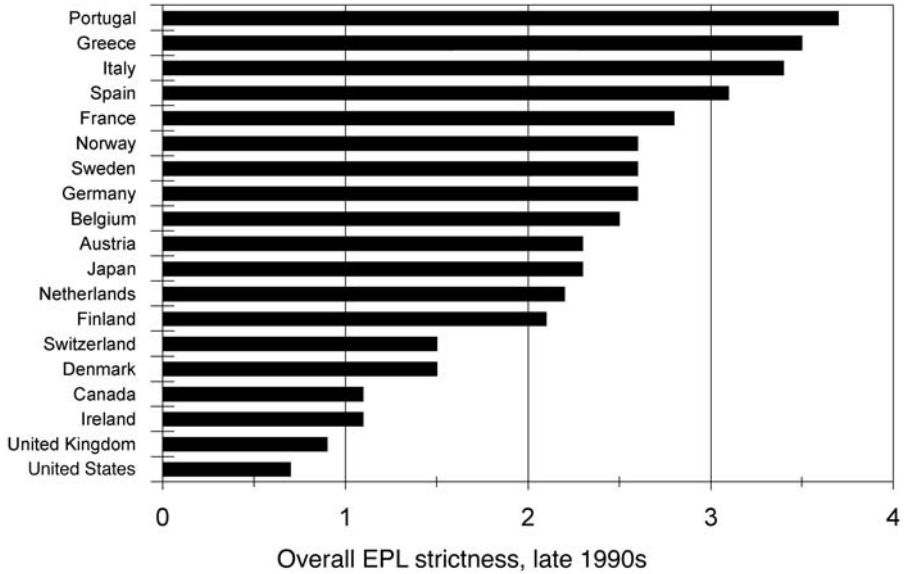
Legislation and collective agreements

One well-known feature of the Danish labour market is the importance of collective agreements in regulating the employment relationship. About 88 per cent of all wage earners are members of a trade union, and 85 per cent are covered by a collective agreement (Dansk Arbejdsgiverforening, 2000, p. 172). In some cases and for some groups of wage earners, collective agreements are supplemented by legislative arrangements. Thus, there is special legislation regulating the right to paid holidays and stating the right to equal treatment. Similarly, the employment conditions for white-collar workers are in some respects regulated by special legislation, the Salaried Employee's Act.

A number of studies have compared the strictness of employment protection in Denmark with other countries. Figure 3.11 summarizes the results from the latest OECD study (OECD, 1999b), which uses an average indicator for regular

² If one looks solely at the manufacturing industry, Denmark stands out even more, with an average tenure lower than both the United Kingdom and the United States (Smith, 1998). Again, this is in strong contrast to the other Nordic countries and a number of European countries.

Figure 3.11 Overall strictness of employment protection legislation (EPL) in the late 1990s¹



¹ Average indicator for regular contracts, temporary contracts and collective dismissals. Source: OECD, 1999.

contracts, temporary contracts and collective dismissals. Denmark is ranked as having a low level of employment protection compared to most other industrialized countries, and much lower than the other Nordic countries with which Denmark is commonly grouped.

Taking a closer look at employment protection in Denmark, the following points can be noted (for a more detailed overview, see Bertola et al., 1999, and OECD, 1999b, annex 2A):

- A dismissal is acceptable if caused either by the conditions of the enterprise (lack of work) or by the behaviour of the employee (such as lack of competence, substantial absence without cause, or criminal offences). An employer is not allowed to dismiss an employee on the grounds of sex, religion, pregnancy and so on.
- The length of the notice period is variable depending on the duration of employment. Furthermore, the notice period differs between white-collar and blue-collar workers. For white-collar workers there is a general minimum notice period of one month, which increases with duration of employment up to a maximum of six months after nine years of employment. For blue-collar workers the notice period is typically much shorter and workers employed for less than nine months may be dismissed without notice. Severance pay is only for white-collar workers having been employed for more than 12 years. In the

case of unjustified dismissal, compensation of up to 12 months' wages may have to be paid by the employer, and although reinstatement is possible, it is rare.

Available information about the recipients of unemployment benefits suggests that about half of those receiving benefits are unemployed because they have been dismissed by their employer. The other half are unemployed for a number of different reasons, including having voluntarily quit their previous job, having finished an activation programme, having been on leave, or having ceased self-employed work (Danmarks Statistik, 2000b). Only a small minority are unemployed due to temporary dismissals, which might indicate that the general flexibility of the employment relationship makes this option less relevant.

Perceived employment security

Do the high level of job mobility and the low level of employment protection lead to a widespread feeling of job insecurity among Danish employees? Paradoxically, this is not the case. As shown in Chapter 1, figure 1.1, Danish workers have a considerably lower overall perception of job insecurity than workers in most other OECD countries. Though this might also reflect the positive situation of the Danish labour market at the time of the survey, there are no clear indications that Danish workers are reacting to the high level of flexibility with a strong feeling of insecurity.

There are at least three explanations for this fact. One is the predominance of small and medium-sized enterprises in the Danish industrial structure, implying that strong internal labour markets are less important than in other countries. It is easier to shift from one firm to another due to lower entry barriers at the firm level. A second explanation is the relatively generous unemployment benefits paid to unemployed workers from the first day of unemployment and for a considerable time period. Third, the general improvement in the Danish labour market situation since 1994 may also have influenced the respondents.

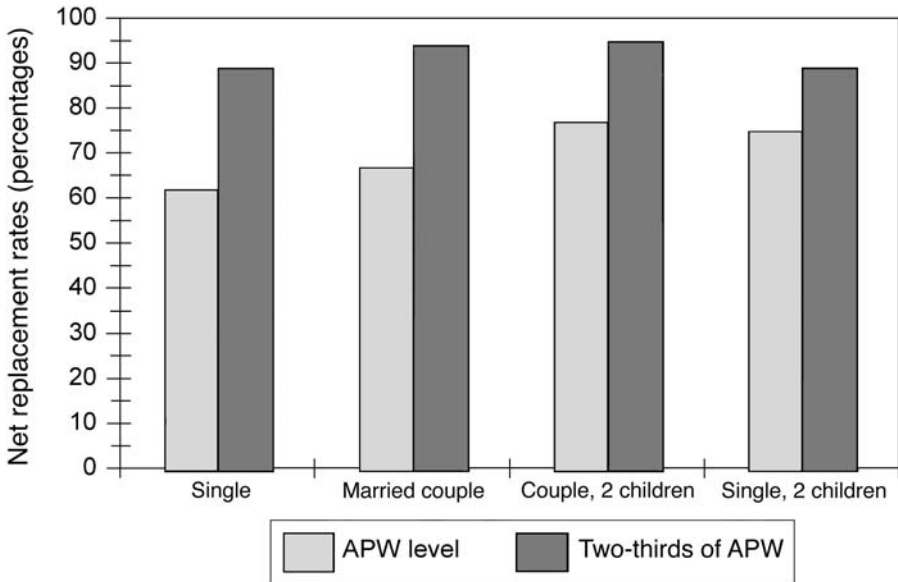
Flexibility and labour market policies

A survey of current policies for the unemployed

The vast majority of the unemployed in Denmark (about 85 per cent) are members of an unemployment insurance fund and receive unemployment benefits of 90 per cent of their previous income, up to a maximum of DKK145,000 (approximately US\$17,700 or EUR19,500)³ per year. Unemployment benefits may be claimed from the first day of unemployment and for a maximum period of four years, including periods of activation. The first two days of unemployment benefits are paid by the employer, the remaining days by the unemployment insurance fund. The latter are financed mainly by state subsidies and (a minor part) by workers'

³ Calculated using average exchange rates for 2002.

Figure 3.12 Net replacement rates for the average production worker (APW) and for a person earning two-thirds of the APW, Denmark, 1997



Source: OECD, 1999.

membership contributions. The membership contributions are not related to the actual expenditure on unemployment benefits, and the State thus covers the full costs of unemployment benefits at the margin.

An employee is eligible for unemployment benefits if he or she has been a member of an unemployment insurance fund for one year and has been employed for at least one year during the past three years. The latter condition was tightened in 1999; previously, the criterion was six months of employment within three years. An unemployed person must also be actively seeking work and take part in activation programmes and other activities as stipulated by the Labour Office.

Unemployed people not qualifying for unemployment benefits can apply for state-financed social benefits administered by the municipalities. The level of social benefits is generally the same as unemployment benefits, but social benefits are means-tested. If, for instance, the spouse has an income, an unemployed person may receive no benefits at all.

For low-income groups, the rather generous level of unemployment or social benefits, combined with the effects of high income tax and some income-related social benefits (such as housing), implies high net replacement rates (figure 3.12). Thus, for an average production worker (APW) the replacement rate is around 70 per cent. For low-income groups (earning two-thirds of the APW), the net replacement rate is around 90 per cent.

Within the Danish labour market system, the potential disincentives from these high replacement rates are handled by stipulating that the unemployed are actively seeking jobs and by “offering” mandatory full-time activation after 12 months of unemployment for adults, and six months of unemployment for the young unemployed (aged under 25). Thus activation is seen to improve skills or qualifications, and to stimulate the unemployed to look for work rather than participate in programmes.

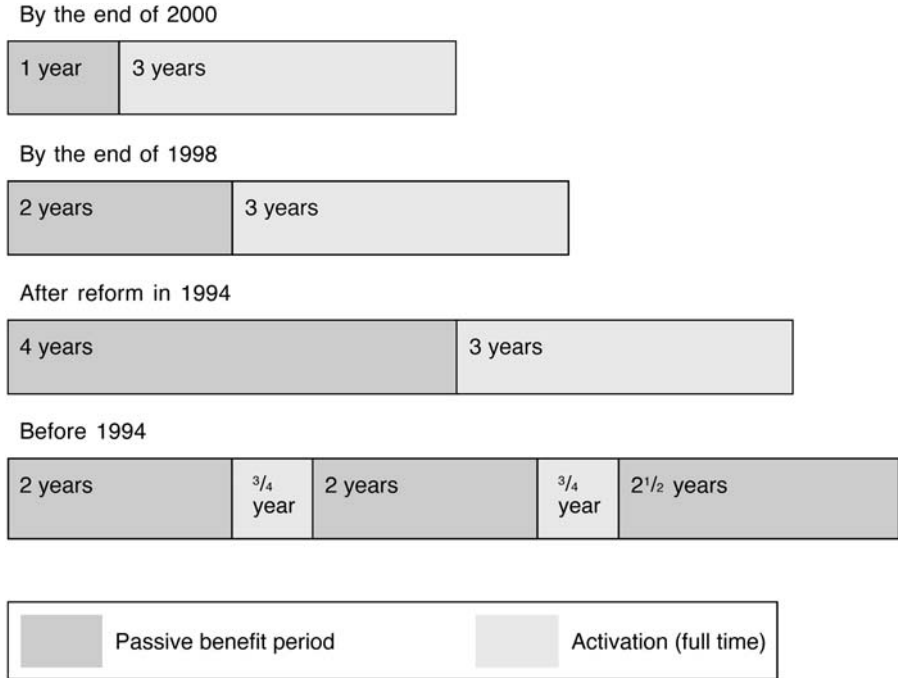
During the years from 1979 to 1993, the main pillar of active policy aimed at the long-term unemployment was a programme of job offers, training and support to those unemployed who had previously been self-employed. This programme showed poor results, enabling only a minority of participants to become employed on the open labour market. This, together with a new sharp increase in unemployment from 1990 to 1993, increased the political pressure to find new measures to break the vicious circle of long-term unemployment. The result was a general labour market reform put into force on 1 January 1994. Its main characteristics were as follows:

- the introduction of a two-period benefit system with an initial “passive” period of four years and a subsequent “activation” period of three years; during the “passive” period an unemployed person would receive benefits and also be eligible for 12 months of activation;
- changing the assistance to the individual long-term unemployed from a rule-based system to one based on an assessment of the needs of the unemployed person (introducing the individual action plan as an important instrument);
- decentralizing policy implementation to regional labour market authorities, empowering them to adjust programme design to fit local needs;
- cutting the connection between job training and the unemployment benefit system, such that any employment with a wage subsidy would no longer increase the duration of the period in which an unemployed person was eligible for unemployment benefits;
- introducing three paid-leave arrangements (for child-minding, education and sabbatical) to encourage job rotation by allowing employed (and unemployed) people to take leave while receiving a benefit paid by the State and defined as a proportion of unemployment benefits.

Since 1994 Danish labour market policy has undergone a number of further reforms, mainly involving a shortening of the maximum period that an unemployed individual can receive benefits without being in activation (the “passive” period). As mentioned above, in 1994 this period was four years (with optional activation for 12 months during this period). In 1996 this “passive” period was reduced to two years, while for young unskilled unemployed the period was cut to only six months. In 1999 it was decided to further reduce the “passive” period for adult unemployed (aged 25 or above) to one year. Thus by the end of 2000, Denmark had fully implemented the first two of the EU 1998 Employment Guidelines.

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Figure 3.13 Changes in the sequence and duration of passive and active periods in the Danish unemployment benefit and activation system before and after the reform of 1994

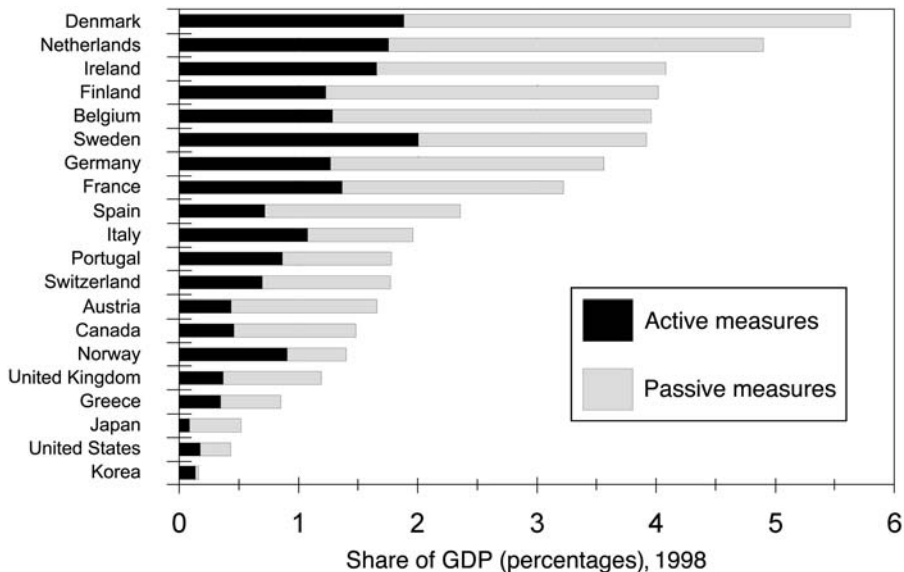


Source: Adapted from Arbejdsministeriet, 1999, figure 3.3.

After the “passive” period, the “activation” period commences and lasts for three years. If full-time activation during this time does not result in normal employment, the unemployed individual loses the right to receive unemployment benefits, but may still be eligible for means-tested social security.

Figure 3.13 presents the main changes in the system since 1994. Not shown in the figure is the option for the unemployed to take parental leave or leave for educational purposes, which may prolong the total duration of unemployment benefits by up to one year for each leave taken. The most remarkable feature of the changes in the system from 1994 onwards is the gradual reduction of the passive period from four years in 1994 to one year by the end of 2000, and the resulting reduction of the total duration of unemployment benefits (excluding leave periods) from seven to four years. While the Danish system of unemployment benefits was previously characterized by both a generous compensation level and extremely long duration compared to other European countries, the latter is no longer the case, though Denmark is still in the upper end of the range (see Regeringen, 2000, table 13.1).

Figure 3.14 Expenditure of active and passive labour market policy, 1998 (percentage of GDP)



Source: OECD, 2000a.

The changes in the profile of Danish labour market policy since the mid-1990s have placed Denmark in the upper range of the OECD countries when they are ranked by expenditure on both active and passive measures of labour market policy. The data in figure 3.14 illustrate both the high level of expenditure on passive benefits (unemployment benefits and unemployment pensions)⁴ and on active benefits, where Denmark is ranked second after Sweden.

Policies for people on long-term sickness benefit

In recent years there has been an increased focus on the situation of people claiming long-term sickness benefits. There are several reasons for this: one is that the number of people in this group has grown significantly since 1994, while the number of registered unemployed has been falling; the other is the hypothesis that the recipients of long-term sickness benefits are at high risk of becoming permanently excluded from the labour market.

A recent study by Høgelund (2000) has focused on the situation of people receiving long-term sickness benefits and compared the Danish model to the Dutch system, which since 1992 has been being reformed with the aim of reducing the exclusion of people with health problems from the labour market. One aspect of

⁴ The unemployment pension is a form of early retirement scheme. Recipients must be aged 60 or over (the standard retirement age is 65) and have paid unemployment insurance fund contributions for more than 25 years. The pension is (almost) equal to normal unemployment benefits.

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the Dutch system is that it is extremely difficult for an employer to dismiss a sick employee during the first two years of absence. By contrast, in Denmark an employee can be dismissed with much shorter notice. The maximum protection is for white-collar workers, who can be dismissed after 120 days of absence. Thus in the Danish system the burden of supporting employees with health problems is laid on the public sector, where the municipalities are responsible for sickness benefits and rehabilitation programmes.

As documented in the study, differences in employment protection have significant consequences for the behaviour of employers. For instance, in Denmark about half of the people who took sick leave due to back problems were fired. The corresponding figure for the Netherlands was 11 per cent. Furthermore, it is evident from the data that employees who are dismissed due to sickness have a much smaller chance of returning to work than those who are not dismissed. One immediate conclusion from this study is therefore that the flexible Danish regime of employment protection entails a risk of increasing the number of people marginalized from the labour market, because people with health problems are quickly dismissed by employers and have greater problems in returning to work compared to a model where more responsibility is on individual employers. On the other hand, the Dutch model gives the employers strong incentives to conduct a careful screening of applicants for vacant jobs in order to select people with lesser risks of long-term sickness, or to opt for temporary employment contracts. The Dutch model could make it more difficult for those with health problems to gain employment if they did not have a stable relationship with an employer in the first place. Current debate on reforms to the Danish policy on the long-term sick are therefore focused on ways to create more active and earlier interventions which also involve the employers, but without creating too strong an incentive to discriminate against people with actual or potential health problems.

Participants in active and passive measures

In line with the more active profile of Danish labour market policy, the relationship between people in active measures and those in open unemployment has changed in recent years. While open unemployment has decreased from 343,000 people in 1994 to 158,000 people in 1999, the number of participants in active measures (including educational leave) has been almost stable at around 100,000 full-time equivalents,⁵ as we can see in table 3.1. As a result, the “degree of activation”, measuring the relation between participants in activation programmes and open unemployment, has increased significantly.

Figure 3.15 describes the trends in the different active programmes. The number of participants in job training has diminished, especially due to a decline

⁵ The number of full-time participants is calculated by converting the actual number of participants into full-time equivalents; for instance, counting two persons participating for six months each as one full-time person.

Table 3.1 Participants in active measures and open unemployment, full-time equivalents, 1994–99

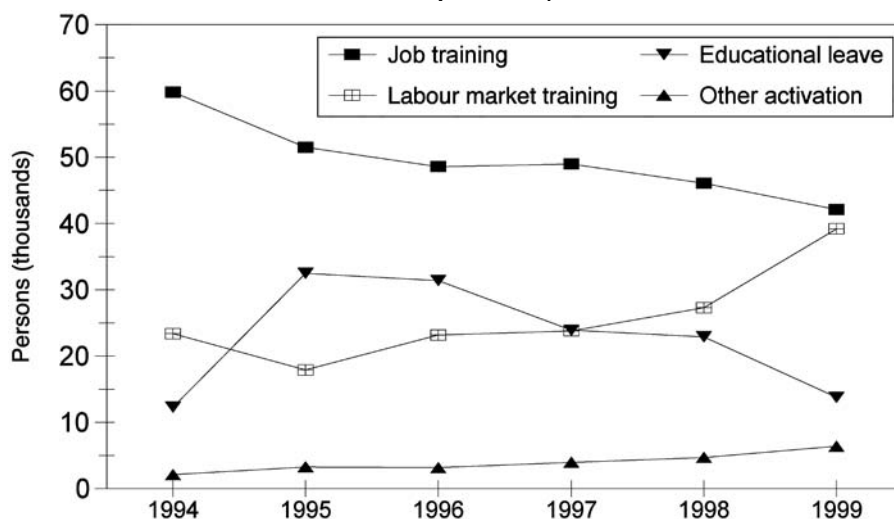
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-------------------------------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Job training | 59 800 | 51 500 | 48 600 | 49 000 | 46 100 | 42 100 |
| Educational leave | 12 300 | 32 500 | 31 400 | 23 900 | 22 900 | 13 800 |
| Labour market training | 23 400 | 17 900 | 23 200 | 23 800 | 27 300 | 39 200 |
| Other activation | 2 100 | 3 300 | 3 200 | 4 000 | 4 700 | 6 400 |
| Total number of participants | 97 600 | 105 200 | 106 400 | 100 700 | 101 000 | 101 500 |
| Open unemployment | 343 000 | 288 000 | 246 000 | 220 000 | 183 000 | 158 000 |

Source: Danmarks Statistik (AMFORA).

in job training in the public sector. This situation primarily reflects an effort to increase the effects of activation programmes by putting more emphasis on upgrading the skills of the participants and less on traditional job training in the public sector, which often consisted of tasks like gardening.

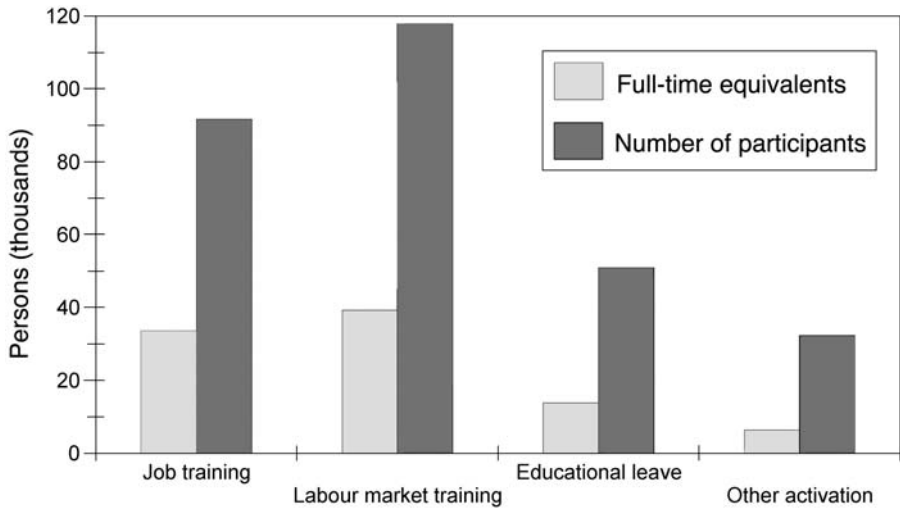
Participation in educational programmes other than educational leave has therefore increased, together with “other activation”. The participation in educational leave has decreased, partly because of stricter rules for taking leave from

Figure 3.15 Trends in major activation programmes, 1994–99 (participants measured as full-time equivalents)



Source: Databanks of Danmarks Statistik.

Figure 3.16 Total number of participants and number of full-time equivalents in major activation programmes, 1999



Source: Author's calculations based on Statistike Efterretninger, Arbejdsmarked 2000, p. 24.

unemployment, and partly because of changes in the economic incentives offered to regional labour market authorities. Before 1999, educational leave was financed separately by the State and not from the budgets of the regional labour market councils.

The actual number of participants is somewhat larger than the number of full-time equivalents because of the method of calculation. For 1999, figure 3.16 shows both the total number of participants and the number of full-time equivalents for the major activation programmes. As indicated by the relative size of the pillars in figure 3.16, the average share of the year in which a person participates in a programme is between one-quarter and one-third. Thus, as with open unemployment, there is a fast circulation through the programmes, which indicates the positive manner in which they may contribute to the flexibility of the total employment system. These data say nothing, however, about the employment situation of the participants after leaving the programmes. This issue is examined below.

Finally, although not reflected in the above figures, available evidence suggests that on average the participants in active programmes are now less employable than was the case a few years ago. In this sense, the upswing in the Danish labour market has acted as a "filter": the stronger among the unemployed have already returned to employment, leaving behind those unemployed who have severe skill shortages or other employability problems.

Evidence of the micro effects of active measures

Over the last decade our knowledge about the employment effect of active labour market programmes in Denmark has increased dramatically. The two main reasons for this are the political focus on active labour market measures following the labour market reform of 1994, and the increased use of administrative registers to construct longitudinal data sets describing the transitions between different labour market situations at the individual level. Here we summarize the most recent outcomes from evaluations of the effects of active programmes on the labour market situation of the participants. We begin with a brief outline of the results from earlier evaluations of the effects of Danish labour market policy.

The labour market reform of 1994 was initially evaluated from 1996 to 1998. Results have been published from general assessments of the implementation process and from a number of evaluations of the effects of the various instruments (a survey can be found in Madsen, 1998). In relation to the activities for the unemployed, evaluations have shown a number of remarkable results. The unemployed perceived the individual action plans as positive and relevant instruments to plan their return to normal work, and they were generally satisfied with the programmes in which they took part (job training, education and so on). Based on a large-scale longitudinal data set with information on the individual unemployed, it was estimated that most of the programmes also reduced subsequent unemployment for participants. The exceptions were educational leave (chosen by participants) and some other forms of education. But both private and public job training, and education targeted at increasing the employability of the unemployed, had significant effects in the form of lowered subsequent unemployment.

Not surprisingly, the improved state of the economy after 1994 contributed to the success of the activation programmes. Those directed at the younger unemployed (under 25 years of age), involving stronger obligations to undergo education and a drop in unemployment benefits after six months of unemployment, have proved to be a success. Most of the young unemployed in the target group left unemployment either to take up normal employment or to begin an education course. It was also found that the estimated share of people employed with subsidies for job training who would have been employed anyway (“deadweight”) was small compared to international experiences (a level of 20 to 30 per cent).

The above results are mainly from evaluations based on data from 1995 to 1996. Results from a new database developed by the Ministry of Labour⁶ were published in a report in March 2000 (Arbejdsministeriet, 2000), allowing us to study the robustness of the earlier findings in the light both of the change in the overall economic situation and the adjustments in the activation programmes. The database has information about the labour market situation of all individuals, their participation in labour market programmes and contact with the social security

⁶ In November 2001, the Danish Ministry of Labour changed its name to the Ministry for Employment. Since the resources used in this chapter all refer to the situation before November 2001, the previous term for the Ministry is used.

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system. This makes it possible to apply a number of advanced statistical measures of programme effects at the micro level.

The Ministry of Labour study focuses on three potential micro-level effects of active labour market programmes. The “motivation effect” implies that an unemployed person seeks work more actively in the period immediately before they are obliged to participate in an activation programme. It is thus assumed that participation is partly involuntary, and that the unemployed will try to avoid taking part in programmes by “escaping” into normal employment (or other activities like normal education). The strength of the motivation effects will thus be indicated by the change in the probability of leaving unemployment during the period immediately before a person is obliged to take part in an activation programme. Additionally, since participation in activation programmes is mandatory for the unemployed, unemployment benefits or social security will be lowered or totally stopped if an unemployed person refuses to take part in activation. The “training (or skill/qualifications) effect” stems from the rise in the level of skills during participation. Thus, the chance of finding a job should increase for those having completed one of the activation programmes. The “locking-in effect” of activation is caused by the reduced chance of getting a job during the period in which the individual takes part in activation programmes. This can be caused both by a decline in the individual’s own job-seeking activities and by the fact that the Labour Office is less active in finding jobs for unemployed people while they are taking part in programmes. The extent of the locking-in effect will be measured by the fall in the probability of becoming employed during activation. The results concerning each of these three effects are summarized below.

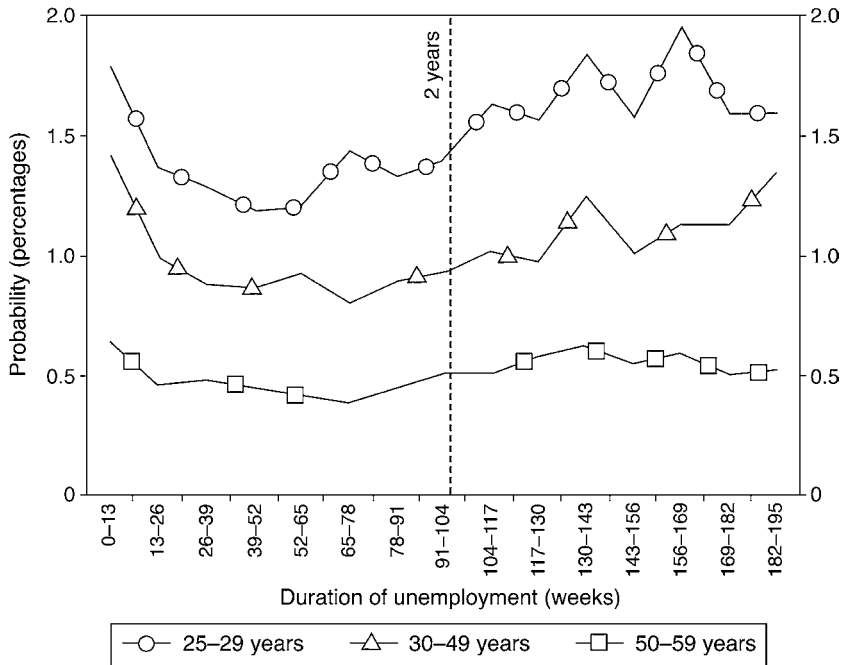
The motivation effect of activation

As described in figure 3.13, one of the main changes in Danish labour market policy during the period since 1994 has been a gradual reduction in the period during which the unemployed receive unemployment benefits without having to participate in activation.

There are two main arguments in favour of this policy change: first, the motivation effect described above; and, second, the argument that long periods of passivity will further reduce the prospects for re-employment because the unemployed will lose both general and job-specific skills. However, early activation also incorporates the risk of “deadweight” losses, in the sense that activation will be offered to those unemployed who would otherwise have found a job by themselves. Thus, a central dilemma in the design of labour market policy is finding the right timing of passive and active measures.

In figure 3.17 the motivation effect is estimated by looking at the probability of leaving the benefits system and taking up normal employment. As shown in the figure, the probability of leaving unemployment falls during the first year of unemployment. However, during 1998 those unemployed who had been out of work for two consecutive years were affected by the implementation of the

Figure 3.17 Probability of leaving unemployment and taking up employment in 1988, by duration of unemployment, for various age groups



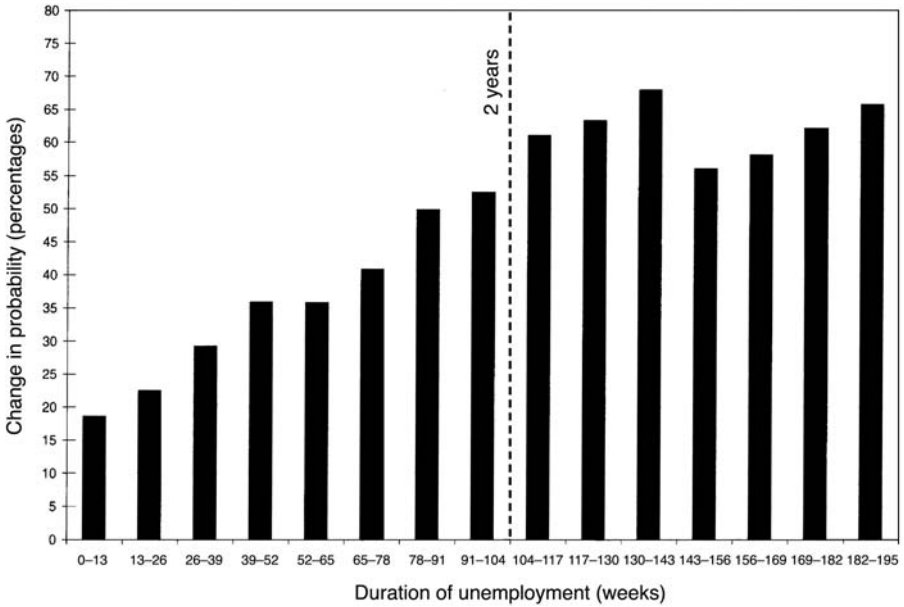
Source: Arbejdsministeriet, 2000.

abovementioned shortening of the passive period from four to two years. The rise in the probability of leaving unemployment to take up ordinary employment for those with unemployment spells of longer than two years (to the right of the vertical dotted line in figure 3.17) could thus be interpreted as a result of the motivation effect. Also, it can be seen that the younger age groups have a higher propensity to leave unemployment and are more affected by the new two-year limit than the older unemployed.

The impression of a change in the probability of leaving unemployment is supported by the data in figure 3.18, which reports the relative increase in the probability of leaving unemployment when 1998 is compared to the previous year. This increase probably reflects the improvement in the overall employment situation from 1997 to 1998, but the increase is larger for those groups most affected by the shortening of the passive period (having been unemployed for more than two years as indicated by the vertical dotted line in the figure).

A final indicator of the relevance of the motivation effect is found in figure 3.19, which shows the relative change from 1995 to 1998 in the probability of leaving unemployment and taking up employment for young unskilled

Figure 3.18 Estimate of the “motivation effect”, measured by the relative increase from 1997 to 1998 in the probability of leaving unemployment for unemployed aged 30–49 years

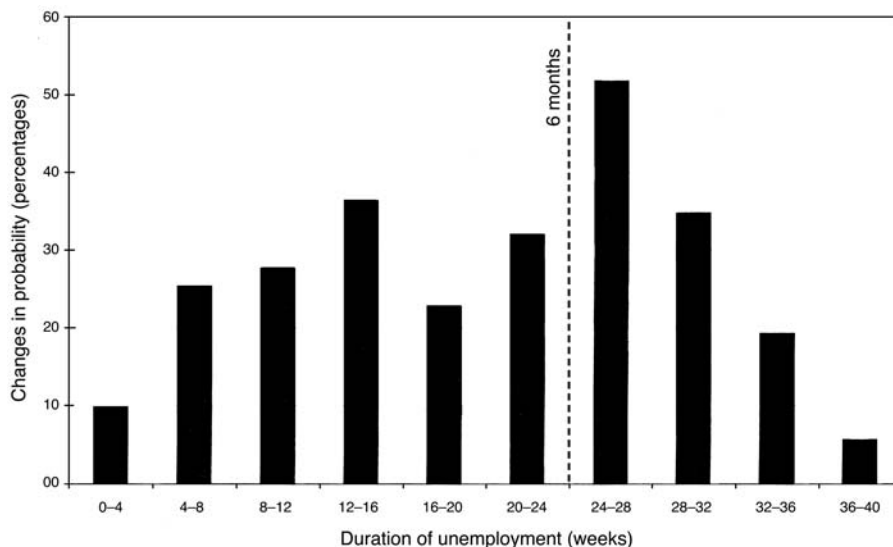


Source: Arbejdsministeriet, 2000.

unemployed, who were targeted by the special youth measure implemented in 1996. Again, the pattern supports the argument of a motivation effect, as the largest increase in the probability of leaving unemployment is for those young unemployed who have been unemployed for about 26 weeks (indicated by the vertical dotted line in the figure) and thus are about to begin one of the measures of the youth programmes – and at the same time have their unemployment benefits cut by half.

Thus the overall conclusion from the evaluation of the motivation aspect of active measures in Denmark is that significant effects can be identified in the data. However, this observation also poses a specific dilemma. In order to increase the size of the motivation effect, it might seem logical to change the content of activation programmes in order to make them less attractive to the participants. However, this would probably also imply that the quality of the programmes would be lowered when measured by their content of training and other activities to improve the skills of participants. Thus, for those unemployed individuals who are unable to get a job before entering activation, the overall outcome might be less positive, as it would reduce the training effect.

Figure 3.19 Estimate of the “motivation effect”, measured by the relative increase from 1995 to 1998 in the probability of leaving unemployment for young unskilled unemployed



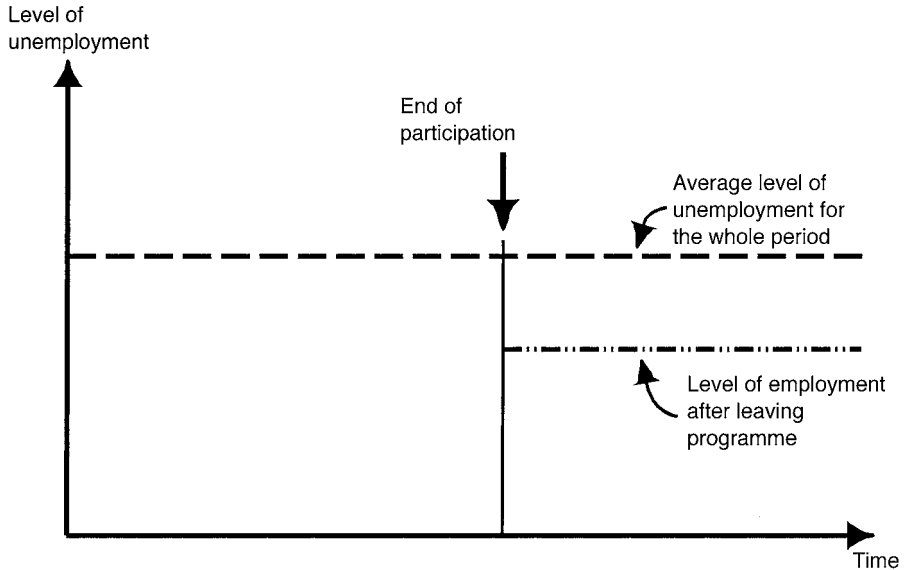
Source: Arbejdsministeriet, 2000.

The training effect

Another potential effect for the individuals taking part in active programmes is that they increase their chance of gaining employment after participation by improving their skills/qualifications and thus their employability. It is well known from the literature on the methodology of evaluations that there are a number of pitfalls in focusing solely on the share of participants who become employed after leaving the programme. Participants may become employed for reasons unrelated to their participation, and different employment outcomes of different programmes may be due to differences in the characteristics of participants rather than in the programme content.

In the Ministry of Labour study these problems are tackled by applying the statistical technique of fixed-effect models. The study applies a simple version of the fixed-effect technique, where the effects of participation in different measures are estimated by averaging the change in unemployment after leaving activation for all individuals in a specific programme. The change is measured relative to the average unemployment situation for each individual, which is interpreted as a sort of baseline labour market status for the individual person. The methodological point is therefore that each individual is compared only to him/herself, thus reducing the need for a separate control group that might differ from the participants in observable or unobservable characteristics. Figure 3.20 illustrates the basic idea behind the effect measure based on the fixed-effect method.

Figure 3.20 Principle of the fixed-effect method for estimating the effects of programme participation on employment, using time-series data for individuals

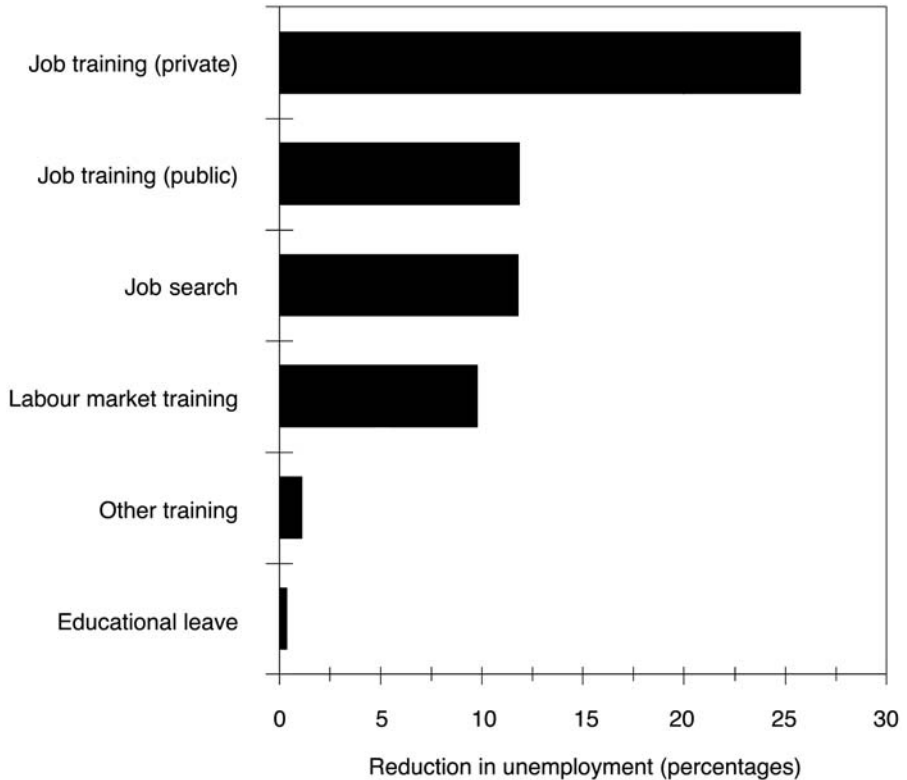


Source: Adapted from Arbejdsministeriet, 2000.

To apply this form of analysis, information is needed on the individual labour market histories of all participants. In the analysis by the Ministry of Labour, reduction in unemployment is measured as the reduction in the share of the period in which the people received transfer income (unemployment benefit, social security, sickness payment and so on). The data thus take into account not only unemployment benefits, but also all kinds of transfer income related to social policy and labour market policy. A reduction in this measure is thus a reliable indicator of a genuine improvement in the employment situation of a given individual, having either gained employment or taken up some form of education. The data also allow us to isolate the effects of different labour market programmes. Figure 3.21 summarizes the results from the simple fixed-effect estimates in the recent study, where the reduction in unemployment for each programme type is calculated as the average relative reduction in individual unemployment for all individuals having participated in this specific programme. In most respects, the results reported here are similar to the outcome of previous Danish studies applying the fixed-effects method (Langager, 1997). The findings are also in line with international experience (Martin, 2000).

Thus, we find that the largest reductions in unemployment are estimated for participants in job training in private firms (with a wage subsidy). Job training with

Figure 3.21 Reduction in unemployment (percentages) after taking part in different programmes, averages for 1996–98



Source: Danish Ministry of Labour, 2000.

employers in the public sector, training in job search and labour market training (education) with support from the Labour Office have positive, but lower effects. For “other training” (typically training in very basic skills) and for educational leave chosen by the individual unemployed, the effects are positive but very small. The interpretation of the meagre results from educational leave taken by unemployed individuals is that the content of the education had too little vocational relevance. Additionally, in recent years the access to educational leave has been reduced for the unemployed.

Again, these results merit careful interpretation. The possibility remains that the different effects reflect some form of heterogeneity among participants, in that the Labour Office allocates different groups of participants to different measures according to assumptions about their ability to benefit from specific programmes. Therefore, the larger effects of private job training could still be obtained if much larger groups were included in this measure. It may also be that the differences

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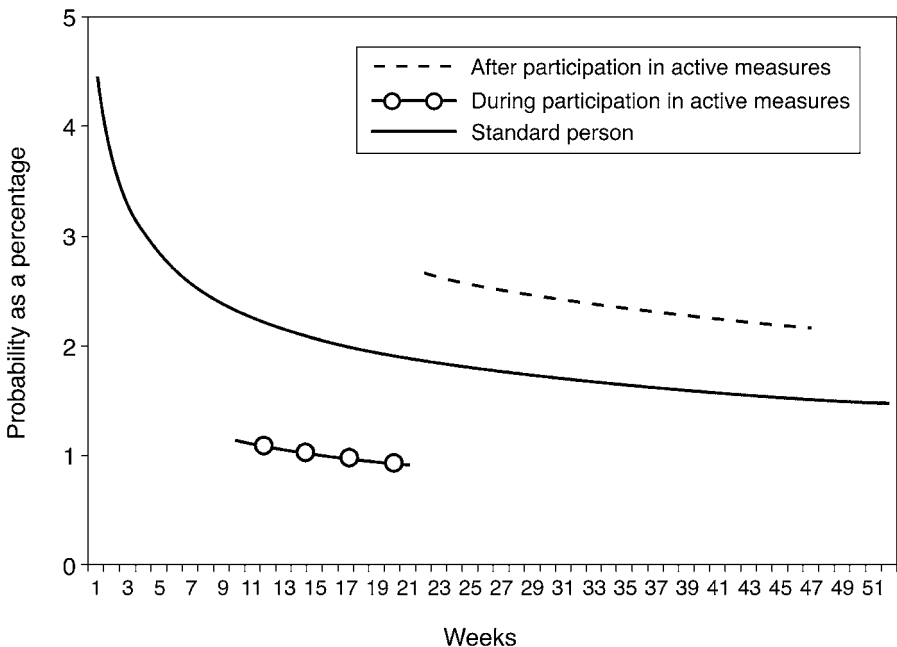
observed may not reflect differences in the quality of the programmes as such. For instance, differences in recruitment procedures and the number of job openings between the private and the public sector could lead to different outcomes of public and private job training, irrespective of the content of different programmes.

Finally, the results of the training effect have to be evaluated with a view to the costs of the different measures. Here the study makes a few simple calculations of cost-effectiveness, which indicate positive budgetary effects for public and private job training and negative effects for education. However, the estimates are of a very crude nature and, for instance, only include the effects on public savings in expenditures on unemployment benefits during the first year after leaving a programme. More refined techniques will need to be applied before reliable estimates of this nature can be developed.

The locking-in effect

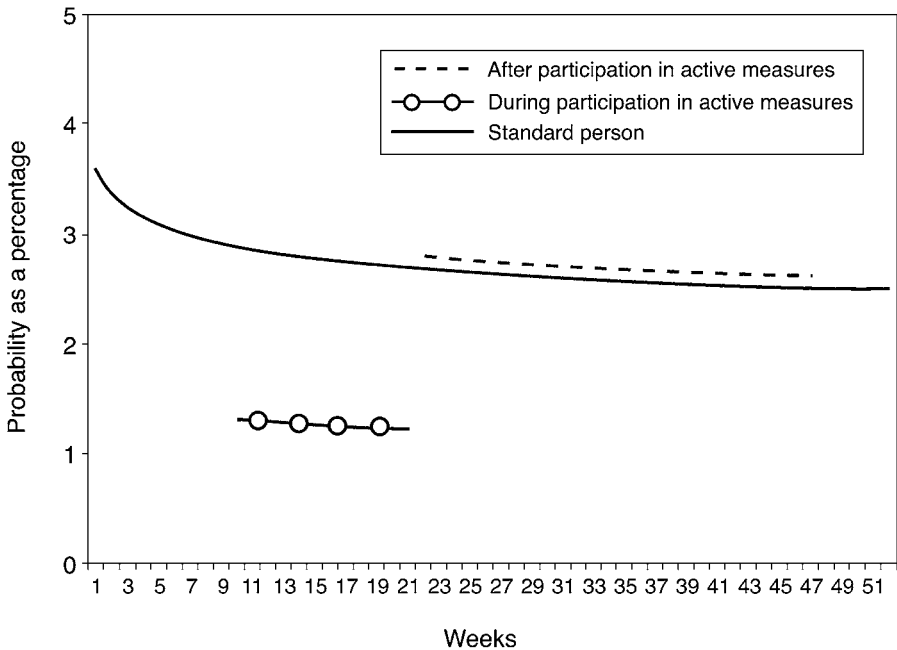
A final element in the Ministry of Labour study is an estimate of the locking-in effect of activation programmes. This is done by applying duration analysis to

Figure 3.22 Probability of leaving unemployment during and after participation in active measures for unemployed female unskilled workers aged 25–49 (percentages)



Source: Adapted from Arbejdsministeriet, 2000.

Figure 3.23 Probability of leaving unemployment during and after participation in active measures for unemployed female academics aged 25–49 (percentages)



Source: Adapted from Arbejdsministeriet, 2000.

different groups of unemployed and obtaining the estimated probability of leaving unemployment during and after participation in a programme. People not participating in a programme are used for comparison. Results from this analysis are only reported for two groups of participants, as can be seen in figures 3.22 and 3.23. The two groups chosen are extreme cases as far as formal qualifications are concerned: one group being unemployed unskilled women, the other unemployed female academics.

In figures 3.22 and 3.23 the long unbroken curve shows the probability of leaving unemployment for similar persons not participating in the programme (the so-called standard persons). For female academics this curve is somewhat higher and also flatter than for unskilled female workers, indicating that in general female academics have a better chance of leaving unemployment, especially after a long unemployment spell. However, both the locking-in effects and the effects of participation are different. For female academics there is a relatively strong locking-in effect, while the increase in the probability of leaving unemployment after participation is small. For the unskilled female worker, there is also a considerable locking-in effect, while the increase in the probability of leaving

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unemployment is much higher after participation when compared to the standard person. On balance the unskilled workers have a net increase in the probability of leaving unemployment, while the locking-in effect is considerably higher than the training effects for the academic group.

Thus the immediate conclusion from this study is that great care has to be taken in targeting active programmes in order to obtain positive net gains from activation. However, more analysis is needed to evaluate the generality and robustness of the results.

In many respects, the interplay between the flexible employment relationship, the unemployment benefit system and active labour market policy seems to be well functioning when examined in isolation. In section 3.3, the purpose is to take a broader perspective and to look at the general labour market effects of Danish employment protection and labour market policy.

3.3 LABOUR MARKET EFFECTS OF EMPLOYMENT PROTECTION AND LABOUR MARKET POLICIES

As we have seen thus far, the interplay between the flexible employment relationship, the unemployment benefit system and active labour market policy seems to be well functioning when examined in isolation. In this section, the purpose is to take a broader perspective and look at the general labour market effects of Danish employment protection and labour market policy.

Evidence on inclusion and marginalization

We have considered the results from recent evaluations of active measures in terms of whether these measures lead to a reduction in unemployment for the individuals either at the time they are obliged to participate in activation programmes (motivation effect) or after participation (training effect). Here a broader view is taken on exclusion and marginalization in relation to the labour market, looking at the movement of people between different positions inside and outside the labour market. The research material comes mainly from two recently published studies: Finansministeriet, 2000a, and Det Økonomiske Råd (DØR) Formandskab, 2000.

People on transfer income

Figure 3.24 shows the growth in the number of people (in full-time equivalents) aged 15–64 years receiving transfer income from 1979 to 1998. During these 20 years the number almost doubled from 450,000 people to over 800,000. The figure does not include people in active labour market measures for the unemployed, who amount to another 75,000 people in 1999. Measured as a share of the adult population in the same age group (15–64 years), the group of transfer income recipients grew from about 15 per cent in the late 1970s to about 25 per cent in the late 1990s. From a longer-term perspective, the rise is even more dramatic. In 1960 the share was about 6 per cent. In recent years, however, the trend has been

Figure 3.24 Number of people aged 15–64 on transfer income, in full-time equivalents, 1979–98

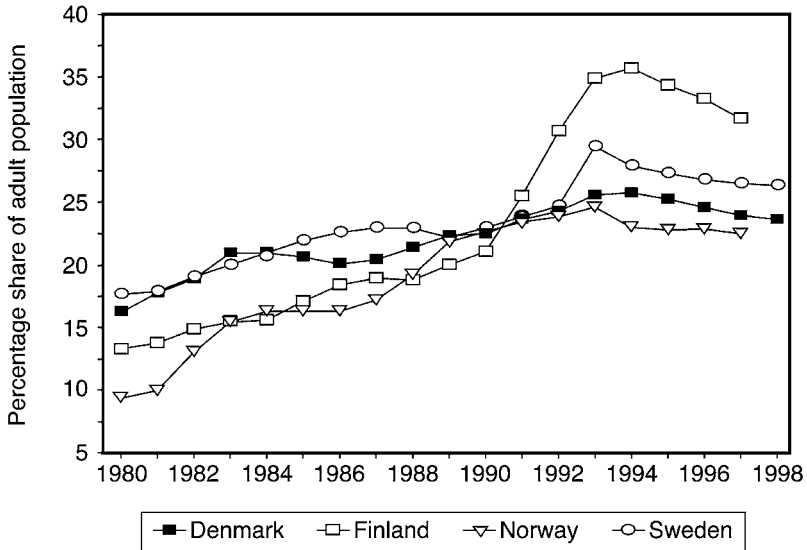


Source: Author's calculations based on Kvist, 2000.

reversing due to the combined effects of the economic upswing and more active policies. The rising trend in the number of recipients of transfer income is found for most of the subgroups, and can be summarized as follows:

- The number of people receiving unemployment benefits has a clear cyclical component and reached its maximum in 1993.
- The number of people receiving sickness benefits (paid by the municipalities to people out of work due to health problems) is also cyclical. In contrast to unemployment, the number of people receiving sickness benefits has increased in recent years.
- The number of people receiving an invalidity pension (due to a permanent loss in employability) has increased steadily since the late 1970s, but has stabilized somewhat since the mid-1990s. One reason for this is stricter eligibility criteria and a more active policy towards people at risk of becoming invalidity pensioners.
- The number of people receiving the unemployment pension (available to people aged 60–66 years who have been members of an unemployment insurance fund for more than 25 years) has increased steadily since the scheme

Figure 3.25 Share of adult population receiving some form of transfer income (full-time equivalents) in the Nordic countries, 1980–98 (or latest year)



Source: Author's calculations based on Kvist, 2000.

was introduced in 1979. Also, in recent years there have been attempts to reduce the inflow, both as a reaction to the stricter situation on the labour market and the long-term demographic trends.

