

Symposium Introduction: Labour Market Reforms, Employment Performance, Employment Quality, and Changing Social Risks

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Labour market reforms have been high on the political agendas of European governments in recent times. Ever since the early 1990s, when European economies experienced considerably higher unemployment rates than the United States, orthodox economists have insisted on a need for labour market deregulation. In this view, institutions such as strict employment protection legislation, generous unemployment benefits and strong unions, are seen as impediments to employers' ability to adjust quickly to changing market conditions, and thus the underlying reason for Europe's high unemployment. Employment protection in particular has been portrayed as a key obstacle to job creation. Because employers anticipate the potential future costs of dismissals, it is argued, they will refrain from hiring new workers even during economic upturns if the restrictions on dismissals and severance payments are high (e.g. Lazear 1990; Siebert 1997; St Paul 2004). Strict employment protection is also thought to be responsible for longer spells of unemployment, because it reduces flows in and out of employment (Blanchard and Portugal 2001). In this perspective, job security regulations generate high turnover costs, which insulate insiders (employees) from competition of outsiders (unemployed) and encourage them to pursue wage hikes (Lindbeck and Snower 1990).

Endorsed forcefully by the OECD Jobs Study (1994), the deregulatory view has dominated policy debates over the last two decades. Although the OECD has subsequently moderated its advocacy of across-the-board deregulation (Bassanini and Duval 2009; OECD 2004), this idea has underpinned reforms that brought about a weakening of employment protection in a number of European countries. While the type and scope of reforms differs across countries, the common denominator has been a move from standard forms of employee protection to the maximization of labour force participation.

During 1990–2007 the EU countries undertook over 100 deregulatory reforms. About a quarter of those were structural and involved a significant weakening of employment protection for standard workers, while the rest

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primarily facilitated an extension of fixed-term employment (Avdagic 2013). Following the financial crisis, this trend has continued, particularly after the European Commission started advocating supply-side policies as an essential part of reform packages. For example, over the last three years several countries have cut severance payments (Portugal, Hungary, the Czech Republic, Slovakia), relaxed restrictions on dismissals for employers facing financial difficulties (Spain, Italy), increased the length of probation periods for new entrants or encouraged the use of the so-called probation contracts (Hungary, Spain), increased the maximum length or the number of renewals of fixed-term contracts (the Czech Republic, the Netherlands, Poland, Portugal, Romania) and introduced atypical contracts for young workers that do not require employers to pay social security contributions (Greece, Spain) (Clauwaert and Schömann 2012; Heyes and Lewis 2014).

However, despite its evident popularity in policy-making circles, there is very little evidence that employment protection deregulation yields desired results. While doubts about the strategy were already evident in the early 1990s (e.g. Buchele and Christiansen 1995; Nolan 1994), recent research in particular has provided a powerful blow to this idea. Re-examining the relationship between unemployment and labour market institutions, studies such as Baker *et al.* (2005), Baccaro and Rei (2007), Vergeer and Kleinknecht (2012) and Avdagic and Salardi (2013) show that the findings of the literature associated with the deregulatory view are highly fragile and sensitive to small changes in data, model specifications or econometric techniques. None of these studies detect a statistically significant relationship between employment protection and unemployment (see also Baccaro and Armingeon 2012). Similarly, Oesch (2010) and Noelke (2011) found no evidence that employment protection is responsible for bad employment performance of low-skilled and young workers. A related strand of research has been concerned with the quality, rather than quantity, of jobs created through deregulation. This literature has identified a range of negative side effects of deregulation, such as a growing labour market dualization, an increase in precarious work, in-work poverty and inequality and insufficient investment in skills in temporary and entry-level positions, and thus a lower likelihood of securing permanent jobs (e.g. Emmenegger *et al.* 2012; King and Rueda 2008; Standing 2009).

This symposium contributes to this literature with new empirical, theoretical and policy-relevant insights. In particular, three kinds of consequences associated with labour market deregulation are examined:

1. For employment performance, providing an insight into the likely effectiveness of deregulatory reforms to achieve their main goal of reducing unemployment.
2. For the quality of employment, examining policy effectiveness in terms of the types and quality of jobs created by such reforms, while drawing special attention to the role of employers' strategies in influencing these outcomes.

3. For increasing insecurity and social risks, focusing on the role of the reforms in aggravating labour market and social risks for particular segments of the workforce, as well as the potential solutions for an effective management of these risks.

Employment performance

The paper by Sabina Avdagic addresses the first theme and sets the stage for the subsequent discussion. Relying on new data, Avdagic analyses the effects of employment protection legislation on aggregate and youth unemployment in 31 advanced and new market economies. Contrary to the deregulatory view, she finds no clear evidence of adverse direct effects of employment protection on unemployment. Findings that appear to support the deregulatory view are sensitive to the choice of estimators and small changes in the sample, thus cautioning against using standard macro-comparative analyses as the basis for policy recommendations. Avdagic's analysis suggests that governments' efforts to tackle unemployment by focusing primarily on the deregulation of employment protection are unlikely to bring about desired results.

Employment quality

The papers by Colin Crouch and Werner Eichhorst both address the second theme, albeit from different angles. Drawing on case studies of collective bargaining in the hospitals and engineering sectors from seven western and central European countries, Crouch examines the standard claim that strong employment protection and trade union action are responsible for growing divisions between labour market 'insiders and outsiders'. He argues that such depiction of dualization is too simplistic because it neglects an important role of employer strategy in driving these trends. By examining the developments in collective bargaining, Crouch shows how and why employers may favour the creation of grades of employee with different levels of job security. His analysis also demonstrates that there are no systematic differences in the degree of employment security between sheltered and exposed sectors, as it is often assumed. Instead, the recent crisis has provided a strong incentive for public-sector employers to rely heavily on temporary contracts, while employers in some exposed sectors have tried to retain skilled and experienced workers by offering them a de facto security similar to that enjoyed by established public employees. While the rise of non-standard employment is noticeable everywhere, Crouch's analysis provides evidence of different forms of outsider labour that go beyond a few formal categories, such as temporary and part-time contracts, and include employment in small supplier firms outside the reach of collective bargaining or legal regulation.

Focusing on Germany, one of Crouch's case studies, Werner Eichhorst argues that the effects of labour market reforms on employment depend on managerial strategies and staffing practices. Like Crouch, he shows how employers in manufacturing have been reluctant to dismiss skilled workers during the recent crisis, and how the burden of adjustment has been primarily on the shoulders of low-skilled agency workers performing routine manual tasks. Eichhorst's analysis documents a growing reliance on mechanisms of internal flexibility for the skilled core work force and increasing use of non-standard types of employment in less specifically skilled occupations. While this flexible arrangement has helped to stimulate employment growth and reduce registered unemployment, it has also aggravated a dualization of the labour market and contributed to an increase in income inequality — tendencies that challenge the stability of the current practices.

Alternative reform paths

Günther Schmid documents an increase of non-standard jobs of low quality and high risk, and asks if labour market regulation, in particular unemployment insurance, is adequately designed for the new world of work. He argues that contemporary labour markets require a new type of employment insurance that covers risks beyond employment, in particular those related to the critical transitions over the life course: between full-time and part-time work, between one occupation and another, between care work and gainful employment and between full and partial work capacities. By outlining the concept of transitional labour markets, Schmid shows how such transitions could be organized within stable employment relationships, thus avoiding the exclusionary tendencies associated with non-standard employment.

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