- The number of people receiving social security for reasons other than unemployment also rose during the years leading up to the crisis of the early 1990s and has fallen slightly since then.
- Finally, the large-scale parental leave introduced in 1994 had a significant take-up, though this has dropped somewhat in recent years as a reaction to the lowering of the benefits paid to people on leave.

This rising trend in the share of the adult population receiving some form of transfer income might suggest that strong marginalization mechanisms are at play, which could be interpreted as a cost of the high efficiency of the flexible Danish labour market. However, it must be noted that this trend can also be seen in other Nordic countries. Figure 3.25 illustrates that in all the Nordic countries in the late 1990s about one-quarter of the adult population was economically inactive and supported by the welfare state at any given time, in spite of the differences in the flexibility of the employment relationship in the four countries. The high and rising share of inactive adults is not a unique feature of the Danish employment system.

Table 3.2 Recipients of transfer income, age group 15–64 years, 1994–99 (thousands)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Change 1994–99 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| Insured unemployed | 279 000 | 238 000 | 204 000 | 183 000 | 148 000 | 127 000 | – 152 000 |
| Non-insured unemployed | 65 000 | 51 000 | 42 000 | 37 000 | 34 000 | 33 000 | – 32 000 |
| Social benefits | 74 000 | 65 000 | 69 000 | 71 000 | 69 000 | 56 000 | – 18 000 |
| Sickness benefit | 39 000 | 43 000 | 48 000 | 50 000 | 50 000 | 49 000 | + 10 000 |
| Rehabilitation | 16 000 | 17 000 | 18 000 | 20 000 | 22 000 | 32 000 | + 17 000 |
| Maternity benefit | 35 000 | 36 000 | 35 000 | 36 000 | 35 000 | 35 000 | 0 |
| Leave | 49 000 | 77 000 | 58 000 | 43 000 | 40 000 | 31 000 | – 18 000 |
| Early retirement (unemployment pension) | 117 000 | 120 000 | 126 000 | 133 000 | 145 000 | 153 000 | + 36 000 |
| Other benefits | 8 000 | 23 000 | 46 000 | 42 000 | 36 000 | 30 000 | + 22 000 |
| Invalidity pension | 267 000 | 271 000 | 272 000 | 273 000 | 272 000 | 269 000 | + 2 000 |
| Total | 948 000 | 941 000 | 918 000 | 888 000 | 852 000 | 815 000 | – 133 000 |

Note: Persons are measured in full-time equivalents. Persons in active labour market programmes are not included: in 1999 this group represented approx. 75,000 persons (full-time equivalents).

Source: Finansministeriet, 2000a, p. 142.

Table 3.2 presents more detailed information about the number of people on transfer income in Denmark from 1994 to 1999. It is evident from the table that the recipients of transfer income are a heterogeneous group. Some are in positions close to the labour market, such as insured and uninsured unemployed. Others, such as recipients of social benefits, sickness benefits and rehabilitation benefits, are somewhat further distanced from employment, while people receiving unemployment or invalidity pensions must be considered as being in positions that strongly marginalize them from normal employment. People on leave (including maternity leave) are in special positions.

Table 3.2 also shows that the total number of people receiving transfer income decreased by 133,000 between 1994 and 1999, although this development has been different for different subgroups. The number of unemployed and recipients of social assistance has fallen sharply, while the number of people on sickness benefits and in rehabilitation has increased. The latter increase is probably the result of a number of people with employability problems becoming more visible to the labour market and social policy authorities as overall unemployment diminished from 1994 onwards.

Looking at the background characteristics of the people receiving transfer income, the results are hardly surprising (Finansministeriet, 2000a, table 5.3). The share of unskilled people is much higher among the unemployed than among the employed: 77 per cent of uninsured unemployed workers are unskilled, compared

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to 33 per cent of the employed. Similarly, among recipients of unemployment pensions there is an over-representation of unskilled people and of women, and among those receiving social security there is a strong over-representation of people born outside Denmark (46 per cent, versus 5 per cent of the employed population). Finally, looking at age groups, we find a significant over-representation of people over 50 years old among recipients of sickness benefits.

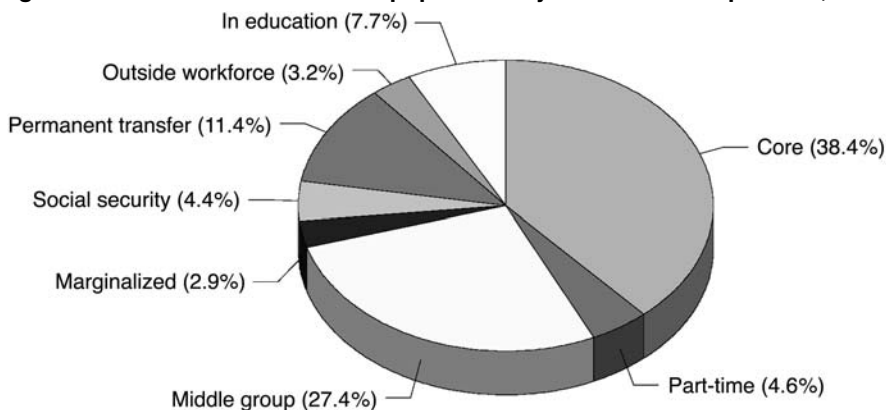
Mobility in and out of the labour market

In a recent study of marginalization and exclusion by the Danish Economic Council (DØR, 2000), the attachment of the adult population to the labour market is studied applying a number of categories as described in table 3.3. The fundamental criteria used in the categorization are the level of unemployment and whether the individuals are receiving some form of other transfer income. Thus, at one end of the spectrum is a group with low unemployment levels over long periods of time, while at the other end are the recipients of social security and permanent transfer income (invalidity pension and unemployment pension). The study uses the term “middle group” to characterize a segment of about a quarter of the adult labour market, which neither has a stable position on the labour market (measured by low unemployment), nor falls into the groups of strongly marginalized or full-time recipients of transfer income. The size of the group is calculated as a residual, which is of course less satisfactory from a methodological point of view. On the other hand, the group does represent the reality of a labour market with a high level of mobility and also the consequent risk that some individuals

Table 3.3 Definitions of the different segments of the adult population

| Segment | Definition |
|----------------------------|--|
| Core | Self-employed or wage earner employed full time for at least 95 per cent of the last three years |
| Part-time employed | Employed wage earner employed part time for at least 95 per cent of the last three years |
| Middle | Employed, but not included in any other group (residual) |
| Marginalized | Self-employed or wage earner employed for less than 20 per cent of the last three years (both full-time and part-time workers) |
| Social security recipients | Receiving social security or sickness benefits during the last year and not registered as unemployed |
| Permanent transfer income | Receiving invalidity pension or unemployment pension during the last year |
| Outside workforce | Neither employed, marginalized, in education nor receiving transfer income during the last year |
| In education | In education during the last year |

Source: DØR, 2000, p. 138.

Figure 3.26 Distribution of adult population by labour market position, 1997

Source: Author's calculations based on DØR, 2000.

have an attachment to the labour market which is less stable, without implying that these individuals are marginalized.

Figure 3.26 shows the distribution of the adult population by labour market positions in 1997. In this study, 70.4 per cent of the adults belong to the core of full-time employed, the part-time employed or the middle group, while slightly less than one-fifth are found in the group of marginalized, or recipients of social security or transfer income. The background characteristics of the different groups follow a pattern that is not surprising. Relatively more unskilled are found among all other groups than the core group and those adults in education. The largest over-representation of unskilled is found among recipients of social security and permanent transfer income.

The next interesting question is, of course, how the individuals move between the different positions in table 3.3 and figure 3.26 over time. This information is shown in table 3.4.

A number of observations can be made from table 3.4:

- In the core group there is a high level of stability in the labour market. Few people move to marginalized positions, while there is some mobility out to the positions as members of the middle segment.
- The part-time segment is less stable, with large numbers moving to the core or the middle group. Still, few move to marginalized positions.
- From the middle segment the largest outflow is to the core group, which indicates that the group is characterized by high employability. Note, however, that the risk of moving to marginalized positions is higher than for the two previous groups.
- For the marginalized and the recipients of social security, a rather high level of mobility is found, either to the middle group or to that on permanent transfer income. Also, the risk of dying is somewhat higher.

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Table 3.4 Attachment to the labour market, 1995–97 compared with 1992–94^a

| Status 1992–94 | Status 1995–97 | | | | | | | | | |
|----------------------------------|----------------|-----------|--------|--------------|----------------------------------|---------------------------------|---------------------------|-----------------|------|-------|
| | Core | Part-time | Middle | Marginalized | Social security recipients | Permanent transfer income | Outside work- force | In education | Dead | Total |
| Core | 75.1 | 2.4 | 13.1 | 0.3 | 1.3 | 4.4 | 1.0 | 1.0 | 1.2 | 100 |
| Part-time | 21.5 | 35.6 | 27.1 | 0.6 | 2.3 | 7.1 | 2.0 | 2.3 | 1.3 | 100 |
| Middle | 32.9 | 4.1 | 38.0 | 4.5 | 5.1 | 5.6 | 1.6 | 6.5 | 1.7 | 100 |
| Marginalized | 2.8 | 0.4 | 38.4 | 20.0 | 9.0 | 20.4 | 1.7 | 5.9 | 1.9 | 100 |
| Social security recipients | 6.9 | 2.0 | 32.4 | 3.6 | 25.8 | 16.3 | 3.6 | 5.7 | 3.6 | 100 |
| Permanent transfer income | 0.0 | 0.0 | 0.1 | 0.0 | 0.3 | 93.2 | 0.3 | 0.0 | 6.0 | 100 |
| Outside workforce | 16.1 | 4.6 | 15.6 | 0.6 | 3.4 | 12.2 | 35.0 | 3.6 | 8.7 | 100 |
| In education | 8.2 | 1.8 | 45.4 | 1.5 | 3.2 | 3.4 | 1.5 | 35.4 | 2.8 | 100 |

^a Due to rounding errors, the totals may differ from the sum of the individual numbers. In the last row there is a substantial difference due to an error in the original data.
Source: DØR, 2000.

- Finally, there is a considerable flow from education to the middle group, probably reflecting the unstable labour market situation for those who have just completed their education.

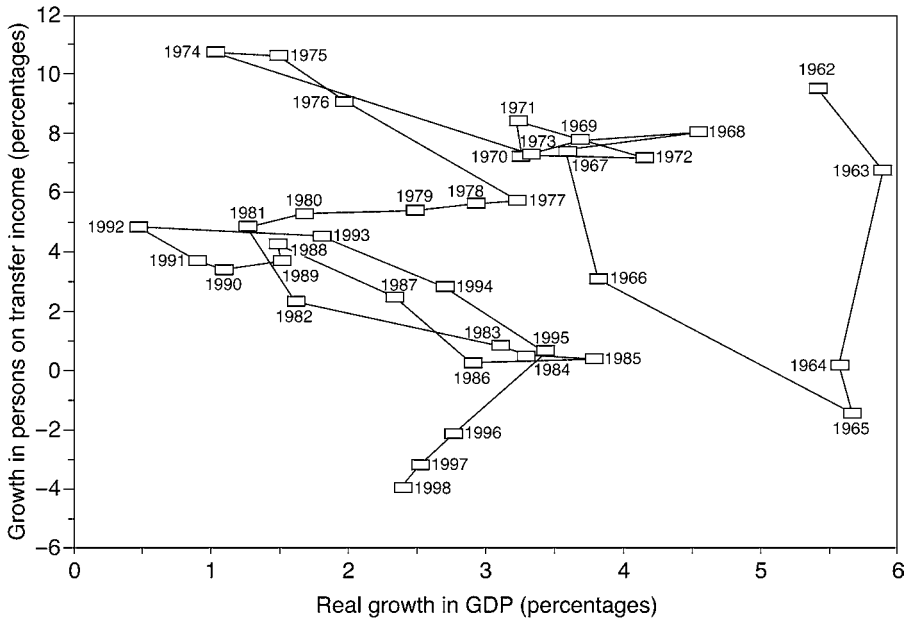
In sum, the study from the Economic Council adds to the picture of the Danish labour market as very dynamic, with a high level of mobility between different positions in the labour market, including tendencies to marginalization and the inclusion of people in more marginal positions.

Economic growth, policy reforms and marginalization

A number of specific factors are relevant in explaining the changing sizes of each of the subgroups of recipients of transfer income, as discussed. Changes in eligibility rules and benefits for each of the programmes will influence the inflow of people to the schemes and the duration of time for which each person receives a specific benefit.

On the other hand, substitution effects may come into play. If the access to one programme is restricted, an increased inflow to other programmes may be an option. For example, when access to unemployment benefits becomes more difficult owing to the stricter tests of individual employability in a tighter labour market, there may be an increased inflow to leave schemes, sickness benefits and

Figure 3.27 Economic growth (GDP at factor cost) and change in the number of persons receiving transfer income, three-year moving averages, 1962–98



Source: Author's calculations based on Kvist, 2000, and ADAM's databank.

unemployment pensions. Such substitution effects offer an argument for analysing the number of people receiving transfer income as an aggregate rather than as a distinct subgroup.

An obvious hypothesis here could be that the change in the number of persons receiving transfer income is inversely related to macroeconomic growth. The increased demand for labour which follows from high economic growth will lead to a lower increase – or maybe even a fall, not only in open unemployment, but in the total number of persons receiving transfer income. Since the relation of economic growth to the number of persons receiving transfer income can be expected to be of a more long-term nature than that reflected in yearly growth rates, three-year moving averages are used for both variables (time series of growth rates).

The result from correlating the growth rate of GDP and the growth rate of persons receiving transfer income is shown in the scatter diagram in figure 3.27. Here the pattern of observations suggests an interpretation which is very much in line with the above hypothesis. While the earliest observations (1962 and 1963) fall outside the pattern, the 15 observations from 1964 to 1978 form a distinct pattern, indicating that lower economic growth implies higher growth rates for

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persons receiving transfer income. In 1979 there seems to be a structural shift in the relationship towards a new lower position of the 16 observations from 1980 to 1995, but still with a negative slope. Finally, the three observations from 1996 and the following years are found below the pattern from 1980 to 1995. The existence of these structural shifts can be confirmed by simple regression analysis.

Taking into account the possibility of structural changes, the hypothesis seems to stand. For two long time-periods since 1964 there is a significant negative relationship between economic growth and the growth rate of the number of persons receiving transfer income, the obvious interpretation being that high economic growth has a damping influence on the inflow of persons to programmes providing some form of income support.

Furthermore, the two structural shifts identified – in the late 1970s and in the late 1990s – both coincide with large-scale reforms in Danish labour market policy. The reform in 1979 introduced the job-offer scheme, which was the first comprehensive activation programme since the oil crisis in 1973, and also the unemployment pension. The late 1970s also saw more generally an increased focus on the need to combat unemployment, not only as a problem of the business cycle, but as a structural problem. The other structural shift in the relationship between economic growth and social exclusion came in the mid-1990s, where the new large-scale labour market reform was introduced. Thus, the shifts in the relationship seem closely related to significant policy changes.

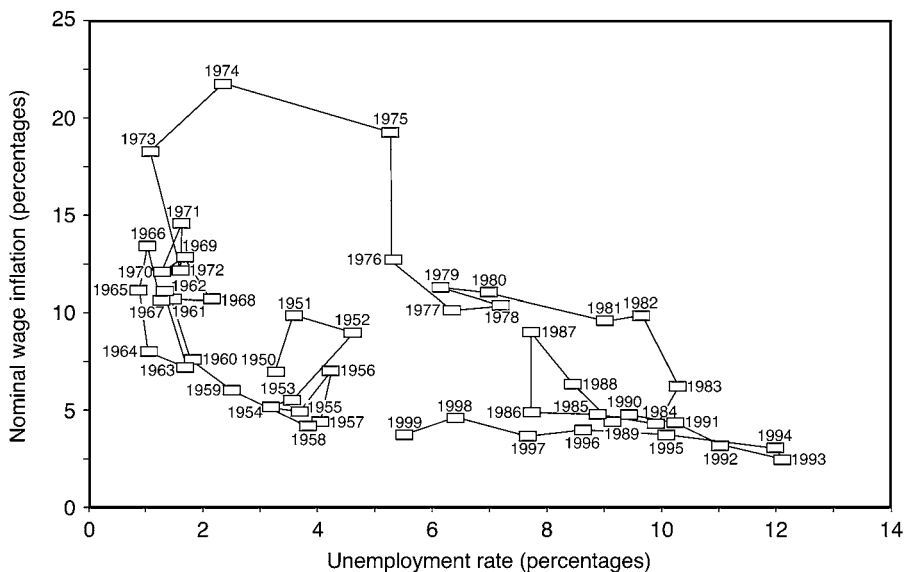
These observations refer to the relation between the business cycle, labour market policy reforms and marginalization from the labour market measured by the total number of recipients of transfer income. Another important issue is whether one can identify the effects of policy reform on the macroeconomic performance of the economy.

Macroeconomic effects of employment protection and labour market policies

The evaluations discussed above have focused on the micro level. However, the coincidence of the implementation of the labour market reform and the dramatic fall in unemployment has stimulated debate on the extent to which the inflation-free macroeconomic upswing can be attributed to the shift in labour market policy in the 1990s (Madsen, 1999).

Figure 3.28 shows the remarkable synchronization between a shift in the Danish Phillips curve in 1993–94 and the reforms in labour market policy. Since 1994 the Danish Phillips curve has assumed an almost horizontal shape, indicating a steep decline in structural unemployment. A number of factors may be involved in these developments. Changing attitudes and behaviour of firms, employees and the social partners may have an influence. Improvement in the state of the labour market in itself has helped to reduce marginalization. The many positive results from evaluations of both the processes and the effects of the labour market reform argue the case that the change in Danish labour market policy in 1993–94 has

Figure 3.28 The Danish Phillips curve, 1950–99



Source: Author's calculations based on ADAM's databank.

made a significant contribution to the improved functionality of the Danish labour market.

A recent study from the Danish National Institute of Social Research aims at summing up the evidence from the large-scale evaluation programme studying the labour market reform of 1994 (Larsen and Langager, 1998). The question being asked is whether the labour market reform and the subsequent adjustments in labour market policy have had a positive impact on the functioning of the labour market. This question must be answered with considerable care.

Concerning the importance of the activation strategy, the empirical analysis shows that the employment goals specified in the individual action plans indicate that there is considerable planned mobility among the unemployed. Moreover, planned mobility is greater in those regions where the need for mobility is highest (due to threats of bottlenecks), implying that labour market policy is functioning effectively. Furthermore, there are significant positive employment effects from both job training and education for the unemployed. It also appears that the effective supply of labour among the insured unemployed increased from 1994 to 1997, probably due to the stricter demands made on the unemployed during the second phase of the reform (for instance, the early activation period for the young unemployed).

Concerning the measures directed at enterprises, there are indications that the reform has contributed to the absence of bottlenecks since 1994. Firstly, there is

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a (weak) indication that since the reform the quality of the services that the Labour Office extends to firms has improved with regard to its ability to fulfil the needs for qualified labour (though there are also examples of labour shortages in the short run). The reform also introduced new forms of placement services (in the form of “open” self-service placements) which have led – together with monitoring and regular contact with employers – to an increased transparency of the labour market, and thus improved its function as a system to match demand for and supply of labour; the market share of the Labour Office is still rather low, however.

This analysis supports the conclusion that the reform of labour market policy from 1994 onwards has had a positive effect on the general functioning of the labour market, as measured by the relationship between unemployment and GDP, and unemployment and inflation. Whether these effects of the reform have led to an improvement in the general functioning of the labour market, as measured by its ability to adapt to external shocks and to allocate labour efficiently, is harder to evaluate. The lack of significant labour shortages since 1994, in spite of the fall in unemployment and strong growth in employment, could indicate that the functioning of the labour market has been improved. Whether this is solely due to the reform or also to other factors (including changes in wage-setting behaviour) cannot be definitively decided on the basis of the available evidence.

3.4 THE “GOLDEN TRIANGLE” OF FLEXICURITY: CONCLUSIONS

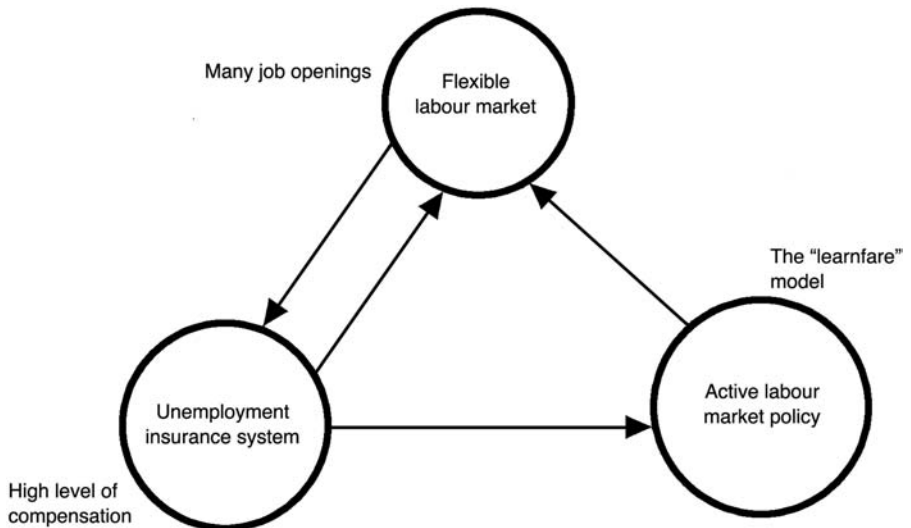
We conclude our analysis by bringing the results of this chapter together, synthesizing the interaction between the flexible employment relationship, the social protection system and active labour market policy, and discussing possible needs for reform of the Danish model.

The “golden triangle”: A successful employment system

Since the mid-1990s, Denmark has shown an impressive macroeconomic performance. Unemployment has declined from 12 to 6 per cent. Total employment has increased by almost 6 per cent. Inflation remains stable. Not surprisingly, the positive developments in employment and economic growth since 1994 have generated a feeling of success, of being “on the right track”, when Danish labour market policy is discussed either within the country or in international forums. In a recent international benchmarking exercise by the Ministry of Finance, Denmark is ranked as above average on labour force participation and employment rates, youth unemployment, active labour market policy and perceived job security (Finansministeriet, 2000b). Also, significant improvements are noted in general unemployment, long-term unemployment and structural unemployment.

The relative success of the Danish model compared to a number of other European countries has stimulated ideas about the development of a “new” Danish employment system in the form of the so-called “golden triangle” shown in

Figure 3.29 The “golden triangle” of flexicurity



Source: Adapted from Arbejdsministeriet, 1999.

figure 3.29. The triangle image represents the success of the Danish employment system as due to its unique tri-combination of flexibility (indicated by a high level of labour and job turnover), social security (a generous unemployment benefit system) and active labour market programmes, which upgrade the skills of the unemployed and thus support the ongoing transformation of the economy.

Thus, the “golden triangle” depicts Denmark as a kind of “hybrid” employment system combining the flexibility of a liberal labour market with the social protection and active labour market policy of a Nordic welfare state.

A low level of employment protection and many job openings

As we saw earlier, the low level of employment protection gives the Danish system a degree of flexibility comparable to that of Canada, Ireland, the United Kingdom and the United States. This low level of protection is reflected in other characteristics of the labour market. The average tenure of Danish employees in 1998 was 8.5 years. Among a number of European countries and the United States, only the United Kingdom and the United States had a lower level of tenure. Similarly, the share of job openings is very high, with between 25 and 30 per cent of all job positions filled by a new person every year. The share of job openings varies somewhat across groups of workers: it is low for white-collar and higher for unskilled blue-collar workers.

In spite of the high level of job mobility, the perceived job insecurity among Danish employees is among the lowest in Europe. The positive development of the

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Danish labour market in recent years provides part of the explanation, but the relatively high net replacement rate in the Danish system of unemployment benefits is another significant factor. When a worker becomes unemployed, the state-financed system of unemployment benefits (and social benefits for the uninsured unemployed) acts as a safety net, preventing the individual from serious economic hardship. Furthermore, the high level of job openings means that there is a high probability of re-entering employment.

The Danish system can be pictured as a model of “flexicurity”, in the sense that the uncertainty caused by flexibility in the individual employment relationship is counterbalanced by a safety net provided by the unemployment (and social security) benefits and financed mainly by the public budget – and thus by general taxation.

The inherent risk related to generous social protection and high compensation rates in case of unemployment is of course that the individual economic incentives to return to employment are weakened. In the Danish case this risk is higher for low-income groups, since they comprise the highest net compensation rates in a system with a fixed ceiling on the unemployment allowance.

Furthermore, the possibility of return to employment will be small for those unemployed persons with employability problems. Lack of relevant skills (both formal and informal) or other causes of low productivity (such as health problems) may result in a number of unemployed becoming locked into long-term unemployment instead of returning quickly to work. In this situation, the role of active labour market policy is twofold. On the one hand, the prospect of activation can motivate the unemployed to become more active in searching for and accepting a job vacancy. The activation programmes thus supplement the tests of availability for work, which are part of the standard procedures of the Labour Office in their contact with the unemployed. On the other hand, those unemployed who participate in labour market training and other activation programmes will improve their skills/qualifications and so their chance of gaining normal employment.

In recent years increased attention has been paid to the role of an active labour market policy in both monitoring the unemployed and improving their skills. A labour market reform in 1994 marked the first step toward a more active line in Danish labour market policy. Subsequent reforms have carried the strategy further and since 2000 all unemployed join an activation programme on a full-time basis after no longer than one year of unemployment. For some groups, such as those under the age of 25, the passive period is less than six months.

Overall evaluations of the enhanced model of flexicurity – the Danish “golden triangle” – are generally positive when it comes to the country’s achievements both at the micro and macro level. At the micro level, positive employment effects are found for most programmes of active labour market policy. At the same time, the combination of a drastic fall in unemployment, high economic growth, and stable wages and prices since 1994 indicates a significant reduction in structural unemployment.

The Danish experience in recent years points to the macroeconomic feasibility of a “hybrid” employment system combining, on the one hand, the traditional virtues of a liberal labour market with few restrictions on the employment contract with, on the other hand, a reasonable level of economic protection for the individual wage earner. The Danish model thus fits the picture of a possible “trade-off” between a very flexible employment relationship and a social protection system which protects individuals from the potential costs of a low level of employment security.

The Danish model, however, is not flawless, and the ongoing debate on adjustments and further reforms reflects some of these weaknesses. First, the highly dynamic character of the Danish labour market, with a large number of shifts between jobs, also implies continuous testing of the productivity of employees. One outcome of these ongoing selection processes is that some workers are gradually expelled from the labour market if they fail to fulfil the productivity criteria of their employers. The few restrictions put on employers when it comes to lay-offs may of course add to the risk of expulsion from the labour market. Those at risk are mainly unskilled workers, who are also put under pressure by the rather narrow wage dispersion of the Danish labour market. Persons with health problems are another risk group.

Thus, a large share of the adult population experiences difficulties in fulfilling productivity demands in a highly efficient labour market. As a consequence, by 1999 about 25 per cent of the adult population received some form of transfer income, many on a permanent basis. This is a situation, we have noted, that is not unique to Denmark, but common to all four Nordic countries. They have all experienced a rise in the share of inactive adults receiving transfer income, which reached a level of about 25 per cent in the late 1990s, indicating that the mechanisms involved cannot be attributed solely to special features of the dynamics of the Danish labour market, but also to more general aspects of the interplay between the welfare states of the Scandinavian type, modern labour markets and the business cycle. However, even after five years of high economic growth, the share of economically inactive adults in Denmark remains at a very high level.

Another debate related to the “golden triangle” is the risk that social protection may create a poverty trap. The high replacement rates in the Danish unemployment benefit system increase the risk of economic disincentives, especially for low-income groups. While such effects are theoretically plausible, they have been hard to verify empirically (at least at sufficient magnitude) and the general attitude has been to rely on early and intensive activation to counter the problem.

At the third corner of the “golden triangle” are the activation programmes. While the net effects of most activation programmes on unemployment seem positive, less is known about their cost-effectiveness. Recent estimates from the Ministry of Labour indicate that the net effects on the public budgets are very positive for training for jobs in the private sector, almost neutral for training for jobs in the public sector, and negative for educational programmes – the

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three dominant programmes for activating the unemployed (Arbejdsministeriet, 2000).

An additional aspect of the cost of the more active profile of Danish labour market policy is related to the fact that it has been implemented during a period of economic expansion. Should a downward change occur in the business cycle, the costs of sustaining the desired level of early activation programmes would sharply increase the expenditure of the public sector at a time when revenues would be falling. Thus the political pressure to cut activation programmes could become overwhelming (and supported by the need for Denmark to accept de facto the EMU budget criteria).

Furthermore, a number of evaluations have shown examples of creaming effects, implying that the strongest among the unemployed are receiving the best-quality activation offers. This might be rational from a narrow viewpoint of economic efficiency, and also understandable if one looks at the practical implementation and delivery of the services of the Labour Office. Nevertheless, the bias towards the “stronger” unemployed is in conflict with some of the declared political targets of active labour market policy.

The future challenges for the Danish model

Taking a longer-term perspective, a number of problems can be identified which could add to the forces that are already causing an increasing number of persons to be expelled from the Danish labour market. Primarily, demographic changes are predicted during the coming decades, which imply a growing number of older workers with a higher risk of marginalization. There is also a rising share of immigrants in the Danish population, who are at high risk of marginalization: the percentage of persons from non-European countries is expected to increase from about 4 per cent in 2001 to about 10 per cent in 2020. The Danish labour market is affected by wage competition from low-wage countries. There is already some competition in this respect from within Europe, but this is increasing and will be further strengthened if a number of Eastern European countries gain membership of the EU. When the needs for future reforms are discussed, these challenges will be in the forefront.

Current Danish discourse on labour market policy

The widespread conception of the Danish employment system as a “golden triangle” and the embracing of the “flexicurity” model are indications of the generally positive tone of the current Danish discourse on labour market policy. However, as we have noted, there are also critical points made by a number of actors. In particular, the long-term increase in the number of persons receiving permanent transfer income is in focus.

To counter the tendency to exclusion from the labour market, the concept of employers’ social responsibility has been central in policy development. This emphasizes the need to make firms more aware of the role they play in

marginalizing people from the labour market and of the potential in employing people with some form of reduced employability. In recent years, however, the idea of the “encompassing labour market” has taken over as the core concept when discussing the possibilities of including more persons into active employment (Regeringen, 2000). The broad targets set for the encompassing labour market are:

- every individual has a social responsibility;
- preventive measures should be taken at the workplace in order to preserve the full capacity to work during the whole working life;
- persons with reduced capacity to work should keep a job;
- more persons should become employed.

The main actors involved in creating the encompassing labour market are identified as the social partners and the municipalities.

An important specific initiative to support the encompassing labour market is a planned reform of the system of invalidity pensions, which should mean that more persons with reduced capacity to work can become economically active. Other initiatives already implemented are the so-called “flexi-jobs” which are created by permanent wage subsidies for persons with reduced capacity to work. These jobs were introduced in 1996, and their number is still rather small – about 7,000 in 2000. The increased focus on adult vocational education, the integration of ethnic minorities and improvements in the work environment are also related to the idea of the encompassing labour market.

When it comes to more specific reforms affecting the linkage between employment protection and labour market policy, the general impression is that the period of large-scale changes in active policies and in the unemployment benefit system from 1994 to 1998 has been followed by a pause. The overall evaluations of the functioning of the employment system are generally positive, and there is increased awareness of the delicate balance between the different elements of the system, as symbolized by the “golden triangle”.

Owing to the change from a social-democratic to a liberal-conservative government in November 2001, some uncertainty concerning the future strategy of Danish labour market policy has of course been created. The new Government has announced some plans for reforms involving, for instance, reduced benefits for certain groups of unemployed (young unemployed aged 26–29 years and immigrants), in order to increase their incentives for education or employment. There is also an intention to create a more uniform system of benefits and activation for both insured and non-insured unemployed. Discussions with the social partners are planned for the summer of 2002, with modifications starting to be implemented by 2003. However, the new Government also stresses that the basic elements of Danish employment policy have been successful and should be retained. Thus, the main political actors seem to share the view that the present balance in the trade-off between flexibility and social protection is not too far from the optimum.

FLEXIBILITY, STABILITY AND THE INTERACTION BETWEEN EMPLOYMENT PROTECTION AND LABOUR MARKET POLICIES IN FRANCE

4

Bénédicte Galtier and Jérôme Gautié

4.1 INTRODUCTION

France is usually regarded as having significant labour market rigidities. The Organisation for Economic Co-operation and Development (OECD) found in its report (1999b) that the country has a high level of employment protection legislation (EPL), which implies that labour market flexibility is limited. Government policy plays an important role in the French labour market: at the end of the 1990s, about 3.2 per cent of GDP was allocated to programmes implementing labour market policies (LMP), compared to 5.6 per cent in Denmark, but only 0.5 per cent in Japan and 0.4 per cent in the United States (OECD, 1999b). Even when considered in proportion to the number of unemployed, this index remains quite high in France.

As a result, there seems to be a “complementarity” rather than a “trade-off” between EPL and LMP in France, as levels of both are substantial. This balance has been criticized from a theoretical point of view since the end of the eighties. According to the “transitional labour market” approach (Schmid, 1995), protection should be focused not on job preservation, which hampers the necessary labour market flexibility, but rather on worker mobility in the labour market. Consequently, there should be a trade-off between EPL and LMP, as in Denmark, with low EPL but very active LMP, in order to continually enhance employability and avoid long-term exclusion from employment. This particular debate has been introduced in France in recent reports (Supiot, 1999; Belorgey, 2000), but it is only the latest step in a more general discussion about deregulating the labour market that has been a central topic of French political debate for the last 15 years.

Reforms have been undertaken during this period of reassessment. In this chapter we shall look, in the light of these reforms, at whether the French labour market has lost any of its rigidity when compared with other OECD countries.

How have these reforms affected the interaction between EPL and LMP, and what has been their impact on the overall functioning of the labour market?

In section 4.2 we assess the flexibility and stability of the French labour market over a period of time. The main finding of this empirical study is that flexibility did indeed increase during the 1980s and 1990s, but that it was contained at the margins of the labour market: the core of permanent prime-age workers seems to have escaped flexibilization. As a result, the French labour market appears to be dualistic, and the “insider/outsider” model seems to be confirmed.

Section 4.3 describes the interaction between EPL and LMP. The “complementarity” hypothesis is far from valid at a disaggregated level: there needs to be a differentiation between age and gender groups, as well as between types of LMP. If prime-age and, to a lesser extent, older workers enjoy both high EPL and high LMP, it is the trade-off model which seems to apply to the youth labour market.

In section 4.4 we analyse the causes and consequences of the interaction between EPL and LMP. Their characteristics must be understood in the context of the French welfare state and the functioning of the labour market. The male prime-age worker emerges as the central pillar of this system, and, as a consequence, benefits from both EPL and LMP, partly at the expense of outsiders.

The recent debate on reforming EPL and LMP is assessed in section 4.5, and we look at the resulting implementation of PARE (*plan d'aide au retour à l'emploi*), the new initiative combining EPL and LMP in an individualized plan for the unemployed. We also focus on the discussion initiated recently by the “social re-foundation” project presented to Government by the employers’ organization.

Finally, in section 4.6 we draw some conclusions from our study, and propose some approaches to further reform.

4.2 EMPLOYMENT STABILITY AND FLEXIBILITY

A global analysis of the French labour market

In 1998, a total of 1.7 million workers were in temporary jobs, including fixed-term contracts, employment agency work, training schemes and temporary jobs in the public sector.¹ This type of work has become much more common since the early 1980s (table 4.1). In 1998 there were four times more temporary jobs than in 1983, while total employment had risen by only 9 per cent. The number of temporary workers in the public sector or in training schemes multiplied by five in this period. This remarkable growth is the result of labour market policy, which developed temporary work in the public sector in order to increase the job opportunities for young people and the long-term unemployed.

¹ *Institut national de la statistique et des études économiques* (INSEE) data do not include in the category of “workers” the self-employed, apprentices, or young people on military service. The only training schemes taken into account by INSEE in these data are those which rely on an employment contract (excluding apprenticeships), the beneficiaries of which are defined by the ILO as “employed”.

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Table 4.1 Evolution of the different types of employment contract, 1983–98 (percentages)

| | 1983 | 1987 | 1990 | 1992 | 1994 | 1996 | 1998 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Fixed-term contracts in the private sector | 1.5 | 2.8 | 3.0 | 3.0 | 3.0 | 4.0 | 5.0 |
| Temporary agency work in the private sector | 0.6 | 0.7 | 1.5 | 1.0 | 1.0 | 1.5 | 2.0 |
| Training schemes and temporary contracts in the public sector | 0.3 | 0.9 | 2.0 | 2.0 | 3.0 | 3.0 | 2.0 |
| Total percentage of temporary contracts | 2.4 | 4.4 | 6.5 | 6.0 | 7.0 | 8.5 | 9.0 |
| Open-ended contracts in the private sector | 73.2 | 70.0 | 67.5 | 68.0 | 66.5 | 65.5 | 65.5 |
| Open-ended contracts in the public sector | 24.4 | 25.6 | 27.0 | 25.0 | 26.0 | 26.0 | 25.5 |
| Total percentage of open-ended contracts | 97.6 | 95.6 | 94.5 | 93.0 | 92.5 | 91.5 | 91.0 |
| Total number of open-ended or temporary contracts | 17 125 | 17 096 | 18 630 | 18 827 | 18 920 | 19 470 | 19 808 |

Source: Enquête Emploi, INSEE.

Temporary agency work and fixed-term contracts tripled between 1983 and 1998. Temporary contracts fulfil several functions of interest to employers. They make it possible for firms to adapt their workforce to economic fluctuations, improving their external flexibility, and to test new workers and select the best of them. Employers also use temporary contracts to allow them to focus on their main business and to subcontract activities of minor importance. In turn, subcontractors often use short-term contracts because they are the first to suffer from economic shocks. These various roles of temporary contracts explain their growing importance in labour market flows. In 1998, fixed-term contracts accounted for more than 70 per cent of entries and for 61 per cent of exits from firms employing more than 49 workers (table 4.2).

Part-time jobs proliferated during the 1990s (table 4.3). Between 1982 and 1998, the proportion of part-time workers rose by 8 percentage points, increasing from 9 to 18.1 per cent of all workers. The years since 1992 have seen a boom in part-time work. One of the major causal factors has been the Government's changes in social insurance contributions by employers. Those firms hiring part-time workers, or converting full-time positions into part-time jobs, were granted partial exemption from social insurance contributions; contributions were also lowered for firms employing low-wage workers. After the first law on the reduction of working time (May 1999), the basis for contributions was changed

Table 4.2 Reasons for entry and exit (per 100 workers) in firms with more than 49 workers, 1984–98

| | 1984 | 1986 | 1988 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total entries | 20.0 | 22.9 | 28.2 | 32.2 | 29.8 | 27.7 | 25.6 | 29.0 | 30.5 | 30.0 | 31.6 | 34.4 |
| Fixed-term contracts | 12.3 | 15.3 | 19.0 | 21.1 | 19.2 | 18.8 | 18.1 | 21.2 | 22.6 | 22.1 | 23.2 | 24.7 |
| Open-ended contracts | 5.2 | 5.3 | 6.6 | 8.8 | 8.1 | 6.7 | 5.1 | 5.4 | 5.6 | 5.6 | 5.9 | 6.9 |
| Transfers in entry | 1.2 | 1.3 | 1.4 | 1.3 | 1.4 | 1.3 | 1.5 | 1.4 | 1.3 | 1.4 | 1.4 | 1.5 |
| Others ^a | 1.3 | 1.0 | 1.2 | 1.0 | 1.1 | 0.9 | 0.9 | 1.0 | 1.0 | 0.9 | 1.1 | 1.3 |
| Total exits | 22.5 | 25.1 | 28.6 | 31.8 | 30.9 | 29.7 | 28.5 | 29.1 | 30.1 | 30.5 | 31.2 | 33.4 |
| End of fixed-term contracts | 10.0 | 11.9 | 14.2 | 15.9 | 15.3 | 15.7 | 15.9 | 17.5 | 18.8 | 19.0 | 19.5 | 20.5 |
| Quits | 4.8 | 4.9 | 6.1 | 8.0 | 6.8 | 5.4 | 3.8 | 3.9 | 4.1 | 3.8 | 3.9 | 4.8 |
| Lay-offs for economic reasons | 2.1 | 2.3 | 1.8 | 1.1 | 1.6 | 1.8 | 2.2 | 1.4 | 0.9 | 1.0 | 1.0 | 0.8 |
| Other lay-offs | 11.2 | 11.4 | 11.5 | 11.6 | 11.9 | 11.9 | 11.6 | 11.5 | 11.5 | 11.5 | 11.5 | 11.6 |
| Transfers in exit | 1.5 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.8 | 1.6 | 1.6 | 1.6 | 1.8 | 1.9 |
| Others ^b | 2.9 | 3.0 | 3.3 | 3.5 | 3.6 | 3.2 | 3.2 | 3.2 | 3.2 | 3.6 | 3.5 | 3.8 |

^a Apprentices, temporary agency work, training schemes, people in trial period. ^b Retirement, military service, end of trial period.

Sources: INSEE; Ministère de l'emploi et de la solidarité.

from the monthly to the hourly wage. Thus, with the new method of calculation, employers could benefit from the contributions reduction by hiring part-time workers. In addition to these changes, the temporary jobs in the public sector that are created by LMP are often part-time.

The growth of part-time work has mainly resulted from increased “involuntary” part-time work.² The share of part-time workers looking for a full-time job rose

Table 4.3 Evolution of part-time work, 1983–98 (percentages)

| | 1983 | 1987 | 1990 | 1992 | 1994 | 1996 | 1998 |
|---|------|------|------|------|------|------|------|
| Share of part-time employment in total employment | 9.0 | 11.6 | 12.2 | 12.9 | 15.4 | 16.7 | 18.1 |
| Share of “involuntary” part-time employment in total part-time employment | n.a. | n.a. | 37.0 | 38.0 | 42.0 | 42.0 | 42.5 |

n.a. = not available.

Source: Enquête Emploi, INSEE.

² Involuntary part-time workers are those who would prefer a full-time job but cannot find one. Part-time is “chosen” when the worker does not want more hours.

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Table 4.4 Different types of employment contract, 1998, in thousands (percentages)

| | Full-time | Part-time | Total |
|---|---------------------------|--------------------------|----------------------------|
| Fixed-term contracts in the private sector | 632.6 (3.2) | 287.1 (1.5) | 919.7 (4.7) |
| Temporary agency work in the private sector | 379.7 (2.0) | 44.3 (0.2) | 424.0 (2.2) |
| Training schemes and temporary contracts in the public sector | 110.5 (0.6) | 296.8 (1.5) | 407.3 (2.1) |
| Open-ended contracts in the private sector | 10 770.0 (55.1) | 2 021.0 (10.4) | 12 791.0 (65.5) |
| Open-ended contracts in the public sector | 4 104.7 (21.0) | 880.4 (4.5) | 4 985.0 (25.5) |
| Total | 15 997.5 (81.9) | 3 529.6 (18.1) | 19 530.0 (100.0) |

Source: Enquête Emploi, INSEE.

from 37 per cent (800,000 persons) in 1990 to 42.5 per cent (1.5 million persons) in 1998. During the 1990s, when the rate of unemployment reached 12 per cent, many people accepted a part-time job in preference to no job at all. Thus, in this period the number of part-time workers increased by 67 per cent and the number who wanted a full-time job by more than 90 per cent.

In spite of the strong growth of flexible jobs (part-time and temporary), the global configuration of the French labour market has seen no radical change. Temporary jobs doubled during the 1990s, but they still only account for 10 per cent of total employment. Moreover, only 1.5 million workers out of 20 million hold part-time jobs when they would prefer a full-time one. Full-time permanent jobs still account for three-quarters of the stock of jobs (table 4.4). In other words, regular jobs seem to remain the employment norm.

We have analysed employment at a very global level, but at a disaggregated level different situations can appear. If a regular job remains the norm for some categories of worker, this is not necessarily the case for all categories, and we need a more accurate analysis by criteria such as gender and age to obtain a fuller picture.

The effects of the growing number of temporary jobs for the employment norm are mainly dependent on labour market transitions. If workers easily obtain a permanent job after a short period of flexible work, then there is no erosion of the permanent employment relationship, only delayed access to a regular job. However, if temporary jobs “lock” workers into this situation or lead to unemployment, then a regular job is no longer the norm for this category. This locking-in effect would imply a dual labour market. An analysis of labour market trajectories will show how the French labour market works.

A differentiated analysis

A breakdown of employment by individual characteristics displays inequalities. Non-regular jobs are concentrated among particular categories: the young, the unskilled and women.

Age

Flexible or atypical jobs concern workers under the age of 25 more than any other category. In 1998, a third of these young workers were in a temporary job (fixed-term contracts, temporary agency work, training schemes and temporary jobs in the public sector), and the rate of part-time work was close to 30 per cent (table 4.5). Ten per cent of young people were in jobs that were both temporary and part-time, and only 43 per cent had a full-time permanent job. Among the young part-time workers 60 per cent wanted a full-time job.

No other age group is so affected by atypical jobs. The proportion of temporary jobs is less than 10 per cent among older workers, and decreases with age; the rate of part-time work does not reach 18 per cent. Most part-timers in the intermediate age groups have chosen their working time (they do not want to work longer), and the share of chosen part-time work increases with age.

Regular employment has declined during the last 15 years, for both young and older workers. Among older workers (aged over 54) full-time permanent work is less frequent than among the intermediate age groups, but the reasons are quite different from those concerning young workers. First, older people rarely hold a short-term contract: 96.5 per cent have an open-ended contract. Second, 23.5 per cent of older people hold a part-time job and do not want to work full-time. They often choose progressive early retirement, and a part-time contract permits them to

Table 4.5 Employment contracts according to age, 1998 (percentages)

| Age of workers | Rate of temporary contracts | Rate of part-time contracts (share of "involuntary" part-time) | Rate of temporary part-time contracts |
|--------------------|-----------------------------|--|---------------------------------------|
| Less than 25 years | 32.3 | 28.5 (57.0) | 10.2 |
| 25–39 years | 9.9 | 17.3 (46.0) | 3.2 |
| 40–49 years | 5.0 | 17.0 (40.0) | 2.0 |
| 50–54 years | 3.8 | 15.3 (35.0) | 2.0 |
| Over 55 years | 3.5 | 23.5 (19.0) | 2.0 |

Source: Enquête Emploi, INSEE.

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Table 4.6 Employment contracts according to occupation, 1998 (percentages)

| | Rate of temporary contracts | Rate of part-time contracts (share of "involuntary" part-time) | Rate of temporary part-time contracts |
|------------------------------------|-----------------------------|--|---------------------------------------|
| Managers, engineers, professionals | 3.0 | 9.0 (28.0) | 1.0 |
| Intermediate occupations | 5.4 | 13.4 (31.5) | 1.8 |
| Clerical workers | 9.3 | 32.0 (43.0) | 5.3 |
| Blue-collar workers | 14.0 | 10.7 (57.0) | 3.0 |

Source: Enquête Emploi, INSEE.

reduce their working hours at the end of their career. This measure has been successful because it reconciles the expectations of the three different groups of actors: employers seek separation from older workers with obsolete skills; the Government is trying to reduce unemployment by substituting young unskilled people and the long-term unemployed for older workers; and older workers, no longer able to benefit from definitive early retirement, are choosing progressive early retirement.

Occupations

The share of regular and non-regular jobs also differs by occupation. Non-regular jobs concern two occupational groups in particular, blue-collar and white-collar workers, who together account for almost two-thirds of workers. Both temporary jobs and part-time work are common among clerical workers. As we can see in table 4.6, 14 per cent of blue-collar workers hold a temporary job and, though less frequently in part-time jobs, they often desire full-time work when they do. At the opposite extreme, managers are protected from precarious jobs (97 per cent hold a permanent job) and from part-time jobs. Managers in part-time jobs have often chosen this arrangement.

Gender

Although temporary contracts are more or less equally distributed between men and women (table 4.7), this is not the case for part-time work. Almost a third of women workers are in part-time jobs and most of them prefer this to full time. Nevertheless, 39 per cent of women part-timers would prefer full-time work, which is quite a high rate compared to other OECD countries.

Table 4.7 Employment contracts according to sex, 1998 (percentages)

| | Temporary contracts | Part-time contracts (share of "involuntary" part-time) | Temporary part-time contracts |
|--------|---------------------|---|----------------------------------|
| Male | 8.3 | 5.6 (59.0) | 2.0 |
| Female | 9.7 | 32.4 (39.0) | 4.7 |

Source: Enquête Emploi, INSEE.

The three criteria of age, occupation and sex reveal strong disparities in the labour market. Two-thirds of young, female blue-collar workers hold temporary jobs (fixed-term contracts, agency work and temporary jobs in the public sector) and more than a quarter (28 per cent) work part time. The proportions are reversed for young female clerks in the private sector: 62 per cent are part-time workers and one-third hold temporary jobs. In contrast, 96 per cent of male managers aged 40–49 hold a permanent job. The same is true of men in intermediate professions.

Flexibility is provided by specific categories of workers: young people, the unskilled and women. The combination of several disadvantages (age and skill, for example) leads to a high probability of atypical (flexible) jobs, if not unemployment. The analysis of labour market transitions will permit a more precise statement of this diagnosis.

Flows and transitions in the labour market

Contrary to expectations, the French labour market, which is usually considered to be rigid, is in fact very dynamic. At the beginning of the 1990s, job rotation was even higher in France than in the United States (OECD, 1996). More precisely, from 1987 to 1992, entry and exit flows represented between 55 and 60 per cent of the total stock of employment each year. This far exceeds what would be necessary to adjust employment to economic fluctuations (Lagarde, Maurin and Torelli, 1996).

We need to understand the reason for so many movements and their consequences for individuals. To address this question, flows and transitions will be studied from two points of view. First, we will study entry and exit flows into firms, then we will examine individual trajectories.

Hiring and firing practices: Insiders versus outsiders

Goux and Maurin (2000) studied entry and exit flows in a sample of 1,181 French establishments, following them monthly between January 1991 and December 1997. The study shows that firms offer two types of job, held by different types of worker. They differentiate between high-seniority workers (in the firm for more than one year) and newly hired, low-seniority workers (in the firm for less than one year). The share of the latter is relatively low in most firms: on average 10 per cent

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Table 4.8 Importance and volatility of jobs held by low-seniority workers

| | Share of low-seniority workers (%) | Variation coefficient of low-seniority workers | Variation coefficient of high-seniority workers | Variation coefficient of low-seniority workers/high-seniority workers |
|---------------------|------------------------------------|--|---|---|
| Mean | 10.9 | 56.6 | 8.1 | 10.7 |
| Median ^a | 8.8 | 50.6 | 6.5 | 8.3 |
| First decile | 1.8 | 29.0 | 2.6 | 2.9 |
| Last decile | 22.1 | 90.7 | 15.5 | 21.0 |

Note: For each establishment and each month, L_{0t} (L_{1t}) represents the number of workers with less (more) than one year of seniority in their establishment and L_t the total number of workers in the establishment (i.e. $L_{0t} + L_{1t}$). For each establishment, $M(L_{0t}/L_t)$ represents the mean of the share of low-seniority workers in total employment for the 1992–97 period; $Cv(L_{0t})$ ($Cv(L_{1t})$) represents the variation coefficient (i.e. 100 times the ratio between mean and standard deviation) for the number of low-seniority (high-seniority) workers for the same period. The first column describes the main features of the distribution of $M(L_{0t}/L_t)$ across establishments. The second (third) column describes the distribution of $Cv(L_{0t})$ ($Cv(L_{1t})$). The last column describes the distribution of the ratio $Cv(L_{0t})/(Cv(L_{1t}))$ across establishments.

^a In 50 per cent of the establishments, we observe no more than 8.8 per cent workers with less than one year of seniority, and the variation coefficient for the number of workers with less than one year of seniority is greater than 50.6. In 50 per cent of the establishments, the variation coefficient for low-seniority workers is 8.3 times greater than the variation coefficient for high-seniority workers.

Source: Goux and Maurin, 2000.

of the payroll. However, from one month to another, fluctuations among new entrants are ten times greater than among high-seniority workers (table 4.8).

It appears that there are two separate groups of workers in firms. On the one hand, high-seniority workers constitute the core and are considered as a quasi-fixed factor of production. As a result, they are protected from short-term employment adjustments and they are laid off only in the case of structural changes. On the other hand, flexibility relies on the margin: namely, low-seniority workers who are continually hired and fired.

Two factors may explain the huge difference in employment volatility between these two groups. The first is a question of human resource management issues, which are not specific to France. Temporary jobs, mainly fixed-term contracts, are

Table 4.9 Average length of employment tenure in the same firm (years)

| | < 1 year | 1–5 years | 5–10 years | > 10 years | All workers |
|------|----------|-----------|------------|------------|-------------|
| 1990 | 0.80 | 3.00 | 7.90 | 19.30 | 10.25 |
| 1992 | 0.65 | 2.80 | 7.80 | 19.50 | 10.20 |
| 1994 | 0.67 | 3.10 | 7.50 | 19.80 | 10.60 |
| 1996 | 0.66 | 3.00 | 7.40 | 20.60 | 10.80 |
| 1998 | 0.64 | 2.90 | 7.60 | 20.90 | 10.90 |

Source: Enquête Emploi, INSEE.

Table 4.10 Distribution of workers in the private sector by length of employment tenure (percentages)

| | < 1 year | 1–5 years | 5–10 years | > 10 years | Total |
|------|----------|-----------|------------|------------|-------|
| 1990 | 16.8 | 24.0 | 17.8 | 41.4 | 100 |
| 1992 | 15.2 | 27.7 | 15.6 | 41.5 | 100 |
| 1994 | 13.7 | 27.7 | 15.8 | 42.8 | 100 |
| 1996 | 14.8 | 24.6 | 18.6 | 41.9 | 100 |
| 1998 | 15.5 | 24.0 | 19.3 | 41.2 | 100 |

Source: Enquête Emploi, INSEE.

held by new entrants: as they have not yet acquired firm-specific skills, their jobs are not important for enterprise productivity. Thus, the firm will absorb economic shocks by hiring and separating from these low-seniority workers. On the other hand, high-seniority workers with firm-specific skills in which the employer has invested hold permanent jobs: varying high-seniority employment means creating and destroying firm-specific human capital. Consequently, laying off high-seniority workers generates important adjustment costs for firms.

The second reason might be institutional and thus specific to France. French EPL protects workers who already have a degree of seniority in their firm. For short-term employment, firms can use fixed-term contracts, which are not covered by laws governing lay-offs from regular employment. As legal restrictions limit the renewal of these contracts, they only contribute to the employment flexibility of low-seniority workers and reinforce the asymmetry between high- and low-seniority workers.

In the private sector, the gap between high- and low-seniority workers widened during the 1990s: average tenure among low-seniority workers (less than one year) decreased from 0.8 years in 1990 to 0.6 years in 1998 (table 4.9). The reverse was true of salaried employees with more than ten years' seniority: their average tenure increased by more than one year. As high-seniority workers are more numerous than recently hired workers (table 4.10), total average tenure tended to increase over the last decade. This increase results from two opposite movements: greater stability for the core and a higher degree of precariousness for the margin.

Table 4.11 Aggregate hiring rates in 1990

| | France | United States |
|---------|--------|---------------|
| Males | 5.97 | 23.80 |
| Females | 4.77 | 29.40 |

Source: Saint-Paul, 2000.

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Table 4.12 Aggregate rates of job loss in 1990

| | France | United States |
|---------|--------|---------------|
| Males | 0.50 | 2.84 |
| Females | 0.83 | 3.18 |

Source: Saint-Paul, 2000.

Individual transitions on the labour market

The previous section distinguished between two groups of workers and two types of jobs (high-seniority workers holding open-ended contracts and low-seniority workers holding fixed-term contracts). The next question is: how important are flows between the two? Moreover, what are the flows between employment, stable or not, and unemployment? To answer these questions, we will look at individual transitions on the labour market.

One point has to be stressed: the total number of transitions from and to employment on the French labour market is as high as in the United States, but in France these transitions are mainly from one job to another and much less frequently from employment to unemployment or from unemployment to employment. Consequently, the exit rates from unemployment and the entrance rates into employment are very low.

More specifically, the hiring rate in France is lower than in the United States, the average difference being a ratio of one to five (four for men and six for women; table 4.11). At the same time, France has much lower rates of job loss than the United States (table 4.12). How can this huge difference be explained? According to Cohen, Lefranc and Saint-Paul (1997), there is a two-way causality at work. One may argue that low separation causes low hiring, in that low separations reflect high firing costs whose effects are to reduce hiring. But it may also be that if hirings are low for exogenous reasons, then separations will also be low because workers will be reluctant to leave their firm. In this case low hiring causes low separation.

Transitions between employment, unemployment and inactivity

Transitions between the different types of employment, unemployment and inactivity are given in table 4.13. We will mainly focus here on transitions from and into unemployment, and on transitions from and into atypical employment.

Since the middle of the 1980s, the probability of leaving unemployment has been low (L'Horty, 1997; Bloch and Estrade, 1998/1999). Since the beginning of the 1990s, nearly 55 per cent of those who were unemployed in any given year

Table 4.13 Probability of transition between permanent job, atypical work, unemployment and inactivity, 1991–98 (percentages)

| Situation in year $n-1$ ^a | Situation in year n | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|--------------------------------------|----------------------------|------|------|------|------|------|------|------|
| Permanent job ^b | Permanent job | 92 | 92 | 92 | 93 | 93 | 92 | 93 |
| | Atypical work ^c | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| | Unemployment | 3 | 4 | 4 | 3 | 3 | 3 | 3 |
| | Inactivity | 4 | 3 | 3 | 3 | 3 | 3 | 3 |
| Atypical work | Permanent job | 35 | 33 | 28 | 29 | 29 | 27 | 29 |
| | Atypical work | 31 | 31 | 33 | 39 | 38 | 39 | 42 |
| | Unemployment | 28 | 30 | 33 | 26 | 28 | 28 | 24 |
| | Inactivity | 6 | 7 | 7 | 6 | 5 | 5 | 5 |
| Unemployment | Permanent job | 19 | 18 | 18 | 18 | 17 | 15 | 16 |
| | Atypical work | 12 | 15 | 14 | 17 | 15 | 15 | 16 |
| | Unemployment | 55 | 53 | 56 | 54 | 57 | 57 | 57 |
| | Inactivity | 14 | 14 | 12 | 11 | 11 | 12 | 11 |
| Inactivity | Permanent job | 6 | 6 | 5 | 5 | 5 | 5 | 5 |
| | Atypical work | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| | Unemployment | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| | Inactivity | 88 | 88 | 89 | 89 | 88 | 89 | 88 |

^a For example, where year n is 1992, 92 per cent of people with a permanent job in March 1991 held a permanent job a year later.

^b Open-ended contracts in the private and the public sectors.

^c Fixed-term contracts, temporary agency work, training schemes and temporary jobs in the public sector, among workers aged 15–64.

Source: Bloch and Estrade, 1998/1999.

were still unemployed a year later. Only 30 to 35 per cent found a job, and the proportion of temporary jobs has continually increased (table 4.13).

That jobseekers have difficulty in finding employment is the main conclusion of a study carried out by Canceill and Huyghues Despointes (1999) on 6,480 unemployed people registering with ANPE for the first time.³ Analysis of the individual trajectories showed that the process of finding or re-finding a job has lengthened during the 1990s, and that it now takes several years. More precisely, less than half (42 per cent) of the unemployed people in their sample had found work one year after registering with ANPE and just over half (55 per cent) after 33 months. Eighty per cent of subjects followed one of three types of transition. Twenty-nine per cent of individuals experienced recurrent unemployment: they failed to obtain a permanent job and rotated between unemployment and short-term

³ The ANPE (*Agence nationale pour l'emploi*) is the public employment service in France.

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Table 4.14 Percentage of workers remaining in employment (insiders and outsiders), according to length of survey period (non-attrition rate)

| | Male | Female |
|------------------|-----------------|--------|
| <i>Insiders</i> | | |
| 6 months | 98 ^a | 96 |
| 1 year | 92 | 90 |
| 2 years | 89 | 87 |
| <i>Outsiders</i> | | |
| 1 months | 90 | 90 |
| 3 months | 74 | 73 |
| 6 months | 60 | 58 |
| 1 year | 47 | 45 |
| 2 years | 36 | 35 |

^a Reading: 98 per cent of male insiders had not experienced non-employment after 6 months.

Source: Cohen and Dupas, 2000.

contracts. Twenty-eight per cent of subjects found themselves in long-term unemployment, while 22 per cent obtained a new job quite quickly.

Segmentation within the pool of workers resulting from the hiring and firing practices described in the previous section can also be analysed from the point of view of individual transitions from and into employment. Cohen and Dupas (2000), in their comparative study of transitions on the French and the American labour markets, distinguish between high-seniority workers (with seniority of more than one year), the “insiders”, and low-seniority workers (with seniority of less than one year), “the outsiders”. As can be seen in table 4.14, in France only 11 per cent of male insiders and 13 per cent of female insiders had experienced at least one period of non-employment (unemployment or inactivity) after two years, while nearly 40 per cent of male and female outsiders had been unemployed at least once after six months. The relevant figures for the United States are 20 per cent and 15 per cent respectively. In other words, recently hired workers (outsiders) are far less protected than high-seniority workers (insiders), confirming our earlier suggestion, and the insider/outsider gap is much wider in France than in the United States. This is particularly the case for the young (under 30): over half (54 per cent of men and 57 per cent of women) have experienced non-employment after 12 months (table 4.15). In the same way, only 42 per cent of unskilled people remain in employment. According to the authors, unemployment is “a double trap”: the job obtained is often temporary and the transition from unemployment to a permanent job is longer.

While unemployment is becoming a long-term state, permanent employment tends to remain very stable, and this stability has not decreased during the last

Table 4.15 Percentage of workers (insiders and outsiders) having remained in employment over a 12-month period, according to age and skill (non-attrition rate)

| | Male | Female |
|------------------|-----------------|--------|
| <i>Insiders</i> | | |
| 25–30 years old | 90 ^a | 93 |
| 30–50 years old | 94 | 92 |
| 50–60 years old | 86 | 87 |
| Unskilled | 82 | 87 |
| Skilled | 93 | 91 |
| <i>Outsiders</i> | | |
| 25–30 years old | 46 | 43 |
| 30–50 years old | 47 | 55 |
| 50–60 years old | 50 | 49 |
| Unskilled | 43 | 42 |
| Skilled | 50 | 47 |

^a Reading: 90 per cent of male insiders aged 25–30 years old had not experienced non-employment by the end of the survey period of 12 months.

Source: Cohen and Dupas, 2000.

decade. Ninety-three per cent of permanent workers in 1997 held the same job a year later (the figure was 92 per cent in 1990). The probability of leaving a stable job for a temporary one or for unemployment or inactivity is very low and has not changed over the decade.

In contrast, temporary jobs are not stable. They lead to three different situations: a permanent job, another temporary job or unemployment. At the

Table 4.16 Reasons for unemployment (according to ILO criteria) in 1998

| | Number | Percentage |
|---|------------------|------------|
| End of temporary contract | 1 175 452 | 39 |
| End of military service | 59 294 | 2 |
| Laid off | 863 056 | 28 |
| Quit | 170 421 | 6 |
| New entrant to labour market (students) | 286 394 | 9 |
| Stopped working or never worked | 281 312 | 9 |
| Other | 214 221 | 7 |
| Total | 3 050 150 | 100 |

Source: Enquête Emploi, INSEE.

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Table 4.17 Employment situation of involuntary part-time workers,^a 1994–96

| Situation in 1996 | Situation in 1994 | | |
|-----------------------|-----------------------------|----------------------------|--------------------------|
| | Part-time > = 30 hours/week | Part-time 15–29 hours/week | Part-time <15 hours/week |
| Full-time job | 43 | 24 | 14 |
| Involuntary part-time | 23 | 39 | 45 |
| Chosen part-time | 19 | 19 | 24 |
| Unemployment | 9 | 10 | 10 |
| Inactivity | 6 | 8 | 7 |
| Total | 100 | 100 | 100 |

^a Workers in the private sector except students, people on training schemes and those holding a temporary job in the public sector.

Source: Enquête Emploi, INSEE.

beginning of the 1990s, it was more common to find a permanent job than to move into temporary work or unemployment. At the end of the decade, the opposite was true: temporary workers mostly remained in this type of job and they more rarely found a permanent job. Only 29 per cent of atypical workers in 1997 found a permanent job in 1998, against 35 per cent in 1992. The proportion of those leaving a job was nearly the same in 1996 as in 1992. The non-renewal of fixed-term contracts and agency work were the main reasons for being unemployed (table 4.16).

The destination of part-timers wanting to work longer hours depends on their current working time. The longer their working time, the more likely they are to obtain a full-time job (table 4.17). Those who work less than 30 hours per week often keep their involuntary part-time job, especially those working less than 15 hours per week. Those working more than 30 hours get a full-time job more easily. The difficulty in moving from involuntary part-time work to a full-time job can be explained by the fact that part-time jobs enable firms to lengthen their opening hours and to adjust their staff to the number of clients during the day, week or month.

Transitions according to individual characteristics

Transitions depend on individual characteristics. Between 1970 and 1996, young people (under 25) suffered from declining employment stability: their exit rate from employment rose from 10 per cent in 1970 to reach 21 per cent in 1996. However, the probability of an unemployed person being in a job one year later is higher for young workers than for adults, especially the elderly, though the jobs they hold are increasingly precarious. Indeed, for young people temporary employment has become the main destination after unemployment more than for the other

Table 4.18 Probability of transition between permanent job, atypical work, and unemployment or inactivity, 1997–98, by age and sex (percentages)

| Situation in 1997 | Situation in 1998 | Male | | | Female | | |
|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | 15–29 years old | 30–49 years old | 50–59 years old | 15–29 years old | 30–49 years old | 50–59 years old |
| Permanent job | Permanent job | 91 | 97 | 90 | 87 | 94 | 90 |
| | Atypical work | 3 | 1 | 1 | 3 | 1 | 0 |
| | Unemployment | 5 | 2 | 3 | 5 | 3 | 3 |
| | Inactivity | 2 | 0 | 7 | 5 | 2 | 7 |
| Atypical work | Permanent job | 32 | 28 | 31 | 28 | 28 | 21 |
| | Atypical work | 40 | 43 | 42 | 41 | 41 | 51 |
| | Unemployment | 21 | 27 | 22 | 24 | 24 | 23 |
| | Inactivity | 7 | 2 | 4 | 6 | 6 | 4 |
| Unemployment | Permanent job | 20 | 22 | 10 | 19 | 15 | 8 |
| | Atypical work | 23 | 16 | 6 | 20 | 15 | 8 |
| | Unemployment | 50 | 58 | 72 | 47 | 59 | 72 |
| | Inactivity | 8 | 4 | 12 | 14 | 11 | 13 |
| Inactivity | Permanent job | 7 | 10 | 2 | 6 | 8 | 2 |
| | Atypical work | 5 | 3 | 0 | 4 | 1 | 0 |
| | Unemployment | 5 | 7 | 3 | 6 | 5 | 2 |
| | Inactivity | 83 | 80 | 95 | 85 | 85 | 96 |

Note: See table 4.13, notes b and c.

Source: Bloch and Estrade, 1998/1999.

age groups. The probability of holding a permanent job after a temporary one is higher for young males (15–29 years old) than for older men, and higher for women under 50 than for older women (table 4.18).

Trajectories are very different at the other end of the age scale. Older jobless people are close to exclusion from the labour market: the probability of being out of work for two years is far higher for the over 50s than for other age groups. The probability of remaining unemployed for two years increases with age and the likelihood of finding a job, stable or not, decreases.

The situation is very different for the 30–49 age group. For this age bracket, permanent employment is more stable for both female and male workers. Ninety-seven per cent of men and 94 per cent of women in this group with a permanent job in 1997 still had this type of job in 1998.

The level of education also has an effect on labour market mobility. Qualifications increase the probability of moving into a permanent job after a temporary one. Moreover, the higher the level of education, the greater the probability of finding a job, permanent or not, after unemployment. Education also

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Table 4.19 Monthly job loss rates according to age

| Age (years) | Education | Male | | Female | |
|----------------|-----------|-------------|---------------|-------------|---------------|
| | | France | United States | France | United States |
| 16–24 | Very high | 1.25 | 1.28 | 1.63 | 1.94 |
| | High | 2.94 | 8.81 | 2.46 | 6.38 |
| | Medium | 2.49 | 4.41 | 2.31 | 6.99 |
| | Low | 3.24 | 10.87 | 2.99 | 13.78 |
| 25–49 | Very high | 0.38 | 1.27 | 0.48 | 1.98 |
| | High | 0.49 | 1.56 | 0.53 | 2.80 |
| | Medium | 0.47 | 2.34 | 0.77 | 2.94 |
| | Low | 0.69 | 5.40 | 1.04 | 5.58 |
| 50–64 | Very high | 0.52 | 1.55 | 0.52 | 1.43 |
| | High | 0.46 | 2.39 | 0.81 | 2.44 |
| | Medium | 0.77 | 2.70 | 0.68 | 3.79 |
| | Low | 1.15 | 3.58 | 0.89 | 6.36 |
| Average | | 1.24 | 3.84 | 1.26 | 4.70 |

Source: Cohen, Lefranc and Saint-Paul, 1997.

improves the likelihood of keeping a stable job. At the opposite extreme, the probability of being out of a job after a short-term contract is far higher for young unskilled people (without qualifications) than for other categories. In particular, young unskilled women are close to exclusion: they have a 45 per cent probability of remaining jobless, and only a 10 per cent chance of finding a permanent job after being unemployed the previous year.

Cohen, Lefranc and Saint-Paul (1997) combined the two criteria (age and education) to compute monthly job loss rates and monthly hiring rates in France and the United States (tables 4.19 and 4.20). They show that within age groups, the dispersion of job loss rates is much lower in France than in the United States, but dispersion is much higher between age groups. For example, job loss rates are twice as high for young workers in the United States than middle-aged workers, while in France they are five times as high. On the other hand, while American workers with little education have a job loss rate that is four times greater than the highly educated group, the French ratio is only two to one. In France, high separations are associated with high hiring rates for youth and middle-aged workers, with little difference across skills. In contrast, French workers aged 50–64 experience low hiring rates and high separation rates.

The institutional features of the French labour market explain this situation. As we have already pointed out, the system is organized as a two-tier market based upon two types of contract: short-term and long-term. Almost all new entrants,

Table 4.20 Monthly hiring rates, France and the United States, according to age, education and sex

| Age (years) | Education | Male | | Female | |
|----------------|-----------|-------------|---------------|-------------|---------------|
| | | France | United States | France | United States |
| 16–24 | Very high | 9.68 | 40.00 | 21.27 | 50.00 |
| | High | 11.59 | 29.13 | 12.17 | 34.44 |
| | Medium | 10.78 | 33.14 | 9.56 | 24.56 |
| | Low | 8.30 | 26.56 | 7.01 | 24.19 |
| 25–49 | Very high | 8.15 | 22.43 | 8.37 | 27.16 |
| | High | 6.35 | 28.80 | 6.99 | 24.29 |
| | Medium | 7.84 | 32.03 | 6.82 | 25.72 |
| | Low | 5.26 | 30.00 | 4.17 | 22.13 |
| 50–64 | Very high | 3.03 | 14.81 | 1.52 | n.a. |
| | High | 0.96 | 25.93 | 2.16 | 23.08 |
| | Medium | 1.66 | 29.67 | 2.00 | 26.00 |
| | Low | 1.05 | 36.67 | 0.65 | 16.22 |
| Average | | 6.22 | 26.94 | 6.89 | 24.82 |

n.a. = not available.

Source: Cohen, Lefranc and Saint-Paul, 1997.

mainly young workers but also women, are hired on short-term contracts and thus experience the higher separation rates. These groups bear the burden of flexibility. According to Cohen et al. (1997), the disparity between France and the United States might also be a reflection of “irreducible” cultural differences with respect to employment termination, or there may be an “implicit contract” of a different kind that makes it difficult for a firm to fire a worker. The greater differences for the middle-aged groups arise from the combined effect of culture and regulation.

Conclusions

Increased segmentation

At first glance, the growth of temporary and part-time jobs during the last 15 years does not seem to have altered the fact that a permanent full-time job is the global employment norm. However, this growth has segmented the French labour market. On the one hand are insiders, with high seniority, who hold the permanent full-time jobs; skilled prime-age males are the core of this category. Insiders benefit from high stability of employment, which has not decreased in the last decade in spite of economic fluctuations. This stability is due to firm-specific skills, but as it appears to be higher in France than in some other countries, we will have to assess whether or not it is a consequence of EPL. On the other hand, there are

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the outsiders, who bear the burden of flexibility. They hold part-time and temporary jobs, which enable firms to continually adjust to short- and medium-term shifts in the business environment. Outsiders suffer from precariousness, vulnerability to unemployment and difficulty in obtaining permanent jobs. All told, individual trajectories in the two segments of the labour market are quite distinct. Insiders keep their permanent and regular jobs, while outsiders move between short-term contracts and unemployment. To put it in another way, employment protection for some seems to require insecurity for others.

The “partition” versus the “labour queue” models

Defining the duality of the labour market in terms of “segmentation” and “insiders/outside” is ambiguous, as these are overlapping descriptions from opposing models. The first term mainly refers to employment (jobs and occupations), while the second refers to individuals. Employment segmentation in France results from the contrast between open-ended contracts and atypical contracts, or the “primary” and “secondary” labour markets. From this point of view, the secondary labour market has expanded in the last two decades. But how can we link this evolution in employment with the experience of individual workers?

There are two opposing models of labour market segmentation. According to the labour queue model, secondary jobs are a step on the way to primary jobs; new labour market entrants have to queue in unemployment or temporary jobs, waiting for a permanent position; they are temporary outsiders. According to the partition model,⁴ the secondary and primary sectors are separate worlds, with no bridge between them; outsiders are trapped in secondary jobs.

Of course, all real labour markets are somewhere between these models, which represent the two extremes of the same continuum. In France, age, which is a temporary characteristic, plays a very important role in defining the outsiders who hold a temporary job.⁵ This would suggest that the labour queue model prevails. However, outsider categories defined by more permanent characteristics, such as being unskilled or a woman, are better described by the partition model. There would seem, therefore, to be various types of outsider: short-term, long-term and permanent.

From a very global point of view, all the data analysed in this section seem to show that the French labour market has shifted away from the labour queue model during the past 20 years and moved nearer to the partition model. The duration of queuing before finding a permanent job has increased; in other words, the gap between the secondary and the primary sector has widened. Moreover, we can assume that the pool of permanent outsiders (those who will remain in the secondary sector throughout their active life) has increased, especially among less

⁴ The word “partition” refers to the mathematical concept: there is partition when a set is entirely divided into subsets that do not intersect.

⁵ As we have seen, age is less important in the United States, for instance.

skilled workers. Long-term panel data would be needed for a more precise assessment.

Finally, a paradox must be noted. Even if the majority of employees seem to be relatively protected from job loss, the feeling of insecurity is quite widespread among French workers. According to OECD data on perceived job security (see Chapter 1, figure 1.1), 37 per cent of French workers felt unsure of a job with their company even if they performed well; this proportion was the same in the United States and only 20 per cent in Denmark, two countries with much less EPL. We will return to this in our conclusion.

4.3 INTERACTIONS BETWEEN EPL AND LMP: REGULATIONS, INSTITUTIONS AND PROGRAMMES

As mentioned in our introduction, at a very global level there seems to be a complementarity rather than a trade-off between employment protection legislation and labour market policy in France. But this gross correlation is not necessarily valid at a less aggregate level: the links between EPL and LMP can vary widely for different categories of workers, according to age, gender, tenure or skill. There could even be an inverse relation. We have shown that the French labour market is segmented. One might imagine that those who benefit from high EPL enjoy less LMP and, conversely, that LMP is targeted at outsiders, with high unemployment rates, high turnover and low job security. In this case, the duality of EPL would be offset by dual LMP: the hypothesis of a trade-off between the two would be valid, even if at the macro level it appears that France combines high EPL and high LMP. But things are not that simple. We must not only distinguish between different types of worker, but also separate active and passive labour market policy.

After a brief survey of EPL and its evolution over time, we focus in this section on the LMP measures aimed at displaced workers, mainly in the context of “social plans”. Our analysis leads to the conclusion that the unemployment compensation system favours the insiders, partly because it is based on the principle of an insurance scheme, but maybe also because it is ruled by unions and employers’ organizations. Finally, we examine the labour market policies aimed at outsiders – mainly young and hard-to-place workers.

EPL: Limited deregulation, increased segmentation

With respect to regulation, it is necessary to distinguish regular employment (open-ended contracts) from atypical employment (fixed-term contracts and agency work). Beyond regulation, special protection for older workers relying on financial incentives must also be mentioned.

Protection of regular employment

According to an OECD comparative study of EPL strictness in the late 1990s, France offers relatively strict protection for regular employment, though not as

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much as Germany, Italy, Japan, the Netherlands, Spain or Sweden. If the Anglo-American countries are not taken into account, among the OECD countries only Belgium, Denmark, Finland and Ireland offer less employment protection (OECD, 1999b).

The legal restrictions on dismissal in France were relatively strong until the mid-1980s, when in 1986 the right-wing Government abolished the mandatory administrative authorization of collective dismissals. In 1989, after the return to power of a left-wing Government, a new law re-extended the role of the public administration in collective dismissals by introducing the concept of the “social plan” to offset the potential negative effects of abolishing prior authorization.⁶ From this point, every firm with more than 50 employees had to implement a social plan if it dismissed ten people or more within a period of 30 days. The aim of the social plan is to keep dismissals to a minimum (all other alternatives must be explored, especially in-house transfers); when dismissal cannot be avoided, the employer has to participate in the retraining and “re-employment” (“*reclassement*”) of displaced workers.⁷ The requirements concerning social plans were reinforced in 1993, in a context of severe recession and heavy downsizing. Social plans now have to make detailed provisions (as opposed to general declarations), and cannot resort only to early retirement. Other alternatives (retraining, creating new job opportunities, and so forth) are detailed in the text of the law, thus explicitly linking EPL with active LMP. Since 1998, with the implementation of the first law concerning reducing the working week to 35 hours, firms have to explore all possible means of avoiding redundancies by reducing and reorganizing working time. If the judge considers that the firm has not made a sufficient effort to avoid redundancies, the social plan can be declared void.

The social plan is based on the social responsibility of employers, limiting opportunistic behaviour by employers, and establishing a better balance in the risk sharing which is inherent to the employment relationship. In particular, it aims to limit opportunistic behaviour in the context of unemployment compensation (employer’s moral hazard), where the employer, knowing that redundant workers will receive unemployment benefits, may adopt a more flexible manpower policy, with high turnover.

This concept of social responsibility is not merely political (ideological), because it can be grounded on economic considerations (see Büchtemann and Walwei, 1996): the employment relationship creates a “surplus” (“economic rent”) for both employee and employer. This relation may imply hidden costs, in

⁶ There was a 17 per cent rise in collective dismissals between December 1985 and December 1986, and there are data supporting the suggestion that the dismissed workers, who had enjoyed permanent status, were in fact replaced by temporary employees.

⁷ Another law implemented in 1992 (following the EC Directive 92/56/EEC of 24 June 1992) increased the procedures and rights of workers facing economic dismissal, extending the concept of economic dismissals to every case of separation stemming from a firm’s economic problems (including quits, for instance).

particular for employees who invest in firm-specific human capital and then accept transferable jobs in which they do not accumulate any general human capital or may even lose it (repetitive unskilled jobs, for instance). This is the most obvious example of the general problem of negative externalities stemming from dismissals: they imply social costs beyond the individual loss of income and/or well-being of the redundant worker.

Social responsibility means that employers must assume part of the private and social costs of dismissals. In some countries, such as the United Kingdom, the employers' contribution is limited to (possibly high) severance pay, which amounts to a kind of "voucher" that the workers concerned can spend as they like. But the requirements of the social plan are different. Except for early retirement measures, they are based less on simple income maintenance than on promoting employability, described by Esping-Andersen (1996) as the social investment strategy – an investment co-financed by the employer and the Government.

The social plan substitutes simple employment protection with mixed (private and public) LMP. However, the trade-off between EPL and LMP remains very partial, as the workers concerned benefit from both high EPL and high LMP. The paradox is that this substitution relies on a reinforcement of judicial power. Judges do more than check that the dismissal procedure complies with clearly established rules. They have discretion in deciding if a social plan is good or bad. They can act as a deterrent. Their power to declare that a social plan is void tends to ensure that employers do not take advantage of the weakness of employees (trade union membership in the private sector in France is less than 10 per cent). This sword of Damocles seems to be effective.⁸ In 1993, for instance, which was the first year the more restrictive law (voted in January) was implemented, only 80 out of 2,000 social plans (4 per cent) were declared void. But the data are ambiguous: they could also mean that implementation of the law is much less restrictive than its formulation. It must be borne in mind that the law applies only to collective dismissals (at least ten employees), and that often employers circumvent it by (repeatedly) laying off smaller groups of workers. In fact, only 15 per cent of all dismissals in 1993 were covered by social plans.

As for ordinary dismissals (not necessarily collective), French law requires employers to define their criteria for deciding which workers to lay off. Seniority is one criterion: if discrimination against a high-seniority worker can be proved, the employer can be sued for unfair dismissal. But workers who have been with the firm for less than six months can be laid off for economic reasons without notice or unemployment benefits. Workers who have been with the firm for more than two years must be given two months' notice and severance pay.

⁸ Incentives also play an important role: the measures included in the social plan are mostly financed by the National Fund for Employment (*Fonds national pour l'emploi* – FNE), which is a branch of the Ministry of Labour. The FNE can refuse to participate if it considers the social plan to be insufficient.

Protection of atypical employment

The regulation of fixed-term contracts and temporary agency work has seen a number of changes, but no clear trend towards increasing deregulation (see Rogowski and Schömann, 1996, and Malo et al., 2000, for surveys). The common rules for atypical forms of employment were introduced in 1972. The rules were relaxed to some extent in 1979, but this trend was reversed in 1982 by the left-wing Government. In 1986, the right-wing Government permitted firms to hire fixed-term or temporary workers for their normal (non-temporary) activities, while the maximum period for such arrangements was extended to two years.⁹ In 1990, after the return to power of a left-wing Government, a new law restricted the use of temporary contracts.

The main trends in the legal regulation of atypical employment since the end of the 1970s are the following. First, the regulations governing fixed-term contracts and temporary agency work have tended to converge. Second, restrictions on the use of these types of employment contract have been lessened. Third, workers have gained more rights in terms of vocational training, unemployment benefits, compensation for lack of job security and protection against occupational hazards, implying a move towards a trade-off between lower EPL and higher LMP (both active and passive).

Since the law of 1990, regulations on the use of temporary agency work and fixed-term contracts have been harmonized and restricted. Generally, the maximum duration is 18 months, and only one renewal is possible during this period. At the termination of the contract, the employee receives compensation for a precarious job, which is 6 per cent of the gross wage for a fixed-term contract (except for seasonal work), and 10 per cent in the case of temporary agency work. The use of fixed-term contracts and temporary agency work is only allowed in four cases: temporary absence of a permanent employee; temporary increase in the firm's activity; seasonal work; in sectors where it is not usual to have open-ended contracts. The use of temporary agency work is explicitly forbidden for a permanent job, to replace a worker on strike, for dangerous tasks, or within six months of a collective dismissal.

According to an OECD study (1999b), atypical employment regulation in France was one of the strictest among the OECD countries.¹⁰ Nevertheless, as the OECD noted and as we have seen in section 4.2, these restrictions "do not seem to have prevented French companies from making strong use of temporary workers" (OECD, 1999b, p. 64). Various explanations can be given of this apparent paradox. First, the law is less restrictive than it seems, and/or it is circumvented in many sectors. This even occurs in the public sector itself: each year the national educational system, for instance, hires many temporary supply teachers, who are fired during the summer and re-hired in September; supply

⁹ In July 1985, another law was adopted by the left-wing majority, which was a first step toward liberalizing the use of temporary contracts.

¹⁰ Greece and Italy are the only countries where this regulation is more stringent (OECD, 1999b).

teachers can maintain this precarious status for several years, far beyond the legal 18 months. Second, although there are restrictions on temporary work, this remains the only margin of flexibility, given the laws on regular employment. Finally, one must remember that a lot of atypical jobs are in fact labour market policy schemes, particularly aimed at young people.

As Malo et al. argue (2000), “Although later reforms tended to restrict the use of atypical employment, it can safely be argued that the 1986 regulations marked a significant break in the way French firms can resort to temporary arrangements to solve their labour adjustment needs. [These regulations] enlarged the segment of the economy in which job insecurity prevails.” This dual labour market interpretation is supported by several analyses of the French labour market (Saint-Paul, 1996, for instance), and is consistent with our description in section 4.2.

Special protection for older workers

After the ruling on compulsory administrative authorization for dismissal was lifted in 1986, the number of lay-offs of workers over 55 increased considerably. These dismissals were very costly for the unemployment insurance system, given that these workers had high unemployment benefit entitlements and that they were likely to become long-term unemployed. A law was therefore enacted in 1987 introducing the Delalande contribution, whereby employers had to pay a special contribution to the unemployment insurance system (*Union nationale pour l'emploi dans l'industrie et le commerce*, UNEDIC). The contribution varies from the equivalent of one to six months of the dismissed worker's gross wages, where he or she is over 50 years old. If the former employer finds a new job for the employee in another firm, the Delalande contribution is not applicable. In 1988, the law was modified such that firms hiring older unemployed persons do not have to pay the contribution if they then lay them off. Moreover, since a further change was introduced in 1992, the size of the firm is also taken into account when calculating the contribution.

The main schemes included in the social plans

As argued above, social plans introduce a link between EPL and LMP. Redundant workers are entitled to benefit from various schemes, which may be co-financed by the firm, the Government (mainly the FNE), and UNEDIC. We will analyse here the aids to restructuring and the early retirement schemes.

Aids to restructuring

Firms that have to lay off workers can resort to government-financed schemes for their redundant employees. The *convention de conversion* is the main scheme but there are several others, which are financed by the FNE.¹¹

¹¹ For more details, see the DARES documents, published annually.

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The *convention de conversion* was introduced in 1986 along with suppression of the administrative authorization for dismissals. Beneficiaries enter a retraining unit (*unité technique de reconversion*) organized by the ANPE, where they receive job search assistance, skills training and so forth. Regardless of their size, firms must offer all their redundant workers a chance to enter this scheme, a right enshrined in the Labour Code (*Code du Travail*). However, the scheme is restricted to workers under 57 years old¹² with a minimum of two years' service, and it is consequently an insiders' scheme. The justification is that it prevents long-term unemployment among prime-age workers with low skills and (often) long-term employment in the same firm (and so with no transferable skills). Nevertheless, in 1998, out of the 106,000 beneficiaries of the scheme, 26.1 per cent were skilled blue-collar workers, 29.2 per cent skilled white-collar workers, 17.8 per cent technicians, and 8.3 per cent managers or engineers. About two-thirds were between 30 and 50 years old. While they are in a *convention de conversion*, the beneficiaries are not considered unemployed, even though the job contract has been broken. The scheme continues for a maximum of six months, and the allowance from UNEDIC (83.4 per cent of the previous wage for two months, 70.4 per cent for the remaining period) is higher than the unemployment benefit.¹³

The other schemes are much less common. The *convention de cellule de reclassement* for firms with fewer than 2,000 employees provides a follow-up for redundant workers, mainly in the form of job search assistance. The costs are partly covered by the FNE (50 to 75 per cent). In 1998, there were only about 2,000 beneficiaries of this scheme. With a *convention d'allocation temporaire*, displaced workers receive compensation to make up the difference between the new wage and the previous wage. FNE's financial support is a maximum of 75 per cent of the allowance; the rest has to be paid by the firm. In 1998, fewer than 3,000 people benefited from this measure.

The *convention d'aide au passage au temps partiel* is a scheme where the FNE gives a subsidy to maintain a worker's wage when a full-time job is converted to part-time work in order to avoid a dismissal. FNE pays between 20 and 80 per cent of the subsidy, depending on the firm; the employer has to pay the rest of the allowance. The *convention d'aide à la mobilité* provides an allowance to workers who have to move to find a new job. The allowance is financed by the FNE (50 to 70 per cent) and by the firm. This scheme has never been used in practice.

To summarize, between 1986 and 2001 France had in place many schemes in the spirit of the "transitional labour market". There were LMP measures to secure the trajectory of displaced workers, but few schemes were intensively used. This is a very important point, although little attention has been paid to its causes. Were employers not aware of these schemes? Were they too complex? Were the financial incentives too low? Or were there simply too many measures? As no

¹² Workers over 57 can enter an early retirement scheme.

¹³ In addition to the UNEDIC allowance, the firm pays a lump sum for each beneficiary.

systematic evaluation has yet been made, it is not possible to draw clear conclusions, but the 2001 reforms (discussed in section 4.5) were designed in the light of these criticisms so it may be that the contrasts between the old and the new measures will bring different results.

Early retirement schemes

Early retirement schemes have existed in France since the end of the 1960s, and they were expanded drastically during the 1980s to mitigate the social effects of the huge downsizing in traditional sectors such as mining, shipbuilding, textiles, iron and steel. But, as these measures were very costly, it was decided at the end of the 1980s to curb the number of early retirement beneficiaries by reducing the financial incentives. Almost 80,000 people joined this scheme in 1998, while the total number of beneficiaries amounted to 220,000 in that year. Three different types of early retirement exist.

In the context of a social plan, a firm can sign an agreement with the FNE allowing some displaced workers to take early retirement, called the *allocation spéciale du FNE licenciement* (ASFNE). They must be at least 57 years old (special authorization can be requested for those aged 56). They must have paid social security contributions for at least ten years and have a minimum of 12 months' service with the present employer. They must also agree not to take any kind of remunerated job while in (early) retirement. The benefit is 65 per cent of the previous wage under the threshold of about FF15,000 (about EUR2,300), and 50 per cent under FF30,000 (EUR4,600). The benefit is co-financed by the employee (severance pay), the firm, FNE and UNEDIC. The FNE contribution is negotiated with the firm. This margin of discretion provides FNE with a very powerful tool for influencing the social plan, as it cannot rely on early retirement measures alone. The government contribution depends on the quality of the plan, though the size of the firm and its financial situation are also taken into account. As a result, the firm's contribution is usually between 12 and 15 per cent if it has fewer than 500 employees, and between 15 and 23 per cent if it is bigger. About 19,000 people joined this scheme in 1998.

La préretraite progressive is another approach to early retirement. To avoid dismissals, and/or to hire new employees, the firm can propose that its older workers transform their full-time job into a half-time one. The conditions are the same as for the ASFNE, except that beneficiaries can be younger (55 years old). They generally earn 80 per cent of the previous wage. If the firm resorts to this scheme in order to hire new workers, half of them have to be "hard-to-place" unemployed, and two-thirds have to be young. There were only 3,500 new entrants to the scheme in 1998. The cost of partial early retirement is shared between the firm, ASSEDIC (*Association pour l'emploi dans l'industrie et le commerce*, which manages unemployment insurance payments), and the older worker. Since May 1997, the employer has had to pay a financial contribution which depends on the size of the firm and the proportion of "hard-to-place" unemployed people hired.

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In 1997, the employers' confederation and the trade unions signed an agreement (renewable every year) allowing workers who are 58 years old and who have paid at least 40 years' contributions to their pension fund to take early retirement. Their benefit is called the *allocation de remplacement pour l'emploi* (ARPE), and is financed by the unemployment insurance system. The firm has to maintain the total number of working hours with one or several new hires. More than 43,000 people took advantage of this scheme in 1998. The scheme has now been replaced by the *plan d'aide au retour à l'emploi* (PARE) introduced in 2001, which is discussed in detail in section 4.5.

Although the number of beneficiaries has decreased during the last decade, the early retirement schemes still remain popular. However, they mainly concern male workers in large firms and the primary sector (in the sense of the dual labour market theory). Eighty per cent of ASFNE beneficiaries in 1998 were men (their share in the 55–59 age group was about 58 per cent), a disproportion stemming mainly from the fact that about half of these new entrants were blue-collar workers, 75 per cent of whom are men. Over 41 per cent of these entrants were in a firm with more than 500 employees (only 11 per cent of all wage earners work in firms of this size). Finally, the manufacturing industry is over-represented (66 per cent of new entrants, while 27 per cent of wage earners are in this industry in France). Both the *préretraite progressive* and the ARPE schemes have shown a similar over-representation of male workers in large firms and manufacturing.

The unemployment compensation system

Since its foundation in 1958, the national unemployment insurance system, UNEDIC, has been ruled by the social partners (representatives of the employers' organizations and the trade unions), and financed by social contributions. It is complemented by a solidarity system directly financed by the Government – and thus by taxes. UNEDIC has suffered financial crises during the 1980s and 1990s, stemming from the rise in unemployment since the 1970s. The reforms introduced to address these problems enhanced labour market dualism instead of reducing it. This dualism also appears in the labour market policy measures (both passive and active) implemented by UNEDIC, which have become more important over time.

The increasing dualism of unemployment compensation¹⁴

Since the reform of 1984, unemployment compensation relies on two pillars: the UNEDIC insurance system (“*assurance*”), which provides benefits for a limited duration only to those unemployed who have paid a certain number of contributions; and the “solidarity” system (“*assistance*”) for those who are not covered by the insurance system, because the benefit period is finished (long-term unemployed), or because they have not paid enough contributions (new entrants, or

¹⁴ This section is based on Daniel (1998), and Daniel and Tuchsirer (1999).

unemployed after short-term temporary work). This distinction has been a prime source of increasing dualism, increasing inequality between beneficiaries of the insurance system and beneficiaries of the solidarity system. The basic allowance (*allocation de solidarité spécifique* – ASS) is paid by the solidarity system. It is restricted to workers with five years of employment in the preceding ten. The ASS has increased much less than the allowances granted by UNEDIC. The conditions to qualify for the allowance for new entrants (*allocation d'insertion* – AI) were restricted in 1992, and as a consequence the majority of young people were excluded.

In 1992, in a context of UNEDIC budgetary crisis, an important reform took place. The AUD (*allocation unique dégressive*) was introduced, with the intention of cutting the cost of the system and its coverage (Daniel, 1998). The AUD replaced various benefits with a single basic benefit which decreased over time. The minimum entitlement conditions were tightened, and the benefit was tied more strictly to the contribution record. The 1992 reform was the second important source of increasing dualism in the unemployment compensation system in France, because it reinforced the exclusion of workers with a short employment record.

In a context of rising unemployment and atypical employment these reforms had the following consequences: a decrease in the proportion of unemployed people covered by the compensation system over the last decade, and an increasing dualism between insiders with long employment records and often high employment protection, and outsiders with poor employment tenure – reflecting the inequalities between age and gender groups.

The unemployment rate fell from 62 per cent in 1991 (47 per cent insurance, 15 per cent solidarity) to 52 per cent in 1998 (41 per cent insurance, 11 per cent solidarity). Young people were particularly affected: while about 52 per cent of unemployed workers under 25 received benefits in 1991, only about 33 per cent did so in 1998. Prime-age (25–49) and older workers (over 50) also suffered during this period, with the proportion entitled to benefits falling from about 63 to 52 per cent, and from 83 to 78 per cent respectively. Fewer women than men receive benefits: in 1998, while 53.1 per cent of all unemployed workers were women, only 48.6 per cent of workers receiving unemployment benefits were women. This shows that there are big holes in the “safety net” based on insurance complemented by assistance. For instance, in 1998, only 20 per cent of the unemployed whose insurance benefits were exhausted were entitled to other forms of compensation through the solidarity system (ASS). As a consequence, many long-term unemployed have no other resource than the minimum income or income support (*revenu minimum d'insertion* – RMI), which has become the “third pillar” of the unemployment benefits system, although it was not intended as such when it was created in 1988 (Audier et al., 1998).

The reform of the compensation system did not offset the consequences of the effects of changes in the labour market: as the number of precarious workers rose, their entitlements, in particular in the insurance system, fell. How can this paradox be explained? The system is based on two principles: the protection principle,

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where the priority is to cover the risk of unemployment, regardless of the worker's employment record; and the contribution principle, where compensation is based on contributions paid. This means that the employment record, which determines the social contributions, also determines the benefit entitlement.

The two principles apply in both the insurance system UNEDIC (the benefits are not exactly proportional to contributions, which means that the protection principle is taken into account), and in the solidarity system (ASS is also based on the employment record, which indicates the contribution principle). Until the mid-1980s, the two principles were compatible, and even complementary: the workers most at risk of unemployment (both in terms of probability of dismissal and in terms of unemployment duration) were those who had contributed the most (prime-age and older workers in the downsizing traditional sectors). But since the 1980s, the unemployment rate for labour market entrants and the number of precarious workers have become growing concerns. The two principles became non-compatible: a trade-off had to be made at a time of financial crisis in the unemployment compensation system, and the insiders' view (the contribution principle) seems to have prevailed. The reason may be that the insurance system is ruled by the trade unions, which favour prime-age and older workers in the primary sector. But the solidarity system also became less generous.

Active measures implemented by UNEDIC: The danger of growing dualism

The "activation" of passive spending has been a leitmotiv of both the OECD and the European Union. However, in a context where the insurance system covers only 40 per cent of the unemployed, and where the contribution principle prevails,¹⁵ there is a danger of dualism in LMP. In other words, the people who are most at risk – those who do not enjoy job protection – may be excluded from the best active measures. We mentioned above that UNEDIC contributes to early retirement schemes, and to active measures targeted at displaced workers before they become officially unemployed. We will now look at schemes targeted at jobless workers receiving unemployment benefit. Both schemes ran until 2001, when they were replaced by the new measures we shall discuss in section 4.5.

A retraining allowance (*allocation formation reclassement* – AFR) scheme was created with financial support from the Government. The AFR scheme maintained the unemployment insurance benefit for the duration of training. In 1997 the government funding was withdrawn, after which the contribution principle was reinforced. People who had a part-time job before becoming unemployed then received the AFR during their training, proportional to the contributions that they had made. To be eligible for the AFR an application had to have been made within the first six months of unemployment. In 1998, there were 194,000

¹⁵ This principle applies when access to the active measures financed by UNEDIC is restricted to those people who have paid sufficient contributions.

beneficiaries (12 per cent of all AUD recipients). Seventy-two per cent of the beneficiaries were prime-age unemployed (25–49 years old), although this age group made up only 65 per cent of all AUD beneficiaries. Skilled workers were also over-represented among AFR beneficiaries.

The *convention de coopération* was an employment subsidy. UNEDIC subsidized firms hiring the long-term unemployed (out of work for more than eight months) by an amount equivalent to the remaining entitlement to unemployment benefit. The subsidy was thus proportional to the entitlement, which depended on the previous employment record, and on the previous wage. In 1998, there were 32,500 new entrants in this scheme, more than 80 per cent of whom were between 25 and 49 years old. The main LMP schemes are outlined in box 4.1.

Box 4.1 The main LMP schemes for outsiders initiated prior to 2001

Subsidized jobs in the private sector (pure subsidies)

***Plan d'urgence pour les jeunes* (1986–87)**

Beneficiaries: young people under 25. Employer exemption from social security contributions (50 per cent for a young person exiting another employment policy measure; 25 per cent for others).

***Exo-jeunes* (1991–94)**

Beneficiaries: unskilled young people under 25. Employer exemption from social security contributions: 100 per cent for one year, 50 per cent for the next six months, for wages up to 120 per cent of the statutory minimum wage (SMIC).

***Aide au premier emploi des jeunes* (APEJ) (1994–96)**

Beneficiaries: all young people who have never held a job, entitling them to unemployment compensation, whatever their level of skill. Employer receives FF1,000 (EUR152.5) per month for the first nine months of the job.

***Contrat initiative emploi* (CIE) (1995–)**

Beneficiaries: several hard-to-place groups, including young people under 26 without skills, the long-term unemployed, unemployed workers aged over 50 and the disabled. Employer exemption from social security contributions for the part of the wage under the SMIC, and a lump sum of FF2,000 (EUR305) each month. Duration: 12–24 months.

Temporary employment in the public sector

***Travaux d'utilité collective* (TUC) (Public works schemes) (1984–90)**

Beneficiaries: young people aged 16 to 21, or up to 26 if they have been unemployed for over a year. Participants have "trainee" status: less social protection, low pay, 30 per cent of salary paid by central Government. Duration: maximum one year in normal cases. TUCs are limited to the non-market sector.

Contrat emploi solidarité (CES) (1990–)

Replaces the public works schemes; extended to other groups in difficulty, notably the long-term unemployed, the unemployed over 50, and the disabled. Half-time work contract (20 hours), paid an hourly rate based on the SMIC. Duration: maximum one year, in normal cases, up to three years for the hardest-to-place. CES is limited to the non-market sector.

Contrat emploi consolidé (CEC) (1993–)

State funded up to 60 per cent the first year (reducing by 10 per cent for each subsequent year, except for certain beneficiaries whose subsidy can be maintained at 50 per cent throughout the five years). The maximum working week is 30 hours. Duration: maximum five years.

Emplois jeunes (1998–)

Beneficiaries: young people up to the age of 26 (or 30 for those not entitled to unemployment compensation). Wages are settled according to industry-wide collective bargaining agreements. Duration: maximum five years. These jobs, in the public sector, must correspond to “new services” not on the regular market.

Dual training schemes (on-the-job and classroom training)

Contrat d'apprentissage (1970s–)

Beneficiaries: young people aged 15 to 25. Training is both inside (mentoring) and outside firms (training centres). The employer enjoys partial exemption from social security contributions; young people are paid 25 to 78 per cent of the SMIC, depending on age and length of service. Duration: maximum three years.

Contrat de qualification (CQ) (1984–)

Beneficiaries: young people aged 16 to 25. Training is both inside (mentoring) and outside firms (training centres). The employer receives partial exemption from social security contributions and a training subsidy (FF60 per hour); young people are paid between 30 and 75 per cent of the SMIC, depending on age and length of service. Duration: maximum two years.

Contrat d'adaptation (CA) (1984–)

Beneficiaries: young people aged 15 to 25. In-firm training. The employer receives partial exemption from social security contributions and a training subsidy; young people are paid at least the SMIC, and at least 80 per cent of the statutory wage corresponding to their qualifications. Duration: maximum one year.

Comprehensive schemes

Trajectoire d'accès à l'emploi (TRACE) (1998–)

Targeted at hard-to-place young workers, this scheme takes an individualized approach; beneficiaries have a mentor who coordinates the different stages of this trajectory into employment. TRACE offers a wide array of schemes (job search assistance, classroom and on-the-job training, temporary employment in the public sector).

LMP targeted at outsiders

So far we have focused on LMP targeted at insiders, arguing that for those groups there seems to be a complementarity rather than a trade-off between EPL and LMP. But LMP is also targeted at outsiders such as new entrants, who are mainly young people, and other “hard-to-place” groups, especially the long-term unemployed.

LMP for young people: An ambiguous role

As can be seen by the number of schemes described in box 4.1, LMP plays a key role in the youth labour market. In 1998, more than 1 million workers under 26 years old (38 per cent of the total 2.6 million) were in assisted employment (*emploi aidé*). This includes subsidized jobs in the private sector, temporary employment in the public sector and the dual training schemes mentioned in box 4.1, as well as subsidized part-time jobs (*abattement temps partiel*) which are not restricted to young people (DARES, 1999). This is an illustration of the EPL/LMP trade-off, as young people do not enjoy high EPL.

However, the role of LMP is ambiguous. One could argue that it only contributes to creating a secondary labour market for young people, because assisted employment means temporary jobs which often pay less than the conventional wage (some employers are accused of circumventing the minimum wage). Moreover, the labour market outcomes of these schemes in terms of employment rate and/or income are mixed (Gautié, 1996).¹⁶ More than 230,000 young people were in temporary jobs in the public sector in 1998, which can be considered as queuing for employment.¹⁷ In that year, about 70 per cent of the beneficiaries of dual training schemes were in firms with fewer than 50 employees. As we will see later, this stems from the exclusion of young workers from the primary sector.

LMP for the hard-to-place

A number of schemes are targeted at hard-to-place prime-age workers who are out of a job. The CIE is the main private sector employment subsidy scheme. The number of beneficiaries was only 196,000 in 1998, about 80 per cent of whom were over 26. The CES offers temporary work in the public sector. There were about 480,000 new entrants in this scheme in 1998: 62 per cent were women, 75 per cent were more than 26 years old and 11 per cent were over 50; 75 per cent had been unemployed for one year or more and 24 per cent for three years or more. Before entering a CES, 55 per cent were receiving no allowance at all, and 33 per

¹⁶ As we stressed in section 4.2, the transitions from these schemes to permanent jobs are low.

¹⁷ It is worth mentioning that more than 60 per cent of CES beneficiaries are women. Outsiders are concentrated in the less efficient schemes in terms of labour market outcomes: according to evaluation studies, former beneficiaries of CES have lower wages than non-beneficiaries when they find a job, but this result probably stems from a selection bias as the beneficiaries of CES are less employable *ceteris paribus* for any given age, gender and qualification (Gautié, 1996).

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cent were on the RMI (minimum income). The other public sector job scheme for the hard-to-place is the CEC. There were more than 105,000 new entrants in 1998, with a similar profile to those on the CES. In 1998, 62 per cent of CEC beneficiaries were women; 83 per cent were more than 26 years old and 21 per cent were over 50; 32 per cent had been unemployed for more than three years before entering the scheme.

The hardest-to-place seem to be relegated to temporary employment in the non-market sector. In a context of mass unemployment, creaming tends to be very high in schemes that have links to the private sector, which means that the hardest-to-place are being placed in jobs with a high risk of a lock-in effect (Erhel et al., 1996). In terms of active intervention, it seems that too little is done too late. In other words, LMP targeted at the hard-to-place does not fit the framework of a “transitional labour market”, where LMP must intervene early to prevent long-term exclusion from employment. Better profiling earlier in the unemployment period would help to prevent exclusion, but exclusion may also be a consequence of strict EPL. This question is addressed in section 4.4.

Summary

Table 4.21 gives a very simplified summary of the trade-offs/complementarities of EPL and LMP according to the different gender and age groups.

Many young people have precarious jobs (fixed-term contracts, temporary agency work), which means low employment protection. If they lose their job they often do not benefit from the unemployment compensation system, which is mainly based on an insurance principle: it is necessary to contribute a certain amount to qualify for benefits. On the other hand, there are a variety of active labour market programmes targeted at young people, such as employment subsidies, training schemes, and temporary jobs in the public sector. As a result, there seems to be a partial trade-off between EPL and LMP for young workers. But there is some ambiguity here. As the labour market programmes rely on temporary schemes, which often pay less than the regular wage, and as their effects on the

Table 4.21 Interaction between EPL and LMP by sex and age group

| | EPL | Active LMP measures | Passive LMP measures |
|---------------------|------|---------------------|----------------------|
| Youth (16–25 years) | Low | High | Low |
| Women (25–50 years) | Low | Low | Low |
| Men (25–50 years) | High | High | High |
| Older than 50 years | High | Low | High |

Note: Employment protection legislation does not discriminate according to age or sex. Workers benefit from employment protection according to the type of job they hold; the assertion that youth and women have “low” employment protection means that they are more likely to hold precarious jobs.

unemployment rate are modest, some argue that LMP contributes to maintaining a secondary labour market for young people. According to this analysis, LMP reinforces the consequences of low employment protection instead of compensating for it.

Women have higher unemployment rates, and more precarious jobs, especially if part-time work is included. Labour market entrants and/or low-skilled women are the most seriously affected, receiving little or no compensation when unemployed. But they do not constitute a separate target group for active labour market policy, so LMP does not offset the consequences of low EPL in their case.

Prime-age male workers make up the core of the insiders. They have high employment rates, low unemployment, and regular jobs (open-ended contracts). They benefit from a substantial degree of employment protection as they are (almost) unaffected by atypical employment. They also enjoy substantial labour market policies. A strong link between LMP and EPL is institutionalized in the employer's obligation to implement a "social plan" for collective dismissal (on economic grounds): social plans include retraining and other labour market programmes. Because of stable jobs and long tenure, prime-age men who lose their job enjoy high unemployment compensation from UNEDIC. They are also entitled to active measures partially or completely financed by UNEDIC, which is not the case for the other categories. Finally, special programmes are targeted at the long-term unemployed – who are mostly prime-age males or older workers. In short, for prime-age men there seems to be a strong complementarity between high EPL and high LMP, both active and passive.

Workers over 50 have a very low employment rate in France compared to other OECD countries, although it is higher than the rate for the labour force as a whole. As they are considered less employable, a special EPL rule has been adopted for them. But this group also enjoys substantial passive LMP. As they have contributed for long periods, their unemployment benefits are relatively high, and many of them can take early retirement through a social plan when there is a collective dismissal. Moreover, early retirement benefits are higher than unemployment benefit. As with the prime-age male, though maybe to a lesser extent, there seems to be complementarity between high EPL and strong LMP (mainly passive measures) for older workers.

4.4 INTERACTIONS BETWEEN EPL AND LMP: ORIGINS AND OUTCOMES

When assessing EPL and LMP, one must adopt a systemic approach: labour market regulation is one component of a system based on the interaction between the welfare system and the labour market. From this interaction emerges the central figure of the prime-age male wage earner. There are different forms of relative exclusion of (mainly low-skilled) youth, low-skilled female new entrants, older workers and the long-term unemployed.

The central figure of the prime-age male wage earner

A corporatist–conservative type of welfare state

It is not possible to understand EPL and LMP in a given country without referring to the type of welfare system and the particular conception of “social citizenship” on which it is based. Following Esping-Andersen (1990), social rights can be viewed in terms of the degree to which they permit people to make their living standard independent of pure market forces (“decommodification”), based as they are on citizenship rather than market performance. There are three ways (that may be combined) for citizens to gain access to the resources in a given society (Gautié, 1998): economic distribution through earned income, social distribution in the form of welfare entitlements, and household distribution through the wage earner to dependent family members. The interaction between the three types of distribution differs between Esping-Andersen’s three types of welfare system: the “liberal” welfare system, with mainly economic and, to a lesser extent, household distribution; the “social-democrat” welfare system, which relies on a mix of highly decommodifying and universalistic programmes, protecting from market adjustments but also preventing an over-reliance on household distribution; and the “conservative–corporatist” welfare system, distinguished by the fact that social, economic and household distribution is linked to employment status.

The traditional welfare regime in France, even if it does not fit exactly, is a particular example of the “corporatist” model. Benefits depend mainly on contributions to the social insurance system, and thus on work and employment status; allowances (usually means-tested) granted directly by the State are only a complement and are usually means-tested. Non-working members of a household depend directly on the working member, via household redistribution and the extension of the worker’s social rights to family members. As employment status is the central pillar of the welfare regime, EPL is high. In this context, it is clear why labour market rigidity and the concentration of EPL and LMP on prime-age male wage earners form a self-reinforcing spiral. As Esping-Andersen (1996, p. 19) argues:

If we consider that most families depend on the male earner’s pay and social rights [...] the result is that the typical worker can ill afford any risks of employment breaks across his active career. The consequence is that voters and trade unions will defend the existing rights of the “insiders” as forcefully as possible. There is an implicit conspiracy to safeguard the prime-age male worker even when it harms his wife’s, son’s, daughter’s employment prospects.

This model, based on the central figure of the “male breadwinner”, must be adjusted to take account of increased female labour force participation. The participation rate of women aged 25–54 was around 68 per cent at the end of the 1990s, compared to 60 per cent 20 years earlier, a figure which was quite high compared to other countries (such as Germany, Italy, the Netherlands or Spain) classified as “corporatist countries” in Esping-Andersen’s typology. Indeed, this evolution is partly due to increasing unemployment among “male breadwinners”.

But as we noted earlier, women are over-represented among the outsiders, with higher unemployment rates and more precarious or involuntary part-time jobs. As a consequence, even if the “male breadwinner” model must be adjusted, it still remains generally valid.

The industrial relations system is also linked with the welfare regime. The welfare system (particularly the unemployment compensation system) is partly governed by the social partners, and thus by the trade unions. This is a very important source of power and resources for unions in France.¹⁸ It is all the more vital as membership is declining, and increasingly concentrated in the public sector. But, as a result, the social security system tends to be ruled by the insiders for the insiders. The State is supposed to intervene to promote the general interest, including that of the outsiders, which can lead to a conflict of interest between the State and the social partners. However, the State itself does not necessarily promote the outsiders’ interests every time, as we have seen in the case of unemployment compensation. The same applies to deregulation, and can be understood in a “political economy” perspective. Saint-Paul (1996) argues that governments will only implement labour market reforms if these do not damage the majority of the people. Hence fixed-term contracts represent a compromise, which enables the Government to introduce some flexibility into the labour market without endangering the employment security of most (permanent) workers.

An “internal market” type of labour market functioning

In addition to the type of welfare state, the institutional characteristics of labour markets must be taken into account. The link between the education and training system and the production system defines two modes of labour market functioning (Eyraud, Marsden and Silvestre, 1990; Garonna, Ryan and Edwards, 1991).

In an occupational labour market, skills are transferable from one firm to another; they qualify workers for specific occupations in the job classification (and thus a definite wage level). These skills are acquired through an apprenticeship system that follows certain rules aimed at making transfer possible, thus facilitating inter-firm mobility. The United Kingdom (until the 1980s) and Germany, albeit in different ways, are examples of this kind of labour market. France (and also, to some extent and in different ways, Italy, Japan, Sweden and the United States) tends to be characterized by an internal labour market type of functioning. The diplomas and credentials acquired outside firms in the educational system act mainly as a criterion for recruitment, and experience acquired inside the firm converts this “potential” skill into a skill which has meaning for job classifications. The education and training system is primarily a filter that makes it possible to

¹⁸ A total of 11,000 delegates from trade unions and employers’ organizations participate in administering the social security system, which is divided into four branches: UNEDIC for unemployment, with expenditures of FF143 billion (EUR22 billion) in 1999, for 2.5 million beneficiaries; CNAM (*Caisse nationale d’assurance maladie*) for health (FF634 billion, or EUR97 billion, 48 million beneficiaries); CNAV (*Caisse nationale d’assurance vieillesse*), for retirement pensions (FF409 billion, or EUR62 billion, 9.5 million beneficiaries); CNAF (*Caisse nationale d’allocations familiales*), for aids to family (including housing) (FF266 billion, or EUR41 billion, 9.5 million beneficiaries).

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classify job applicants according to their aptitudes. Firms consider a diploma more as a “signal of potential”, in Spence’s terminology (Spence, 1973), than as a measurement of immediately productive skill. Even when they have a vocational skill, new entrants in blue-collar jobs and offices hold an unskilled job. Seniority plays a key role in careers in France, in terms of job classification and wage, much more than in Germany: a long-term employment relationship is thus necessary. Another important point is that, until the beginning of the 1980s, the majority of labour market entrants in France (especially those who became blue-collar or clerical workers) had no diploma or vocational training at all. The only skill they could acquire was specific human capital accumulated inside the firm, and thus a (quasi)-non-transferable skill. As a result, until recently the educational level of prime-age and older workers was very low in France in comparison with Germany, the Nordic countries and the United States.

These facts help explain why the priority of trade unions was to protect the core of prime-age and older workers whose employability is low outside their firm, as their skills are hardly transferable. Job protection and strong guarantees in case of lay-offs were thus the key issue for them. The complementarity between EPL and LMP we stressed in the previous section stems from an “internal market” type of functioning. It must also be remembered that the unions’ “internal labour market” culture reflects the fact that their basis was the public sector and the primary sector (in terms of the economy: automobiles, banking, energy, and so on), where internal markets prevail.

Labour market outcomes

Overall labour market outcomes in terms of employment stability and flexibility were described in section 4.2. Here we shall analyse the outcomes of labour market functioning, including the specific link between EPL and LMP, from the point of view of different groups of workers. Table 4.22 depicts the labour market situation of the age and gender groups distinguished in the previous sections.

Table 4.22 Unemployment, labour force participation rates and employment/population ratio by age and sex, 1998 (percentages)

| | Unemployment rate | Labour force participation rate | Employment/population ratio |
|-----------------------------|-------------------|---------------------------------|-----------------------------|
| Youth (<25 years) | 25.4 | 28.0 | 20.9 |
| Women (25–54 years) | 12.7 | 77.9 | 68.0 |
| Men (25–54 years) | 9.3 | 94.5 | 85.8 |
| Older workers (55–64 years) | 8.7 | 36.1 | 33.0 |

Source: OECD, 1999b.

The “centrality” of male prime-age wage earners appears clearly here. Women have lower employment and participation rates, and higher unemployment. But France has particularly low employment ratios for both young and older workers. In 1998 they were 20.9 and 33.0 per cent respectively, compared to 45.1 and 47.9 per cent respectively for the OECD countries as a whole.

In the next subsection we try to explain why France is a country where “a single generation works at a time” (Elbaum and Marchand, 1994). We also look at the importance of long-term unemployment in France (in 1998, 43.2 per cent of the unemployed had been searching for a job for more than a year), and we will try to assess if the link between EPL and LMP is relevant here.

The relative exclusion of youth and older workers

Youth

An overall shortage of jobs is the main cause of youth unemployment in most European countries. But the overall shortage has the biggest impact on young people in countries where the internal labour market mode predominates (an analysis of the effects of the destabilized internal markets can be found in box 4.2). The relative and absolute increases in the minimum wage through the first half of the 1980s have continued to penalize unskilled, unemployed young people. In the face of job shortages, unions have generally tended to defend the interests of the workers over 30, who constitute their base, thus further disadvantaging young workers. In addition, the destabilization of internal labour markets, with the disappearance of the implicit subsidies from which young people sometimes benefited, has also contributed to their marginalization.

The supply of young workers also began to decrease from the beginning of the 1980s, as school attainment rose sharply (table 4.23). As a result, the participation rate of people under 25 fell to 34.2 per cent in 1998, the lowest among the OECD countries. This “educational rush” was partly a response to the job shortage. The consequence of all these factors was that the number of people under 25 who had a job fell sharply, especially from the early 1980s to the early 1990s (table 4.24).

While the total number of people employed rose by 2.9 per cent between 1983 and 1993, the number of employed aged between 15–24 and 50–59 fell by 30.1 per cent and 8.4 per cent respectively. The drop in youth employment during this period was 85.2 per cent in the energy sector, 66.5 per cent in capital goods, 62.5 per cent in consumer goods and 49.2 per cent in the banking sector (Gautié, 2002). The experiences in the iron and steel industry give a good illustration of the difference between France and Germany concerning the effects of the crisis on youth employment. Throughout the 1980s the decline in total employment in this sector was about the same proportionately in the two countries. German firms continued to hire young workers through the apprenticeship system, but in France the three social partners signed the *Convention Générale de la Protection Sociale pour la Sidérurgie* (1977–91) to protect prime-age workers. The result was that in

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Table 4.23 Exits from the educational system (percentages)

| | 1980 | 1997 |
|---------------------------------------|------|------|
| Bac + 3 years or more of study | 6 | 21 |
| Bac + 2 years of study | 9 | 17 |
| High school diploma (Bac) | 16 | 25 |
| Short professional diploma (CAP, BEP) | 30 | 18 |
| No diploma (CEP, BEPC) | 39 | 20 |

Note: Usually, children enter primary school around the age of 6; at the end of primary school (5 years of schooling) they obtain the *Certificat d'Etudes Primaires* (CEP). For those in the secondary "general" curriculum, the BEPC is an intermediate diploma (9 years of schooling), and the *baccalauréat* (Bac) is the final high school diploma (12 years of schooling). Those in the secondary "professional" curriculum can get a CAP (10 years of schooling) or a BEP (11 years of schooling).

Source: DPD, Ministère de l'Education Nationale, 2001.

Table 4.24 Employment of youth and older workers according to sector, 1983–93

| Sectors | Employment (thousands) | | | | | | Variation (percentages) | | |
|----------------------------|------------------------|--------------|--------------|--------------|---------------|---------------|-------------------------|--------------|--------------|
| | 15–24 years | | 50–59 years | | Total | | 15–24 years | 50–59 years | Total |
| | 1983 | 1993 | 1983 | 1993 | 1983 | 1993 | 1983/93 | 1983/93 | 1983/93 |
| Agriculture | 137 | 63 | 623 | 303 | 1 808 | 1 187 | – 54.0 | – 51.4 | – 34.3 |
| Food and agro-industry | 123 | 79 | 113 | 78 | 628 | 592 | – 35.8 | – 31.0 | – 5.7 |
| Energy | 27 | 4 | 51 | 34 | 269 | 244 | – 85.2 | – 33.3 | – 9.3 |
| Intermediate goods | 155 | 70 | 252 | 190 | 1 380 | 1 100 | – 54.8 | – 24.6 | – 20.3 |
| Capital goods | 224 | 75 | 291 | 243 | 1 814 | 1 401 | – 66.5 | – 16.2 | – 22.8 |
| Consumption goods | 223 | 84 | 230 | 164 | 1 351 | 1 101 | – 62.3 | – 28.7 | – 18.5 |
| Construction | 257 | 138 | 280 | 252 | 1 704 | 1 507 | – 46.3 | – 10.1 | – 11.5 |
| Retail and wholesale trade | 434 | 278 | 439 | 376 | 2 595 | 2 568 | – 35.9 | – 14.4 | – 1.0 |
| Transport and telecom | 134 | 62 | 204 | 213 | 1 300 | 1 358 | – 53.7 | – 4.4 | + 4.5 |
| Market services | 614 | 585 | 534 | 701 | 4 002 | 5 457 | – 4.7 | + 31.3 | + 36.4 |
| Finance and banking | 71 | 36 | 95 | 100 | 666 | 749 | – 49.3 | + 5.3 | + 12.5 |
| Non-market services | 380 | 472 | 667 | 806 | 3 980 | 4 898 | + 24.2 | + 20.8 | + 23.1 |
| Total | 2 779 | 1 946 | 3 779 | 3 460 | 21 497 | 22 162 | – 30.1 | – 8.4 | + 2.9 |

Source: Gautié, 2002.

France at the beginning of the 1990s less than 5 per cent of workers in the sector were aged under 25 or over 50 (Galtier et al., 1994).

These figures make it clear why such a large and active LMP has been targeted at young people in France. There are three standard models of labour market entry for young people in Europe: negotiated entry via the German apprenticeship model, which is a sort of “bargained flexibility” (Garonna and Ryan, 1991); competitive entry through deregulation of the labour market, as introduced in the United Kingdom under a Conservative Government; and subsidized entry, as in France, where active LMP, and especially subsidized jobs,¹⁹ play a key role and are a functional substitute for the German apprenticeship system.

Older workers

As shown in table 4.24, the employment of workers aged over 50 (and under 60, which is the minimum retirement age in France) has decreased since the beginning of the 1980s. The possible reasons for this can be summarized as follows (for a detailed model, see box 4.2). Older workers in France have low and non-transferable skills, and as seniority plays a key role in the wage career, such workers are costly for firms. But, in contrast to young workers, older workers are insiders. The sectors downsizing in the 1980s were traditional industries, often with strong trade unions, so early retirement, co-financed by the State and the employers, was a satisfactory way of separating from these workers who generally were happy to retire. However, not all older workers were able to take early retirement. After the administrative authorization for dismissal was abolished in 1986, many more workers over 55 were laid off. A new law, the Delalande contribution described earlier, was passed a year later to prevent these lay-offs.

The long-term effects of such EPL and LMP are debatable. The intensive recourse to early retirement has a potentially stigmatizing effect on all older workers, in that it reinforces the employers’ belief that older workers are no longer employable. The Delalande law may also have a negative effect on the workers it is intended to protect: firms may be very reluctant to hire older workers, knowing that it will be very costly to fire them. No systematic evaluation has yet been made of the impact of this measure; none the less, as we have seen above, the 1988 amendment to the Delalande law was put in place to protect older workers from this discrimination by suppressing the contribution for those firms which hire older workers and then subsequently have to lay them off.

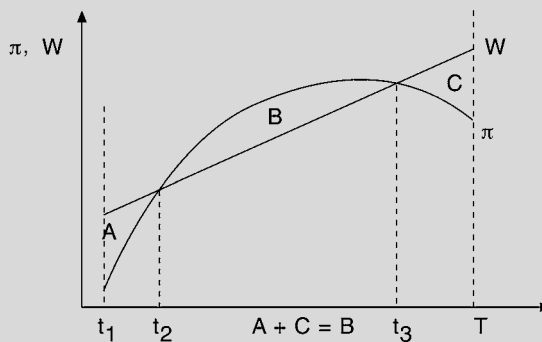
¹⁹ “Explicit” subsidies tend to substitute for the “implicit” ones shown in box 4.2.

Box 4.2 Destabilization of internal labour markets and the effect on young and older workers

The accumulation of human capital in firms and the incentive value of seniority-based wages are the foundation of the standard wage profile in the internal labour market of large firms, as shown in figure 4.1, W being the wage and π the productivity. In the initial phase (from t_1 to t_2), during which the specific human capital is accumulated, young employees are paid more than their productivity level. In the second phase (from t_2 to t_3), employees are paid below their productivity, both so that the employer can recover some of the costs of the investment in human capital during the earlier period and as an incentive (as presented in the theory of delayed payment contracts, cf. Lazear, 1981). Lastly, the third stage (from t_3 to T), in which older workers are paid above their productivity, is justified by the same reasons of incentive, since wages continue to rise in line with tenure until the end of the employee's career. Independently of firm-specific human capital, the career profile during the first two periods (the young and the adult employee) can also be due to high wages at the time of hiring (because of a minimum or contractual wage), which requires the employer to pay newly hired employees above their productivity, a loss that the employer subsequently recoups by imposing a lower rate of seniority-based advancement. In the aggregate, the profile of wage and productivity trends is such that there is an equalization of both variables ($A + C = B$) over time (longitudinally, over the entire career). On the other hand, in a cross-section perspective (at a given moment in time), this system entails a subsidy – which we shall call “implicit” – from prime-age workers to younger and older workers (since these adult workers are paid below their productivity while younger and older workers are paid above it).

There are signs that these implicit subsidy systems from which young and older people used to benefit in some firms have tended to be dismantled since the 1980s. This is due to the shorter time horizon of corporate management – which itself stems from some financial factors (high interest rates in the 1980s, profitability criteria imposed by the new corporate governance), the more rapid pace of technological progress and increased competition – as well as to new

Figure 4.1 The relationship between productivity, earnings and age



Source: Gautié, 1999.

technologies which make it easier to individualize performance. The higher level of training acquired in the education system has also tended to weaken the on-the-job training model of traditional internal labour markets. The trend now is to pay all workers according to their productivity at a given time in their career, as is borne out by the increasing individualization of wages: in new wage contracts, spot wages equal spot productivity. If, as we have suggested, younger and older workers tended to benefit from implicit subsidies in previous wage contracts, then it is understandable that in many countries they have been hardest hit by changes in the labour market, which have led to a drop in their relative wages and/or lower employment in countries where wages are not flexible. This is the case in France, and more particularly in the sectors where the internal labour market predominates.

As “implicit” subsidies tended to disappear, “explicit” public subsidies had to be implemented: schemes towards youth (employment subsidies, training schemes) and older workers (mainly early retirement) were adopted on a large scale during the eighties.

Long-term unemployment

Many economists believe that long-term unemployment stems from labour market rigidities, among which EPL and unemployment benefit play a key role, but the empirical evidence is not clear. The debate is crucial for France, because the country is perceived as having high EPL and quite generous unemployment benefits.

Unemployment compensation

A comprehensive survey carried out by Atkinson and Micklewright (1991) found inconclusive evidence of the effects of the amount of the unemployment benefit on the level of unemployment, or replacement rates. On the other hand, longer unemployment spells seem to be correlated with longer benefit duration, but there is no consensus on the relationship (see Cases, 1996, for a survey of French studies).

Cross-country studies (on macro data) often find a strong correlation between unemployment compensation and unemployment, especially long-term unemployment. According to Nickell and Layard (1999), “The impact of high benefit replacement ratio on unemployment is well documented. ... Another important feature of the benefit system is the duration of entitlement. Long-term benefits generate long-term unemployment” (p. 3070).

The shortcomings of such studies have to be stressed. On the one hand, they often use the OECD classification to assess the “generosity” of unemployment compensation systems, but in the case of France the degree of generosity seems to be overestimated.²⁰ As mentioned above, since the AUD was introduced, the benefit has decreased and its duration has been restricted. Above all, nearly half the

²⁰ For a detailed criticism of OECD calculations, see Szpiro (2000).

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unemployed in France received no benefit of any kind before the implementation of the new employment measures of 2001. Since then, the coverage rate has slightly increased, but thus far this is mainly because the economic slowdown has led to an increase in dismissed workers with a high employment record. On the other hand, microeconomic studies are too inconclusive for us to reject the possibility that the correlation established by cross-country macro studies relies (at least in part) on a reverse causality running from unemployment to benefits, rather than the other way round. In a context of mass unemployment and low exit rates from unemployment, there are incentives for high benefits (especially when trade unions are involved in the unemployment compensation system). Nevertheless, because of budgetary constraints, benefits have become less generous in France over time, particularly for outsiders.

Employment protection

One of the main findings of a recent comprehensive study undertaken by the OECD (1999b) is that “stricter EPL is associated with lower turnover in the labour market, with both jobs and unemployment spells tending to last longer. Fewer workers experience unemployment in any given year, but those becoming unemployed have a greater probability of remaining unemployed for a year or more” (p. 50). This picture matches the situation described in section 4.2.

The correlation between EPL and long-term unemployment²¹ relies on a very simple but convincing hypothesis: if high EPL reduces the number of dismissals, then it is particularly marginalizing to be dismissed. Saint-Paul and Kugler (2000) give both theoretical and empirical evidence of this process. In their model, firms choose which employees to dismiss, and therefore tend to fire “low-quality” workers (in terms of given observable characteristics, such as skill or age). They choose very carefully when firing costs are high. When hiring and firing costs are both high, firms tend to hire from the pool of employed jobseekers, rather than from the pool of unemployed, who are more likely to be low-quality workers. Using micro data, the authors found that the ratio between the job-finding probability of unemployed workers and employed jobseekers was smaller in Spain (where EPL is stricter) than in the United States. Furthermore, using American data, they found that discrimination against the unemployed increased over the 1980s in those states that raised firing costs by introducing exceptions to the employment-at-will doctrine.

²¹ According to the seminal work of Bentolila and Bertola (1990), the impact of firing costs on average employment is insignificant; these costs reduce both firing and hiring (apparently in the same proportion). But lower job creation increases the duration of unemployment: this is an even more direct effect of the EPL on long-term unemployment. In fact, according to some theoretical models, EPL should have a *negative* impact on global employment. First, firing costs reinforce the power of insiders, and thus increase real wages and unemployment, according to Lindbeck and Snower (1988). Second, “firing costs induce firms to use quits rather than firings to adjust their labour force downwards, which, by somewhat indexing job destruction on job creation, makes the cost of adjustment dependent on the state of the labour market, which potentially creates a ‘high unemployment’ trap where firms do not hire because low labour demand will force them to retain their workers in the future” (Saint-Paul, 1996, p. 13). Third, from a “Schumpeterian” perspective, as firing costs slow labour reallocation to new sectors, they may lower the incentives to innovate.

In the case of France, employed jobseekers do not seem to have a higher job-finding probability than the unemployed. But workers who have gone through a period of unemployment earn less in their new job than others, controlling for observable characteristics, and this gap increases with the length of unemployment. At the beginning of the 1990s, the average loss for a person who had been unemployed for less than one year when hired in a new job was 8 per cent compared with previous earnings. It could be more than 50 per cent for people who had been unemployed for two years or more (Bacache et al., 1995). Marginalization also occurs within the unemployed group (which is consistent with the theoretical model): dismissed workers tend to experience longer spells of unemployment than others. At the end of the 1980s and the beginning of the 1990s, the proportion of unemployed workers who were employed a year later was 45 per cent for new entrants, 39 per cent for those who were unemployed after termination of a precarious job, and only 27 per cent for those who were laid off (Saint-Paul, 1996). The marginalization effect seems to be real, particularly as in France there is no “seniority rule” for dismissal (“last hired, first fired”), unlike in many American industries. Once the number of lay-offs has been decided, the employer chooses which workers to fire (Bessy, 1994).²² This tends to reinforce the vicious circle. As insiders know that they are likely to become outsiders if they are laid off, they will try to promote job protection; for the unemployed, it may increase their probability of becoming long-term unemployed, and thus outsiders.

4.5 REFORMS AFFECTING EPL AND LMP

Policies on taxes and working time

The last decade has seen no major reform affecting EPL. On the other hand, there have been two important changes in the field of LMP. Since 1993, growing priority has been given to promoting the employment of unskilled workers by reducing their labour costs. Instead of resorting to targeted subsidized jobs, it has been decided to lower the employers’ social contributions on all earnings which are between 1 and 1.3 times the minimum wage, though this measure is more a question of tax policy than LMP. In addition, since 1998 a series of laws has been adopted to reduce the working week to 35 hours. The Government hopes that this will help create new employment and preserve some existing jobs. During the transition period (the implementation of the 35-hour week laws is progressive), a social plan can be refused if the possibility of saving jobs by reducing working time has not been explored.

These reforms are quite important, but they have little direct effect on the interaction between EPL and LMP. Discussions are in progress on other possible measures, especially in the “social re-foundation” negotiations proposed by the employers’ organization.

²² The decision should be made within the parameters of special legal protection for the disabled and for union delegates and against discrimination based on characteristics which are not related to individual productivity.

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The “social re-foundation” project

In 1999, the employers’ confederation (*Mouvement des Entreprises de France – MEDEF*) launched the “social re-foundation” project. This has the very ambitious aim of reforming the entire functioning of the labour market, particularly EPL and unemployment compensation, but also active LMP. Discussions with trade unions have focused on two proposals put forward by the employers. Thus far, the adoption of a new employment contract has been rejected, but the reform of the unemployment insurance system, based on activation principles, has been adopted.

A new employment contract

The employers’ first proposal is to introduce a new employment contract, of a maximum duration of five years. MEDEF refers to the *emplois jeunes* scheme (box 4.1), which relies on temporary jobs in the non-profit sector for a maximum of five years. This new type of contract, named “project contract” (*contrat de projet*) or “mission contract” (*contrat de mission*), would correspond to the period necessary to start manufacturing a new product, or to begin a new activity, or to accomplish any kind of non-permanent activity. In other words, it would be a fixed-term contract, free of the existing legal restrictions. MEDEF proposes that this new form of contract should not be regulated by the Labour Code, but that the conditions of use should be negotiated at branch and firm levels. So far there has been strong opposition from the trade unions to these proposals: such an employment contract would undermine the structure of EPL, whose main pillar is still the open-ended contract, but discussions are still in progress and the union position could change.

The reform of the unemployment insurance system

The second proposal emerged in the context of renegotiating the UNEDIC agreement. UNEDIC is governed by a convention between the employers, the unions and the State, because unemployment compensation is considered a public service which is only “delegated” to UNEDIC; every modification to the agreement proposed by the social partners must be approved by the Government. This agreement had to be renewed in 2000 and MEDEF proposed a fundamental reform of the existing version. In June 2000, an agreement was signed between the employers’ confederation and only two trade unions among the main five. The others, in particular the CGT (traditionally close to the Communist Party), were opposed to any obligation of job acceptance being imposed on the unemployed, and called for the intervention of the Government to declare the agreement void. This was done a month later (July 2000). Several reasons motivated the Government’s action: the main one seems to have been concern that this reform would increase the existing dualism in the labour market. According to the calculations of the Ministry of Labour, the number of unemployed to be covered by unemployment insurance would have remained more or less at the same, very low level of about 40 per cent. Moreover, the restriction of active measures to the UNEDIC

Box 4.3 The new LMP schemes introduced in 2001

PARE

In order to benefit from the PARE, an unemployed worker has to sign a “personal action project” (*projet d'action personnalisé* – PAP) with the ANPE, the public employment service. The unemployed are supposed to accept the proposals for skill evaluation or training, and any job offer corresponding to their profile, which is determined at the beginning of the PAP; if a job offer is refused, unemployment benefits can be reduced and even withdrawn completely. The PAP runs for six months: it can be renewed for six months if the beneficiary has not found a job at the end of this period. A further six-month period begins with a complete skill evaluation (*bilan de compétence*).

The ANPE is supposed to offer a variety of active measures to the beneficiary, especially after 12 months of unemployment, in addition to an unemployment benefit which remains constant (in contrast to the AUD).

ARE

The ARE is the new unemployment insurance allowance, and it remains constant during its whole duration. While the AUD required an employment period of at least four months out of the last eight, the ARE requirement is only a minimum of four months out of the last 18 (see table 4.25).

Table 4.25 The ARE: Linking unemployment benefits with contributions

| Previous employment record | Duration of benefits |
|------------------------------|---|
| 4 months out of the last 18 | 4 months |
| 6 months out of the last 12 | 7 months |
| 8 months out of the last 12 | 15 months, if under 50 years of age 21 months, if over 50 years of age |
| 14 months out of the last 24 | 30 months, if under 50 years of age 45 months, if over 50 years of age |

Source: Malo, Toharia and Gautié, 2000.

The daily benefit in 2001 was a maximum of 40.4 per cent of the previous daily gross wage plus EUR9.79, or 57.4 per cent of the previous daily gross wage. In both cases, the benefit is proportional to the previous wage (the upper wage limit is a maximum of EUR9,116 per month).

In order to promote entrepreneurship, if a previously salaried unemployed person sets up their own business and this subsequently fails, he or she is entitled to the ARE under certain conditions.

For those who are no longer entitled to ARE because their rights are exhausted, the former “solidarity system”, based on the ASS allowance, is maintained. But ASS is still restricted to those who have worked at least five years during the last ten years preceding unemployment (see section 4.3).

Box 4.4 Active measures financed by UNEDIC as part of the PARE

Aide dégressive à l'employeur

This is an employment subsidy for firms that hire a worker who has been unemployed for at least 12 months and who is still entitled to unemployment insurance benefit (ARE). The duration of the subsidy is equal to the remaining duration of the worker's ARE, and therefore runs from one year to a maximum of three years. For an open-ended contract, the subsidy, which cannot exceed ARE, can amount to 40 per cent of the hiring wage during the first year, 30 per cent during the second year, and 20 per cent during the third year. For a fixed-term contract, it amounts 40 per cent of the wage during the first third of the duration of the contract, then 30 per cent and 20 per cent for the two remaining thirds respectively.

Aide à la mobilité géographique

UNEDIC can contribute to the transport expenses of the newly hired, and can also finance a part of his/her moving expenses if he/she has found a job in another region.

Aide individuelle à la formation

UNEDIC can finance training schemes within the PAP, during which the participant continues to receive ARE. To be eligible, a training scheme must match the needs of the labour market and must be approved at a local level by the ASSEDIC (the regional offices of UNEDIC). At the national level, a new structure has been created, controlled by the social partners (the *Groupe paritaire national de suivi*), whose role it is to define the orientation and financial priorities of UNEDIC training policy.

Contrat de qualification (CQ)

Since 2001, this dual training scheme, previously restricted to young people, has been extended to adults over 25. UNEDIC can finance the training costs of the CQ if it appears to be a good step to re-employment.

beneficiaries alone would have reinforced the exclusion of the other unemployed. Finally, after painful discussions, a new agreement was signed (but still rejected by two main trade unions, the CGT and FO), and the new UNEDIC agreement runs from 1 January 2001 (though actually implemented from summer 2001). The potential of increasing dualism is lower with the new agreement, but not totally excluded: the results will rely heavily on how it is implemented.

The new agreement introduces the PARE (*plan d'aide au retour à l'emploi*). The PARE defines the rights and duties of a worker who qualifies for unemployment benefits from UNEDIC. There has been a reform of passive as well as active LMP, in an effort to combat the dualism of outsiders and insiders among the unemployed. Along with the implementation of the PARE, the unemployment insurance allowance (AUD) that was introduced in 1992 has been replaced by a new one, the ARE (*aide au retour à l'emploi*). Both reforms are set out in box 4.3.

The PARE has many similarities with existing programmes in other European countries; in particular it is a big step towards the Danish system of “activation”, which is also based on a personal action plan with both rights and duties for the unemployed who qualify for unemployment benefits (see Chapter 3). Indeed, since 2001 the UNEDIC is officially empowered to finance active measures directly. Former schemes implemented or financed by the UNEDIC on a temporary basis – like the *convention de conversion*, *convention de coopération*, *allocation de formation reclassement*, and *allocation de remplacement pour l’emploi* (see section 4.3 for details) – have now been suppressed or replaced by the PARE. At the same time, within the PARE programme new active measures can be financed by the UNEDIC for those who benefit from the unemployment insurance allowance (ARE).

All the measures described in box 4.4 are restricted, as we have noted, to those who are entitled to the ARE. In order to avoid the abovementioned risk of increasing segmentation among the unemployed, the Government, within its 2001–3 programme against exclusion, decided to extend the PAP to all the beneficiaries of the solidarity system (ASS). They can also benefit from the aid to geographical mobility. For the year 2001/2, UNEDIC agreed to dedicate EUR1.3 billion out of the insurance system to finance measures for the unemployed on the solidarity system.

4.6 SUMMARY AND CONCLUSIONS

Increasing segmentation

The growth of atypical employment seems to have increased the segmentation of the French labour market. Insiders with high seniority hold the permanent full-time jobs and have high employment stability; skilled prime-age males make up the core of this category. On the other hand, outsiders bear the burden of flexibility. They hold part-time and temporary jobs which enable firms to continually adjust to short- and middle-term environmental shifts. The outsiders are exposed to precariousness; they are vulnerable to unemployment and have difficulty obtaining permanent jobs. Some of them do find a permanent job, but it is not known if they ever become insiders. It is also not known if there are “traps” that lock outsiders in atypical jobs and if the pool of outsiders is made up of the same workers. No doubt the reality lies somewhere between the partition model (no bridge between outsiders and insiders) and the job queue model (atypical employment is a temporary stage before a permanent job, which means that outsiders eventually become insiders).

In spite of increasing segmentation, the traditional “employment norm” remains valid. Flexibilization has not changed the structure of the employment relationship: it has been contained at the margin. At a very global level, job stability and job security have not declined during the last decade in France (Auer et al., 2001), and yet there is a growing feeling of insecurity among French workers. The segmentation process may explain this paradox, as the media and researchers have mainly focused on the margin, where growing instability has

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prevailed. Attention has turned away from the core (to which the majority of workers belong), where stability has remained high.

A very partial trade-off between EPL and LMP

To assess the relationship between EPL and LMP, it is necessary to distinguish between different types of worker, and also between active LMP and passive LMP. There seems to be a partial trade-off between EPL and LMP in the youth labour market. But the situation is ambiguous: as labour market programmes rely on temporary schemes, which often pay less than the regular wage, and as their effect on employment is modest, some argue that LMP tends to maintain a secondary labour market for youth. According to this analysis, LMP would reinforce the consequences of low EPL, instead of compensating for them. Women workers (mainly those who are low skilled and new entrants in the labour market) do not constitute a separate target category for active LMP. In their case, LMP does not offset the consequences of low EPL.²³ At the opposite extreme, prime-age males are the core of the insiders: they benefit from high EPL, but also from high levels of LMP (both active and passive) when they are laid off. In their case, there seems to be a strong complementarity between high EPL and high LMP, both active and passive. Finally, for older workers there also seems to be a complementarity between high EPL and substantial LMP, though the latter are mainly passive measures. These outcomes correlate with both the welfare state regime and labour market functioning.

Lessons for state intervention

Our study leads to the conclusion that the French EPL/LMP pattern was in need of fundamental reform at the end of the nineties. The global context has changed significantly since 1997, especially with the return of growth, and this means that increased deregulation of the employment relationship does not seem to be a good target for EPL. On the other hand, the necessary reform of LMP may be strongly facilitated by this new context.

A new context

Economic growth has been quite significant in France between 1997 and 2001, as in the rest of continental Europe. Many economists agree that this is not just a cyclical upswing: after two decades of low growth, France may experience a new era of sustained growth (beyond the 2001–2 slowdown), based partly on the “new economy”. While GDP growth was lower between 1997 and 2000 than between 1987 and 1990, employment growth was higher. This may be a consequence of increased flexibility in terms of, among other things, the reduction of the tax

²³ Of course, not all women are outsiders; moreover, as women’s tenure tends to increase, we can assume that the proportion of female insiders also tends to increase.

wedge (social insurance contributions) on low wages, the expansion of part-time jobs, and the reduction of working time. If this process continues, it may have important consequences for employment levels (unemployment fell from 12.5 per cent in 1996 to 9.5 per cent in 2000), and on labour market functioning. The negative effects of labour market rigidity on job creation are often mentioned, but less attention is paid to the reverse causality: rigidity may be a consequence of poor employment growth and increasing unemployment. In France, priority was given to protecting middle-aged (male) workers. The result was a self-reinforcing process. As insiders tended to protect themselves, they caused deterioration in the prospects of outsiders (young people and long-term unemployed, in particular). As the prospects of a return to work for the long-term unemployed worsened, insiders became more strongly motivated to fight for increased protection and/or LMP measures. The return of growth will probably help to break this vicious circle.

The big increase in the level of skill of the new entrants in the labour market is also an important phenomenon. Insiders were all the more anxious to avoid being laid off because their average school attainment was low in absolute terms, as well as compared to the prime-age workers in many other OECD countries. As a consequence, their human capital was mainly firm-specific and therefore non-transferable. With a much higher educational level (see table 4.23), prime-age workers will certainly be more mobile in future. They will focus less on laws to preserve jobs, and they will be more concerned by LMP measures which help them maintain and preserve their employability. Lifelong learning will become more and more the condition of lifelong earning.

Changes in working time must also be mentioned. At the end of the 1990s, the Aubry laws were adopted in order to reduce the normal working week to 35 hours.²⁴ It is too soon to draw a detailed picture of their consequences, but it appears that in many firms they have increased “functional” flexibility in the organization of working time, thus potentially partly replacing external (or numerical) flexibility, which relies on atypical employment. However, care must be taken in drawing such an optimistic conclusion: recent data show, for instance, that temporary agency work still grew at a sustained rate during the 1997–2000 upswing.

The conditions are emerging for the implementation of a new “trade-off” between EPL and LMP. According to the theory of “transitional labour markets”, public intervention should move away from the rigid job preservation strategy towards a more flexible strategy based on the promotion of the lifelong employability of workers. Flexibility already exists: the priority is now to improve LMP in order to reconcile employment flexibility with individual security.

²⁴ The Aubry laws are so called because they were prepared by Martine Aubry, Minister of Labour from 1997 to 2000.

Deregulation and LMP reforms

There are two reasons why increased deregulation of the labour market does not seem to be a good approach. First, the stringency of existing regulations seems to be overestimated. Atypical employment has expanded a great deal during the last 15 years and France actually has one of the highest job creation rates among the OECD countries. Second, rigidity is the result not only of legislation (which is sometimes circumvented), but also of trade union behaviour and/or agreements between employers and employees. Even in the United States, in spite of very soft labour market legislation, insiders have been relatively preserved from downsizing during the last decade: in the large corporations, the average job tenure and the proportion of workers with ten or more years of service have actually increased during this period (Auer et al., 2001). The behaviour of insiders, which is as important as legislation, may change in future, given the new context.

Labour market policy seems to need reform, in order to focus more on outsiders and to prevent the unemployed from becoming long-term outsiders. LMP should be designed to offset the consequences of the increasing segmentation of the labour market. Some active measures are currently targeted at insiders, but overall the latter benefit from generous passive measures (unemployment benefits, early retirement). However, once again, the emerging new context will bring change. Some reforms are already under way.

Early retirement was very popular until the beginning of the 1990s, but its use is decreasing and this trend is likely to continue. Originally, this measure was specially targeted at that generation of (mainly male) workers with low or no school attainment (even if age was the only formal criterion), in the traditional production sectors which downsized during the last two decades; this generation is slowly disappearing. Moreover, with an ageing workforce and the upcoming shortage of young people, the priority for the firms is no longer systematically to get rid of their old workers; “part-time” early retirement, with low or no public funds, will probably be the best way to harmonize the interests of both employers and employees, in many firms. Moreover, at the global level, for demographical reasons the priority is now to increase the labour force participation of older workers. Early retirement should indeed be replaced by incentives to make the firms keep their older workforce.

As for the unemployment compensation system, during the period of mass unemployment the priority was to avoid a financial crisis, and therefore choices had to be made in order to share out the shortage of jobs; the priority has been to preserve the interests of insiders. At a global level, “outsiders” were somewhat sacrificed. With the dramatic decrease in unemployment expected in the medium run, the unemployment compensation system will now be able to be more generous to outsiders, and also able to play a more active role. As noted above, the implementation of the PARE system is a big step towards activation. Although it is too early to draw any conclusion, we can mention some necessary conditions for success.

The activation element of PARE should imply much closer cooperation than in the past between the unemployment compensation system, UNEDIC, and the public employment service, the ANPE (which implements the personal action project, PAP), which are still two separate institutions in France.

Activation also introduces new risks: during downturns, as passive measures automatically increase (benefits being based on entitlements), they may “crowd out” the financing of active measures. More generally, there is a strong incentive during both downturns and upturns (especially for the employers’ organizations, which play an important role within the UNEDIC) to reduce unemployment social contributions rather than to finance active measures. If only “cheap” (in other words, “cosmetic”) measures are financed, the PARE, as some trade unions have warned, will turn out to be a hollow deal for the jobless, imposing increased constraints with almost no positive benefits in return. If this is the case, the PAP will lose almost all its content.

Active LMP needs to focus more on outsiders, and to offset the consequences of the increasing segmentation of the labour market. Until now, this has not been the case, and the introduction of the PARE risks increasing the dualism among the unemployed. At the end of the nineties, only about 40 per cent of the unemployed were covered by the unemployment insurance system: about 10 per cent were receiving the “assistance” compensation, and the remaining 50 per cent did not receive any unemployment compensation, with the exception of the minimum income, RMI. If access to the more “activated” measures were restricted to those unemployed benefiting from insurance, it would reinforce labour market segmentation instead of reducing it, which is one reason why the initial PARE project was rejected. The extension of the PAP to the beneficiaries of the “solidarity system” is only partial, and, as a consequence, the risk of dualism remains.

Beyond the PARE, more ambitious and comprehensive measures targeted at outsiders have been adopted, among which the TRACE programme is a good example (see box 4.1). The evaluations of schemes targeted at hard-to-place young workers in the OECD countries have tended to show that only comprehensive schemes could have some positive effects: schemes which include a mix of services, ranging from financial help and housing assistance to well-adapted training, work experience and job search assistance. In other words, these young people have a long way to go before they reach the “regular” labour market. TRACE has been conceived in response to this, as a fast track to integration. It is based on an individual treatment: each beneficiary has a mentor who coordinates the different stages of his or her “trajectory” to employment. It encompasses a wide array of schemes (job search assistance, classroom and on-the-job training, temporary employment in the public sector and so on), with the mentor bringing together the different institutional actors at the local level (employment agency, vocational training centres, and various associations). It can last up to 18 months.

The PARE, as well as active programmes like TRACE, relies on individualization in a context of growing heterogeneity of the unemployed. “One-size-fits-all”

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measures are no longer valid; instead the particular needs of each unemployed person have to be taken into account. The static approach of traditional LMP targeted groups were defined by general characteristics (age, duration of unemployment and so on); the new LMP tries to help individuals define and construct their “path” into the labour market. This new approach requires the reinforcement of the public employment service, in order to allocate a mentor to each unemployed worker. Individualization implies action at the local level, and thus more decentralization, in order to enhance a strong coordination between all the actors at this level. This local coordination does not exist yet, with resulting problems in the implementation of the TRACE programme.

Finally, “contractualization” should be the necessary complement to both activation and individualization. Rights and duties must be defined on both sides, for the public employment service as well as for the unemployed. Debates have often focused on the “workfare” approach, according to which public intervention is reduced to a monetary benefit, and the counterpart (in terms of work) is usually seen as a sort of punishment; the workfare ideology is not far from the spirit of the workhouses introduced in the modern era by the Poor Laws in England. Contractualization derives from another approach, according to which the unemployed should be entitled to various services (active measures) and not only financial aid (these services are considered as a “social investment”, in Esping-Andersen’s terms), and there are counterparts for the unemployed, mainly in terms of active job search. It is the contract which commits both society and the individual. In a situation of mass unemployment, society is not able to honour its contract as there is a shortage of both active and passive measures. When unemployment has decreased enough, effective contractualization becomes possible again. The contract is a means to facilitate individualization in the policy implementation. It implies more effectiveness, but may also imply more stringent control; it also implies the preservation of the freedom and dignity of the individual.

STABILITY AND CHANGE: JAPAN'S EMPLOYMENT SYSTEM UNDER PRESSURE

5

Olivier Passet

5.1 INTRODUCTION

Japan's labour market is generally identified as one providing high employment security. This stability in terms of numerical employment adjustment, however, is traded off against high internal flexibility. Internal flexibility has two components: the first is functional flexibility, which is based on work quality, greater mobility within jobs and across tasks, the reduction of job boundaries and flexibility in job design, training and retraining; the second component is internal quantitative flexibility, which consists of the variation of working time that is associated with variation in wages.

The enterprise-based system of stable employment relationships and internal flexibility emerged in the early 1960s. It is reinforced by the organization of the economy in conglomerates (*keiretsu*), the education system (especially company-based further vocational training), the enterprise unions and state welfare policy, and it is based on strong social norms rather than on labour legislation.

In contrast to labour markets with high external flexibility, in Japan labour turnover is low. That being said, Japanese marginal workers (often women) do not enjoy the same employment conditions as the core segment workers.

Notwithstanding the financial crisis of the 1990s (called the "post-bubble"),¹ the labour market remains characterized by numerical stability and internal flexibility. However, in the current climate of restructuring, the model of employment security/internal flexibility – once considered the main asset of the Japanese system and a key element of the perception of security – does not prevent the Japanese from feeling highly insecure in their jobs. The need for adjustment,

¹ The boom years of 1988 and 1989 are often described as the "bubble" period, during which there was a 180 per cent rise in the Tokyo stock market index and the value of land prices doubled. In the financial collapse that followed – the "post-bubble" period – the stock market plummeted by 35 per cent between the end of 1989 and August 1990, and the economy continued in recession until October 1993.

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increasing with ongoing restructuring, may be outpacing the scope of internal flexibility mechanisms that were devised in an earlier era of steady growth and cyclical fluctuation.

The view that the pairing (external stability/internal flexibility) is showing signs of overuse and reduced efficiency may indeed play a major role in the current Japanese perception of job (in)security. How permanent is the external stability/internal flexibility model? Section 5.2 addresses this question in detail. Our analysis finds that the labour market in Japan remains stable and that the overall employment speed of adjustment and volatility remains low at the aggregate level, as do outflows from employment and inflows to unemployment. The internal flexibility model of adjustment within the firm continues, based on wages, transfers and working time as mechanisms of work-hour adjustment.

Section 5.3 focuses on the paradox of a mounting perception of job insecurity at a time when the Japanese employment system still shows more stability than is generally assumed. The duality of the Japanese labour market, with a segment of core workers staying with their firms for a lifetime and marginal workers used as flexibility buffers, is the usual explanation for this paradox. Yet, contrary to common belief, the increase in atypical contracts among salaried workers does not necessarily increase the disparity between workers in terms of numerical flexibility: a considerable share of marginal workers also has long employment tenure. Overall, therefore, the increase in external flexibility remains restrained. However, insiders – and some outsiders – also suffer from what could be called “internal insecurity”, mainly based on wage cuts and changing working-time patterns. The high degree of dissatisfaction associated with the duality of labour market status, and the high risk of wage cuts from job-to-job moves, exacerbates this perception of insecurity even if external mobility remains moderate.

Section 5.4 assesses the role of labour market policy (LMP) in a context where external, numerical stability and internal flexibility no longer deliver on job security and where external mobility is progressively gaining ground due to economic restructuring. The Japanese system is our most typical example of a trade-off between low social protection and high employment protection (see Chapter 1 for a discussion of the trade-off and complementarity models), and the concept of “lifetime jobs” has been closely associated with the Japanese labour market. Accordingly, there has been no need for a pervasive system of social protection tied to the employment system, because companies and the public sector were bound to deliver employment security. Thus, until recently, labour market policies have been few, and have been put in place to help to maintain employment levels over cyclical variations in economic activity, acting, as in France, as a complement to employment protection. In contrast to France, however, these policies have been geared toward employment maintenance, rather than labour market exits. For example, unemployment insurance is “employment insurance” in Japan, supporting employment maintenance rather than compensating lay-offs. The outcome is good protection of insiders, with public labour market policies

supporting enterprise policies concerning short-term work, training and transfers between jobs.

If it is to reduce perceptions of job insecurity and enhance structural changes, the challenge for LMP is that it must now deal with growing numerical flexibility and adjust to changes in the traditional Japanese combination of external stability and internal flexibility.

5.2 THE PERMANENCE OF THE JAPANESE MODEL OF “INTERNAL FLEXIBILITY” AND ITS IMPLICATIONS FOR JOB STABILITY

A high level of employment protection legislation at enterprise level: The combined effects of social norms and case law

According to a 1997 survey on corporate activity conducted by the Economic Planning Agency, long-term employment is still the norm in most Japanese firms: only a minority of enterprises promotes the dismantling of the present employment system. In practice, however, no more than 20 per cent of corporate employees work continuously in one enterprise until they are 60 years old. After the Second World War, Japanese firms developed flexible mass production and quality circles based on American organizational models, but other procedures, such as job evaluation and the lay-off system, were not adopted because of their incompatibility with Japanese mores. In place of legal enforcement, employers and enterprises developed internal enforcement mechanisms based on long-term labour relations and joint labour-management consultation (Moriguchi, 2000). Even during economic downturns, corporations have traditionally refrained from laying off employees.

One of the main features of the lifetime employment system and an organizational norm in Japan since the 1960s is in-house training of personnel over the long term. This so-called “Toyotist model” has been at the basis of big firms’ ability to adapt quickly to shifting economic conditions and technological innovation. Firms needed to arm their employees with competitive new skills and a broad range of knowledge through in-house training and mobility. To accomplish these aims, enterprises required workers willing to spend their entire career with one company and offered opportunities for advancement and salary increases as incentives for long-term employment relationships. Promotion was seniority based. Additional factors contributing to the lifetime system were the emphasis of company trade unions on job security and legal precedents that favoured dismissed employees.

According to rankings by the Organisation for Economic Co-operation and Development (OECD), Japanese workers enjoy a degree of job security which is above average (see Chapter 2, figure 2.1). With regard to fixed-term contracts, Japan is in an intermediate position among developed OECD countries. However, employment guarantees for collective dismissal are particularly low by OECD standards.

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Contrary to popular assumption, no statutory law has guaranteed employment security in Japan. The Japanese Civil Code (Art. 627) stipulated that under an at any time, giving two weeks' advance notice. The Labour Standards Law of 1947 obligated employers to pay the equivalent of 30 days' average wages when dismissing an employee. Apart from these restrictions, the law maintained the employer's right to dismiss employees. No explicit guarantee of employment security was contained in collective agreements, with the exception of a clause requiring the employer's prior consultation with the trade union. Contractually, American workers were provided with better employment security through the seniority rule than Japanese workers were.

Judicial practice is the foundation of Japanese job security. The courts gradually accumulated case laws that restricted the right of dismissal by requiring employers to provide "just cause". Thus, 1979 case law established four conditions to be fulfilled before regular employees could be dismissed. "Unfair dismissal" specifies the notion of "just cause" and stipulates that:

- employers should be faced with a compelling and unavoidable necessity for dismissals;
- they should have made every effort to avoid dismissals by, for example, transfers, farming-out of workers to affiliated companies, terminating employment of temporary and part-time workers, facilitating early retirements, reducing overtime work and suspending hiring;
- they should consult with trade union representatives and employees about dismissals; and
- they should establish reasonable standards and apply them fairly when selecting workers for dismissal.

Thus, Japanese firms accomplish adjustments in personnel over a longer period and circumvent dismissals for economic reasons by using internal buffers against aggregate changes in demand, reducing overtime hours, reassigning employees, hiring fewer new employees, and transferring employees who are temporary or permanent regular staff to affiliated firms. Early retirement is rarely used as a method of employment adjustment.

A final factor contributing to job stability has been the very limited access to work through temporary employment agencies (also called "dispatching" agencies, hence "dispatched" workers, who will be discussed in more detail in section 5.4). According to the weights that are assigned to these factors, especially case law, atypical work arrangements and collective dismissal, Japan's ranking in comparisons of the strictures indicated varies widely between studies (see, for example, Lazear, 1990, and Bertola, 1990).

Two main features provide a greater flexibility than tight dismissal protection of regular workers usually permits. These are the absence of restrictions on the employment or re-employment of temporary workers, and the quasi-absence of special regulations for collective dismissal, as can be seen in box 5.1.

Box 5.1 Employment protection in Japan**Regular contracts**

Notice:

- No legal delay before notice can start
- Individual dismissals need written or verbal notification
- Group dismissals for economic reasons need notification of and consultation with trade unions and workers' representatives
- Required notice of 30 days in all cases

Severance pay:

- No legal requirement
- In practice, equal to one week per year of service

Jurisdictional validation:

- Deemed "just cause" if the employer is able to demonstrate that special efforts have been made to avoid dismissal, in consultation with the trade union
- Deemed "unfair" if dismissals occur because of nationality, sex, religion, or social status bias, or for reasons of sick leave or maternity leave

Fixed-term contracts

- Fixed-term contracts with a duration of under one year are widely permitted, without specifying a reason for termination
- Maximum number of successive contracts is not legally limited. After repeated renewals, the employer must show just cause to refuse renewal
- No maximum limit to the cumulative duration of successive contracts

Temporary work agency employment

- Until 1999, the law severely restricted (to 23) the types of occupation handled by temporary employment agencies
- The number of renewals is restricted: two prolongations possible with a maximum cumulative duration of 36 months (12 months for initial contract)

Collective dismissal

- No specific statute on collective dismissal
- Notification requirement if dismissal concerns more than 30 employees
- Case law stipulates information and consultation with trade union or workers' representatives
- Notification of the public employment office
- No special consultation about delays
- Courts require consultation with employer on the need for redundancy, dismissal standards, and selection of workers for dismissal
- No specific regulation regarding severance pay

Employment stability in an age of flexibility

Box 5.1 provides an overview of case law on employment protection in Japan, which creates the following disparities according to employment status:

- high job security for regular workers, especially prime-age male workers;
- intermediate job security for renewed temporary workers, but lower benefits (often part-timers);
- low employment protection for temporary and daily workers with less than one-year job tenure;
- low employment protection for those who are re-employed or transferred workers (mainly older workers).

The intermediate situation of renewed part-timers and temporary workers is only partly based on law. Again, court rulings have played the major role. The Part-time Work Law of 1993 was enacted to narrow the gap in working conditions between part-time workers and full-time regular workers. Concerning job security, the law requires employers to provide a hiring notification to part-time workers, and guidelines specifying that workers employed continuously for more than one year should be given advance notice if the contract will not be renewed. However, it does not legally bind firms that violate this requirement. The law also concerns wages, education and training, but merely assigns firms a “duty to endeavour”.

Since many legal disputes arise over termination of employment and dismissal of temporary workers, case law has specified the degree of labour protection concerning part-time, fixed-term workers. The courts extended the legislation on unfair dismissal (“just cause”) to this category of workers – under renewed contracts – but still left them with an extremely unstable legal status. The reason is that “just cause” does not legally bind the employer as strictly as the rules for dismissal of indefinite-term employees. When employment adjustments occur, the Japanese Supreme Court accepts the dismissal of renewed fixed-term contract workers ahead of regular employees.

Numerical stability of total employment in Japan

According to several studies, employment in Japan has been more stable than in other OECD countries, despite a higher variability of output. However, while employment levels are stable, working hours vary considerably. Contrary to the United States, where business-cycle adjustment needs are met mainly by the variation of employment levels, in Japan the main adjustment lever is working hours. The change in working time clearly plays a major role as the buffer when demand falls, as it did, for example, during the first oil crisis and during the 1990s, thus smoothing employment.

The Japanese speed of numerical adjustment of employment is very slow in comparison with other countries, especially Anglo-Saxon ones. The employment fluctuations in the manufacturing sector suggest that adjustment has been more

drastic in the recent past but, looking at total employment, numerical stability seems still to be confirmed.

The main evidence for the employment stability assumption derives from estimating the standard deviation of employment (calculated for the rate of change or for de-trended log-transformed variables) in relation to production (see Gordon, 1982, and the survey by Tachibanaki, 1987). Japan shows the lowest deviation in employment among the major industrialized countries, a result confirmed by investigations that estimate labour demand, such as Tachibanaki (*ibid.*) and Hart and Malley (1996). The main purpose of these studies was to estimate the speed of adjustment of employment to the desired levels. They confirm that the responsiveness of employment to productivity is very low and that, by international standards, the speed of adjustment is very slow.²

Changes in the composition of working time have played a significant part in adjusting work-hours. Until the enactment of the revised Labour Standards Law in 1988, the change in total working time was strongly dependent on the variation of overtime hours. While changes in overtime hours continue to play an important cyclical role, they have been partially supplanted by the sharp decrease in regular working time induced by the gradual shift of Japanese firms to the five-day, 40-hour work-week, and the development of part-time employment (see section 5.4).

Wage-rate flexibility is another element of the Japanese model of external stability/internal flexibility. Manufacturing and other industries in Japan are significantly more prone to keep labour in excess of production requirements during cyclical downturns than are their counterparts in Germany, the United Kingdom or the United States. While lay-offs and hirings play a prominent role in the Anglo-Saxon economies, most studies suggest that wage-rate flexibility, linked to a variation in working hours and bonuses, acts as the principal buffer to economic fluctuations on the Japanese labour market. According to Hashimoto and Raisian (1985), wage transaction costs in Japan are lower than in other OECD countries, particularly the United States. The mechanism consists of frequent re-contracting (annual or bi-annual) over regular wages and bonuses. The important share of bonuses (one-fourth of the total wage) and overtime pay (around 7 per cent of the total wage), and the coordination and synchronization of the spring wage drive (*shunto*), are generally presented as key factors in aggregate wage flexibility. Empirical evidence confirms that these factors are clearly enhanced by social cohesion. According to Gordon (1982), "All the major elements of the Japanese system interact together, acting as a virtuous circle." The wage-seniority system (*nenko*), the low degree of wage disparity (not taking sex into account) and

² Annex 5.1 presents a reworking of these studies which confirms the empirical evidence for the manufacturing sector and for the overall economy by combining several criteria. These are: the standard deviation of the year-on-year growth rate of employment in relation to GDP; the correlation between the variations of the employment growth rate and the year-on-year growth rate of GDP (from quarterly data); and an econometric estimation of the average adjustment delay of employment. This result varies according to enterprise size, as tables 5.6 and 5.7 show (see pp. 182 and 183).

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strong social cohesion all allow for aggregate wage flexibility. This is essentially conflict avoidance, based on a greater degree of social equality (less influenced by social class), which helps to minimize the costs of reaching agreements. In addition, according to most empirical studies, the responsiveness of wages to unemployment is substantially higher in Japan than in other OECD countries and is generally interpreted as a key to preventing increases in unemployment.

Several studies on wage–tenure profiles (Hashimoto and Raisian, 1985; Mincer and Higuchi, 1988) obtained results that strongly support the proposition that firm-specific human capital investments are significantly higher in Japan than in the United States. These results in turn suggest that excess labour is a far more important phenomenon in Japan than in the United States. Adopting the methodology of Hart and Malley (1996), we assumed that efficient utilization of available hours occurs at the observed peaks of hourly productivity cycles. Joining peaks by linear segments and comparing these with actual productivity paths provides a proxy for excess labour for each period. The average estimate of total manufacturing excess work-hours between 1960 and 2000 was around 4.6 per cent in Japan, while it represented 2 per cent of total hours in the United States. These results agree with the estimates of Hart and Malley (1996) that were derived from dynamic simulations over the 1970–91 period (4.69 per cent in Japan, 2.54 per cent in Germany, 1.76 per cent in the United Kingdom and 1.66 per cent in the United States).

Stable employment levels, associated with the high responsiveness of overall wages and working hours, are seen as the permanent pillars of the Japanese labour market model, even if the coherence of these elements has started to show cracks in the recent past. Average job tenure and the share of workers employed for less than one year, generally considered as indicators of external labour turnover, confirm the above assessments. In comparison with other OECD countries, in 1998 Japan had both the longest average job tenure (along with Belgium and Portugal) and the lowest proportion of the labour force with a tenure of under one year (see Chapter 2, table 2.1, for a comparison of OECD tenures with the latest available data).

The low but increasing probability of being unemployed in Japan

Employment stability in Japan is mainly due to the stable and relatively low level of separation rates. Traditionally, labour adjustment was achieved by either a cut or an increase in new hires, in preference to laying off workers. In comparison with other OECD countries, labour turnover rates resulting from the addition of outflows and inflows of employment in enterprises are low (OECD, 1996b; Genda 1998a). Retention rates (OECD, 1997) confirm this moderate labour market “churning”. The rise or fall of employment in Japanese firms is primarily determined by fluctuations in the job-creation rate, which has fallen significantly compared with the economic expansion of the 1980s. Simultaneously, the job

Table 5.1 Stocks and flows of employment and unemployment, and probability of employment-to-unemployment (E–U) transition, 1996–99

| | 1996 | 1997 | 1998 | 1999 |
|--|--------|--------|--------|--------|
| Stocks and flows (thousands) | | | | |
| Employment (1) | 64 860 | 65 570 | 65 140 | 64 620 |
| Number of new separations (2) | 1 250 | 1 310 | 1 280 | 1 320 |
| (Separation rate in enterprises with more than five regular employees) | (1.92) | (2.00) | (1.96) | (2.04) |
| Flow of new unemployed | 3 333 | 348 | 502 | 412 |
| (Percentage share of new unemployed quits – voluntary or involuntary) | (65) | (65) | (67) | (67) |
| New unemployed who were previously working (3) | 218 | 225 | 334 | 276 |
| Probability of E–U transition (percentages) | | | | |
| E–U probability when separating (3)/(2) | 11.5 | 11.3 | 17.3 | 13.8 |
| E–U probability when employed (3)/(1) | 0.3 | 0.3 | 0.5 | 0.4 |

Note: See footnote 4 for Japanese definition of regular employees.

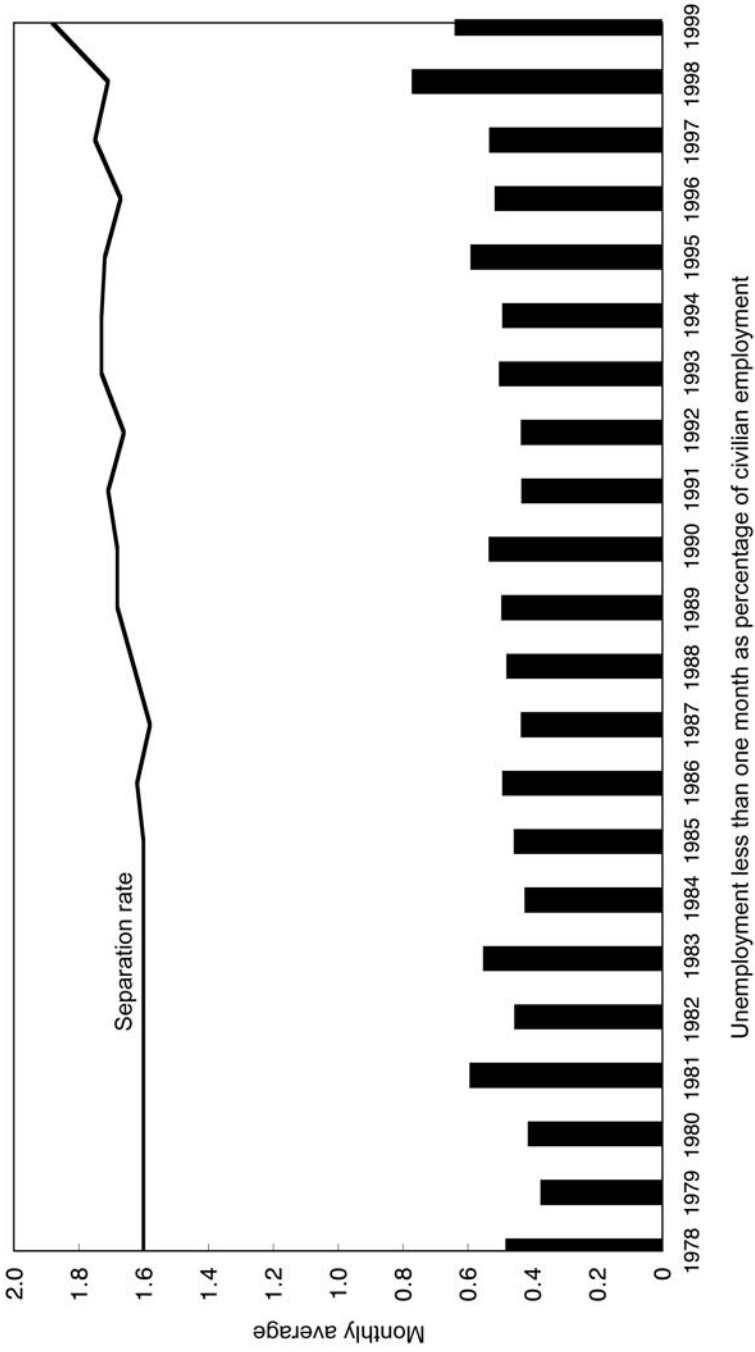
Sources: Author's calculations based on Statistics and Information Department, Ministry of Labour of Japan; Bureau of Statistics, Management and Coordination Agency, Tokyo.

destruction rate has been less volatile, especially in the manufacturing sector. In recent years, however, there has been an increasing trend towards separations, particularly in medium and large enterprises.

Mizuno (1983) found that more than 90 per cent of labour turnover in Japan did not imply transitional unemployment during a move between jobs, a feature which still holds largely true today (currently around 80 per cent). The stability of employment in relation to the business cycle is also shown by the weak probability of falling into unemployment when employed. At the beginning of the 1980s, Higushi and co-researchers (1986) estimated this probability per month at 0.3 per cent in Japan and at 2.2 per cent in the United States. As shown in figure 5.1, a proxy for the flow into unemployment – those unemployed for less than one month as a share of total employment – confirms this (although the figures are biased by the inactivity-to-unemployment moves). While in the late 1990s separation rates and inflows into unemployment tended to rise, in the period 1995–99 Japan still belonged to the group of countries with the lowest probability of entry into unemployment (based on the ratio of unemployment flow per month as a percentage of the labour force).

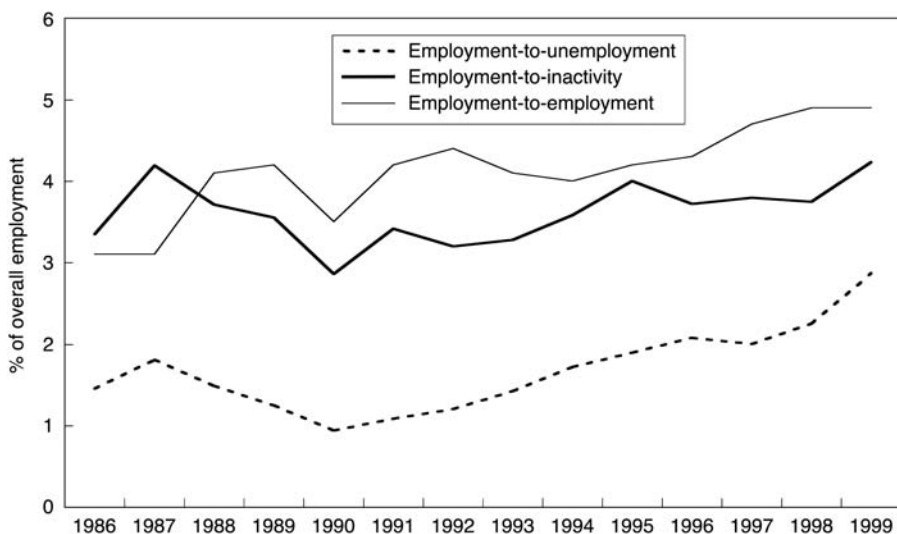
Although statistics do not permit the exact probability of transitions between employment and unemployment status to be calculated, the result can be inferred from several sources. As table 5.1 suggests, only the probability of monthly employment to unemployment had increased in the late 1990s, reflecting Mizuno's finding (1983).

Figure 5.1 Separation rates and new jobless, Japan, 1978–99 (percentages)



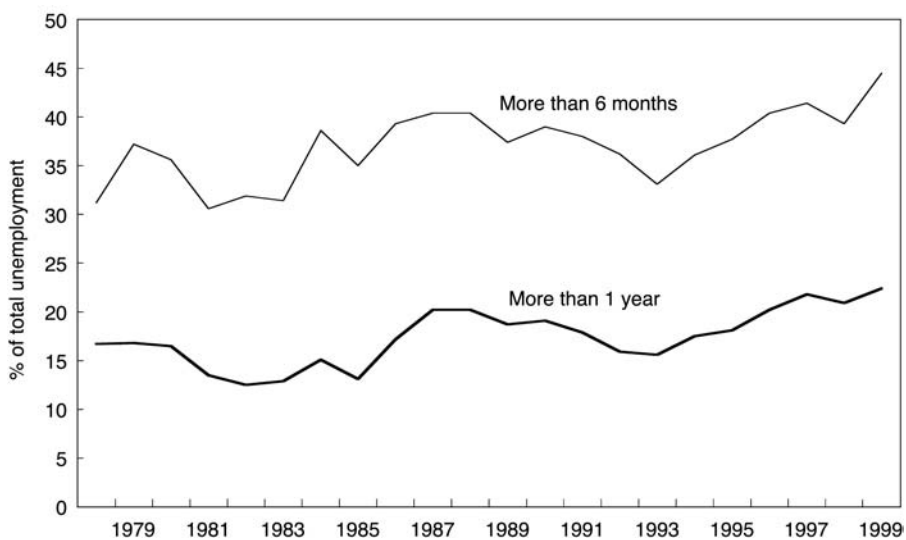
Sources: Management and Coordination Agency, Tokyo; Ministry of Labour of Japan.

Figure 5.2 Transition probability in Japan as a percentage of overall employment, 1986–99



Source: OECD, 1999b.

Figure 5.3 Long-term unemployment, Japan, 1978–99 (percentages)



Source: Management and Coordination Agency, Tokyo.

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Estimates from the OECD (1999b), based on the February Monthly Report on the Labour Force Survey, give similar qualitative results, as shown in figure 5.2. Job-to-job transition was on an upward trend, while employment-to-unemployment (E-U) transition has sharply increased since 1997, exceeding its previous cyclical peaks. Separation rates remained constant until the mid-1990s, with an apparent break after 1997 – but this is too recent and has not achieved a sufficiently dramatic dimension to propose any dismantling of the Japanese model.

Despite the stability of overall employment, the Japanese labour market does not suffer from a high rate of long-term unemployment, as figure 5.3 shows. The duration of unemployment rose immediately after the first oil crisis, then flattened until after the collapse of the “bubble” period at the beginning of the 1990s, when it rose again. With the exception of the “bubble” period, long-term unemployment has slightly increased. Nevertheless, the moderate share of long-term unemployment remains one of the most prevalent features of the Japanese labour market. From a gender perspective, women’s share of long-term (more than one year) unemployment is significantly lower (14.8 per cent in 1999 compared to 27.4 per cent for men), but it is increasing faster.

Besides low inflows, another reason for moderate long-term unemployment is the relatively high outflow from unemployment, due to a high job-finding rate that remained stable until very recently.

5.3 THE JAPANESE PARADOX: ACUTE PERCEPTION OF JOB INSECURITY IN A CONTEXT OF JOB STABILITY

This section highlights some apparent ambiguities in the Japanese labour market and attempts to explain the acute (and growing) perception of job insecurity in a country with relatively stable employment and low turnover.

A partial explanation of this paradox lies in the duality of the Japanese labour market since the market “periphery” has changed – although more in nature than in size – from family, unpaid workers to part-timers (women, young people and older people). Thus, the more insecure employment status of these groups, together with a slight erosion of lifetime employment, provides some direct labour market reasons for the increase in the perception of insecurity. However, this perception is shaped not only by “real” labour market developments but also, for example, by the longevity of the recession, even if there is no immediate spillover on the labour market.

The rise in the share of involuntary part-timers or unemployed persons provides another reason for mounting insecurity. There is a bigger exclusion risk associated today with job-to-job or employment-to-unemployment moves, and such moves tend also to have stronger negative consequences in terms of income.

Internal labour market segmentation also adds to the feeling of insecurity, even if external flexibility remains at a low level. Statistics on moves and transitions on the labour market do not capture this aspect of (internal) insecurity.

An illustration of this particular aspect of Japanese job insecurity is the ambiguous case of older workers nearing or past retirement age being either re-employed, on extended contracts (*shukko*), or being transferred (*tensaki*). These schemes reduce external mobility but generate insecurity for older workers.

Job insecurity in Japan

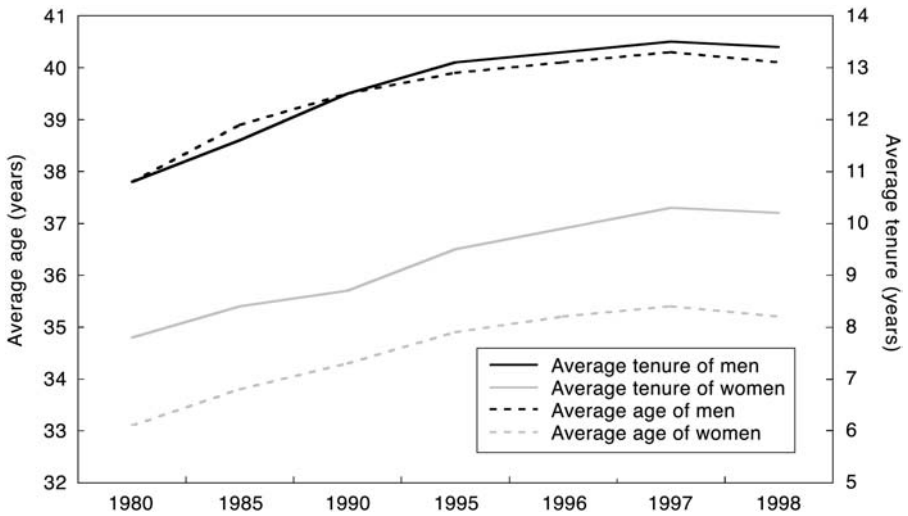
Throughout the 1970s and 1980s and until the mid-1990s, average job tenure increased slightly in Japan. Yet the perception of job insecurity is mounting – an apparent paradox in a country with a lifelong employment pattern and, until recently, a stable rate of low unemployment. As noted earlier, the Japanese labour market provides the longest duration of tenure and one of the lowest rates of external job mobility in the OECD countries. The ageing of the Japanese population induces a positive effect on the average length of service, as shown in figure 5.4. Middle-aged workers are more numerous and work longer in the same job. Tenure increased after the age of 35 for both sexes throughout the 1980s and 1990s, especially for women aged 35–41. The increasing perception of job insecurity appears to be based on several elements, including the stigmatization of unemployment, replacement rates and working conditions. Thus, employment tenure seems an incomplete and sometimes biased indicator of job security (see Chapter 2).

In comparison with international standards, Internal Survey Research results for 1996 and 1999 in Japan show a very high proportion of workers who are dissatisfied with their level of job security or fearful of losing their jobs, even when overall economic conditions remain good, as shown in Chapter 1, figure 1.1. This evidence is confirmed by the national Survey on Lifestyle Preferences conducted by the Economic Planning Agency every two years. Around 50 per cent of respondents felt insecure about employment without a fear of being jobless, as figure 5.5 shows. In part, this is related to the prevailing social consensus in favour of job security and Japanese social mores that stigmatize dismissal and make unemployment taboo. Perceptions of job insecurity are felt by an increasing share of middle-aged and older workers, who are faced with steep educational costs for their dependent children and the need to ensure their own financial security in retirement.

Most studies mention the key role of the segmentation of the Japanese labour market. Long tenure appears overall as a corollary of the lifetime employment system, but substantial dismissals are also observed, signalling a duality. In keeping with most industrialized countries, Japan has a core market of numerical stability and a segment of numerical instability (marginal workers). And, as in most countries with a high level of employment security, the propensity of firms to use atypical contracts is likewise high. Does this feature affect employment security at enterprise level? According to Tachibanaki (1987), “it is unreasonable to emphasize the importance of lifetime jobs in interpreting the functioning of the Japanese labour market”. The following section demonstrates that, although this duality is one reason for the perception of job insecurity, it does not adequately explain the extent of this perception and its recent spread (especially if we assume

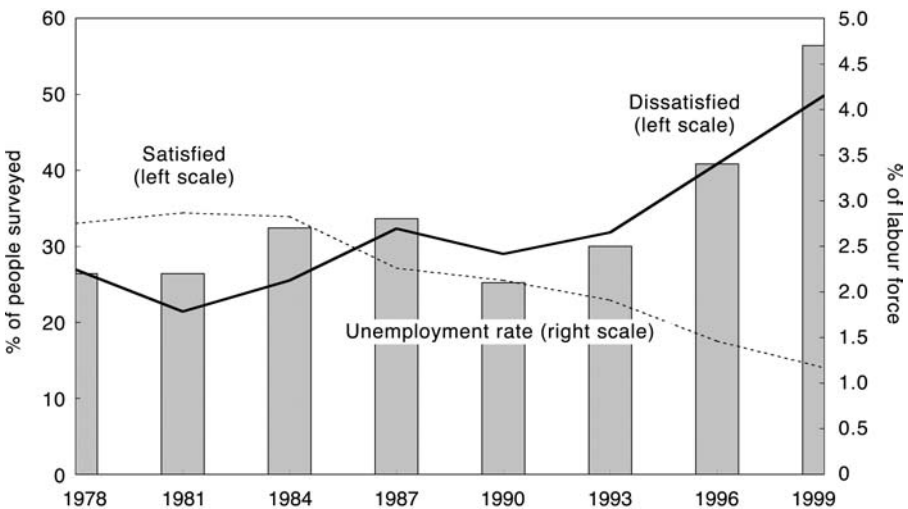
Employment stability in an age of flexibility

Figure 5.4 Age and job tenure of Japanese employees according to sex, 1980–98



Source: Ministry of Labour of Japan.

Figure 5.5 Perceptions of job insecurity, Japan, 1978–99



Source: Economic Planning Agency, Survey on Lifestyle Preferences.

that the general perception of job insecurity is the result of a low-speed labour adjustment segment and a high-speed insecure segment).

The duality of the Japanese labour market: Segmentation, segregation, and job insecurity

An analysis of contract status confirms that the range of atypical contracts has increased, although not dramatically, if self-employed (independent) status is taken into account. Moreover, employment status is not automatically a good indicator of job stability or insecurity; a permanent full-time contract is not a guarantee of job security, nor do atypical contracts systematically contribute to numerical flexibility.

The changing composition of the marginal labour force

From a statutory point of view, the duality of the labour market in the past stemmed from the high share of non-salaried workers. The share of self-employed and family workers in total employment fell sharply from around 60 per cent in the early 1950s to 17.2 per cent in mid-2000. Table 5.2 suggests that Japan's employment structure is more or less in line with the European Union (EU) in regard to the share of dependent employed. However, the proportion of unpaid family workers – in family-owned unincorporated businesses, primarily in the sectors of agriculture (one-third of family workers) and distribution (one-fifth) – remains atypical.

Along with the decline in self-employment and family production, atypical contracts have simultaneously emerged among salaried workers. As in other OECD countries, Japan's economic structure has been undergoing a fundamental shift from primary and secondary industries to services, spurring a broader diversification of the employment structure inside the salaried segment. In effect, it has created a "patchwork" of different statuses whose delineation is blurred since what happens in practice is often not in line with the legal definition of the job or work. This multiplicity of atypical arrangements is viewed as a decisive feature of Japanese labour market flexibility. Overall, it is the composition of the marginal labour force that has changed rather than its size, with the development of atypical

Table 5.2 Salaried and non-salaried employment, 1998 (percentages of total employment)

| | Japan | EU-15 | United States |
|----------------|-------|-------|---------------|
| Employees | 82.3 | 83.4 | 92.1 |
| Self-employed | 11.7 | 14.7 | 7.8 |
| Family workers | 5.7 | 1.9 | 0.1 |

Sources: Eurostat, European Labour Force Survey; OECD, 2000b.

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work arrangements accompanying a shift from the traditional family-worker status to salaried status.

Categorizing core and marginal workers in Japan

The usual method of assessing core and marginal workers is the monthly or yearly Labour Force Survey (LFS) conducted by the Management and Coordination Agency³ among Japanese households. Within this framework, the core market comprises regular and non-regular employees. Regular employees are defined as those with contracts of unspecified duration or who have been employed for more than one year (as opposed to temporary and daily workers).⁴ This classification corresponds to Japanese practices (a fixed-term contract, prolonged by repeated renewals, is considered as regular employment). If marginal workers (temporary, daily, self-employed and family workers) are defined as those with non-regular employment, this segment represents 27 per cent of total employment. Thus, regular workers accounted for 73.1 per cent of total employment and 88 per cent of total employees in 1999, and 72.6 per cent and 87.7 per cent respectively in 2000. However, if the core is more strictly defined as only full-time regular employees,⁵ and part-time workers are included as marginal workers, they accounted for around 40 per cent of total employment in 1999.

Both of these definitions yield an upward trend in the share of total employment and a downward trend in the share of employees, as figure 5.6 shows. However, there is a break in the mid-1990s, with the share of regular employees in total employment reaching a ceiling and declining slightly after 1996.

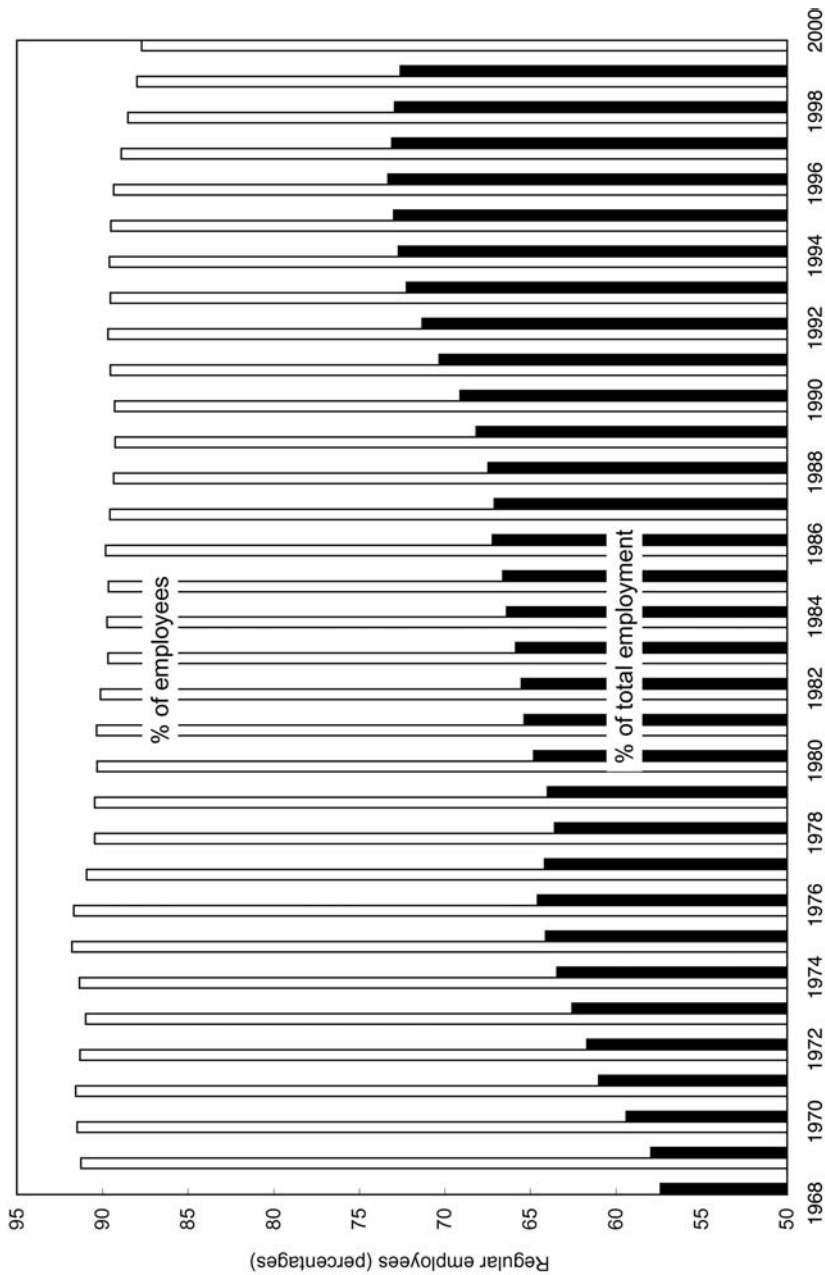
The second method of assessing core and marginal workers is the Employment Status Survey (ESS) of households, monitored every five years by the Management and Coordination Agency. As shown in table 5.3, this segmentation is based on employment status and identifies marginal work arrangements specific to the Japanese labour market. Regular workers are defined as those with permanent contract status as opposed to *paato* (non-regulars) with atypical contract status, including employees transferred on a temporary basis, part-timers, temporary, casual, contract and registered workers, and dispatched workers. The main difference between the LFS and the ESS is the surveys' classifications of fixed-term workers with repeated renewals. These are defined as regular in the LFS and as non-regular in the ESS. The two sets of definitions of worker categories are compared in box 5.2.

³ Now the Ministry of Public Management.

⁴ The classification is segmented as follows. Employees are divided into two main categories: regular and non-regular. Regular workers are classified into: directors (executives of enterprises and corporations) and non-executive ("ordinary" employees; a total of 90.7 per cent of regular workers were non-executive in 1999). Non-regular employees include temporary employees (defined as employed for specific periods of one month or more, but less than a year) and daily employees (those employed on a daily basis or for specified periods of less than a month).

⁵ Within this framework, part-timers are defined as those who worked less than 35 hours during the reference week (excluding temporary disability).

Figure 5.6 Regular employees as a percentage of total employment and of all employees, Japan, 1968-2000



Sources: Management and Coordination Agency, Tokyo; OECD; Datastream.

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Table 5.3 Employment status according to the Employment Status Surveys, 1987–97

| Employees (%) | 1987 | 1992 | 1997 | Male | Female |
|--|-------------|-------------|-------------|-------------|-------------|
| Total regular | 81.6 | 79.0 | 77.1 | 89.9 | 57.8 |
| Directors/executives | 6.7 | 7.6 | 7.0 | 9.0 | 4.0 |
| Non-executive | 74.9 | 72.4 | 70.1 | 80.9 | 53.8 |
| Total non-regular (<i>paato</i>, general meaning) | 18.4 | 20.0 | 22.9 | 10.1 | 42.2 |
| Part-timers (<i>paato</i> , strict meaning) | 10.1 | 11.3 | 12.7 | 1.3 | 30.0 |
| Young precarious workers (<i>arubaito</i>) | 4.1 | 4.8 | 6.1 | 5.0 | 7.7 |
| Older precarious workers (<i>shokutaku</i>) | 1.6 | 1.7 | 1.8 | 1.8 | 1.7 |
| Dispatched | 0.2 | 0.3 | 0.5 | 0.2 | 0.9 |
| Other | 2.4 | 1.9 | 1.9 | 1.8 | 1.9 |

Source: Five-year Employment Status Survey, monitored by the Management and Coordination Agency, Tokyo.

According to the ESS definition, 22.9 per cent of employees held *paato* contracts in 1997. “*Paato*”, in strict Japanese usage, refers to part-time employment, but is extended to mean all atypical work contracts, including *arubaito* and *shokutaku* (younger and older precarious workers, respectively). Some *paato* work long hours and are part-timers in name only (quasi-part-time workers), but most workers in this category are characterized by atypical work arrangements and short work-weeks. Box 5.2 explains the Japanese categorization of simultaneously temporary and part-time workers.

Workers defined as regular (including both non-executives and directors and executives) according to ESS monitoring accounted for 77.1 per cent of employees (table 5.3) and 63.3 per cent of total employment (including self-employment) in 1997. Both the LFS and the ESS thus arrive at a similar finding of full-time permanent status at around 60 per cent of total employment, with a recent upward trend.

Sharp increase in part-timers among wage earners

The upsurge in part-time work is the most significant aspect of the development of atypical status among wage earners, as figure 5.7 shows. From the early 1980s until the mid-1990s, the share of employees with temporary and daily contracts (LFS definition, or non-renewed *paato*, see box 5.2) remained almost constant (around 10 per cent of employees), increasing only slightly as a share of total employment. In the past decade it increased rapidly, reaching 12.5 per cent of employees in mid-2000. The number of workers (registered or dispatched) with temporary (dispatching) agencies has increased at a very fast pace since 1986, but remains negligible as a share of total employment.

Box 5.2 Part-time workers, *paato* and fixed-term contracts

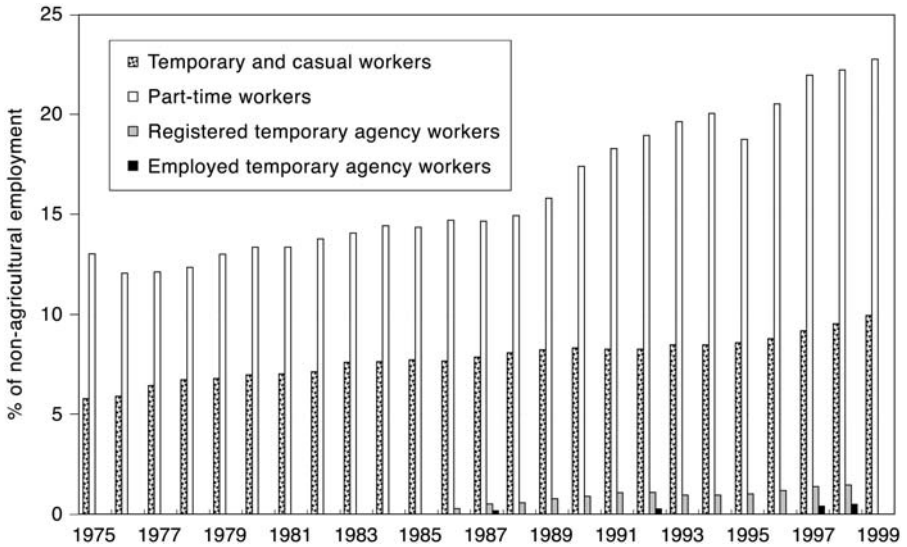
In Japan, temporary, short-term and part-time jobs are often placed in a single category under the generic term “*paato*” (part-time employment). According to the LFS definition, however, part-time status (those working less than 35 hours per week) only partially covers the scope of temporary contract workers and extends to some regular workers as well. Nevertheless, the inclusion of all part-timers in the marginal workforce seems questionable, especially in regard to their numerical employment stability. The distinctions between temporary and daily workers, *paato* and part-time workers are that the last two categories are close but not identical, and the first (categorized as non-regular by the LFS) are mainly included in the *paato* category, though not in the ESS definition.

| | Regular | <i>Paato</i> |
|-----|---|---|
| LFS | Full-time employees | Temporary and daily workers (non-regular) |
| | Employees working more than 35 hours | Employees working less than 35 hours |
| | Employees working less than 35 hours | Part-time regulars, mainly temporary, on repeat renewal contracts |
| | Part-time regulars, mainly temporary, on repeat renewal contracts | |
| ESS | Workers classified as regular at their workplace | Workers classified as <i>paato</i> , <i>arubaito</i> , <i>shokutaku</i> or other at their workplace |

- According to the LFS definition, 11.7 per cent of all employees were classified as temporary and daily workers. More than one-third of these (around 4 per cent) are working more than 35 hours per week (perhaps in poor working conditions with low pay) and can be considered as quasi-part-timers. As many as 95 per cent of LFS-defined temporary and daily workers were classified as *paato* in the ESS. Of these, about half have contracts not prolonged by repeated renewals and are therefore the most vulnerable.
- The share of *paato* which has repeat renewal contracts represents more than 10 per cent of all employees. Case law normally restricts the right of dismissal for this category of worker, but less strongly than for regular workers on permanent contracts. This share of employees is classified as regular according to LFS, but can be identified by their shorter work-weeks.
- 3.3 per cent of regular employees (LFS definition) in 1997 had non-regular contracts, very close to the proportion of regulars working less than 35 hours (15.8 per cent).

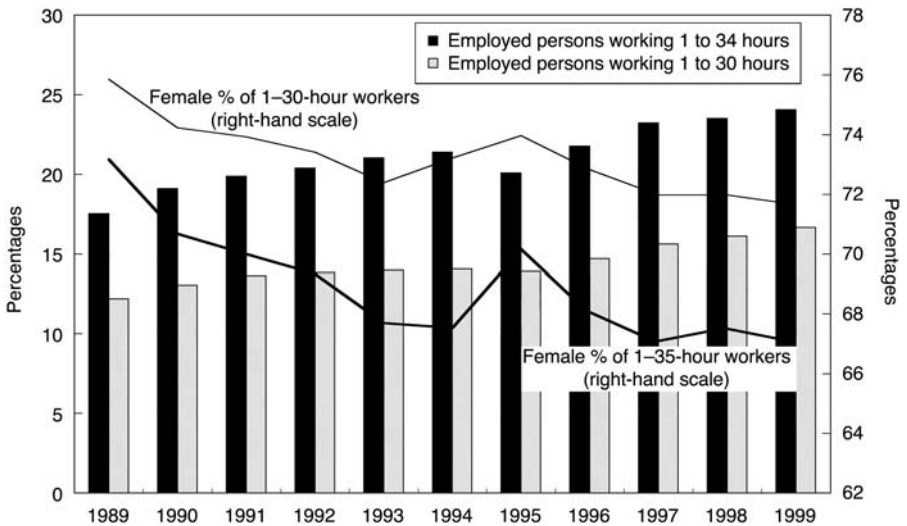
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Figure 5.7 Atypical work, Japan, 1975–99



Sources: Management and Coordination Agency, Tokyo; Datastream.

Figure 5.8 Percentage share of part-time work, calculated at 35 hours and 31 hours per week, and the percentage of women working these hours, Japan, 1989–99



Source: Management and Coordination Agency, Tokyo.

According to the standard Japanese (LFS) definition of part-time work as less than 35 hours per week, part-timers represented 21.8 per cent of employees in 1999 and 24 per cent of total employment – a share significantly higher than that of both the EU (16.4 per cent) and the United States (13.3 per cent). Yet, as figure 5.8 shows, if part-time work is defined as less than a 30-hour week, the most common international norm, the disparity with other OECD countries almost disappears, with part-timers representing 16.6 per cent of total employment. Japan might rapidly catch up with the particularly high performance of the Scandinavian countries if part-time employment were defined as a 30-hour week. By extrapolation, based on the present share of workers working less than 30 hours in the stock of part-timers, almost one-quarter of the Japanese labour force might soon enter the part-timer category.

Identifying marginal workers

The categories of Japanese workers most concerned with job insecurity and most likely to fall into marginal employment are women, young people and older workers, as is the case in many OECD countries.

Table 5.4 shows that women are more likely to have atypical working arrangements. One-third of women workers are classified as *paato* and represent around 94 per cent of this employment status – typically comprising women who return to the labour force after the age of 35. Three features to note are: the share

Table 5.4 Women's share of employment and average age, according to employment status, 1997

| | % female workers | Average age |
|---|------------------|-------------|
| Employees (all categories) | 39.8 | 40.8 |
| Director/executive | 22.8 | 52.9 |
| Non-executive | 30.5 | 39.1 |
| Non-regular (<i>paato</i> , general meaning) | 73.3 | 42.3 |
| Part-timers (<i>paato</i> , strict meaning) | 93.8 | 45.7 |
| Young precarious workers (<i>arubaito</i>) | 50.6 | 30.8 |
| Older precarious workers (<i>shokutaku</i>) | 37.4 | 54.5 |
| Dispatched | 79.4 | 33.3 |
| Working 1 to 34 hours | 67.0 | n.a. |
| Working 1 to 30 hours | 72.0 | n.a. |
| Family workers | 81.9 | 51.9 |
| Temporary workers | 69.9 | 40.5 |
| Daily workers | 52.4 | 45.3 |

Note: n.a. = not available.

Source: Management and Coordination Agency, Tokyo, 1997.

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Table 5.5 Non-regular workers as a percentage of total employment, according to age, 1997

| | 15 – 19 | 20 – 24 | 25 – 29 | 30 – 34 | 35 – 39 | 40 – 44 | 45 – 49 | 50 – 54 | 55 – 59 | 60 – 64 | 65 – 69 | 70 – 74 | 75 + |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------|
| Non-regular (<i>paato</i> , general meaning) | 3.9 | 4.0 | 5.8 | 9.3 | 14.2 | 17.6 | 18.2 | 16.6 | 15.0 | 18.6 | 19.4 | 15.3 | 7.9 |
| Older precarious workers (<i>shokutaku</i>) | 0.1 | 0.6 | 0.7 | 0.6 | 0.8 | 0.8 | 1.0 | 1.0 | 2.0 | 11.1 | 11.2 | 8.8 | 5.4 |
| Young precarious workers (<i>arubaito</i>) | 48.5 | 18.5 | 5.5 | 3.4 | 2.5 | 2.2 | 1.9 | 1.7 | 2.0 | 5.5 | 9.3 | 8.1 | 3.2 |
| Temporary and daily workers (LFS definition) | 37.0 | 15.1 | 7.7 | 7.4 | 8.8 | 10.3 | 9.9 | 9.7 | 10.4 | 21.8 | 29.0 | 23.7 | 11.1 |

Source: Management and Coordination Agency, Tokyo, 1997.

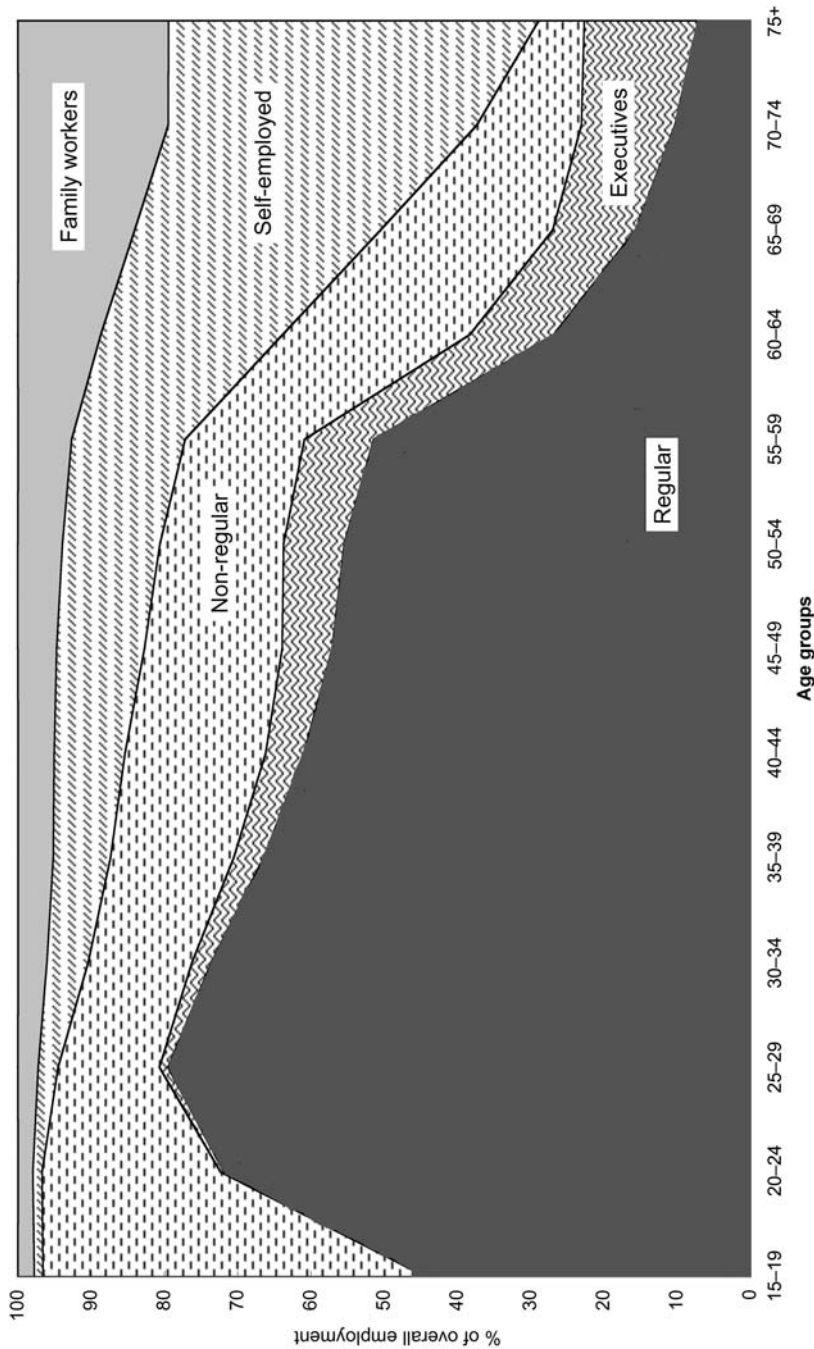
of women working less than 35 hours (67 per cent) remains high, although it is slightly declining; likewise, the high share (69.9 per cent) of white-collar women among temporary agency (dispatched) workers; and, third, the high proportion of women among unpaid family workers. This third feature, contrary to the first two, is a legacy of the cultural past and does not apply to the new flows.

While the age disparities shown for women workers in table 5.4 are also typical of many OECD countries, the status of senior workers is not. In contrast with other OECD countries, where older women workers face a shortening of their work-life and are entering early retirement (meaning full inactivity), older women workers in Japan are experiencing a prolongation of their work-life on a semi-active basis.

Most new entrants are salaried workers, but they enter the labour force with conditional status: half of employees aged 15–19 years and one-fifth of those aged 20–24 years are *arubaito*. Consequently, data on temporary and daily workers confirm the frequent use of atypical contracts at the beginning of work-life. The frequency of atypical salaried work arrangements is minimal between age 25 and 35 and increases slightly after 35, when women return to work after child raising.

The frequency of non-regulars increases sharply after age 60 with the decline of salaried employment status. The explosion of self-employment and family-worker status in over-60 year olds accounts for 36 per cent of 60–64 year olds as self-employed or family workers, 49 per cent of 65–70 year olds and more than two-thirds of those aged over 70, as shown in table 5.5 and figure 5.9.

Figure 5.9 Structure of employment according to age, Japan, 1997



Source: Management and Coordination Agency, Tokyo.

Atypical status and numerical flexibility: A more tenuous link than generally assumed

Although part-timers and temporary flexible workers are considered as a single category in Japan and defined as “*paato*”, they are not a homogeneous group. Strictly speaking, *paato* comprise temporary workers not covered by employment protection legislation (EPL) – a share of them being quasi-part-timers working full time – and quasi-regular workers with repeat renewal contracts. The most accessible measure of part-timers is those working less than 35 hours per week, but it is only a proxy for *paato*. This measure includes the main body of atypical work arrangements: two-thirds of temporary or daily workers, and those *arubaito* and *shokutaku* dispatched workers who are classified as regular because they work on repeat renewal contracts. It excludes quasi-part-time workers (*paato* working full-time weekly hours), and some other temporary workers working full time.

According to the Survey on Employment Trends conducted by the Ministry of Labour, separation and hiring rates for *paato* in 1999 were twice as high as those for regular employees. However, this is due mainly to the rotation of seasonal workers, rather than to other economic reasons. As table 5.6 shows, part-time workers are more likely to be working in small and medium-sized enterprises (SMEs) with up to 29 workers, usually subsidiaries of large firms, where overall working conditions are of a lower standard, job tenures shorter and turnover higher. However, their share is also considerable in bigger firms.

Differences in job tenure according to enterprise size are particularly pronounced in Japan in comparison with other OECD countries. Job tenure sharply increases with enterprise size, as table 5.7 shows, from 9.6 years for enterprises with 10–99 employees to 14.8 years for enterprises with 1,000 or more employees. The volatility of demand, as well as the tight financial constraints during periods of low activity that characterize subcontracting SMEs, is frequently cited as an explanation.

Table 5.6 Part-time workers (*paato*), according to enterprise size, 1999 (percentages)

| Enterprise size (no. of employees) | As % of total part-timers | As % of total employees (average = 21.8%) |
|------------------------------------|---------------------------|--|
| 0–4 | 10.2 | 28.3 |
| 5–29 | 28.3 | 24.0 |
| 30–99 | 15.0 | 20.0 |
| 100–499 | 15.1 | 19.2 |
| 500 or over | 21.6 | 19.4 |
| Government employees | 9.7 | 20.4 |

Source: Management and Coordination Agency, Tokyo.

Table 5.7 Job tenure, according to sex and enterprise size, 1998 (years)

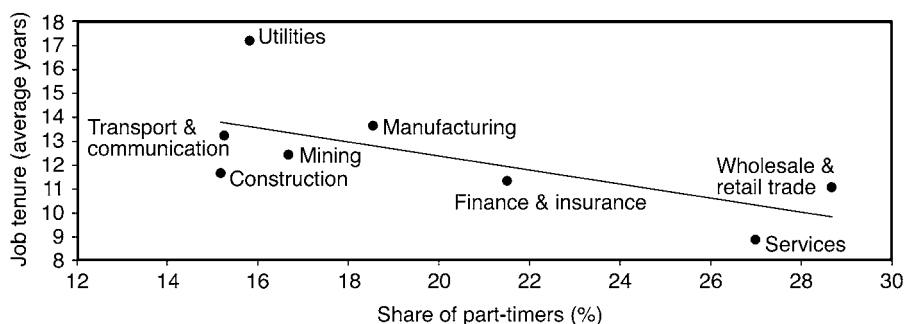
| Size of enterprise | Both sexes | Male | Female |
|--------------------|------------|------|--------|
| 10–99 | 9.6 | 10.4 | 7.9 |
| 100–999 | 11.1 | 12.7 | 7.9 |
| > 1,000 | 14.8 | 16.6 | 9.3 |
| All enterprises | 11.6 | 13.1 | 8.2 |

Source: Ministry of Labour of Japan.

Paato are concentrated in four main sectors: agriculture, wholesale and retail trade, food and beverages, and services. They are most likely to be found working in shops, although increasingly also in the manufacturing industry. The link with sectoral labour force rotation is consistent overall, since the industries with the higher proportion of part-timers – real estate (within finance and insurance), services, wholesale and retail trade – are also those with the shortest job tenure, as figure 5.10 shows. The main exception is the construction sector, where frequent turnover arises from the intensive use of temporary workers working *full-time* weekly hours. Statistics on turnover also confirm that separation rates are at a record high level in services, wholesale and retail trade, and real estate, whereas separation and hiring rates are traditionally low in the utility, manufacturing, and transport and telecommunications sectors. This breakdown by sector underlines the role atypical contracts play in meeting seasonal demand, but the vulnerability of *paato* workers with regard to overall economic activity remains unclear.

The link between atypical status and numerical instability is more tenuous than generally assumed, with all indicators showing a higher mobility and rotation of part-timers and, thus, female employment. Although the gap between male and

Figure 5.10 Job tenure and share of part-timers according to sector, Japan, 1998



Sources: Management and Coordination Agency, Tokyo; Ministry of Labour of Japan.

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female mobility declined somewhat between the early 1980s and 1997, figure 5.11 shows that separation rates are significantly higher for women.

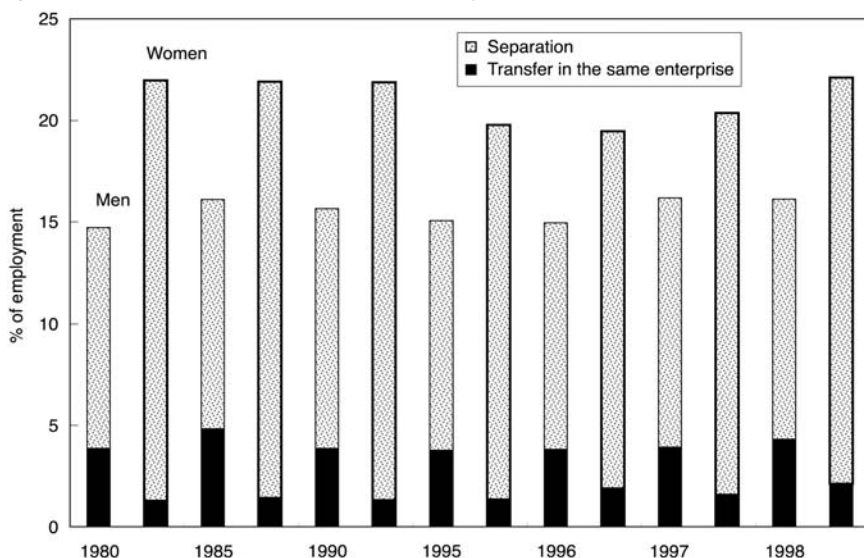
According to the Ministry of Labour, outflows from regular employment⁶ in the broad sense of the term (retired employees, transfers, including employees transferred to a subsidiary of the same enterprise, laid-off workers – that is, job-to-job as well as job-to-inactivity/unemployment moves) are around 20 per cent for women compared to approximately 15 per cent for men. Moreover, this figure does not take into account the turnover in enterprises of fewer than five employees, or a large share of those working on atypical (temporary or daily) work arrangements, which are traditionally dominated by women workers. More than a quarter of male mobility is from internal turnover arising from transfers within the same enterprise. This proportion is increasing for women, but at 7 per cent of the female separation rates it is still far below that of men.

The Employment Status Survey conducted by the Management and Coordination Agency provides complementary data on male and female mobility (figure 5.12). This survey confirms that the turnover of the female workforce is higher than male turnover. The increase in turnover results mainly from an increasing employment-to-non-employment probability for men and a higher job-to-job mobility for women since the mid-1980s (which may be interpreted as a consequence of the rising share of short-term employment).

Higher separation and hiring rates create a significant gap between men and women with respect to speed of adjustment of employment. Traditionally the flexible labour force participation of women and the high substitutability between salaried status and unpaid self-employment were effective in adjusting labour supply and helped to lower the number of unemployed persons. Discouraged workers (mainly female married employees) lose the desire to seek jobs, either retiring from the labour market or withdrawing to self-employment. This explains why female salaried employment and self-employment fluctuations are mirror opposites, but both mechanisms were fairly representative of labour adjustment until the early 1970s.

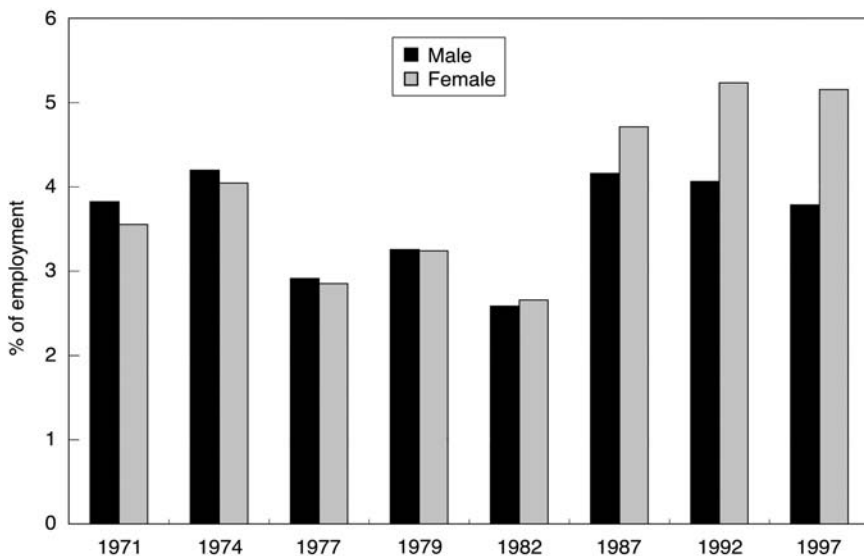
Recent data on separation rates and employment volatility confirm that the gap between men and women with respect to employment flexibility is narrowing, even if female employment remains significantly more volatile, as figure 5.13 shows. This results from a dual trend: the volatility of male employment increased during the past decade, while the volatility of female overall employment declined (table 5.8). It reflects the relatively less stable behaviour of regular employment and is in line with several other indicators and surveys highlighting the role of restructuring in eroding job security in large enterprises during the latter half of the 1990s.

⁶ The Survey on Employment Trends, conducted by the Ministry of Labour, includes in “regular employment” those working on a temporary or daily basis for more than 18 days during the two months preceding the survey.

Figure 5.11 Internal and external mobility, men and women, Japan, 1980–98

Note: Data are based on the Survey on Employment Trends. Establishments included have five or more regular employees.

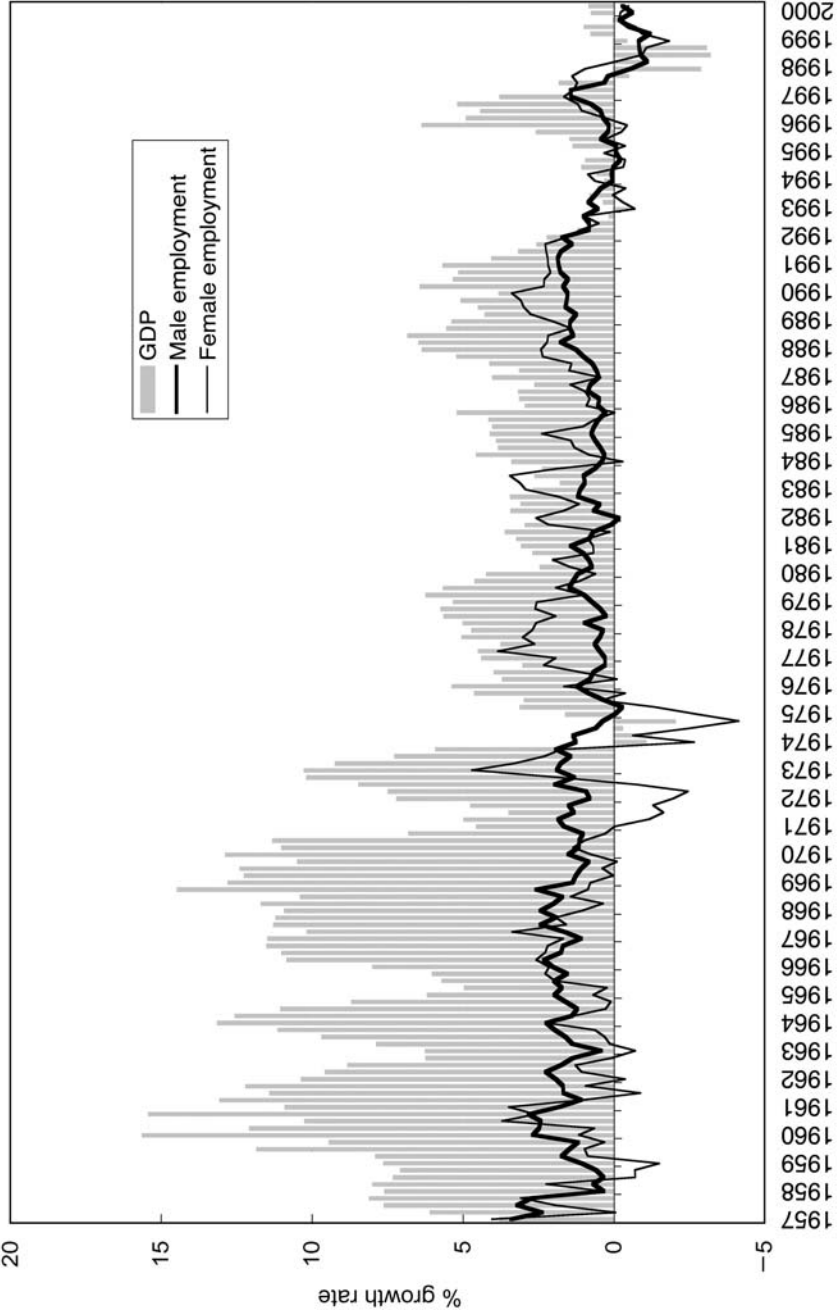
Source: Ministry of Labour of Japan, Policy Planning and Research Department.

Figure 5.12 Male and female job mobility, selected years

Note: Data are based on the Employment Status Survey. Data are as of 1 October for 1971 and 1974; as of 1 July for 1977–97.

Source: Management and Coordination Agency, Tokyo.

Figure 5.13 Female and male numerical employment adjustment, 1957-2000



Source: Management and Coordination Agency, Tokyo.

Table 5.8 Standard deviation of employment, according to sex and employment status, selected years

| | Total employment | Males | Females | Total labour force | Regular employees | Temporary and daily employees | Self-employment |
|-----------|------------------|-------|---------|--------------------|-------------------|-------------------------------|-----------------|
| 1969–2000 | 0.90 | 0.73 | 1.64 | 1.30 | 1.46 | 4.75 | 2.12 |
| 1969–1979 | 0.95 | 0.60 | 2.16 | 1.40 | 1.53 | 6.42 | 2.44 |
| 1980–2000 | 0.88 | 0.77 | 1.25 | 1.23 | 1.40 | 3.58 | 1.81 |
| 1990–2000 | 0.99 | 0.91 | 1.25 | 1.43 | 1.68 | 3.23 | 1.99 |

Source: Bureau of Statistics, Management and Coordination Agency, Tokyo.

Job-changing and voluntary quits: A risky process in terms of income

The relatively low level of labour market “churning” may be interpreted as a factor of security in a context of job satisfaction. However, if a large proportion of workers are dissatisfied with their job or employment status but do not change jobs because of lack of opportunities or a fear of transition, then low turnover is a sign of job insecurity.

Scant information is available on the breakdown of Japanese outflows. Some interesting insights on income variation for job changers have been gleaned from recent LFS data. In August 2000, 40.5 per cent of employees who changed job suffered a drop in income, while 34 per cent had a higher income in their new job. The gap widens for workers who found a job after having quit their previous one: income decreased for 47.7 per cent of these workers and increased for 28.8 per cent. Of those who found a new job while still employed, income decreased for 31.5 per cent and increased for 40.4 per cent.

This is a troubling aspect of Japanese voluntary quits. Traditional job-search theory suggests that workers will move to another firm when they find a job with higher remuneration than their “reserve rate”. However, more than 50 per cent of voluntary quits in Japan accepted either a lower wage or the same wage as their previous job. Here, non-monetary incentives or deferred payments such as private pension schemes may come into play, or it may also be surmised that the specific human capital acquired in one firm is difficult to evaluate for another firm. In such cases, mobility is perceived as risky, especially in the current climate of restructuring.

Thus, mobility through job-to-job moves (even when voluntary) is unlikely to improve the well-being of Japanese workers. And, should the consequences of separation further deteriorate owing to a bad macroeconomic environment, vulnerability will increase. The perception of job (in)security derives in part from the consequences of potential transitions, even in the context of low turnover. This argument can be generalized when considering job satisfaction overall. The share of atypical workers is a very partial indicator of job security if the degree of

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acceptance of atypical employment status in Japan is not taken into account. The more a particular status is accepted as voluntary, the more secure workers will tend to feel.

Atypical employment status: Involuntary part-timers

The aggregation of part-time workers wanting to change job and those wanting additional work is an indication of the degree of dissatisfaction with their status. This proportion increased dramatically to 18.7 per cent of part-timers in the first half of 2000, representing more than double the average of dissatisfied full-time workers wanting to change jobs (see figure 5.14). In mid-2000, part-time workers who expressed the preference to work more (either additional hours or in a second job) accounted for about 7.3 per cent of total part-timers, a rapid increase from the mid-1990s. Those wanting to change job represented 11.4 per cent of part-timers (see figure 5.15). About two-thirds of involuntary part-time workers in Japan were women.

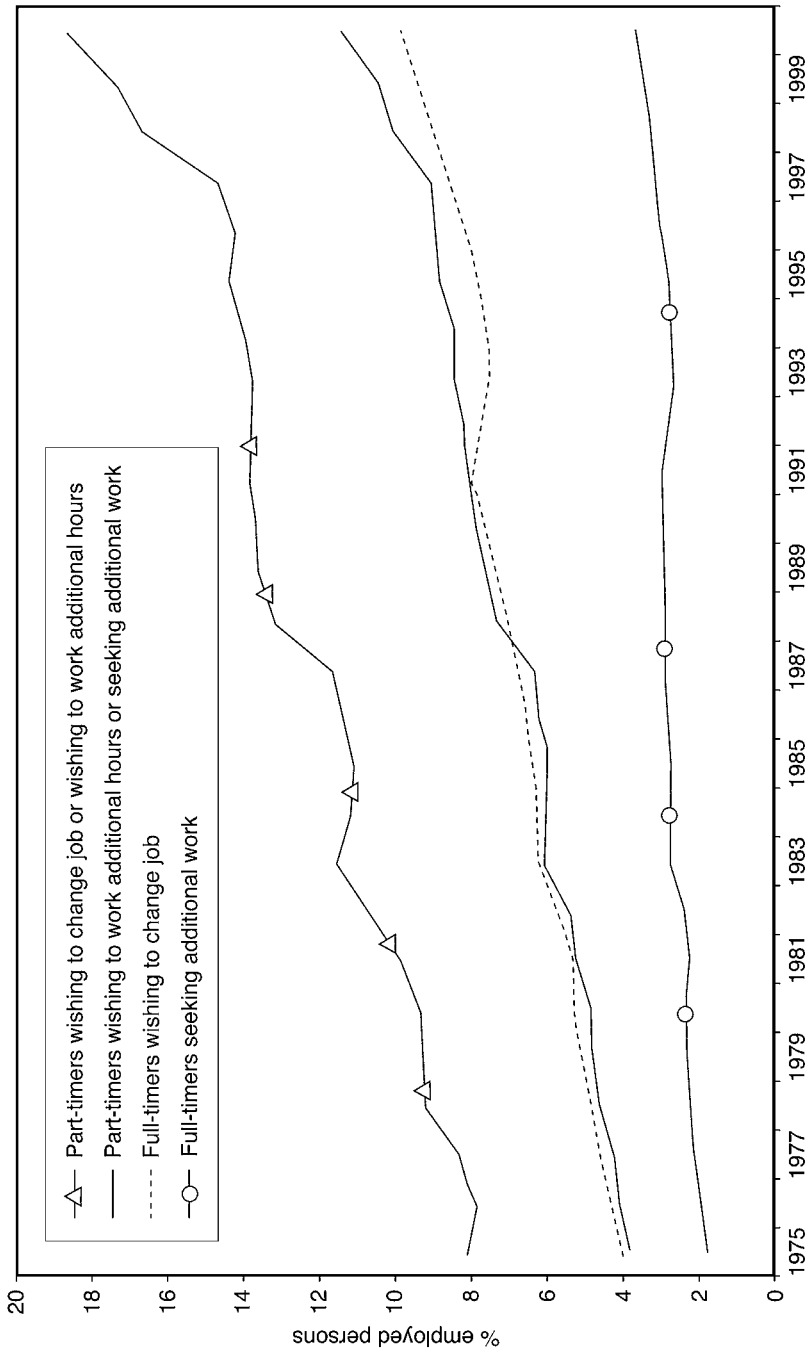
Discouraged inactives in Japan

The increasing share of involuntary part-time employment status is associated with a decrease in involuntary inactives. In Japan, the share of those not in the labour force but wishing to work is extremely high in comparison with other developed countries. In August 1999, discouraged workers – persons without work who had stopped looking for a job because of diminished prospects of finding one, or persons immediately available to take up a job offer – were around 2.1 per cent of the labour force (3.8 per cent for women and 0.9 per cent for men).⁷ This is considerably above the average of EU countries (0.8 per cent in 1999), as well as the United States (0.2 per cent). There is a similar difference in the figures of those not in employment but wishing to work: in Japan they accounted for 13.9 per cent of the labour force in August 1999 (25.9 per cent for women and 5.6 per cent for men) compared with 5.1 per cent on average in EU countries (table 5.9) and under 3.5 per cent in the United States. It appears that instead of producing unemployment disparities, employment security induces an under-utilization of the labour force. This is contradicted, however, by high employment-to-population rates in Japan. As shown in figure 5.16, although the number of discouraged female workers increased until 1987, it decreased sharply in subsequent years.

The decline of involuntary non-working women is progressively shifting into the category of dissatisfaction with atypical employment (precarious contract) status. The buffer effect on unemployment of the decrease in women's participation has traditionally been associated with a high level of discouraged workers. This phenomenon is shifting to involuntary part-timers. Despite tighter demand, a larger number of unemployed women now remain in the labour force. The

⁷ This was equivalent to about 6.4 per cent of the labour force (2.4 per cent among men, but 12.3 per cent among women) if the criterion of immediate availability is not taken into account.

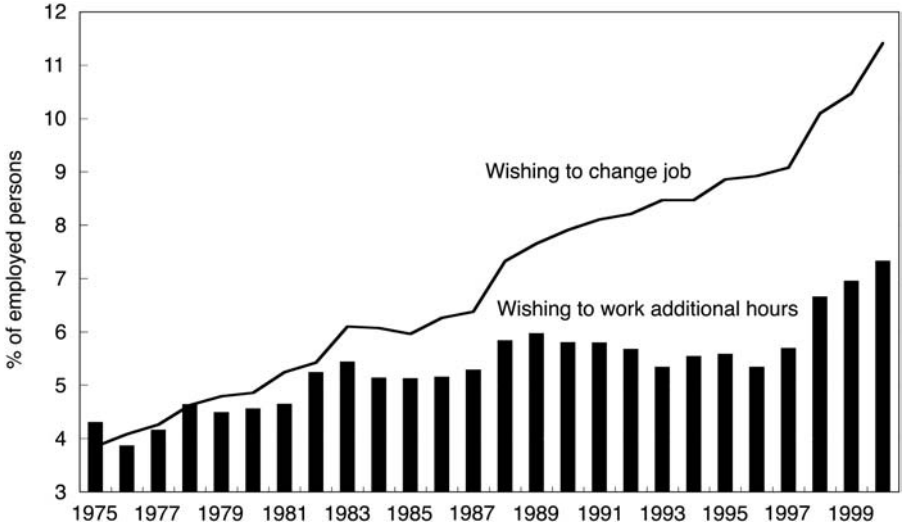
Figure 5.14 Persons wishing to change job or work additional hours, part- and full-timers, 1975-2000



Source: Management and Coordination Agency, Tokyo.

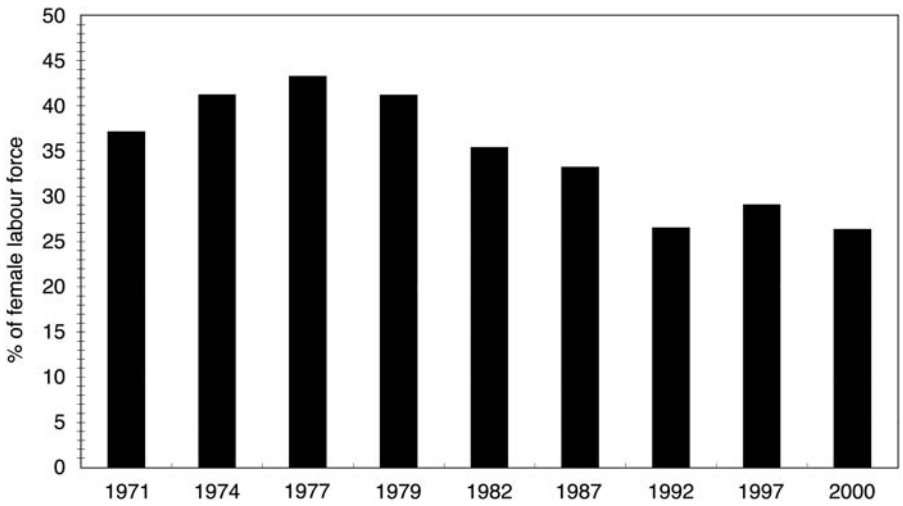
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Figure 5.15 Part-timers wishing to change job or work additional hours, 1975–2000



Source: Management and Coordination Agency, Tokyo.

Figure 5.16 Involuntary unemployment: Share of women not working but wanting to work, 1971–2000



Source: Management and Coordination Agency, Tokyo.

Table 5.9 Discouraged inactives in EU countries and in Japan, 1999

| | As a % of the labour force | | | | As a % of inactives | | | |
|--|----------------------------|--------|-----------------|--------|---------------------|--------|-----------------|--------|
| | Japan | | EU-15 | | Japan | | EU-15 | |
| | Male and female | Female | Male and female | Female | Male and female | Female | Male and female | Female |
| Not in labour force and wishing to work | 13.9 | 25.9 | 5.1 | 7.7 | 24.2 | 26.3 | 6.4 | 6.7 |
| Discouraged (no prospect of finding a job and those immediately available) | 2.1 | 3.8 | 0.8 | 1.4 | 3.2 | 3.3 | 1.0 | 1.1 |

Sources: Eurostat; Bureau of Statistics, Management and Coordination Agency, Tokyo, selected years.

preference of Japanese women for employment rather than home duties is on an upward trend, but a significant proportion of women do not conform to the skills profile or the employment status proposed by the Japanese system.

Most studies rightly highlight the significant problem of discouragement among inactive women, but there is another category to consider. Although a breakdown by age of discouraged inactives wishing to work is not available, several surveys suggest that the transition to retirement⁸ is not well accepted by older workers, and that a large proportion of older workers would prefer to continue working for as long as possible (see tables 5.10 and 5.11). This may also be a contributing factor to their growing perception of job insecurity. Ageing workers are more numerous and stay longer in the same job, which increases average tenure, but their employment status is deteriorating. The gap is increasing between their wish to remain longer in the same job or to continue working after

Table 5.10 Preferred retirement age among employees aged 40–59, 1998 (percentages)

| | Age 60 | Age 65 | Continue working as long as able |
|---------|--------|--------|----------------------------------|
| Males | 14.2 | 10.8 | 46.5 |
| Females | 19.1 | 15.4 | 40.7 |

Source: Association of Employment Development of Senior Citizens, Ministry of Labour of Japan.

⁸ All enterprises with more than 5,000 employees and 87.7 per cent of those with 30–99 employees have adopted a mandatory retirement age of 60.

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Table 5.11 Preference to continue working after retirement age among employees aged 40–59, 1998 (percentages)

| | Wish to continue working after retirement age | | | |
|---------|---|-------------------|-------------------------|-------|
| | With present firm | With another firm | With an affiliated firm | Total |
| Total | 44.3 | 29.2 | 7.9 | 81.4 |
| Males | 41.5 | 31.2 | 7.0 | 79.7 |
| Females | 58.2 | 19.5 | 11.6 | 89.3 |

Source: Association of Employment Development of Senior Citizens, Ministry of Labour of Japan.

retirement age and the risks of being dispatched (in subcontracting SMEs), of undergoing a significant wage cut, or of being dismissed.

The wage structure of middle-aged and older workers reflects signs of age-based change. Wages for middle-aged or older university graduates are perceptibly decreasing in comparison with those paid to young university graduates, or middle-aged or older high-school graduates (Genda, 1998b). A widening of wage differentials among such workers in large enterprises has also been observed.

Atypical employment status as an instrument of internal flexibility

The main dimensions of job insecurity are working conditions, social benefits and income, rather than numerical instability. Emphasis is generally placed on the higher risk for *paato* to be dismissed during economic downturns. However, this numerical instability may be exaggerated. A recent White Paper issued by the Ministry of Labour observed that the number of *paato* had declined significantly in enterprises in which the number of full-time regular workers had also declined.

We have already seen that the definition of *paato* can encompass both regular and irregular workers, part-timers and quasi-part-timers (see box 5.2). It would appear that *paato* do not constitute a homogeneous category in terms of numerical stability either. Two-thirds of *paato* are hired for periods of longer than one year, which means that a distinction should be made between part-timers employed to facilitate numerical adjustment of enterprises from those who are not (regular *paato*). According to a 1995 survey of *paato* conditions cited by Kesuka (2000), 83.6 per cent of *paato* had their contracts extended, with the number of extensions per person being 9.5 times (5.7 times for men and 10.4 times for women). In recent years, *paato* tenure has tended to be longer because of contract extensions. According to a survey conducted in 1999, 42.9 per cent of *paato* had worked continuously in the same firm for more than five years (25.3 per cent for five to nine years, 17.6 per cent for ten years or more). Overall, time-series analyses for

Table 5.12 Employers' reasons for hiring non-regular workers, according to employment status, 1996 (percentages)

| | Regular <i>paato</i> | Workers supplied by temporary agencies | Total non-regular workforce |
|---|----------------------|--|-----------------------------|
| Need to control labour costs | 52.3 | 35.9 | 46.1 |
| Require additional personnel on a daily or weekly basis | 34.4 | 15.7 | 29.1 |
| Require persons capable of doing specialized work | 9.5 | 37.8 | 22.5 |
| Unable to recruit regular workers | 20.3 | 16.0 | 21.5 |
| Need to adjust hiring practices due to changes in business conditions | 20.7 | 18.6 | 21.5 |
| Need to meet temporary or seasonal demand | 15.8 | 12.1 | 20.1 |
| Require more workers because of extended business hours | 19.7 | 3.1 | 17.0 |
| Require persons with experience and expertise | 6.5 | 22.9 | 13.2 |
| Wish to re-employ older workers | 5.2 | 2.0 | 10.2 |
| Wish to re-employ women who quit their jobs to raise children | 6.0 | 1.4 | 5.6 |
| Other | 7.4 | 5.7 | 12.5 |

Source: 1996 Survey of the Diversification of Employment Status, Ministry of Labour of Japan.

paato as a share of total employment show no tendency on the part of enterprises to use *paato* to simplify staff cutbacks.

Moreover, the share of regular *paato* in employment has been fairly countercyclical over the past decade. It is the non-regular *paato* (temporary workers) who have traditionally been in the "front line" of numerical adjustment. However, even the share for this category of worker has changed from pro- to countercyclical over the past four years. Undoubtedly, the status of *paato* is individually more risky but enterprises are still more likely to hire these workers in an uncertain economic environment.

The labour adjustment of regular as well as non-regular *paato* indicates that enterprises prefer employees with low hiring costs when uncertainty increases, but most surveys report that the use of atypical employment contracts primarily serves the desire for wage flexibility, especially long-term wage and cost adjustment. For this reason the share of atypical workers increases in periods of low activity. According to the survey results shown in table 5.12, employers benefit from the use of *paato* workers in two ways: first, lower staff costs; and, second, the ability

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Table 5.13 Trend in amount of scheduled payment per hour for regular workers and *paato* workers, 1989–98 (Japanese yen)

| Year | Women | | | Men | | |
|------|-----------------|--------------|-----------------------------------|-----------------|--------------|-----------------------------------|
| | Regular workers | <i>Paato</i> | Wage ratio (regular worker = 100) | Regular workers | <i>Paato</i> | Wage ratio (regular worker = 100) |
| 1989 | 934 | 662 | 70.9 | 1 542 | 855 | 55.4 |
| 1990 | 989 | 712 | 72.0 | 1 632 | 944 | 57.8 |
| 1991 | 1 072 | 770 | 71.8 | 1 756 | 1 023 | 58.3 |
| 1992 | 1 127 | 809 | 71.8 | 1 812 | 1 053 | 58.1 |
| 1993 | 1 187 | 832 | 70.1 | 1 904 | 1 046 | 54.9 |
| 1994 | 1 201 | 848 | 70.6 | 1 915 | 1 037 | 54.2 |
| 1995 | 1 213 | 854 | 70.4 | 1 919 | 1 061 | 55.3 |
| 1996 | 1 255 | 870 | 69.3 | 1 976 | 1 071 | 54.2 |
| 1997 | 1 281 | 871 | 68.0 | 2 006 | 1 037 | 51.7 |
| 1998 | 1 295 | 886 | 68.4 | 2 002 | 1 040 | 51.9 |

Source: Ministry of Labour of Japan.

to respond to changing requirements on a daily or weekly basis. Indeed, the most prominent feature of part-time work in Japan is the substantial gap between part-time and full-time workers in terms of employment and labour conditions, rather than their numerical stability.

It is income that distinguishes part-timers from regular employees. Individual tasks at individual workplaces determine the wages of *paato* workers on an hourly basis, making them ineligible for regular pay rises, bonus payments and retirement schemes. Labour conditions for full-time workers (regular employees) are determined not by the mechanism of the labour market outside the enterprises, but by the organizational rules within the firm and by factors such as potential vocational abilities (educational level) and attributes such as age and tenure.

Paato workers' hourly pay is much lower than that of regular full-timers, a disparity that has sharply increased since the mid-1990s. The difference is less pronounced for women than for men (table 5.13). The income tax and social insurance systems create incentives for short working hours and low-paid part-time work. Income tax is only levied on *paato* workers once their annual income exceeds JPY1.03 million (approximately US\$8,000),⁹ or around 20 per cent of the annual income of regular workers. *Paato* who earn less than this are considered as dependants of their spouse and do not pay social insurance. The *paato* worker is entitled to the basic part of the spouse's pension plan. Unmarried *paato* are required to pay premiums for Medical Care Insurance and National Pension Plan.

⁹ The exchange rate used is US\$1 = JPY131, the average rate for 2002.

Eligibility for family allowances is closely linked to the tax and insurance system, so that married women engaging in part-time work need to adjust their working hours to avoid liability for tax and insurance premiums.

The use of *paato* can be countercyclical, because more enterprises rely on *paato* and dispatched workers to keep labour costs down. In recent years, the number of full-time workers declined and the number of part-timers increased. The number of full-time regular workers has declined significantly in enterprises where the number of *paato* has also declined.

*Job security among middle-aged and older employees:
"Internal insecurity"*

Most enterprises have adopted 60 years as the mandatory retirement age. In consequence, lifelong employment is gaining ground among middle-aged and older workers, with the proportion of employees who had been with the same firm since graduation increasing up to the early 1990s. However, although average tenure is lengthening it is on a depreciated basis, especially for income. It is generally thought that Japan's seniority-based wage system is shifting to an ability-based one. However, according to surveys conducted by the Ministry of Labour, wage-setting policies (except for those affecting executive managers) still place priority on age, length of service and education. The main shift is in the changing status of workers after age 60 and sometimes earlier, and it is this change in status that brings with it a corresponding drop in wages.¹⁰ Middle-aged and older worker employment management takes two main forms: extended employment or re-employment in the same firm (see table 5.14), or a change of job through a temporary or permanent transfer to an affiliated or related company (*shukko*). These transitional processes prevent unemployment but internalize the re-pricing that external flexibility would impel.

Around 70 per cent of enterprises have an extended employment and re-employment system (table 5.15), which allows employees who have reached

Table 5.14 Percentage share of employment extension or re-employment among regular employees aged 55 and over, 1996

| | 55–59 years | 60–64 years | 65–69 years | 70 years and over |
|--------------|-------------|-------------|-------------|-------------------|
| Total (1992) | 5.8 | 35.4 | 39.0 | 32.6 |
| Total (1996) | 3.3 | 39.0 | 45.0 | 28.9 |
| Extended | 1.9 | 22.6 | 27.5 | 19.6 |
| Re-employed | 1.3 | 16.5 | 17.5 | 9.3 |

Source: Ministry of Labour of Japan, Survey on Employment Conditions of Older Persons, 1996.

¹⁰ The majority of workers who are re-employed after the age of 60 see their wages more than halved.

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Table 5.15 Distribution of firms with employment extension or re-employment schemes, 1999 (percentages)

| | Firms with employment schemes for employees over mandatory retirement age | | | Total |
|--|---|--|-------------------------|-------|
| | Firms with only an employment extension scheme | Firms with only a re-employment scheme | Firms with both schemes | |
| <i>Size of enterprise</i> | | | | |
| 30–99 employees | 14.8 | 34.4 | 18.2 | 67.2 |
| 100–299 employees | 12.9 | 43.0 | 15.1 | 70.9 |
| 300–999 employees | 8.2 | 46.7 | 11.7 | 66.6 |
| 1,000–4,999 employees | 3.8 | 48.5 | 6.5 | 58.8 |
| 5,000 or more employees | 0.6 | 54.2 | 6.3 | 61.1 |
| All firms with over 30 employees | 13.4 | 37.7 | 16.7 | 67.8 |
| <i>Eligibility</i> | | | | |
| Open to all employees | 27.0 | 22.0 | n.a. | n.a. |
| Open only to employees who satisfy certain standards | 22.6 | 22.1 | n.a. | n.a. |
| Targeted to specific workers | 44.1 | 52.1 | n.a. | n.a. |
| <i>Working conditions</i> | | | | |
| Non-regular working day/hours | 14.5 | 13.5 | n.a. | n.a. |
| Non-regular job content | 17.6 | 35.4 | n.a. | n.a. |
| Other job grade | 30.6 | 49.1 | n.a. | n.a. |
| Lower wage | 50.5 | 72.9 | n.a. | n.a. |

n.a. = not available.
Source: Ministry of Labour of Japan, Survey of Employment Management, results for fiscal year 2000.

mandatory retirement age to continue working. About 15 per cent of all firms, but 80 per cent of those with 300 or more employees, had implemented temporary transfer schemes in 1997. These schemes limit the external mobility and instability of middle-aged and older workers, but reinforce “internal insecurity”.

White-collar workers in large corporations are also managed through temporary transfers between companies (*shukko*) and transfers to an affiliated company, or by a change of permanent employment (*tensaki*). *Tensaki* contributes to a drop in age-linked wages. The practice of posting middle-aged and older white-collar employees on *shukko* and *tensaki* before they reach mandatory retirement is becoming widespread, with 22.9 per cent of enterprises with 5,000 or more

employees making managers aged 55 eligible for *tensaki shukko*. The larger the enterprise, the earlier workers may be pressured to take up these options. There is also mounting pressure on this category of employee to leave voluntarily and most firms do not impose a lower age restriction on employees who opt for this procedure. Many enterprises begin to pressure those aged 55 or over to take *tensaki shukko*. Early retirement preferential schemes (*yakuhoku-teinen*) are used to facilitate this, though they are not widespread.

5.4 LABOUR MARKET POLICY AND ITS EFFECTIVENESS: CONSISTENCY WITH EMPLOYMENT PROTECTION LEGISLATION

We have examined the perception of job insecurity that prevails in the Japanese labour market, a perception only partly due to the higher numerical instability of *paato* (one-fourth of employees). It is largely due to the unequal position of women with regard to income and social protection, the uncomfortable situation of older workers prolonging their working life and, possibly, queuing for young people.¹¹ Nevertheless, employment is more stable in Japan than in many other OECD countries, with no (or only slight) deterioration before 1997. Unemployment remained low until 1997, except for a brief period immediately after the Second World War, and disparities in terms of numerical flexibility are declining.

For the Japanese labour market, unemployment (in the ILO definition of the term) is less of a problem than underemployment: namely, low employment rates for women and young people, dissatisfaction with employment status, and discouragement. Because these symptoms are less visible, not much attention was given to underemployment in active or passive labour market policies (LMP) until the mid-1990s. Job security, provided by implicit agreements at enterprise level, is more the result of Japanese tradition than of legislation, fiscal incentives or grants. Reliance on enterprise-based job security, founded on a large collective consensus, does not foster dynamic governmental action, and thus Japanese laws and complementary schemes have been put in place as the “finishing touches” in promoting a more equitable system.

The high but unequal security that legislation provides at enterprise level is somewhat reinforced by labour market policy schemes. Officially, labour market policy should provide additional security to workers in the marginal labour force, although this apparent trade-off between employment protection and LMP is ambiguous. A significant segment of the labour force has both low EPL and low LMP, a pattern that clearly contributes to the paradox of an acute perception of job insecurity at a time of employment stability.

The Government actively takes the role of communicator: plans for promoting employment stability are publicized widely and frequently in the media, aimed at

¹¹ “Queuing” describes a situation of displaced employment opportunities in which workers accept atypical employment while waiting to make the transition into regular employment. See Annex 5.2 for an interpretation of the situation of young Japanese entrants to the labour market in this regard.

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reinforcing the implicit social consensus on numerical stability, internal flexibility, investment in human resources, and wage flexibility. In addition, the Government implements a countercyclical fiscal policy, the most relevant of its actions in promoting employment stability, especially during the past decade. These measures target employers, who are considered the guardians of job security and of the implementation of internal flexibility.

In sum, Japanese employment policy may be characterized as follows:

- Enterprises, seldom individuals, are targeted.
- Promoting internal flexibility is the main goal: emphasis is placed on training, and subsidies favour enterprises that are temporarily faced with redundancies.
- Additional measures focus chiefly on reducing disparities (age, sex).

Principles of labour market policy and major employment schemes

Reducing job disparities

Since the mid-1980s, the Government has repeatedly implemented plans to reduce job disparities. It seems actively to fight the side-effects generally blamed on strict EPL. Box 5.3 summarizes the legislative action taken to reduce job disparities in Japan. The regulations implemented through legislation and financial incentives, particularly during the 1980s, were aimed at enhancing equal employment conditions and access, and higher protection for special categories of workers traditionally used by enterprises to circumvent the law. The focus was on reducing disparities between prime-age male workers, on the one hand, and the female labour force, young, middle-aged and older workers, on the other.

In line with this legal framework, active LMP spending is on programmes managed by the Employment Stabilization Fund to promote the employment or re-employment of older workers and of people with special difficulties in finding jobs, as well as cultivating the employment environment in SMEs.

The largest programme has established subsidies to increase job opportunities for workers, referred by public employment services (PES) offices, who are having difficulty finding employment because of age or physical disability. The subsidies cover part of their salaries. This is complemented by an employment stabilization programme which consists of subsidy incentives to enterprises continuing to employ workers until the age of 65.¹²

The Government has also implemented an additional subsidy programme which encourages workers themselves to continue working after mandatory retirement age. Re-employment after the age of 60 represents a pay cut of more than

¹² Firms in which more than 4 per cent of their workers are aged 61–65 receive a monthly amount of JPY20,000 (around US\$150) for each worker over this threshold (for over 8 per cent, the amount increases to JPY30,000, or around US\$230).

Box 5.3 Legislative action taken by the Japanese Government to reduce employment disparities

The Employment Security Law and the Employment Insurance Law enacted after the Second World War are the foundation of the present Japanese employment system. In the mid-1980s, the following laws were enacted to promote a more secure and equitable system:

The Human Resource Development Law Lifelong vocational training incentives and paid educational training leave incentive benefits were introduced in 1982. The Human Resource Development Law was enacted in 1985 by radically revising the Vocational Training Law. These laws were consolidated to provide workers with opportunities for continuous education and retraining throughout their working lives.

The Equal Employment Opportunity Law Enacted first in 1985, this law aimed to prevent discrimination against women and to augment maternity protection for women. Employment measures for women have also been implemented through the enactment of the Child Care Leave Law in 1991 and of the Part-time Law in 1993.

The Stabilization of Aged Workers Employment Law Brought into force in 1985, this law emphasized continued employment, vocational training and creation of employment opportunities for those in their early sixties.

The Manpower Dispatching Business Law Enacted in 1986, this law aimed to avoid the erosion of regular employment. Unlike other developed countries, the Japanese regulations distinguished dispatch work from fixed-term contract employment by restrictions that tended to treat the dispatched worker as a technically skilled professional: the Japanese counterpart of the European male blue-collar temporary worker is a female white-collar worker. Dispatched workers have enjoyed a higher wage level than part-timers because the dispatching business was originally confined to jobs requiring special skills and knowledge. The law was revised in 1999, categorizing dispatch workers as a temporary workforce to meet temporary demand. This has aroused the fear that dispatch work will turn out to be cheap labour without employment security.

50 per cent for the majority of workers, so many choose retirement instead. Re-employed workers are offered a benefit equivalent to 25 per cent of their new wage, or a total income equal to 62.5 per cent of their pre-retirement salary. The system is degressive once wages at the second firm reach 64 per cent of pre-retirement earnings, and disappears when wages equal 85 per cent of pre-retirement wages.¹³

The other programmes target employment in depressed regions and employment in SMEs, but their size is negligible in comparison to the schemes outlined above.

¹³ Since April 1995, employees aged 60–64 are entitled to 80 per cent of their pension, up to an income (pension plus wages) of JPY220,000 (around US\$1,700) per month, or 50 per cent of their pension up to an income of JPY340,000 (around US\$2,600) per month.

Promoting internal flexibility

Subsidies toward sectors suffering redundancies (overstaffing)

Since 1975, the employment adjustment subsidy has played a central role in Japan's employment policy. This subsidy is granted to enterprises in designated industries in the form of partial payment of wages when such enterprises strive to maintain employment during a downturn, for example. Subsidies may also cover part of the expenses incurred in paying temporary-leave allowances or wages; or allow firms undergoing restructuring to train their employees. The view is that in the case of a temporary downturn, maintaining employment by subsidization will prevent human capital from depreciating, bring an upward shift in productivity when the economy turns around, and contribute to new job creation.

Training programmes for internal flexibility

Active LMP expenditure in Japan reflects the reliance on firm-based training. In-house training of personnel over an extended period is seen as a key factor of the lifetime employment system. It consists primarily of informal on-the-job training (OJT). OJT gives employees the opportunity to hone their skills through a rotation system, which enables them to experience a variety of work situations. This fundamental aspect of training is difficult to measure (it is used mainly in large corporations). Formal OJT and off-site training that require internal or external instructors can be more easily quantified. According to the most comprehensive reference, the Survey of Training and Education in the Private Sector,¹⁴ 60.6 per cent of Japanese companies had training programmes in place in 1997 (92.3 per cent of firms with 1,000 or more employees and 56.7 per cent of firms with 30–99 employees). In both types of enterprise, 50.1 per cent of employees had received OJT during the survey year (usually less than six days).

The Japanese authorities recently highlighted the need for additional vocational training outside firms because of ongoing economic restructuring. Some financial support to human resources development is provided by the Employment Stabilization Fund; most retraining and training programmes are carried out by external skills development centres. Grants are given for both in-house and externally conducted training, with enterprises receiving between 12.5 per cent and one-third (smaller enterprises receive between one-third and one-half) of the training expenses incurred. Some subsidies also target voluntary human resources development: this allows employees to use paid holidays or vacation leave for vocational training. One-fourth (for smaller enterprises, one-third) of the training expenses incurred are refunded.

Until 1999, Japan provided support schemes for enterprises that implemented education and training programmes, but few schemes provided support to individ-

¹⁴ Ministry of Labour, Policy Planning and Research Department, Survey of Training and Education in the Private Sector (Tokyo, 1998).

uals. It was thus an instrument serving internal flexibility and controlled by firms. One exception was a scheme granting training subsidies to middle-aged and older workers, but eligibility was strict: participation was limited to those aged 40 and over, and required certification by previous employers.

Employment offices quasi-monopolized by the State

Another significant active LMP expenditure is allocated to public employment offices, which manage 500 offices throughout Japan. Until 1999, placement services were quasi-monopolized by the State. Private fee-charging firms were allowed to arrange employment in only 23 job categories, related to occupations requiring special skills and designated by the enforcement ordinance of the Employment Security Law of 1947: categories included artists, nurses, designers, housekeepers, cooks, models and interpreters. In addition, private placement required a permit from the Ministry of Labour. With the increase in white-collar workers, the system of public placement services is considered less efficient than in the past; only 20 per cent of new recruits now come through this channel. A total of 40.1 per cent of unemployed persons rely on public employment offices when seeking work and 2.8 per cent use private placement agencies.

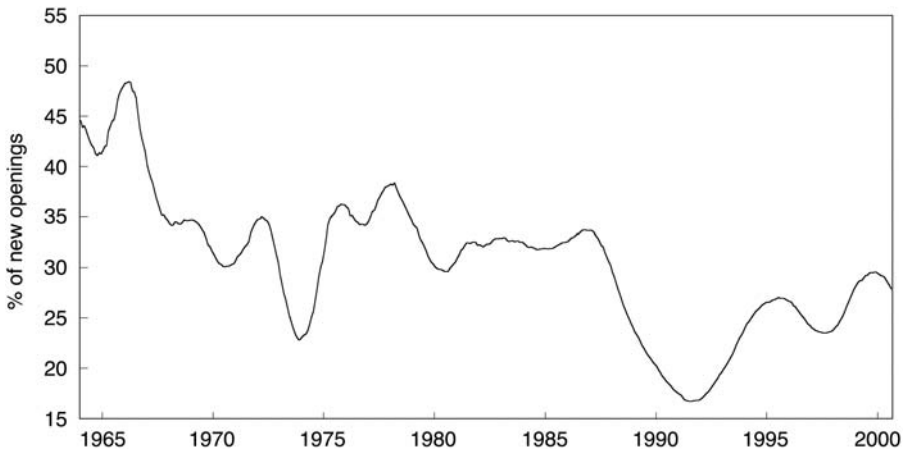
Recent efforts to increase external mobility

Japan's employment policy is progressively shifting emphasis from avoiding dismissals and securing employment on to smooth reallocation or transfer of labour, without transitional unemployment. Job security and internal flexibility remain the dominant policy, but the ongoing economic restructuring implies increased external mobility. Traditionally, labour-related regulations were regarded as social laws, beyond the scope of the deregulation campaigns. More recently, the rigidity of the labour market has been thought to impede the flow of workers from declining industries to emerging new enterprises and to decelerate restructuring of the economy. Some indicators suggest increasing problems of mismatch and raise questions on the efficiency of the OJT system, or the inertia resulting from the lack of intermediaries specialized in the allocation (or reallocation) of labour.

Labour shortages were particularly important at the end of the 1980s. Since the "bursting" of the economic "bubble", new job offers have sharply decreased and the availability of workers has consequently improved. However, the filling rate for new job offers remains on a general downward trend, as figure 5.17 shows. The Survey on Labour Economy Trends on the availability of workers conducted by the Ministry of Labour demonstrated that as soon as overall demand improves, most enterprises have labour shortages (in 1996 and 1997, for example). When expanding into new business areas, the enterprise focus is normally on internal hiring to meet human resource requirements: 60 per cent of enterprises use transfers between departments of the same firm or a subsidiary (Japan Institute of Labour, Survey on Corporate Business Expansion and Employment), and 40 per

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Figure 5.17 Filling rate for new job offers, 1964–2000 (figures for January)



Source: Ministry of Labour of Japan.

cent hire new graduates. In order to acquire specialized technical expertise, knowledge or skills, 20 per cent of enterprises engage in headhunting employees from other companies, a practice that is increasing. Meanwhile, the prevalence of internal hiring and the retention of skilled workers generates a labour shortage for newly emerging businesses – a specific feature of the Japanese labour market that has been particularly debated in the context of the “new economy”.

Training programmes for external mobility

The increasing structural unemployment rate – partly due to the widening of the skills mismatch and the higher probability of not remaining in lifetime employment with one firm (especially for middle-aged workers) – requires the adjustment of labour supply and demand on the external market. In addition, the Government is increasingly faced with the need to re-qualify or retrain those who are unemployed.

Since December 1998, the Government has taken new steps to promote voluntary training in the private sector and to provide support directly to individuals to help pay for various training programmes designated by the Ministry of Labour. When workers who have paid employment insurance premiums for five years complete their training, they receive financial support amounting to 80 per cent of tuition costs (up to a maximum of JPY200,000, or around US\$1,500). Financed through the employment insurance system, the new training policy stipulates that all programme candidates contribute to the insurance schemes. This orientation, linking active and passive LMP, promotes greater access to external mobility. From March 1999 to August 2000, a total of 262,213 trainees participated (0.4 per cent of overall employment and nearly 50 per cent of all participants in public vocational training programmes on an annual basis).

Deregulation of employment agencies

The recent reforms affecting the law on worker dispatching and the system of employment placement services can also be regarded as a slight shift in the direction of the external labour market. The use of dispatched workers was highly regulated until recently. Not permitted until 1947, but legalized in 1985, dispatched (from an agency) workers could until 1999 only be employed for specified or specialized work. The 1999 revision abolished this restriction. Previously, dispatched workers were defined by the Manpower Dispatching Business Law, enacted in 1986, as workers under contract to a dispatching agency, “who are entrusted with specific duties by the company to which they are assigned”. At first, work was restricted to 16 occupational categories.¹⁵ The number of registered or engaged dispatched workers from temporary agencies thus remained negligible as a share of total employment and mainly comprised female white-collar workers. “General-worker dispatch” included a majority of workers engaged in operating office equipment; while the highest demand in “specified-worker dispatch” was for software developers.¹⁶ The 1999 revision now allows dispatched workers to perform any type of work, with the exception of longshore (dock) work, building construction and building security.

Since the 1997 revision of the Employment Security Law ordinance, re-confirmed by the 1999 revision, the regulations on fee-charging placement services have been drastically relaxed. The only occupational restrictions are on the categories of port transport, construction and a few others. Clearly, this deregulation has been implemented in order to activate the external labour market and to absorb unemployment caused by restructuring. Administrative procedures have also been simplified, especially for obtaining a permit or modifying its content. At the same time, to avoid the side-effect of dispatch work replacing or eroding the employment of regular workers, the 1999 revision prohibits (with some exemptions) a client company from retaining a dispatch worker in the same post for more than one year continuously.

Emergency employment packages

Since 1998, employment policies have been reinforced by additional and temporary fiscal packages: five emergency employment packages were implemented

¹⁵ The 16 occupational categories included the following workers: software developers, office equipment operators, researchers, tour conductors, machine designers, interpreters, translators, stenographers, financial managers, office cleaners, workers who operate, check, and maintain broadcasting equipment, secretaries, documentalists, building inspection and maintenance workers, radio broadcast programme directors, filing clerks, equipment demonstrators, receptionists, guides and parking attendants.

¹⁶ There are two types of dispatching: regular-worker dispatching (“specified-worker dispatch”), where a dispatch worker is hired on a permanent basis, stipulates only that the Ministry of Labour is notified. The second type is registration-worker dispatching (“general-worker dispatch”), in which the agency has workers register with it in advance, and concludes an employment contract with the worker, who is then dispatched to a client company. A compulsory permit obtained from the Ministry of Labour is required.

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from 1998 to 2000. In addition, a considerable number of special measures have been put into practice, but these will not be reviewed here.

The main features of these packages are the two issues in public policy now rising to the fore in Japan. The first is that subsidies are shifting from traditional job maintenance to subsidies for job creation, to raise the demand of labour in new sectors. Since the third employment package, measures are now designed to increase new employment opportunities for middle-aged and older involuntary unemployed persons. Notably, the third emergency package of employment measures (June 1999) implemented special grants for creating employment in new and growth sectors (150,000 jobs) and a special emergency fund for job creation (200,000 jobs). The fourth employment package (included in the second supplementary budget for fiscal year 1999) was aimed at job creation and stability by providing assistance in business start-up to SMEs and by subsidizing costs for their human resources development and new hires. The fifth employment package (May 2000) also included measures to help start-up SMEs to recruit (targeting 100,000 workers, and subsidizing half of the wages of up to six workers per SME), and gave grants to employers in 15 recently established or growth sectors that accelerated their plans to hire workers (targeting 70,000 workers, with subsidies of JPY700,000, or around US\$5,300, per worker).

The second important feature is the significant shift in emphasis from middle-aged and older workers to jobless new graduates, a change that reflects growing concerns about unemployment among young people in Japan.¹⁷

Effectiveness of labour market policy

Despite the official view that employment policies are a major concern, it seems necessary to consider two other elements, namely, the funding of LMP and law enforcement, to obtain a more accurate picture of the effectiveness of LMP.

Active LMP and special schemes implemented in the mid-1980s promoting equality and security for older and women workers were also a response to the labour shortage resulting from the “bubble” economy and not aimed exclusively at job security. Moreover, Japanese laws in this policy area were rarely meant to be effectively enforced. The law promoting equality, especially equal opportunity, was called “duty to endeavour” (*doryoku gimu*) and regarded as toothless. These laws generally suffer from a lack of specific compliance-enforcement measures and do not empower courts to decide either on affirmative orders or punitive damages. The Equal Employment Opportunity Law, for example, stipulates only local mediation committees and not courts.

Funding and eligibility conditions considerably restrict the scope of legislation and active LMP. Looking at funding and participants, action in the public sphere is undersized in comparison to government announcements. Despite the rise in unemployment since 1990, public expenditure on active LMP remained constant at

¹⁷ See Annex 5.2.

about 0.1 per cent of GDP, far below the average of 0.7 per cent in other OECD countries, as shown in figure 5.18. In relation to the number of jobless, spending on active LMP remains close to the Anglo-Saxon norm and considerably lower than continental European countries.

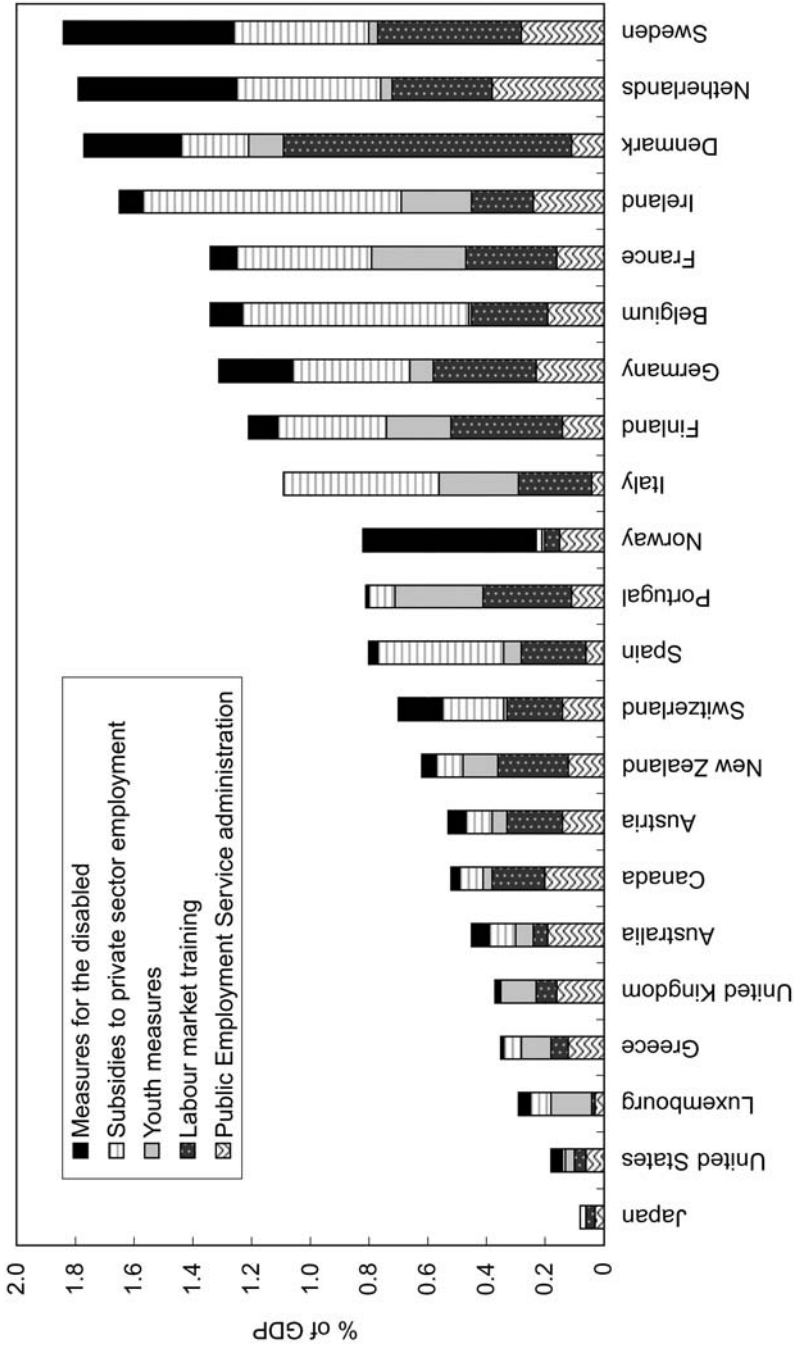
Public training programmes, for example, represent less than 20 per cent of total active LMP expenditure. Longer and more extensive programmes are conducted at vocational education junior colleges but represent only 2 per cent of enrolments. Most courses are under six months, are supplied by human resources or skills development centres, and target employed and unemployed persons in order to enable them to acquire basic skills. In April 1999, around 450,000 persons (0.7 per cent of the labour force) were enrolled in public training programmes. Public vocational institutes account for less than 3 per cent of firms' formal training courses, while enterprise-based training is likely to remain basic, especially OJT. Relatively few (15.6 per cent) unemployed had received vocational training while job-searching in February 2000 (12.5 per cent for men, 20.3 per cent for women). The probability of training was higher for those aged 25–34 (nearly 25 per cent) than for middle-aged (14 per cent) or older people between 55 and 64 (6.8 per cent).

An examination of the effectiveness of employment measures included in the five recent emergency packages indicates that the Government may not be putting into practice the measures it announces. Conditions for eligibility have been too strict and financial support often inadequate to create real incentives. For example, under the special emergency grants for job creation, the employer was granted (JPY300,000 per worker, or around US\$2,300) in regions where unemployment exceeded 5.4 per cent for two successive periods, or when the nationwide unemployment rate exceeded 5 per cent. The scheme confined eligibility to workers aged 45–59 who had involuntarily lost their previous job. Employers were not eligible if they had recently dismissed employees. In consequence, this special emergency grant only achieved 1.4 per cent of the total target number of jobs created, halfway through its schedule (Ohtake, 2000).

The extremely strict conditions for eligibility are often cited as the main reason for the gap between government announcements and the outcome of its employment measures. The unemployment insurance system, for instance, places Japan among the less protective OECD countries. The low level of unemployment benefits is only partly due to the short duration of benefits (90 to 300 days) or the replacement rates (60 to 80 per cent of average wages excluding bonuses and overtime payments). The ratio of benefit recipients to total unemployed, as reported by the relevant monthly labour force survey, was only about one-third in Japan at the end of the 1990s.¹⁸ Contrary to press releases issued by the Government, the unemployment benefit system is actually designed to limit its negative impact on work incentives and to encourage job-seeking rather than to provide long-term income support.

¹⁸ The ratio of benefit recipients to total unemployment exceeds 1 in some European countries.

Figure 5.18 Active labour market policy spending among OECD countries, averages 1994–98



Source: Author's calculations based on OECD, 1999b.

Main additional policies

Since the beginning of the 1990s, employment policy has followed two main courses of action. The first is an expansion of the traditional policy of utilizing public works and similar measures to keep workers employed and to absorb unemployment. The second is the reduction of working time, which has greatly contributed to smoothing the numerical adjustment of employment.

The budget deficit used countercyclically

The costly fiscal policy that was implemented during the “post-bubble” recession in an effort to stabilize employment has been generally viewed with some suspicion. The successive fiscal packages adopted since 1993 have caused confusion in the public mind between the packages that scheduled new measures to sustain the recovery and those that were designed to renew earlier packages. The opacity and complexity of the fiscal process make an ex ante analysis difficult, but an ex post interpretation may be made by aggregating the various steps of public policy, such as public investment, orders received for public construction, or new housing construction started by the public sector (mainly the Housing Loan Corporation). These indicators confirm that the Government strongly stimulated demand during the 1990s, especially in 1993, 1995 and 1998. Contrary to public opinion, these recurrent impulses have provided a significant direct impact on the GDP profile, but without (or only slight) multiplier effects.

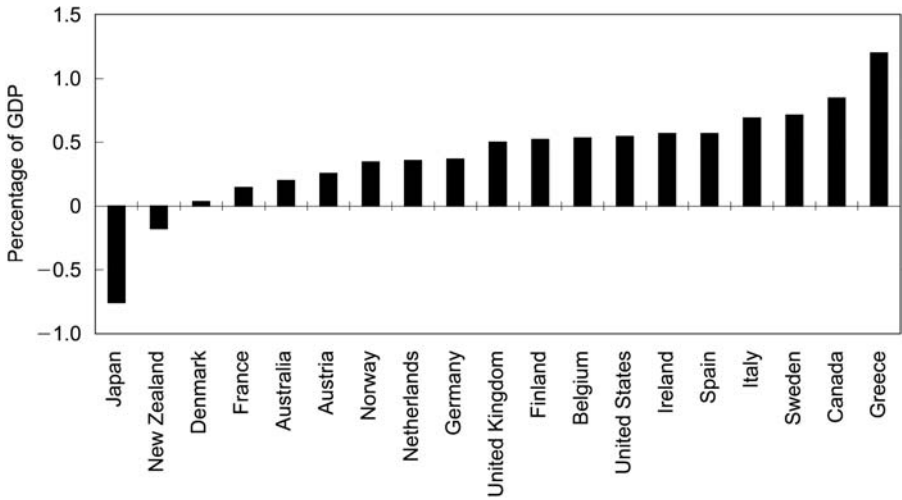
If the variation of the primary structural public balance computed by the OECD is used (which eliminates the effects of the business cycle on the actual surplus or deficit), the expansion in Japanese public policy is confirmed, as figures 5.18 and 5.19 show. This countercyclical impulse is in contrast to most other OECD countries, even from 1992 to 1994, when almost all countries were in recession.

Reducing regular working time

Since the revised Standards Law of 1988 established a 40-hour week as the norm, regular working time has continuously decreased from 2,110 annual hours in 1987 to 1,842 hours in 1999. This is a rare experiment in working-time reduction in the OECD region (with the exception of France, Germany and the Netherlands). Curiously, there has been no analysis of its consequences. The overall hours worked per regular employee (for all economic sectors) decreased by 12.7 per cent from 1988 to 1999, and slightly increased in 2000 (by 1 percentage point). Even when the share of part-time work is eliminated, this decrease remains above 10 per cent. At the same time, non-scheduled work-hours equal 2.6 percentage points. Overall, the main contributing factor to reduction is the decrease in the working time of regular full-time workers, implemented by the revised Standards Law of 1988 (figure 5.20). At the end of December 1997, 88 per cent of enterprises with

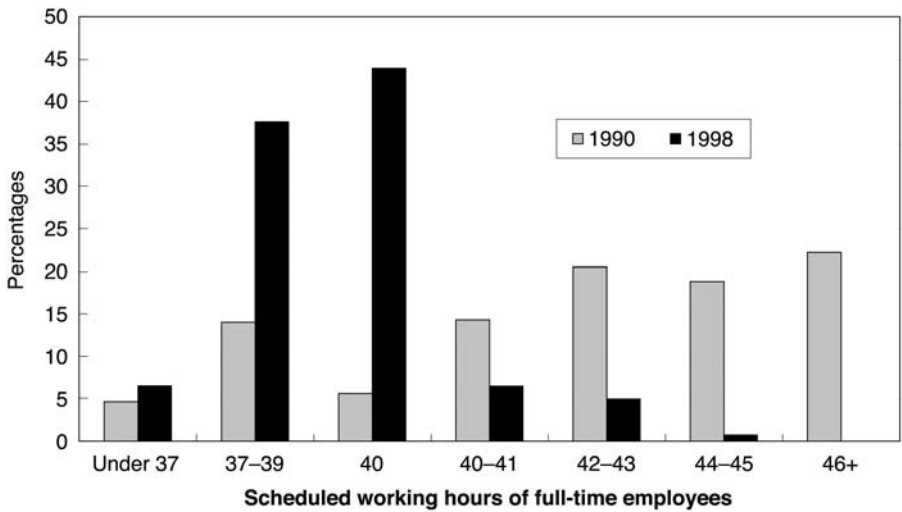
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Figure 5.19 OECD countries: Variations in primary structural deficit, 1991–2000 (yearly averages)



Source: Ministry of Labour of Japan, Policy Planning and Research Department.

Figure 5.20 Japanese enterprises according to scheduled working hours of full-time employees, 1990 and 1998



Source: OECD.

30 or more employees had adopted 40 (or fewer) scheduled work-hours per week, according to the General Survey on Wages and Working Hours System (15.9 per cent in 1985 and 24.2 per cent in 1990). This result meets the target of the revised Standards Law of April 1997 to change all businesses to a 40-hour work-week (with some exemptions).

Efforts to shorten working time in Japan have resulted in the five-day work-week gradually taking root, with 95.6 per cent of workers on this schedule in 1998. However, only 59.2 per cent of all employers have adopted it on a regular basis; SMEs have not. In addition, the Government has difficulty in changing some other Japanese work practices: most workers still use only between 50 and 60 per cent of their annual entitlement to paid holidays or leave.

5.5 CONCLUSIONS

Public policies, both employment protection legislation and labour market policies, have a relatively small impact on the labour market in Japan. Job security is mainly organized by Japanese firms and is based more on social norms than on legislation. The low level of public spending on active LMP measures such as training or employment subsidies indicates that there is as yet no overall, sizeable collective effort to complement the present enterprise-based (internal) labour market system with one allowing external, socially cushioned labour force adjustment. Until now, passive LMP measures have tended to discourage external flexibility through low-value unemployment benefits – in terms of wage replacement, duration and eligibility – and (almost) non-existent early retirement schemes.

There is no explicit legislative right to stable (“lifetime”) employment contracts. While an implicit contract between employer and employee minimizes the risk of dismissal, any further strains on the employment system could leave Japanese workers without much protection. Should mass lay-offs occur, only a weak collective employment protection system exists outside the firms and the public sector.

The introduction to this volume classified Japan as a country with strong employment protection at the enterprise level and a low level of protection through LMP. This “trade-off” generally holds true for insiders and outsiders. However, part of LMP is directed at maintaining insiders in employment and provides “complementarity” in the sense that EPL is reinforced by LMP. In other words, for insiders, internal adjustments are preferred to external adjustments. Although LMP plays a small role here (adjustments are commonly made by wages and working time), maintaining employment has been the main policy objective. Unemployment insurance is, up to now, employment insurance.

For outsiders (marginal workers or the unemployed), external labour market protection is weak. Although a share of marginal workers also enjoy employment stability (a spill-over from the lifetime job tradition), unemployed persons – particularly the long-term unemployed – are still only weakly protected. For a significant number of the workforce (those loosely attached to the labour market),

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both employment and labour market policy protection is low. In particular, active LMP is underdeveloped. If pressure on the employment protection system causes unemployment to rise, then Japan will need to reform its unemployment system substantially. It will also need to introduce an early retirement system, different from the present *shukko* and *tensaki* scheme, which foresees, for example, that subsidiaries of the big Japanese firms act as “employer of last resort” for their older workforce. A scheme based on the *shukko* might be devised that would give incentives to smaller firms to keep their older workers in jobs, for example. Employment stabilization policies for some older workers have already been enacted. Another solution may be part-time early retirement. If the trade-off hypothesis holds, the Japanese employment system is bound to shift from one with strong (de facto) employment protection, internal company training and weak LMP towards a system with weaker employment protection but stronger LMP, especially active measures such as externally provided training and employability policies. The move towards individualized training grants could be the first sign of this shift.

This change will be crucial for the smooth functioning of the Japanese labour market, especially if, as the new Government intends, the large countercyclical investment programmes (in the construction sector, for example) are to be cut. In this event, restructuring the economy ultimately implies activating the external labour market.

The paradox is that although the crisis was generated by upheavals in the banking and finance system – and not in the employment system – nevertheless, it is the employment system that must shoulder the consequences. If Japan is to maintain its cohesiveness, and avoid social exclusion and a rise in poverty, then a sound labour market policy needs to be introduced to compensate, at least partially, for the weakening employment security at enterprise level. While this trend is already emerging, the optimal combination of employment protection and labour market policies for the management of change in Japan must be found in joint discussion between the social partners and the Government.

ANNEX 5.1 THE JAPANESE NUMERICAL STABILITY OF EMPLOYMENT

Most empirical evidence suggests that the responsiveness of employment to growth is small in Japan in comparison to other OECD countries. We have tested this hypothesis for the recent past (during the 1960–98 period) for the manufacturing sector and the overall economy, using existing statistical employment data, as well as estimating demand for workers or labour force equations. The partial adjustment model adopted here supposes that the procyclical variations of productivity derive from labour hoarding linked with adjustment costs such as hiring, training and firing costs. These results are in line with economic opinion. Even taking work-hours into account, in the manufacturing sector the instantaneous responsiveness of hours to the variation of production is twice as low in Japan as in the United States, and the average delay of adjustment more than twice as long (see box A5.1.1).

Table A5.1.2 ranks the Japanese labour market according to the responsiveness of overall employment to GDP by combining several criteria: the standard deviation of the year-on-year growth rate of employment in relation to GDP, the correlation between the variations of employment and of the year-on-year growth rate of GDP (from quarterly data), and an econometric estimation of the average adjustment delay for employment. For each criterion, scores generally confirm the high responsiveness of overall employment in Anglo-Saxon countries, and the particularly low score of Japan. Scores also confirm that the cyclical volatility of employment increased in most European countries after the mid-1980s. This evolution underlines the singularity of the Japanese employment position in comparison with European standards.

Box A5.1.1 Speed of adjustment of work-hours

The estimation of the speed of adjustment and the distinction between the short- and the long-run dynamic of employment require a dynamic error-correction model. A very basic long-run co-integrating relationship between the level of employment and that of production in log is tested here, according to which the long-term coefficient between employment and production equals the unit. The long-run trend of hourly productivity acts as an attractor when the current level of productivity widens from the long-run constant trend. A break in the productivity trend in 1974 has been positively tested in Japan as a condition for stationary residuals. Such an assumption is not relevant for the United States. Thus, the long-run relation of co-integration is:

$$\text{Log}(Y_t/N_t) = \alpha + \beta.T(\dots + \gamma.T_2 \text{ when a break in productivity trend occurs})$$

or

$$\text{Log}(N_t) = \text{Log}(Y_t) - \beta.T - \alpha$$

N_t is the labour volume (work-hours), Y_t is the level of manufacturing production and $\beta.T$ is the hourly productivity trend.

The equation tested is:

$$\text{(equation 1)} \quad \Delta N_t = \lambda.\Delta Y_t - \mu.[\text{Log}(N_t - 1) - \text{Log}(Y_t - 1) + \beta.T + \alpha]$$

ΔN_t is the labour volume growth rate, λ is the short-run coefficient between the variation of the labour volume and the variation of the production, μ depicts the degree to which work-hours each quarter adjust to accommodate work-hours to the long-run trend.

The average adjustment delay of work-hours to the long-run target equals:

$$(1 - \lambda)/\mu$$

Estimation of equation 1, from 1960 to 1995 using quarterly data, gives the results set out in table A5.1.1 for Japan and the United States.

Table A5.1.1 Results of equation 1 for Japan and the United States, 1960–95

| | Japan | United States |
|---|--------------------------------------|---------------|
| Short-run coefficient between ΔN_t and $Y_t(\lambda)$ | 0.41 (6.7) | 0.73 (26.7) |
| Error correction coefficient (μ) | 0.11 (3.4) | 0.12 (4.5) |
| Hourly manufacturing productivity term (β) | 10% from 1960 to 1974 | 3.2% |
| Average delay | 3% from 1974 to 1995 5.4 quarters | 2.3 quarters |
| R ² | 0.97 | 0.99 |
| Durbin–Watson | 2.4 | 1.8 |
| Standard error of estimate (SEE) | 0.014 | 0.006 |

Table A5.1.2 Evaluation of the short-term responsiveness of employment

| Country | Scores 0–2 | | | | | | Scores 0–6 | |
|----------------|--|---------|--|---------|--|---------|--|---------|
| | Standard deviation of employment/standard deviation of production ^a | | Correlation between employment and production ^b | | Speed of employment adjustment ^{a, c} | | Reactivity of employment (Score 0 to 6) ^{a, b, c} | |
| | 1975–90 | 1985–97 | 1975–90 | 1985–97 | 1975–90 | 1985–97 | 1975–90 | 1985–97 |
| Australia | 2.0 | 2.0 | 1.0 | 1.0 | 1.0 | 1.0 | 4.0 | 4.0 |
| Austria | 0.0 | 1.0 | 1.0 | 1.0 | 0.0 | 0.5 | 1.0 | 2.5 |
| Belgium | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 1.0 | 0.0 | 2.0 |
| Canada | 1.0 | 1.0 | 2.0 | 2.0 | 2.0 | 2.0 | 5.0 | 5.0 |
| Denmark | 1.0 | 1.0 | 1.0 | 1.0 | 2.0 | 1.0 | 4.0 | 3.0 |
| Finland | 0.0 | 1.0 | 0.0 | 2.0 | 0.0 | 2.0 | 0.0 | 5.0 |
| France | 0.0 | 0.0 | 1.0 | 2.0 | 0.0 | 0.0 | 1.0 | 2.0 |
| Germany | 1.0 | 2.0 | 1.0 | 1.0 | 1.0 | 1.5 | 3.0 | 4.5 |
| Greece | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Ireland | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 2.0 | 3.0 | 4.0 |
| Italy | 0.0 | 1.0 | 0.0 | 0.0 | 1.0 | 0.5 | 1.0 | 1.5 |
| Japan | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Netherlands | 1.0 | 1.0 | 1.0 | 0.0 | 0.5 | 0.5 | 2.5 | 1.5 |
| New Zealand | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 2.5 |
| Norway | 0.5 | 2.0 | 0.0 | 0.0 | 1.0 | 1.0 | 1.5 | 3.0 |
| Portugal | 0.0 | 2.0 | 0.0 | 1.0 | 0.0 | 2.0 | 0.0 | 5.0 |
| Spain | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 6.0 | 6.0 |
| Sweden | 0.0 | 2.0 | 0.0 | 2.0 | 0.0 | 1.0 | 0.0 | 5.0 |
| Switzerland | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 6.0 | 6.0 |
| United Kingdom | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 6.0 | 6.0 |
| United States | 1.0 | 1.0 | 2.0 | 2.0 | 2.0 | 2.0 | 5.0 | 5.0 |

^a Standard deviation of civil employment/standard deviation of GDP: computed from the year-on-year growth rate of indicators on a quarterly basis (Q/Q–4). ^b Correlation coefficient (maximum coefficient considering different lags) between employment and GDP; computed from the year-on-year growth rate of indicators on a quarterly basis (Q/Q–4). ^c See Box A5.1.1 above.

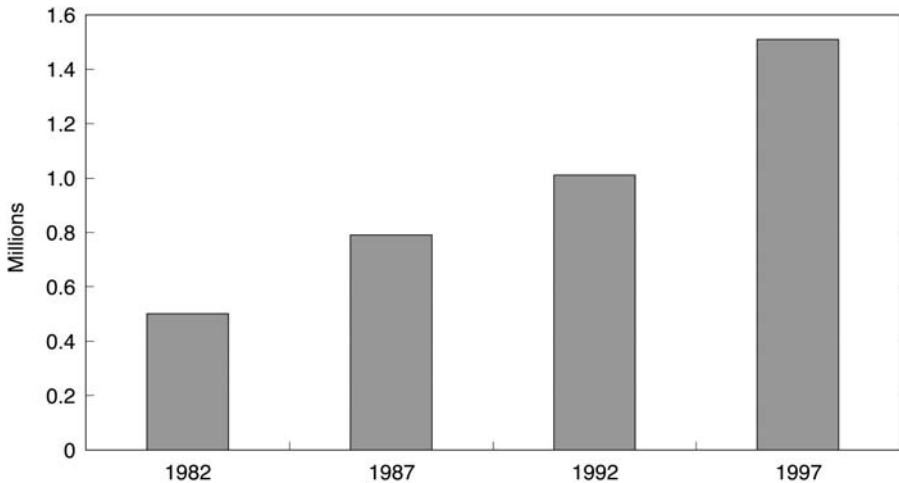
Source: Passet and Jestaz, 1998.

ANNEX 5.2 YOUNGER WORKERS: VOLUNTARY FLEXIBILITY OR DISPLACED EMPLOYMENT OPPORTUNITIES?

The situation of young people in the Japanese labour market is ambiguous. Plenty of evidence (including the official consensus) suggests that the increase in atypical young workers springs from a change in young people's thinking. It is the opinion of this author that the so-called voluntary behaviour of young jobseekers is the result of deterioration both in job opportunities and in the quality of job offers.

Several indices underline an erosion of the tradition of job stability among the younger generation of jobseekers. The argument mooted is that values and attitudes towards work and the work ethic have changed, and that young people have come to lack the persistence of previous generations to "keep on working". This evolution is also attributed to present-day households with fewer children, making it easier for children to stay longer with, and depend financially on, their parents. The phenomenon, known as "parasite singles", is described below.

Recent employment patterns show a greater tendency for young people to resign from or change jobs, frequently ascribed to their lack of commitment to work and an unfounded optimism for the future, created by the economic affluence in which they grew up. The percentage of new high-school graduates without a job (inactive or unemployed) exceeded 30 per cent in 1999. However, the largest proportion of youth unemployment is due to voluntary separation, which occurs in part because of the financial support young people receive from their parents. The recent increase in voluntary separations and job-switching among young people is attributed to the increased proportion of "free workers", known in Japanese as *freeters*. *Freeters* are young people, chiefly in their teens or twenties, who are voluntarily working as part-time or marginal labour (*arubaito*). They tend to switch jobs often or to seek an unstable atypical job. Their number is estimated by identifying people aged between 15 and 34 who satisfy one of several criteria: if currently employed, they are engaged on a job contract as *arubaito* or part-time and have stayed in the job for one to five years; if not currently employed and engaged in neither housework nor study, they desire to work part time and not full time. According to this definition, the number of *freeters* tripled between 1982 and

Figure A5.2.1 Estimated number of *freeters*, selected years (millions)

Source: Management and Coordination Agency, Tokyo.

1997 to 1.51 million (see figure A5.2.1). The Japan Institute of Labour (JIL) conducted a small study based upon interviews with 97 men and women aged under 35, who were neither housewives, students nor regular employees (JIL, 2000). Results showed that the average number of working days per week for *freeters* was 4.9 days and that their monthly income averaged JPY139,000, or around US\$1,000 (compared with JPY400,000, or around US\$3,000, for regular employees). Their educational level ranged from 47.4 per cent high-school graduates, and 13.4 per cent university graduates, to 11.3 per cent who had dropped out of a technical school or a two-year college. Their average age was 22.7 years, and 63.8 per cent of them lived with their parent(s). The JIL found three distinct types: the “moratorium *freeters*” (“for-the-time-being”) who have no immediate future plans; the “*freeters* with a dream”, who are anxious to work in show business or in other professional areas; and the “dead-end *freeters*” who are obliged to stay in such employment because they have failed to find regular work.

Masahiro Yamada (1999) defines “parasite singles” as “unmarried people who live with their parents even after graduation from university, and depend on their parents for their basic living necessities”. According to Yamada’s calculations, based on figures from the national census, the number of unmarried people aged 20–34 who are still living with their parents runs to 10 million, a figure that is probably increasing across the country. Unwilling to lower their living standards by marrying or living independently, “parasite singles” prefer the higher living standard offered by not leaving home. The increase in the numbers of parasite singles is reflected in the rapidly growing numbers of late marriages and fewer children. International comparisons show Japan has the highest ratio of single young adults

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still living at home. The emergence of such “parasite singles” can be partly explained by the structure of the lifetime employment system, and employment practices such as the seniority wage system favouring middle-aged and older people, as well as social security schemes that treat elderly people generously. Since “parasite singles” do not face financial difficulties, they do not look for jobs with high wages, perhaps treating work as “more of a hobby.” Because of this attitude, if they find their job uncongenial, they immediately give it up. The resulting unemployment of young people may be termed “luxury unemployment” in that it does not involve real financial necessity. Parasite singles may view work as a discretionary pastime or a means of earning pocket money. What is their effect on the Japanese labour market? The change in outlook or behaviour of young people, as suppliers of labour, is a kind of “supply-side shock”. The view that many cases of unemployment and job-switching are voluntary, due to young people’s unwillingness to work, is in line with the “parasite singles” theory.

Interestingly, although the number of new graduates has slightly decreased during the 1990s, this category has an exceptional success rate in finding employment. In 1999, 96.8 per cent of upper secondary school graduates succeeded in finding a job, a considerably higher proportion than other OECD countries. The low employment rates do not imply that young people have difficulties in finding a job. The problem seems rather that a large share of new graduates do not seek employment.¹ Moreover, figures on job tenure according to education suggest that the higher the qualification, the higher the turnover. However, table A5.2.1 shows that this phenomenon is largely due to the average age of each group. The share of higher-qualified graduates is larger among the younger generation. Thus, contrary to popular opinion, the apparent higher turnover of higher-qualified graduates is not only a result of voluntary behaviour.

The reason for low participation rates, as in the major industrialized countries, is that men and women both now tend to stay in education longer than in the past. On the demand side, the increasing number of *freeters* may be attributable in some measure to the overall reduction in employment in the wake of the recession and to the increased number of middle-aged and elderly workers, as well as a greater tendency for firms to hire workers with experience as needed and throughout the year. Consequently, even if young people wish to have a regular job, they are often obliged either to work part time or as a member of the marginal labour force (*arubaito*).

According to Genda (2000), the problem is that employment opportunities that implicitly promise a long-term job and enable individual workers to develop their abilities through on-the-job-training (such as those in large firms) – are no longer offered to young people as a matter of course. The declining chances of finding such a job, one they can “count on”, undermines the commitment of young workers and results in a rash of unemployment and job-switching.

¹ In 1998, the number of employed university graduates dropped to 65.6 per cent, the lowest level in 48 years.

Table A5.2.1 Job tenure according to educational qualifications, 1980 and 1998

| | 1980 | | 1998 | | Hypothetical tenure according to shape of tenure by age curve |
|---|------------|-------------|------------|-------------|---|
| | Job tenure | Average age | Job tenure | Average age | |
| Men | | | | | |
| Elementary schools and new-system lower secondary schools | 12.3 | 43.2 | 17.6 | 50.1 | 16.0 |
| Old and new-system upper secondary schools | 10.4 | 35.1 | 13.4 | 40.2 | 12.4 |
| Technical colleges and junior colleges | 9.9 | 37.3 | 9.2 | 34.4 | 9.4 |
| Old and new-system universities | 9.2 | 34.8 | 11.9 | 38.3 | 10.5 |
| Women | | | | | |
| Elementary schools and new-system lower secondary schools | 7.7 | 43.8 | 12.8 | 51.0 | 13.1 |
| Old and new-system upper secondary schools | 5.5 | 30.8 | 8.8 | 36.8 | 8.5 |
| Technical colleges and junior colleges | 4.1 | 27.5 | 6.2 | 30.0 | 5.4 |
| Old and new-system universities | 4.5 | 29.9 | 5.8 | 31.1 | 5.5 |

Source: Ministry of Labour of Japan.

This author views the emergence of “parasite singles” among young people not as a cause but as a consequence of the rise in the unemployment rate for young people and other changes in the labour environment. The loss of employment opportunities for young people at the expense of maintaining employment for middle-aged and elderly workers can be viewed as a “displacement effect” between middle-aged and elderly people on the one hand, and young people on the other. Analysis confirms this displacement effect by showing that large firms, with a high ratio of employees aged 45 or older, tend to reduce the number of job openings for new graduates and place curbs on new hiring.

FLEXIBILITY AND COMMITMENT IN THE UNITED STATES LABOUR MARKET

6

Paul Osterman

6.1 INTRODUCTION

Over the course of the 1990s expansion, the American labour market was paradoxical and difficult to characterize easily. Job growth was impressive and unemployment fell to remarkably low levels. At the same time, wage growth was very sluggish for much of the workforce, inequality increased, and many people believed that the benefits of the boom were not fairly distributed.

These conflicting trends are reflected in the attitudes of the American workforce. In a poll conducted by *Business Week*,¹ 75 per cent of Americans believed that the benefits of the “new economy” were distributed unevenly, and 69 per cent said that business was doing a poor or fair job of raising living standards.

One dimension for characterizing the labour market is what might be termed the “flexibility–security” axis. In simple terms, at one extreme of the axis the labour market might be organized in such a manner that people, once employed in their career job, stay there for a long time. This type of labour market provides high levels of security (at least for those who obtain these jobs), but is very slow in responding to shifting demand conditions or technological shocks.² At the other extreme is a job market in which firms hire and fire at will, and in which employees feel no compunction about quitting jobs and moving on to better opportunities. This labour market is very responsive to shifting conditions, but it may entail costs such as lost human capital and the personal consequences of insecurity. There is also a possible third dimension to this trade-off, in which the behaviour of the firm and the worker is offset, or compensated, by public policy and government programmes. Thus, high flexibility might be the norm at the firm level, for example, but security – either income security or assistance in finding another job – is available via public provision.

¹ “Hey, what about us”, *Business Week*, 27 Dec. 1999, pp. 52–55.

² However, in such a high-security labour market there may be other margins for adjustment, such as hours of work or redeployment of polyvalent skilled labour.

Just as it is difficult to characterize the American labour market in general, so is it hard to know just where on the flexibility–security axis it lies. The low unemployment rate of the 1990s would seem to suggest that security was high, and an early analysis of job tenure data from the 1970s and 1980s suggested that American job stability patterns were not very different from those of Japan (Hall, 1982). Set against this is the widespread perception that, compared with Europe, lay-offs are relatively easy, and people quit jobs frequently, and that this flexibility is an important element in explaining recent American success. Indeed, Alan Greenspan, Chair of the Federal Reserve, argued that technological change is making jobs less secure and has led to a “heightened level of potential job dismissal”.³ This is one of his favoured explanations for the failure of wages to rise very much during the expansion.

Other strands of evidence also point in conflicting directions. In the late 1990s the business press was full of stories of the difficulty companies were having in attracting and retaining high-skilled employees, particularly in technology industries, with the implication that, at least on the demand side, firms should be doing their best to retain these workers. On the other hand, as we will see, lay-offs continued at a surprisingly high rate and firms were relocating their operations in ever-higher numbers.⁴

Establishment-based data show a very high rate of job turnover and reallocation. Data from the state of Maryland for the period 1985–94 show that 22 per cent of employment spells dissolve within the first three months (Burgess et al., 2000).⁵ When these very short spells are eliminated and the data are further restricted to establishments with five or more employees, the flows are still quite high. The worker flow rate (the sum of hires and separations divided by the base level of employment) was 32.3 per cent per quarter in non-manufacturing and 19.4 per cent per quarter in manufacturing. These patterns are consistent, however, with lengthy employment tenure for many workers: in the same data set, 42 per cent of non-manufacturing and 32 per cent of manufacturing employees were in the same job for nine or more years. What reconciles these seemingly disparate patterns is heterogeneity: the high turnover is limited to a subset of employees and firms.

In the first part of this chapter we employ aggregate data to attempt to sort out these issues at the level of the labour market as a whole. We then examine in more detail what we know about the behaviour of firms as they consider their strategies towards the labour force. The final section of the chapter considers some public policy issues.

³ *New York Times*, “Technology is heightening job worries”, 12 July 2000, p. C2.

⁴ Corporate migrations within the United States, which averaged 5,400 per year from 1980–94, averaged 11,400 in the late 1990s.

⁵ In 1990, the percentage of employment in manufacturing in Maryland was 10.4 per cent, compared to 16.9 per cent in the United States; the percentage of employment in services in Maryland was 33.1 per cent, compared to 24.5 per cent in the United States; and 27.5 per cent of Maryland employment was in wholesale and retail trade, versus a share of 22.3 per cent in the United States.

6.2 AGGREGATE MEASURES OF STABILITY

National-level data are collected on two measures of overall employment stability: employment tenure and worker dislocation. Employment tenure measures the number of years a worker has been employed with a specific firm or organization. Dislocation data enumerates employees who lose their jobs through large-scale lay-offs, such as those associated with a plant closing or a substantial reduction in the workforce. Individual dismissals (for poor performance, for example) are not counted in these numbers. The next two sections provide time-trend data on tenure and dislocation.

Job tenure

Job tenure – the number of years an employee has been with his or her organization – reflects both lay-offs and quits. Stability can fall either because lay-offs increase or because quits rise, and there are clearly different welfare implications from the two trends. However, if we keep these qualifications in mind, tenure provides a useful measure of the level of turnover in the labour market.

Since 1983, the Current Population Survey (CPS) has collected data on job tenure for the US Bureau of Labor Statistics (BLS). There are a number of complicated technical issues involved in working with these data, which are described below. However, a good sense of the data can be gained from table 6.1A and 6.1B. Table 6.1A shows trends in median tenure and table 6.1B shows the percentage of people who have been with their employers for ten years or more. It is important to control for age and sex in these calculations, and data are provided for several age groups.

These data show that for men there has been a substantial decline in job tenure for all age groups. Women, with the exception of the eldest group, have experienced a slight increase in tenure. This is presumably due to the growing attachment

Table 6.1A Median years of tenure, various years, by age and sex

| | 1983 | 1987 | 1991 | 1996 | 1998 |
|-----------------------------|------|------|------|------|------|
| <i>Men (age in years)</i> | | | | | |
| 35–44 | 7.3 | 7.0 | 6.5 | 6.1 | 5.5 |
| 45–54 | 12.8 | 11.8 | 11.2 | 10.1 | 9.4 |
| 55–64 | 15.3 | 14.5 | 13.4 | 10.5 | 11.2 |
| <i>Women (age in years)</i> | | | | | |
| 35–44 | 4.1 | 4.4 | 4.5 | 4.8 | 4.5 |
| 45–54 | 6.3 | 6.8 | 6.7 | 7.0 | 7.2 |
| 55–64 | 9.8 | 9.7 | 9.9 | 10.0 | 9.6 |

Table 6.1B Percentage of employees with ten or more years of tenure, by age and sex

| | 1983 | 1987 | 1991 | 1996 | 1998 |
|-----------------------------|------|------|------|------|------|
| <i>Men (age in years)</i> | | | | | |
| 35–39 | 36.9 | 34.8 | 35.6 | 30.5 | 29.7 |
| 40–44 | 51.1 | 48.5 | 46.3 | 41.7 | 39.1 |
| 45–49 | 57.8 | 53.0 | 53.5 | 50.8 | 47.4 |
| 50–54 | 62.3 | 59.4 | 58.5 | 54.9 | 52.8 |
| 55–59 | 66.2 | 63.2 | 61.0 | 55.7 | 56.5 |
| <i>Women (age in years)</i> | | | | | |
| 35–39 | 21.6 | 23.8 | 26.1 | 22.9 | 24.0 |
| 40–44 | 23.4 | 27.9 | 32.0 | 30.4 | 31.8 |
| 45–49 | 33.0 | 36.4 | 39.3 | 38.1 | 38.4 |
| 50–54 | 42.5 | 43.0 | 43.4 | 45.8 | 44.6 |
| 55–59 | 51.0 | 50.8 | 51.4 | 52.1 | 49.2 |

Sources: Bureau of Labor Statistics; Employee Tenure Summary; <http://stat.bls.gov/newsreels.htm>

of women to the labour force (a supply phenomenon). It is also possibly attributable to the fact that women work in industries which have been less subject to restructuring over the past decade.⁶

As noted above, there is a variety of problems with using these data in the form presented. These include changes in questionnaire design and in the exact wording of the questions, and the tendency of people to round their responses to the nearest five years of interval. Neumark, Polsky and Hansen have gone to some length to correct for these issues for the data up to and including the 1996 survey (Neumark et al., 1999). They reach the following conclusion (*ibid.*, p. S31), which is broadly consistent with the raw data presented above:

In the aggregate, there is some evidence that job stability declined modestly in the first half of the 1990s. Moreover, the relatively small aggregate changes mask rather sharp declines in stability for workers with more than a few years of tenure. These sharp declines are partially offset in the aggregate by gains in job stability for low tenure workers at the beginning stages of attachment to an employer.

To get a sense of these patterns, table 6.2 reproduces some of their results. The table shows retention rates, which are the probability that a person will remain in the same job over the specified period. In this table, the data are organized by sex and by initial years of tenure.

⁶ For the labour force as a whole, median tenure has not changed over the period. In 1983, it was 3.5 years, while in 1998 it was 3.6 years. However, these figures do not control for the age or gender composition of the workforce.

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Table 6.2 Retention rates, 1983–95 (percentages)

| | 1983–87 | 1987–91 | 1991–95 |
|--------------------------------|-------------|-------------|-------------|
| <i>Men (tenure in years)</i> | | | |
| 0 < 2 | 36.3 | 36.1 | 39.6 |
| 2 < 9 | 65.4 | 56.7 | 58.8 |
| 9 < 15 | 88.4 | 84.8 | 79.1 |
| > 15 | 67.8 | 70.7 | 63.7 |
| Total | 60.1 | 56.6 | 56.8 |
| <i>Women (tenure in years)</i> | | | |
| 0 < 2 | 32.4 | 33.5 | 39.6 |
| 2 < 9 | 56.8 | 53.5 | 55.5 |
| 9 < 15 | 83.0 | 78.9 | 72.0 |
| > 15 | 59.1 | 70.4 | 64.7 |
| Total | 51.4 | 50.9 | 53.2 |

Source: Neumark et al., 1999, p. S51.

As we would expect, the probability of retention generally rises with tenure, although it is surprising that it falls at 15 years and over. The main point, however, is that it is apparent in these data that retention rates have fallen over time for employees with medium or long-term tenure in their jobs. For example, among men with between nine and 15 years of tenure, the probability of remaining with their employer between the survey intervals dropped from 88 per cent in 1983–87 to 79 per cent in 1991–95. In contrast to the cruder tenure data presented above, these patterns also hold for women.

What conclusions should we draw from these data? It does seem clear that ties between employers and employees have loosened, and in this sense the American labour market is increasingly “flexible”. However, at the same time it is also apparent that, on balance, attachment remains strong. To use the example just cited: although lower than it was a decade earlier, the retention rate of men with nine to 15 years of tenure in the period 1991–95 was still nearly 80 per cent. Furthermore, the data clearly demonstrate that the probability of retention increases as tenure rises, as would be expected. There is much more turnover among low-tenure (and presumably younger) employees than among more experienced ones. This implies that the main margin of flexibility is among young people, and this is just what one would normally expect. In short, although ties have loosened, there is nothing in these data to suggest that the American job market resembles in any way a “bourse” in which all workers are constantly on the spot market. The question, of course, is how deeply the tendency towards looser relations will go, and we shall take this up shortly.

Dislocation

One obvious measure of stability in the labour market is the probability of being laid off. Clearly, this probability will vary with the business cycle. What needs to be examined is whether, independent of the business cycle, there has been a tendency for lay-offs to increase or decrease. One reason to expect an increase would be if the ties between employers and employees have loosened to the extent that at any given level of economic activity lay-offs are higher than in the past. Alternatively, firms may have recently engaged in restructuring or rebalancing their labour force – for example, reducing the proportion of managers to front-line workers – and this could lead to a one-time increase in lay-offs, rather than implying a trend.

The popular press seems to suggest that lay-offs are higher than might be expected given the strong economy. *The Wall Street Journal*, for example, ran a lead story with the headline “In current expansion, as business booms, so, too, do lay-offs”. The story went on to report that according to Challenger, Gray and Christmas Inc., a personnel consulting firm, announced lay-offs in 1999 were at the highest level in a decade and, at 675,000, were well above the 111,285 in 1989.⁷

Data and impressions of this sort are, however, fundamentally anecdotal. The best systematic way of addressing this issue is to draw upon the Dislocated Workers Survey conducted by the BLS as part of the CPS. Conducted every several years since 1984, the survey collects data on the fraction of employees who lose their job due to lay-offs. The survey defines lay-offs as job loss due to plant closure, slack work, or abolition of position or shift.

These data understate the rate of lay-offs in several important ways. First, they ask only about one lay-off (the longest) over each survey period, whereas many people may well have experienced multiple episodes. Second, people may have been laid off for reasons other than the three cited above (in fact, the surveys ask about other reasons, but most researchers consider the wording too vague for use). There are also technical issues, particularly with respect to somewhat different question wording and survey frequency over the total time period (Farber, 1997).

Because of substantial changes in survey design, raw data can only be compared with confidence for the last three surveys. Table 6.3 shows the absolute numbers of dislocation reported in these surveys, as well as what fraction of the labour force these represent.

It is apparent in these data that as the economy improved from the early 1990s, dislocation declined. What also appears to be true, however, is that the rate of this decline slowed in the latter part of the 1990s, even as the labour market reached unprecedented levels of strength. This suggests that while an improving economy raised the level of job security, it may not have done so at the pace that might have been expected.

⁷ *Wall Street Journal*, 13 Mar. 2000, p. A1.

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Table 6.3 Dislocation, 1993–99, in millions and as a percentage of the labour force

| | Number displaced in millions (workers aged 20 or above) | Dislocation rate (percentage of labour force) |
|----------------------------|---|---|
| January 1993–December 1995 | 9.4 | 8.0 |
| January 1995–December 1997 | 8.0 | 6.6 |
| January 1997–December 1999 | 7.6 | 6.1 |

Source: Dislocated Workers Survey, Bureau of Labor Statistics.

A more careful analysis of trends in these data requires a longer time series, and this in turn means that a series of sophisticated adjustments needs to be made to the earlier surveys to render them comparable to the later years. Efforts along these lines have been undertaken by Farber (2000). Table 6.4 shows the pattern of dislocation rates since the surveys were initiated, and how these patterns vary with different demographic groups. Farber's adjustments mean that the estimates differ slightly from the results presented in table 6.3.

It is apparent that, as before, the data show a strong cyclical component, with dislocation rising when the unemployment rate is high and falling when it declines. However, it also appears that the decline in the 1990s is not as steep as one might expect given the cyclical strength of the period, as was already suggested by the data presented in table 6.3. This implies that there may have been some long-run increase in the propensity for dislocation.

Table 6.4 Three-year dislocation rates by age and education, 1981–99 (percentages)^a

| Year | All | Age 20–29 | Age 50–64 | College degree | High school diploma | Unemployment rate |
|---------|------|-----------|-----------|----------------|---------------------|-------------------|
| 1981–83 | 12.8 | 15.9 | 10.0 | 6.9 | 14.3 | 9.0 |
| 1983–85 | 10.3 | 11.8 | 8.6 | 5.9 | 11.5 | 8.1 |
| 1985–87 | 9.5 | 10.4 | 8.2 | 5.9 | 10.4 | 6.8 |
| 1987–89 | 8.5 | 9.4 | 7.1 | 5.4 | 9.4 | 5.7 |
| 1989–91 | 11.8 | 13.7 | 10.4 | 8.2 | 12.9 | 5.9 |
| 1991–93 | 10.9 | 11.9 | 10.6 | 7.9 | 11.8 | 7.1 |
| 1993–95 | 11.5 | 14.0 | 9.7 | 8.4 | 12.2 | 6.2 |
| 1995–97 | 9.1 | 10.4 | 8.4 | 6.9 | 9.6 | 5.3 |
| 1997–99 | 8.6 | 9.7 | 8.0 | 6.7 | 9.0 | 4.6 |

^a The dislocation rates are the fraction of the labour force which experienced dislocation over the relevant three-year period.

Source: Farber, 2001.

Several other interesting patterns appear in these data. As would be expected, young people are dislocated at a higher rate than are older workers. However, by the end of the period the gap has shrunk, and this carries with it at least some hint that dislocation is more linked to restructuring than in the past. Similarly, while college-educated employees continue to enjoy an advantage relative to those with only a high school education, those gaps have also narrowed, again implying some degree of restructuring.

What are the consequences of dislocation? Do people who lose their jobs readily find comparable employment, or are there substantial costs? The data suggest that the costs of dislocation are substantial, although they have been reduced (but not eliminated) in the expansion of the 1990s (Farber, 2001, and Osterman, 1999). On average about 35 per cent of those dislocated are not employed at the time of the survey. Of those who do find jobs, more hold part-time work at the time of the survey (15.8 per cent) than they did when they were last employed (11.5 per cent). The average earning loss experienced by those who do find work is 12.6 per cent. These costs are lower for college-educated than for other people, but the adverse earnings consequences are higher for people with substantial job tenure who are laid off. Although the probability of being re-employed does increase with time since dislocation, the earnings penalties are not reduced and hence there is a substantial long-term cost associated with dislocation. Finally, as noted, in the current expansion the costs of dislocation have been reduced, but by no means eliminated.

In short, the bottom line with respect to the dislocation data is essentially the same as with respect to the tenure data. Dislocation rates are somewhat higher than would be expected purely on cyclical grounds, and this does imply that there has been a structural shift in the labour market away from long-term attachment to employers. On the other hand, dislocation has declined and there is no evidence in the data that everyone in the labour market has become a free agent. Finally, the fact that there are usually substantial costs associated with dislocation implies that the institutions and behaviours in the job market are not well designed to accommodate a pure “stock-exchange” style market.

A summary measure of labour market transitions over time

The overall extent of labour market transitions is influenced by lay-off rates and by quits. One way of measuring how much movement occurs in the labour market, and to what extent this movement has increased, decreased, or stayed the same, is to employ the so-called “outgoing rotation groups” from the CPS. These are subsets of people from the survey who are re-interviewed one year later. Houseman and Polivka (1999) have provided transition data for two periods, 1986–87 and 1995–96. These are not full transition matrices, because they only examine the situation of people who were employed at the time of the initial survey (that is, they do not look at the subsequent status of people who were unemployed or out of the labour market). However, they are very useful

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Table 6.5 One-year labour market transitions of employed persons (percentages)

| | Employed, same employer | Employed, different employer | Unemployed | Not in labour force |
|---------|-------------------------|------------------------------|------------|---------------------|
| 1986–87 | 78.6 | 10.3 | 3.3 | 7.5 |
| 1995–96 | 78.0 | 11.3 | 2.9 | 7.6 |

Source: Houseman and Polivka, 1999.

for getting a sense of the flows in the job market. The data are presented in table 6.5.

These data reflect a slightly improved job market over the period (in that the fraction employed after one year rises slightly). More interestingly, the data provide a good sense of the extent of job movement. After one year just over three-quarters of employees remain with the same firm, about 10 per cent have changed firms, and slightly over 10 per cent are not working. Whether this indicates substantial or modest movement lies, of course, in the eyes of the beholder, and depends on comparisons with other standards (for example, what comparable figures might be in other countries). It is also worth noting that while the period witnessed a rise in the fraction remaining employed, it also witnessed a rise in the fraction changing employers. This is consistent with the data on declining job tenure.

Supply-side flexibility

As already noted, shifts in job tenure can be caused by actions either on the part of firms or on the part of employees. In this section, we provide some data on employee-driven mobility.

The most natural measure in this regard is quits. We would like to know both the level of the quit rate and its trend over time. Unfortunately, these data are not collected (the quit series was eliminated as a result of federal budget cuts in the 1980s). The best that can be done is to examine what fraction of the unemployed arrived at that status by quitting their job. These data are presented below for three

Table 6.6 Quits as a fraction of total unemployment due to quits and lay-offs, various years (percentages)

| | 1989 | 1992 | 1999 |
|--------------------|------|------|------|
| Quits | 25.5 | 17.4 | 22.9 |
| Temporary lay-offs | 21.2 | 22.9 | 24.8 |
| Permanent lay-offs | 53.2 | 59.5 | 52.1 |

Source: Employment and Earnings, CPS.

Table 6.7 Percentage of persons moving, March 1998–March 1999, by labour market status

| | Moved between states | Moved between regions |
|----------------------------------|----------------------|-----------------------|
| <i>Employed (age in years)</i> | | |
| 25–64 | 2.50 | 1.00 |
| 24–44 | 3.30 | 1.30 |
| <i>Unemployed (age in years)</i> | | |
| 25–64 | 5.40 | 2.60 |
| 25–44 | 6.10 | 2.95 |

Source: Geographic Mobility (2000), Current Population Reports, pp. 20–531, Bureau of the Census.

dates: 1989, which was the last business cycle peak; 1992, when the unemployment rate was at its highest point for the past decade; and 1999. Table 6.6 shows how quits compare to lay-offs as a cause of unemployment. New entrants and re-entrants to the labour market are not considered.

It is no surprise that these data show a cyclical trend, with quits declining in bad times (in 1992 the unemployment rate was 7.0 per cent, compared with 5.4 per cent in 1989 and 4.3 per cent in 1999). It is also notable, however, that quits continue to represent a smaller fraction of unemployment in 1999 compared with 1989, despite the economic upturn, which implies greater caution on the part of the workforce.

A second form of employee flexibility is geographic mobility. Migration is a complex process, which is linked to a variety of factors, many of which have little to do with the labour market. Nonetheless, a common image of the United States labour market is that, in contrast to many European countries, Americans are willing to move in search of better jobs. How much geographic mobility is there?

Table 6.7 provides data on geographic mobility between March 1998 and March 1999 for people of different age groups and labour market status (Bureau of the Census, 2000). A move between states in most instances would seem to imply a new job, but need not necessarily. A move between regions represents a substantial distance, and most likely involves a new employment situation (although intra-firm transfers are certainly possible). Whether these data represent substantial or modest mobility depends on what one expects to find.

6.3 THE BEHAVIOUR OF FIRMS

The previous sections have focused on patterns as revealed in national data sets. We now turn to an examination of what is known about the human resource practices of firms. We begin with a discussion of the evolution of ideas and attitudes within firms regarding business and human resource strategy. We then

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turn to a discussion of lay-offs and the use of contingent employment. Finally, we discuss legal restrictions on lay-offs by employers.

Changes in the conception and organization of the firm

To an important extent, what drives changes in the pattern of attachment between employees and employers are shifts in the structure and business strategy of enterprises. Three major developments are significant. These are shifts in the understanding of in whose interest the firm acts, shifts in what is seen as best practice regarding what activities the firm should engage in and in its relationship to suppliers, and changes in ideas about organizational form and what types of work organization represent the most efficient and productive techniques of production. The first two of these point to weaker attachments between employers and employees, while the last can imply a strengthening of ties. As a result, the net effect of these is – at least theoretically – unclear.

Broadly speaking, it is possible to distinguish between a stockholder and a stakeholder view of the goals of the firm. It seems clear that the pro-stockholder perspective is currently triumphant. In the academic literature the implicit assumption, deriving from microeconomics, has always been that economic efficiency is maximized when firms maximize profits, and – since the owners of these profits are the owners of shares – that firms should maximize the wealth of their stockholders. This perspective has been given greater credibility and a more sophisticated defence with the emergence of the so-called “finance view” of the firm, where the firm is nothing more than a “nexus of contacts” or a collection of financial assets. The problem is how to maximize the return on these assets. This requires a market for corporate control which permits the buying and selling of these assets, and hence applies the discipline of market forces to those who manage them. This discipline is effective because the stock price will fall if the assets are mismanaged, inviting takeover by those who will do a better management job and hence raise the stock price.

In the 1980s, this finance view rationalized the surge in takeovers, supported in part by financial innovations such as junk bonds. In his presidential address to the American Finance Association, Michael Jensen argued that we are living through a new industrial revolution caused by vast technological and organizational changes (Jensen, 1993). Along with globalization, these changes have created excess capacity in many mature industries, and this in turn requires cutbacks in many firms in order to free up capital for more productive uses. He goes on to comment: “While the corporate control activity of the 1980s has been widely criticized as counterproductive to American industry, few have recognized that many of these transactions were necessary to accomplish exit over the objections of current managers and other constituencies of the firm such as employees and communities” (Jensen, 1993, p. 851).

While incumbent managers may have erected some defences, the trend remains in the direction of greater attention to the financial health of stockowners. Although

hostile takeovers may be more difficult, mergers and acquisitions have increased to record levels after a period of decline in the late 1980s and early 1990s. Institutional investors, such as pension funds and mutual funds, have become increasingly active in prodding firms to take actions to raise the stock price (Useem, 1966). Boards of directors are under pressure to become more assertive in monitoring the actions of managers. The dominating rhetoric of executives is shareholder value. When Kodak announced that it was increasing its planned lay-offs from 10,000 to 16,000 people, a spokesperson explained the change by referring to Wall Street dissatisfaction with the previously announced lower number, and commented that "You cannot ignore important constituencies like shareholders."⁸

The finance view stands in contrast with the traditional conception of the American firm in which the wide dispersion of ownership gave professional managers a great deal of leeway in how they ran their business. Although these managers, and their defenders, never overtly questioned the assumption that ultimately they were managing in the interest of stockholders, in fact there is some reason to doubt that this was the case. While from the perspective of finance theorists the managers may have engaged in empire building or activities even more wasteful, they also had an implicit stakeholder view of the firm. They hence made decisions (increasing wages when profits were high, being reluctant to lay off workers except under duress) that were sometimes shaded towards the interests of employees and away from the immediate interests of stockholders. The managerial firm may not be dead, but it is under intense pressure, and hence the debate over the legitimate objectives of the firm has been more directly engaged.

This view of the firm is reinforced by a perception that the attitude of the firm towards its workforce has changed. Perhaps the strongest impression held by observers critical of the current scene is that today, unlike in the past, healthy companies are laying off employees. Obviously lay-offs per se are nothing new: the issue is whether previously they reflected economic distress, whereas today, with the inhibition against firing members of the "family" weakened, firms discharge large numbers of employees even when times are good. This impression is reinforced by headlines such as "Earnings up, workers down", which referred to an MCI lay-off,⁹ and by statements such as the following in the *Wall Street Journal* by Edwin Artz, Chairman of Proctor and Gamble: "We must slim down to stay competitive. The consumer wants better value. Our competitors are getting leaner and quicker, and we are simply going to have to run faster to stay ahead. The public has come to think of corporate restructuring as a sign of trouble, but this is definitely not our situation." In the same article, a spokesperson for Xerox commented, "I know it can sound very heartless when you're making these

⁸ *New York Times*, 19 Dec. 1997, C4.

⁹ *New York Times*, 6 Aug. 1995, F2.

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decisions when individuals' careers are affected, especially when you are making money. But I think it's a new reality."¹⁰

Is this reality really new? A natural test is to compare lay-offs in the current period with those in the past and see if the underlying reasons have shifted. The question is not whether lay-offs have become more frequent, but rather whether the reasons for lay-offs have changed. In a comparison of reasons for lay-offs in the 1970s with the 1990s, analysing announcements in the *Wall Street Journal*, Osterman (1999) found that in the 1990s a greater proportion of lay-offs were due to restructuring as opposed to poor operating results. In a similar vein, Farber and Hallock (1999) found that stock market response to lay-off announcements was more positive in the 1990s than in earlier periods.

The second major development concerns how firms strategize about what activities they choose to engage in. The current dominant viewpoint is that firms should limit their activities to their "core competencies", that is to the activities in which they have a special competitive advantage. This has led to a sharp increase in outsourcing, and in partnership or cooperative arrangements among firms. It has also meant that the firm is constantly rethinking and recalculating what is inside its boundaries and what is on the outside.

An example of this reconstructed corporation is Cisco Systems, the leading supplier of Internet routing computers. Cisco owns only two of the 34 plants which produce its products.¹¹ It does not follow, however, that this tendency towards outsourcing inevitably leads to less stable careers. While companies such as Cisco outsource their production, it is increasingly the case that the recipients of these contracts are large stable firms such as Selectron and Flextronics, and that these firms, which carry out the production for many companies, may themselves provide stable jobs. Flextronics, for example, is an 8-billion-dollar firm with 55,000 employees.¹²

The third development concerns new ideas regarding how work is accomplished within the organization. There are two important strands here. The first is restructuring, or what was termed re-engineering. This typically involves a reduction in organizational layers and increased use of information technology to manage the work. The second strand is at the work-group level, and involves the adoption of so-called "high-performance work organizations".

The classic exposition of re-engineering is Hammer and Champy's *Re-engineering the corporation* (1993). The emphasis is on using information technology to obtain substantial cost savings via improvements in business processes, such as order processing, inventory management, supplier relations, and the like. Business success comes from these savings, not from "soft" concepts like culture or employee-oriented values, and the savings in turn come in part from the downsizing which the new processes permit. Champy commented that "to prevent

¹⁰ *Wall Street Journal*, 4 May 1995, p. 1.

¹¹ *Business Week*, 28 Aug. 2000, p. 94.

¹² *Ibid.*, p. 178.

or discourage companies from undertaking lay-offs would ask them to be non-competitive and potentially go out of business. It could mean not just fewer jobs but no jobs.”¹³ Writing in the *Wall Street Journal*, Hammer defended large-scale downsizing as resulting from process improvements that are driven by customer demands.¹⁴ Whether these authors are right or wrong is not the point here. Rather, the point is the dramatic change in popular managerial rhetoric.

Developments with respect to work organization, however, are moving in the opposite direction. One of the most important ways in which American firms responded in the 1980s and early 1990s to competitive challenges was by adopting a set of work practices which came to be termed “high-performance work systems”. This vocabulary is most commonly applied to blue-collar work, but many of the innovations are equally applicable in other settings.

In the traditional system, the workplace was organized around tight divisions of labour and narrowly designed specialized jobs. Decision-making was in the hands of supervisors, who decided how the jobs were to be performed, how work was scheduled, and how workers were judged. This traditional system has increasingly been seen as failing to meet the needs of firms and employees. The sources of failure are several. The efforts by firms to improve quality and to better meet customer needs require a reorganization of production which puts more power in the hands of employees further down the organizational hierarchy. This tendency is given further impetus by efforts to cut costs which themselves lead to elimination of bureaucratic layers and give greater responsibility at lower levels. These shifts imply that job definitions need to be flexible and that employees receive greater levels of discretion.

At the core of the new systems are changes in how employees do their job. Perhaps the most typical innovation is the introduction of work teams. These teams are led by a management employee, in many instances, but that person’s role has changed to one of a “coach” or “facilitator”; in other instances, the teams are self-directed. In both cases, the idea of the teams is that the employees take responsibility for a group of tasks, that there is a sense of responsibility for the team’s product, that the workers are broadly skilled, and that there is an element of job rotation.

In many “transformed” firms, employees are involved in aspects other than direct work activities. The most common example is problem-solving groups in which employees work in team that often consist of a cross-section of employees, and hence to some extent obviate traditional managerial/non-managerial distinctions. These groups address problems such as production techniques, quality issues, and health and safety. At their extreme, the groups can take up topics which in the past have been seen as clearly “managerial”, for instance outsourcing and supplier policy.

¹³ *New York Times*, 7 Jan. 1996, E19.

¹⁴ *Wall Street Journal*, 22 Jan. 1996, A12.

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Table 6.8 Percentage of establishments with high-performance work practices involving at least half of core employees, 1992 and 1997

| | 1992 | 1997 |
|---|------|------|
| Quality circles/off-line problem-solving groups | 27.4 | 57.4 |
| Job rotation | 26.6 | 55.5 |
| Self-managed work teams | 40.5 | 38.4 |
| Total quality management | 24.5 | 57.2 |
| Two or more high-performance work practices | 26.0 | 70.7 |
| Three or more high-performance work practices | 14.2 | 39.5 |

Source: Osterman, 2000.

Table 6.8 shows the percentage of establishments which in 1997 engaged in four types of high-performance work practices with at least a 50 per cent level of penetration (that is, at least half of the “core” employees were involved). To provide a sense of how quickly these systems have spread, the table includes comparable data for 1992. As is apparent, the diffusion of these practices is quite extensive, and this implies that firms will wish to maintain a commitment to those workers involved.

The impact of the spread of these new work systems upon employment stability is a complicated topic. On the one hand, these systems are often associated with restructuring as well as with substantial efficiencies in production. One might therefore expect that firms might increase their lay-off rates, at least temporarily, upon the introduction of new forms of work organization. On the other hand, once in place these systems are also associated with higher levels of employee satisfaction and higher rates of training investment by employers (Osterman, 1999 and 2000). Taken together these should reduce turnover.

The research evidence on these issues is mixed, but it is broadly consistent with the arguments in the previous paragraph. Osterman (2000), using a nationally representative survey of establishments, found that employers that had the new work systems in place in 1992 had a higher rate of lay-offs between 1992 and 1997 than did those which did not. On the other hand, Rosemary Batt, in research alone and with Alexander Colvin and Jeffery Keefe, studied the relationship of new work practices and quit rates in the telecommunications industry (Batt, 2002; Batt, Colvin and Keefe, 2000). Using a representative sample of telecommunications establishments, they found that quit rates (voluntary turnover) were lower in those workplaces that had introduced self-managed work teams and off-line problem-solving groups (quality circles). On balance, it seems likely that the effects found by Osterman are transitory, while those found in the telecommunications research are more long-lasting; but at this point the argument needs to be made tentatively.

The rise of contingent work

The reason for the heightened interest in contingent work is twofold. First, the employment circumstances of contingent workers support the broader idea that the nature of work is changing and that ties between firms and workers are loosening. Second, their numbers have grown considerably in recent years. This impression of growth is driven by a variety of industry statistics. For example, between 1991 and 1996 the fastest growing industry group was that of personnel supply services, which encompass both temporary staffing and permanent employment agencies (Scott, Frantzen and Mehl, 1997). In the years 1994 to 1996, the revenue growth of publicly traded staffing firms averaged an annual increase of 24.5 per cent. Another indicator is that in 1996, 34 of *Inc. Magazine's* list of the 500 fastest growing private companies were staffing firms. Census data show that fully 22 per cent of the net new jobs created between 1988 and 1996 were in business services and in engineering or management services, the two sectors which supply contract and contingent labour (Clinton, 1997). From 1979 to 1995, the temporary staffing industry grew at a rate of 11.2 per cent per year in the United States, five times the country's rate for total non-farm employment (Autor, 2000).

In recent years, the industry has matured and become more central to a wider range of employer activities. Increasingly, temporary staffing agencies take responsibility for an entire work function, such as call centres handling customer relations. Illustrative of this trend is an agreement between Manpower Inc. and Ameritech. They plan to jointly seek call-centre business, with Manpower supplying the people and Ameritech providing the technology. Call-centre outsourcing is growing at a rate of between 20 and 40 per cent per year and, according to one source, all types of vendor-on-premise (VOP) agreements¹⁵ grew from 2 per cent of total temporary staffing agency revenues in 1992 to 11 per cent in 1996.¹⁶

Another innovation of growing importance are national contracts in which a large employer with branches across the nation signs a master VOP agreement with one agency, such as Manpower, Olsten, or Kelly Services, to provide temporary workers in all locations. Examples of these accounts are agreements between Manpower Inc. and EDS and Hewlett-Packard, Olsten with Lexmark and Chase Manhattan, and Kelly Services with Johnson & Johnson. These agreements also underwrite another emerging tendency in the industry: the development of subcontractor networks and supplier tiers within the temporary staffing industry. Increasingly, large temporary staffing agencies are establishing subcontracting relationships with local agencies to provide employees with specialized skills when the larger firm cannot meet the demand.

A further striking characteristic of contingent work is its penetration into a wide range of occupational categories. The old image of temporary work as office work is no longer accurate. Table 6.9, which is taken from a leading industry

¹⁵ Vendor-on-premise agreements concern the on-site coordination of a customer's temporary staffing through an exclusive, long-term relationship with a temporary staffing company, which may then subcontract.

¹⁶ *Staffing Industry Reports*, 12 Jan. 1997.

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Table 6.9 Revenue by sector in staffing industry, 1996 (in billions of dollars)

| Sector | Revenue (billions of dollars) |
|--------------------|-------------------------------|
| Medical | 4.0 |
| Professional | 4.8 |
| Technical/computer | 11.4 |
| Office/clerical | 13.7 |
| Industrial | 11.2 |

Source: *Staffing Industry Reports*, 1997.

publication, provides a good sense of this diversity. Industrial work is essentially as important as clerical/office work, and there is a strong representation in relatively higher skill areas.

The data discussed in this section suggest that contingent work has increased substantially over the last 20 years. However, data of this sort are not very useful for informing precisely how many such workers there are or whether the growth rate is accelerating. This is because many of the data are based on impressionistic reports or unrepresentative and narrow sampling of the workforce, and also because the impressive percentage gains may still translate into small numbers. There are, however, other and better sources for estimating how widespread is the use of contingent employees. One such source is the CPS, which in 1995, 1997 and 1999 asked employed people about the nature of their work.

Because there is no generally accepted definition of contingent or temporary employment, the Bureau of Labor Statistics presents the CPS data using several alternative definitions. A basic distinction which the BLS makes is between contingent workers and workers in “alternative arrangements”. Broadly speaking, contingent workers are those who feel that their jobs are insecure. They may be working in a range of circumstances, from temporary staffing agencies to very traditional settings. Workers in “alternative arrangements” are those who are not employed in what we would term “standard” circumstances. The definitions of both categories of worker are described in box 6.1.

It is possible to be in an “alternative” arrangement and not be contingent. Consider temporary staffing agency workers, the group which seems the most “flexible”. Of those who work in temporary staffing agencies, 24.2 per cent are contingent according to definition 1, while this figure rises to 36.1 per cent for definition 2, and 55.9 per cent for definition 3. Hence, many are non-contingent. Tables 6.10 and 6.11 provide data on the fraction of the labour force in these various categories.

What is striking about these data is that there are relatively low percentages of the labour force engaged in atypical work (with the exception of independent contractors, a group which is generally satisfied with their situation), and these percentages fail to rise very much over time. To some extent, the low percentages

Box 6.1 Atypical workers: BLS definitions

Contingent workers

Contingent workers are those who do not have an implicit or explicit contract for ongoing employment. People who do not expect to continue in their jobs for personal reasons (such as retirement or returning to education) are not considered contingent workers, provided that they would have the option of continuing in the job were it not for these reasons.

Definition 1

Wage and salary workers who expect their jobs to last for an additional year or less and who have worked at their jobs for one year or less.

Self-employed workers and independent contractors are excluded from the estimate. For temporary agency and contract workers, contingency is based on the expected duration and tenure of their employment with the temporary staffing or contract firm, not with the specific client to whom they were assigned.

Definition 2

Workers, including the self-employed and independent contractors, who expect their employment to last for an additional year or less and who have worked at their jobs (or been self-employed) for one year or less.

For temporary agency and contract workers, contingency is determined on the basis of the expected duration and tenure with the client to whom they are assigned, rather than their tenure with the temporary staffing agency or contract firm.

Definition 3

Workers who do not expect their jobs to last.

Waged and salaried workers are included even if they have already held their job for more than one year and expect to continue in it for at least an additional year. The self-employed and independent contractors are included if they expect their employment to last for an additional year or less and they have been self-employed or independent contractors for one year or less.

Alternative arrangements

Independent contractors

Workers identified as independent contractors, independent consultants or freelance workers, whether they are self-employed, waged or salaried workers.

On-call workers

Workers who are called to work only as needed, although they can be scheduled to work for several days or weeks in a row.

Temporary staffing agency workers

Workers paid by a temporary staffing agency, whether or not their job is temporary.

Workers provided by contract firms

Workers who are employed by a company that provides them or their services to others under contract, and who are usually assigned to only one customer and normally work at the customer's worksite.

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Table 6.10 Trends in contingent employment (percentage of the labour force)

| | 1995 | 1997 | 1999 |
|--------------|------|------|------|
| Definition 1 | 2.2 | 1.9 | 1.9 |
| Definition 3 | 4.9 | 4.4 | 4.3 |

Source: Current Population Survey, Bureau of Labor Statistics.

are deceptive because of churning: contingent jobs are of short duration and hence the flow numbers would look larger than the stock numbers. In the 1997 Survey of Establishments we found that the bulk of temporary employees are associated with the establishment for short durations (Osterman, 1999). A total of 62.9 per cent of establishments said the typical length of temporary employment was less than six months, while 24.6 per cent said it was between six months and a year. By contrast, as would be expected, on-call workers had a longer attachment: 28.7 per cent of establishments said the typical duration was less than six months, 39.0 per cent said it was between six months and a year, 25.3 per cent said it was between a year and five years, while 6.8 per cent said it was greater than five years. Nonetheless, according to the CPS figures, the size of the contingent labour force is not as large as the volume of commentary would lead one to expect.

In addition to the CPS, however, there is another source of data which suggests larger numbers. This is the Current Employment Statistics (CES) series, which is generated by surveys of establishments (as opposed to the CPS, which is a survey of individuals). The CES collects data on employment by industry, including the personnel supply services industry. For reasons that are not well understood, the CES shows employment levels well above those of the CPS. The CES data are shown in table 6.12. It is still worth noting, however, that even the CES shows that under 3 per cent of the labour force is employed in temporary staffing firms. However, these data do show impressively rapid growth rates.

Tables 6.13 and 6.14 provide some data comparing employees who are in non-standard (atypical) work with the rest of the labour force. As a generalization, it is clear that non-standard workers are somewhat younger, more of them are

Table 6.11 Trends in alternative work arrangements (percentage of the labour force)

| | 1995 | 1997 | 1999 |
|-------------------------------------|------|------|------|
| Independent contractors | 6.7 | 6.7 | 6.3 |
| On-call workers | 1.6 | 1.6 | 1.5 |
| Temporary staffing agency employees | 1.0 | 1.0 | 0.9 |
| Contract workers | 0.5 | 0.6 | 0.6 |

Source: Current Population Survey, Bureau of Labor Statistics.

Table 6.12 Employment in personnel supply services

| | Number employed | As percentage of total employment |
|------|-----------------|-----------------------------------|
| 1979 | 507 800 | 0.5 |
| 1989 | 1 454 500 | 1.3 |
| 1999 | 3 600 000 | 2.7 |

Source: Current Employment Statistics.

female, and they have a lower level of education than other categories of worker. However, it is also clear that non-standard work is distributed across the educational and occupational spectrum.

In an analysis of the 1995 CPS on non-traditional work, Houseman and Polivka (1999) examine the implications of contingent work for employment stability. By combining the survey of contingent workers with the outgoing rotation groups of the CPS, they are able to compare the labour market status of contingent workers

Table 6.13 Characteristics of contingent workers (definition 2) compared with non-contingent workers (percentages)

| | Contingent (definition 2) | Non-contingent workers |
|-------------------------------------|---------------------------|------------------------|
| Female | 53.4 | 46.5 |
| Under 25 years old | 19.5 | 7.1 |
| Part-time | 48.0 | 17.0 |
| No high school diploma | 12.6 | 9.1 |
| High school diploma | 28.5 | 31.4 |
| Some college | 26.5 | 28.5 |
| College degree | 32.4 | 31.0 |
| Executive/administrator/manager | 4.9 | 15.1 |
| Professional specialty | 18.2 | 15.4 |
| Administrative support and clerical | 20.6 | 14.0 |
| Blue collar | 22.6 | 24.5 |
| Technician | 3.5 | 3.2 |
| Sales | 8.8 | 12.3 |
| Service | 18.2 | 13.4 |
| Prefer non-contingent | 53.4 | n.a. |
| Prefer contingent | 39.8 | n.a. |
| Preference depends | 4.5 | n.a. |

n.a. = not available.

Source: Bureau of Labor Statistics.

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Table 6.14 Characteristics of non-standard workers compared with traditional employees (percentages)

| | Independent contractor | On-call worker | Temporary staffing agency | Contract firm worker | Traditional employee |
|-------------------------------------|------------------------|----------------|---------------------------|----------------------|----------------------|
| Female | 33.8 | 51.2 | 57.8 | 29.5 | 47.0 |
| Under 25 years old | 4.0 | 17.7 | 26.7 | 16.1 | 15.1 |
| Part-time | 24.9 | 50.7 | 21.5 | 13.2 | 17.1 |
| No high school diploma | 7.5 | 13.4 | 14.6 | 6.4 | 9.2 |
| High school diploma | 27.9 | 20.2 | 31.8 | 13.9 | 25.8 |
| Some college | 11.4 | 7.1 | 26.2 | 23.9 | 13.9 |
| College degree | 34.3 | 27.9 | 21.2 | 38.9 | 31.1 |
| Executive/administrator/manager | 20.5 | 5.3 | 4.3 | 12.0 | 14.6 |
| Professional specialty | 18.5 | 24.3 | 6.8 | 28.8 | 15.5 |
| Administrative support and clerical | 3.4 | 8.2 | 36.1 | 3.4 | 15.0 |
| Blue collar | 25.9 | 26.1 | 37.9 | 26.7 | 24.1 |
| Technician | 1.1 | 4.1 | 4.1 | 6.7 | 3.3 |
| Sales | 17.3 | 5.7 | 1.8 | 1.5 | 12.0 |
| Service | 8.8 | 23.5 | 8.1 | 18.8 | 13.7 |
| Prefer traditional | 8.5 | 46.7 | 57.0 | n.a. | n.a. |
| Prefer alternative | 83.5 | 44.7 | 33.1 | n.a. | n.a. |
| Preference depends | 5.2 | 4.8 | 5.3 | n.a. | n.a. |

n.a. = not available.

Source: Bureau of Labor Statistics.

with that of regular employees one year after that survey. Table 6.15 reproduces some of their results.

It is clear that the patterns for the various categories of contingent workers are quite different from those of regular full-time employees. The former are less likely to be employed, more likely to be unemployed or out of the labour force, and more likely to report wanting to be in the labour force. These patterns remain in more sophisticated analysis that controls for the personal characteristics of the people holding the different jobs, which implies that the patterns are the consequence of the nature of the job and not the nature of the person. Furthermore, these patterns do not appear simply to be the result of a higher propensity to quit. Houseman and Polivka report that about 80 per cent of the unemployed regular workers said that they had experienced job loss (lay-offs), and that this figure was equal or higher for all the categories of unemployed contingent worker.

Given that contingent employment is associated with less employment stability, it would be interesting to know to what extent the growth in contingent work is

Table 6.15 One-year labour market transitions of contingent and regular employees (percentages)

| Situation in February 1995 | Situation in February 1996 | | | | |
|----------------------------|--|----------------------------------|------------|-------------------------|--------------------------------|
| | Employed with same or different employer | Employed with different employer | Unemployed | Out of the labour force | Want to be in the labour force |
| Agency temporary worker | 81.0 | 51.5 | 12.3 | 6.7 | 1.6 |
| On-call worker | 73.4 | 21.4 | 10.7 | 15.9 | 3.4 |
| Direct-hire temporary | 76.8 | 24.4 | 6.2 | 17.1 | 2.8 |
| Independent contractor | 90.6 | 8.6 | 1.4 | 7.9 | 1.2 |
| Contract worker | 82.1 | 21.9 | 6.2 | 11.7 | 7.7 |
| Regular part-time | 77.3 | 18.5 | 4.5 | 18.3 | 2.7 |
| Regular full-time | 93.3 | 10.1 | 2.4 | 4.2 | 0.8 |

Source: Houseman and Polivka, 1999.

responsible for the overall decline in job tenure in the labour market. Houseman and Polivka use the CPS outgoing rotation groups to compare the period 1986–87 with 1995–96. The only long time series on contingent work is for agency temporaries, whose importance grew considerably between the 1980s and the 1990s. Houseman and Polivka estimate that the growth in agency temporaries accounted for about half of the growth in employer switching over the period.

The legal constraints under which firms operate

The traditional view of the American labour market is that firms face very few constraints on their ability to lay off employees. With respect to individual employees, the long-standing legal doctrine has been employment-at-will, which holds that employers may abrogate the employment relationship at any time they choose. With respect to large-scale lay-offs, unlike many European nations the United States does not require firms to negotiate a social plan, either with a union or with the Government, prior to dismissals.¹⁷ The closest the United States comes to these restrictions is legislation requiring advance notification of some large-scale lay-offs. While it does not appear that this requirement has increased the rate of notification in the United States, there is, on the other hand, some Canadian evidence that when notification is provided new employment is found more quickly (Addison and Blackburn, 1994; Friesen, 1997).

¹⁷ For a review and comparison of employment protection across Europe and the United States, see Bertola et al., 1999.

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This is a rather crude characterization of the American labour market. The reality is much more complicated and there are, in fact, important restrictions on the ability of firms to dismiss employees. While it is true that ultimately firms may lay off as many people as they choose, it is also true that there are impediments to getting to this point which can slow down the process. In addition, firms are not always able to dismiss the specific employees whom they might wish to discharge.

In firms which are unionized, contracts typically specify that lay-offs must occur in order of seniority. It is also the case that many of the larger contracts with powerful national unions prohibit lay-offs, or set numerical restrictions on their size, over the course of the contract. This, for example, is a characteristic of recent automobile industry agreements. In these cases, adjustment must occur largely through attrition and retirement. Of course, as less than 10 per cent of the private sector workforce is unionized in the United States, restrictions of this kind are limited to a small segment of the workforce.

A second source of friction regarding lay-offs is the various laws which protect specific groups from employment discrimination. The laws include Title VII of the Civil Rights Act, 1964, the Age Discrimination in Employment Act, 1967, and the Americans With Disabilities Act, 1990. Each of these operates somewhat differently, and they vary in the extent of the constraints which are placed on employers. None of them enforces limitations of large-scale reductions. However, employers can be constrained with respect to individual dismissal (for example, if a member of a protected group is fired the employer might face legal action unless it can prove good cause), and even large-scale lay-offs can be held to a standard that ensures that there is not a disproportionate impact on protected groups.

Another limitation lies in the erosion of the fundamental doctrine of employment-at-will. Beginning in the 1960s, state courts began to find exceptions to this doctrine. By 1992, some 46 of the 50 states had limited employment-at-will: one of these via state legislation and the other 45 through the courts (Autor, 2000). These limitations included implied contracts (for example, if an employee handbook contained language which implied some continuity of employment), public interest (such as protection for whistle-blowers), and fair dealing (such as limitations on the ability of employers to lay people off just before the Christmas bonus). Court cases brought under these exceptions can be costly to employers. Although about 97 per cent of cases settle before trial, a study in California of cases that went to trial found that plaintiffs won 52 per cent of the time with a median award of US\$268,000 (Autor, 2000). Although there is no research which shows whether these cases reduce the overall volume of dismissals, Autor does find a relationship between state court adoption of these exceptions to employment-at-will and the growth of temporary agency employment.

6.4 PUBLIC POLICY

As noted in the introduction to this chapter, well-designed public policy can help improve the terms of any trade-off which might exist between flexibility and

security. In this section, we shall review several of the key potential relevant initiatives.

Unemployment insurance¹⁸

As turmoil in the labour market forces people to change jobs and induces higher levels of uncertainty and risk, one would expect that a central institution for alleviating some of this stress would be the unemployment insurance (UI) system. This is a programme which is literally intended to insure certain categories of employees against the risk of unemployment by paying them a benefit should they lose their job. It might be possible to imagine using the UI system as a buffer against lay-offs and as a part of a conscious effort to reduce the trade-off between security and flexibility. This, in fact, can function in some settings where supplementary UI (negotiated as part of the collective bargaining agreement) is combined with public UI. The problem with this as a general solution is that the coverage of the public system has been steadily falling. Today only roughly one-third of all unemployed people actually receive UI benefits and the fraction of the unemployed who are even eligible is well below half.¹⁹

There is, therefore, good reason to be concerned that in recent years the capacity of the system to perform its function has weakened. Partly, this is because the system has been cut back, as it has been subject to the same kind of attack as other transfer programmes, with questions raised about “perverse incentives” and “overly-generous” benefits. The deeper problem, however, is that the system was designed around an image of the labour market – a sole breadwinner who was at risk of experiencing temporary, not permanent, lay-offs – which is no longer descriptive of the labour market which confronts us today.

Unemployment insurance, like the Employment Service, was created in the 1930s during President Roosevelt’s New Deal and is a federal–state system. The system is funded by a payroll tax on employers which is experience-rated, in that firms with higher levels of lay-offs pay higher taxes. The federal Government collects these taxes and establishes minimum national regulations concerning procedures and benefits, acts as a funding source of last resort if states exhaust their UI funds in a downturn, and during recessions provides various forms of extended benefit programmes. Each state determines its own eligibility rules, benefit level and duration of benefit. In addition, the states administer the programme “on the ground”.

Since its founding, the coverage of the UI system has been steadily broadened. Today 90 per cent of all civilian jobs and nearly 100 per cent of all wage and

¹⁸ The material in this section draws heavily from the very useful book by O’Leary and Wandner (eds.), 1998.

¹⁹ About 43 per cent of the unemployed are eligible for unemployment benefits (McMurrer and Chasanov, 1995), and in 1996 only 36 per cent of the unemployed received their entitlement (Wandner and Stengle, 1997).

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salary jobs are covered (Bassi and McMurrer, 1998).²⁰ There is a case to be made for easing these restrictions, but the numbers of people involved (outside of the self-employed) are not great. The more complicated issue concerns which individuals among covered workers are eligible to receive benefits. At the core of this question are two central ideas which have been at the heart of the system since its founding. First, it is conceived of as an insurance system. Second, its major beneficiaries are intended to be employees who are in some sense “strongly attached” to the labour market.

Because UI is an insurance programme (as opposed to a benefits programme, which pays support to any unemployed person) there is considerable concern about moral hazard problems, or how to avoid people deliberately taking actions to make themselves eligible for benefits. This is equivalent to wanting to make sure that nobody crashes their car to collect insurance. For this reason self-employed workers are excluded, since it is very hard to know when they are truly “laid off”. More broadly, this concern explains why eligibility is limited to those who have lost their jobs. People who are entering or re-entering the labour market are not eligible, nor, with a few exceptions, are people who quit their jobs.²¹ Concerns about moral hazard also explain the UI work test: people collecting benefits must be engaged in job search and available to take a job were one to be offered. Exactly how this policy is implemented has been a central theme in debates about UI policy.

The issues of benefit generosity and duration of benefits are more straightforward. Standard measures of benefit levels suggest that UI payments replace about 36 per cent of wages lost during the benefit period. However, this measure is calculated by dividing the average UI payment by the average wage of all covered workers, and UI recipients have lower wages than the average covered worker. Estimates which take this fact into account suggest that the actual replacement rate may be in the order of 60 per cent for people who receive benefits (O’Leary and Rubin, 1998). In all but two states, people can receive benefits for a maximum of 26 weeks.²² In times of recession, the federal Government has provided, under a shifting set of programmatic arrangements, extended benefits.

There are two broad issues regarding scope and coverage. The first is the duration of benefits and the second is who is covered. At their root, both of these questions concern the responsiveness of the UI system to the changing structure of the labour market. When the programme was founded, the central image of the labour market was of a breadwinner (typically male) working full time to support a family. The notion that the programme is for “fully attached”

²⁰ The groups who are excluded are agricultural workers on “small farms” (although seven states have included them, among which California, Florida and Texas), household workers who earn less than US\$1,000 a quarter, employees of religious organizations and self-employed workers.

²¹ The exceptions have to do with what might be a “good cause”: for example, sexual harassment.

²² The states of Massachusetts and Washington permit a maximum of 30 weeks. An additional complication is that most states do not grant 26 possible weeks to all workers but rather vary the maximum according to the person’s work history.

workers has been built into eligibility requirements in the form of minimum earnings thresholds and minimum length of prior employment thresholds. These vary by state, but the tendency – driven both by budgetary issues and by political hostility to transfer programmes – has been to make it more difficult to be eligible. This is, of course, somewhat ironic, as the labour force looks increasingly less like the paradigmatic model which underlies the programme.

When UI is thought of as a response to short-term spells of temporary unemployment, the duration of benefits is unlikely to be a major issue, except in times of recession. However, as more and more people lose their jobs permanently, the situation of people who exhaust their benefits without finding new jobs becomes more worrying. Since the labour market is indeed shifting in the direction of more permanent job loss, duration of benefits becomes a more pressing issue. There has in fact been a long-term rise in the exhaustion rate, and today roughly 35 per cent of UI spells end in the exhaustion of benefits prior to the acquisition of a new job (Woodbury and Rubin, 1998).

The second major concern is that of who is eligible to receive UI in the first place. Individual eligibility for receiving UI has been restricted since the early 1980s, as a result of the general conservative reversal in social policy and the concern (parallel to the welfare discussion) that the programme was being abused. According to the Government Accounting Office, between 1981 and 1987, 44 states increased individual eligibility thresholds and/or made it easier to disqualify a person in the middle of a spell of benefits.²³ Today, the UI system is biased against part-time workers, low-wage workers, and people who move in and out of the labour force. These biases result from the structure of the minimum hours and earnings requirements that most states impose for eligibility. To get a sense of the consequences, Bassi and McMurrer (1998) estimate that while 93 per cent of full-time, full-year workers and 93 per cent of workers who earn more than US\$10 an hour meet eligibility requirements, only 42 per cent of part-time, part-year workers and 56 per cent of people who earn less than around the minimum wage do so.²⁴ The recent report of the Advisory Council on Unemployment Compensation made a number of recommendations aimed at expanding eligibility, basing it upon on hours worked over a base period (rather than on earnings) and setting the threshold at 800 hours per year. Bassi and McMurrer estimate that these changes could establish eligibility for about 15 per cent of all unemployed workers.

Active labour market policy

In the United States, UI is a passive labour market instrument. When policy-makers think of active policy, they quickly turn to education and training as the

²³ General Accounting Office, "Unemployment Insurance Program's ability to meet objectives jeopardized", Report HRD-93-107, 1993.

²⁴ These estimates are based upon the Survey of Income and Participation Program (SIPP) and refer to the years 1989-91.

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most likely tools. Policy analysts and politicians across the political spectrum share a tendency to view job training as an attractive solution to a variety of social problems. Training has broad appeal because it relies on the notion that outcomes are determined by the attainments and skills of individuals, and that labour markets will reward those who augment these capacities. The commonsensical quality of this idea explains the frequency with which policy-makers return to this strategy. The Clinton Administration invested heavily, both substantively and rhetorically, in proposing education and training as the appropriate response to economic dislocation, stagnating and increasingly unequal earnings, and youth unemployment. Over 30 years ago, the War on Poverty was largely based on training programmes delivered by numerous community-based organizations. Between these two endpoints, Republicans as well as Democrats have seen training as the most appropriate tool to improve labour market outcomes for those who need assistance, be they welfare recipients or defence workers thrown out of work by shifting national priorities.

In fact, skills are important, but training alone is not enough. The uneven record of the public employment and training system demonstrates that this is true. Although typically defensible in a cost-benefit sense, the impact of most programmes upon the labour market and upon the trajectory of people's lives has been limited (with the notable exception of community colleges). There are several reasons for this somewhat disappointing record, but the most important is that too often training programmes are isolated from employers and are not linked to clear paths of job mobility. Making these connections is the job of labour market intermediaries, some of whom operate in tandem with training programmes, while others stand alone.

In its simplest form, a labour market intermediary is an organization which makes a match between an employer with a job opening and a person who wants that job. The intermediary exists because it provides a service which is advantageous relative to people applying directly for jobs. There are several possible sources of this advantage. The most obvious is information. It is costly and difficult for the employer or the jobseeker to learn as much as might be useful about the labour market: what (or who) is available, what are going wages, and so forth. There are also economies of scale to information collection which an intermediary can capture. For many years, employers have used search firms for high-level jobs, and these search firms presumably exist for just this reason.

What is striking about the current period is that there appears to be an explosion of new intermediaries. Temporary help firms, with their "temp to perm" promises, are clearly one example. In Silicon Valley, the highly mobile upper-level workers rely on a web of interest groups, with names such as the Systems Administrators Guild, the Graphic Artists Guild or the Society for Technical Communications. These organizations may play a variety of roles, but helping their members find jobs is clearly one of the most important. Firms and other groups are increasingly using the Web to create job banks, and some employers, notably

AT&T with its Talent Alliance, have created new formal intermediary organizations.

Any serious effort to explore the role of intermediaries must begin with the largest intermediary in the nation, the US Employment Service (ES). The track record of this agency is at best mixed, but it is important to keep in mind that whatever its failures the ES represents a substantial investment of resources in intermediary activities. There are currently roughly 1,800 ES offices around the country that place about 1.5 million people in jobs (Balducci et al., 1998). The annual ES budget is over US\$1.5 billion (Jacobson, 1995).

The ES was founded during the New Deal to facilitate the movement of unemployed workers into public employment programmes. Two years later, it was linked to the new unemployment insurance programme and given the responsibility of administering the UI work test, which requires recipients to be available for employment. Like UI, the ES operates under a mixture of federal and state control, with the states retaining considerable authority over both administration and policy.

There have been ongoing struggles over the control of both the ES and its mission. The general theme is efforts by reformers to wrest policy control from what they perceive as rigid and unresponsive state bureaucracies, and efforts by defenders of the system to explain away its failure by arguing that the ES has been given too many incompatible roles to play and too few resources. At the root of these conflicts is the widespread perception that the ES does not perform well.

Although there have been no random assignment evaluations of the ES, it appears acceptable on a cost-benefit basis because very little impact is necessary to offset its low expenditure per registrant (about US\$80) (Balducci et al., 1998). Thus, for example, a study published by the Advisory Commission on Unemployment Compensation found that the ES reduced the duration of unemployment among those receiving UI payments by two weeks, a reduction adequate to justify the expense (Jacobson, 1995). This type of finding is similar to those for job clubs, which are fairly widely used in the employment and training system. They help people conduct their search more efficiently, reducing the period of unemployment by a few weeks, thus justifying their costs. However, in the longer term it is impossible to distinguish people who participated in job clubs from others with the same characteristics who did not.

The central fact is that the ES serves only the very bottom of the labour market, and does not even do this very well (Balducci et al., 1998; Jacobson, 1995). Only about 4 per cent of all registrants who eventually find jobs do so via the ES. Fully one-third of these jobs are temporary, lasting less than 150 days. What success the ES has is in a very limited range of the labour market. In one data set from the mid-1980s, the average male job placement paid US\$10,700 per year and the average female placement paid US\$8,700. As Jacobson (1995) notes, "what is clear is that certain types of employers rely heavily on the ES. Those firms generally employ workers of few specialized skills, are willing to accept high turnover, and therefore pay low wages."

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The ES is passive. It takes job orders if firms call them in, and it works with the clients who walk in the door. Even if the ES takes the next step of contacting employers, the nature of the contact is inherently superficial. There is no sense in which the ES and the firm are partners trying to accomplish something together. The next level of intermediary does in fact take this step and try to find ways to collaborate with employers. In doing so, these intermediaries stand a much better chance of accomplishing something on behalf of their clients. It is worth noting in passing that this kind of interaction is seen by the temporary help industry – the fastest growing intermediaries in the labour market – as their key marketing tool. When these temporary help agencies establish call centres or staff production lines for their clients, training their workers in firm-specific procedures, they are acting as customized intermediaries.

The public policy world offers a number of examples of intermediaries of this kind. Among the most important of these are community colleges, institutions which frequently combine training and intermediary services. Community colleges have emerged as America's premier training institution. In 1992, according to Norton Grubb (1996), they accounted for 37.8 per cent of all autumn enrolments in post-secondary education and 45.2 per cent of first-time enrolments. These are double the proportions of 30 years earlier. These schools have become overwhelmingly vocational, and they frequently work with local employers. A description of the North Carolina system by Batt and Osterman (1993, p. 37) gives a good flavour:

The North Carolina system [...] provides entry-level training through associate degree and non-degree programmes, further training for adults through continuing occupational education, and customized training to meet the needs of employers. The last category covers, among others, the New and Expanding Industry Program for firms which are locating in the state and the Focused Industry Training Program that targets training to small, in-state firms to make them more competitive.

In their most developed form, community colleges respond to employer needs by designing degree and certificate programmes which train for specific skills in demand. The evaluation evidence on community colleges is generally positive (Kane and Rouse, 1995), and it is clear that these institutions link employees with firms. It is true that there is considerable variation across community colleges in how broadly they see their mission, and how aggressive and effective they are in matching firms and workers (Grubb, 1996). Indeed, many employment and training professionals are frequently frustrated by what they perceive as the rigidity of community colleges and their slowness to respond to labour market needs. Nonetheless, there are sufficient success stories to warrant highlighting these institutions as a generally successful approach to intermediary services.

In some communities, an effort has been made to link training programmes, intermediaries, employees and firms in a network that enables these actors to work together in an effective way. One version is essentially an administrative reform strategy. The federal Government has encouraged bringing everything together in a "one-stop" career centre. These one-stop centres would serve as a clearing house

for both sides of the labour market and would be the gatekeepers for referrals to programmes and to firms. Skill standards (government- and industry-developed blueprints for what incumbents in various occupations need to know and be able to do if they are to be designated as belonging to a particular skilled category) play an important role in this vision, because they provide a benchmark against which various training programmes can be measured. In principle, the standards provide employers with the assurance that anyone hired with a given skill certification has indeed achieved a designated level of competency. Related to this are performance benchmarks or “consumer reports”, which enable both individuals and employers to judge the success of different training programmes. Taken as a whole, then, this strategy seeks to rationalize the training and intermediary systems with various administrative reforms that are heavily driven by information (and information technology).

These efforts are certainly reasonable, and attempts to build accountability into the employment and training system, in particular, are to be applauded. At the same time, it should be recognized that most efforts along these lines are “content free”, in the sense that they focus on improving the administrative structure of the system without paying very much attention to what the various components of the system actually do. The implicit assumption is that if the system is simplified, performance is information generated, and a market for training programmes is created (with the invisible hand residing in the one-stop centre), then the issue of content will work itself out. This may be true, but given the history of both training programmes and most intermediaries it is prudent to pay more attention to content.

The intuition behind this administrative reform strategy is that it is important to build networks that link the various actors in the local labour market. This intuition is shared by a different approach to local network building which is also attracting growing attention and which does have a vision of content at its core. In this view, the next step is to use training and intermediary programmes as the basis for building networks of firms, public programmes and sometimes unions, who work together to upgrade employers’ productive capacities and to provide mobility channels for the labour force. This mixture of labour market policy, technical assistance and cooperation among firms in solving common problems goes under a number of different titles, the most current of which is “sectoral employment programmes”.

A fully developed sectoral employment effort would bring together employers to discuss common technical, marketing and employment problems, and to find resources to solve them. It would engage these employers in designing common training programmes for their labour force, and would create a mechanism to enable people to move easily from one firm to another. In this way, a network of institutions would be created to structure the local labour market.

The individual pieces of these programmes are far more common throughout the country than might be realized and have been created under a variety of different auspices. In some instances, these networks are business driven, a good example being the efforts of the National Tooling and Machining Association

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(NTMA). In Western Massachusetts and in seven other communities around the country, the NTMA has organized small machine shops into a network which trains young entrants, provides further training for incumbent employees, shares information on technical issues and acts as an informal clearing house for jobseekers. The Western Massachusetts model, called the Western Massachusetts Precision Institute, trains about 100 new machinists and 200 incumbent employees a year, in addition to performing the other “networking” tasks listed above.

Similar networks have been created under union auspices. An example is the Garment Industry Development Corporation (GIDC) in New York, which is affiliated with the apparel union, the Union of Needletrades, Industrial and Textile Employees (UNITE). GIDC is a well-established operation that runs on-site training for operators throughout New York City’s large garment industry, provides training for employees dislocated from the industry, runs a marketing and technical assistance service for managers, and has established a job referral system called JOBNET.

Finally, networks can be created directly by public authorities. In 1994, according to one estimate, 27 states supported 140 networks (Flynn and Farrant, 1995). In addition, through the Federal NIST programme, located in the Department of Commerce, roughly 100 manufacturing extension service centres have been created. These efforts are heterogeneous, and a good many are purely engineering driven with few labour market components. Others, however, are broad ranging and share many of the characteristics of GIDC described above, for example. These programmes are also politically popular, as witnessed by the

Box 6.2 The Wisconsin Regional Training Partnership

The partnership consists of a consortium formed by manufacturers, unions and public-sector partners in the Milwaukee metropolitan area. The goal of the partnership is to support the creation of high performance workplaces and quality jobs in the region. About 40 employers from the metalworking, electronics, plastics, and other related industries currently participate, representing a significant share of the regional market. They employ roughly 40,000 workers, who are represented by industrial and craft unions. At the core of the partnership are a series of channels for active communication and planning between employers and unions, such as working groups focused on plant modernization, and peer advisor networks to share best practices. Most of the employers either have or will have an on-site training centre that provides continuous training and skill upgrading. A key component is the development of industry-specific skill standards by employers, unions, and technical colleges in the region. Such standards have been successfully implemented at the entry level, and certificates to improve skill portability across firms are planned. In addition, the partnership has embarked on two major initiatives to systematize access to entry-level jobs: a youth apprenticeship programme and a training programme for inner city residents.

Source: Bernhardt and Bailey, 1997.

ability of NIST to maintain the programme in the face of Congressional attacks after the 1994 mid-term elections, and this suggests that they are serving their constituency.

One well-developed example of how networks can operate is the Wisconsin Regional Training Partnership. Bernhardt and Bailey (1997) have provided a succinct description of this effort, which is based on material provided by the Center on Wisconsin Strategy, the organization behind the programme. This description is reproduced in box 6.2.

6.5 CONCLUSION

In this chapter, we have reviewed a wide range of evidence regarding flexibility and security in the United States labour market. This evidence has ranged from broad national surveys to more micro-level data on the behaviour of firms. Taken as a whole, the evidence does not offer any easy or simple answers. However, several conclusions can be drawn.

First, the United States is in no sense a “bourse” labour market or one in which most employees are free agents. Long-term employment relationships remain quite common. In addition, some developments within the firm, such as the adoption of high-performance work systems, point in the direction of continued incentives for the firm to maintain stable employment relationships.

Set against this, however, is substantial evidence that there have been shifts in the American labour market in the direction of a weaker attachment between firms and their employees. Job tenure has fallen and contingent employment has increased. Perhaps more important, but harder to measure, is that the ideology of managers has shifted in the direction of a vision of the firm which de-emphasizes the role of fixed assets, including labour, and instead focuses on flexibility and outsourcing.

One approach towards dealing with the weakening of job security is to deploy public policy to help reduce the trade-off between flexibility and security. Here the United States has a generally weak record. Unemployment insurance has become a more uncertain tool and the US Employment Service is generally ineffective. The best evidence of movement in the direction of creative public policy is initiatives at the local level regarding the creation of new labour market intermediaries. Although these are quite promising, they are in the early stages of development and have not yet achieved the scale required to have a major impact. There is substantial opportunity, however, for the development of these intermediaries, and it remains to be seen whether supportive federal policy can interact with continued energy at the local level to help bring these opportunities to fruition.

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