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Transitional Labour Markets: Managing Social Risks over the Lifecourse

discussion paper

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Abstract

Women and men increasingly face work-related critical events during their lifecourse and experience risks that are not fully covered by unemployment insurance or other work related insurances. Social risk management of transitional labour markets (TLMs) aims at supporting people in navigating risky transitions between various employment relationships or between unpaid (but nevertheless productive) work and gainful employment through social insurance, continuous education or training and employment services differentiated according to the type of risk.

This essay outlines the theory of TLMs by starting with a critical review of the concept of flexicurity. It argues that the concept needs theoretical underpinning in order to avoid its arbitrary use for various political interests. It continues by developing the general principles and strategies of social risk management and provides examples on how to successfully manage social risks over the lifecourse in view of the ongoing process of revising the Lisbon strategy. The article ends by recommending the establishment of a worklife insurance consisting of three pillars: a universal basic income guarantee, the extension of unemployment insurance to employment insurance, supplemented by private or collectively bargained insurance systems.

Zusammenfassung

Frauen und Männer werden zunehmend mit erwerbsbezogenen kritischen Ereignissen im Lebenslauf konfrontiert. Dabei sind sie Risiken ausgesetzt, die weder durch die Arbeitslosenversicherung noch durch andere erwerbsbezogene Sicherungssysteme abgedeckt sind. Das soziale Risikomanagement von Übergangsarbeitsmärkten zielt darauf ab, Erwerbspersonen dabei zu unterstützen, erfolgreich durch diese kritischen Übergänge zwischen verschiedenen Beschäftigungsverhältnissen oder zwischen unbezahlter (nichtsdestotrotz produktiver) und bezahlter Arbeit zu navigieren. Es entwickelt neue und nach Risiken differenzierte Formen sozialer Sicherung, beruflicher Weiterbildung und Arbeitsmarktdienstleistungen.

Dieser Essay skizziert die Theorie der Übergangsarbeitsmärkte, indem er mit einer kritischen Betrachtung des Konzepts „Flexicurity“ beginnt. Er argumentiert, dass dieses Ansatz einer theoretischen Fundierung bedarf, um seine Verwendung für beliebige politische Zwecke zu vermeiden. Er fährt fort, die allgemeinen Prinzipien und Strategien sozialen Risikomanagements zu entwickeln und diese mit praktischen Beispielen unter dem Gesichtspunkt einer Revision der Lissabon-Strategie zu erläutern. Der Artikel endet mit der Empfehlung, eine Arbeitslebensversicherung zu etablieren, die aus drei Säulen besteht: einer universellen Garantie des Mindesteinkommens, einer Erweiterung der Arbeitslosenersicherung zu einer Beschäftigungsversicherung, die durch private oder kollektivvertraglich ausgehandelte Versicherungen ergänzt wird.

How far carries the concept of flexicurity?

Since a couple of years, the European Commission is promoting ‘flexicurity’ as an overarching guideline for the European Employment Strategy (Kok et al. 2004). In her 2006 *Employment in Europe* report, the Commission devoted a whole chapter to this concept by arguing:

> “A consensus is […] emerging […] that countries should adopt institutional configurations in the labour market that better combine the requirements of flexibility and security – in other words ’flexicurity’. This implies that, in an environment where workers experience more frequent transitions between employment and non-employment, and between different kinds of employment, policies need to put in place the right conditions for individuals to successfully manage these transitions, thereby ensuring sustainable integration and progress of individuals in the labour market.” (European Commission 2006, p. 111)

The chapter, however, focused mainly on those policy tools that impact on external numerical flexibility – i.e. the adjustment of the quantity of labour used by firms – and on the income or employment security of workers through unemployment benefits and active labour market policy. The hidden agenda of this chapter, in other words, was the Danish model of flexicurity based on the so-called ‘golden triangle’: first, a flexible labour market with high job turnover made possible through low job security; second, generous welfare schemes especially in form of high unemployment benefits; third, an active labour market policy aimed at enhancing employability and thereby employment security especially through education and training measures.[1] At the end, however, the report came to the cautious conclusion that the Danish model might be a particular model not suitable to adapt for all European countries. Three aspects were emphasised that may prevent other countries to imitate the Danish model: first, high budgetary costs implied in the model; second, established trust relationships between the social partners; third, an average high skill level of workers combined with a production system dominated by small and medium-sized firms.

There are other reasons for the limited range of flexicurity. Although the concept had a clear vision in its historical development, there is presently the danger that it becomes instrumental for various connotations or even arbitrary political interests. It might be useful therefore to remember the historical roots of the concept. In fact the term has been coined by the sociologist Hans Adriaansens in the middle of the 1990s, then member of the Scientific Council for Government Policy (WRR). In advising the Dutch government at that time under the leadership of the social democrat and trade union leader Wim Kok, Adriaansens used the term ‘flexicurity’ to express the idea that insiders should give up some security in favour of the growing number of people with flexible and insecure employment relationships. Otherwise, the trend of flexibilisation at the margin would proceed opening the doors for new cleavages and segmentation of the labour market. Employment security therefore should be preferred to job security. He had in mind especially unprotected temp-agency workers whose number had

[1] The best references for the Danish model are Bredgaard/Larsson (2005) and Madsen (2006).

increased at that time to almost 5% of all Dutch employees. As a consequence the law 'Flexibility and Security' was enacted giving temp-agency workers the status of regular employees after six months, and the right to an open-ended contract after 18 months or, at the latest, after 36 months. Temp-agencies were also obligated to put aside about 1% of wages (0.92%) into a training fund in order to improve the employability of their workers in times without employment.

In analytical terms, the confusion about the concept of flexicurity stems from the complex interrelationship between the various elements of the two dimensions of flexibility and security. At least four elements for each dimension can be distinguished: Internal and external *numerical* flexibility or internal and external *functional* flexibility on the one hand, job security, employment security, income security and option security on the other hand.[2]

The link between these eight dimensions is more complicated than usually perceived. First of all, the flexibility-security nexus is not always a trade-off. The employer's flexibility gain does not necessarily mean a loss of security for employees; and the employee's security gain does not necessarily mean a loss of flexibility for employers. Employers have also an interest in security, for instance in the loyalty and reliability of workers. Employees, *vice versa*, have also an interest in flexibility, for instance in working time flexibility to combine family and work, or in job changes to gain new experiences and to extend social networks.

Take for instance the first column of the flexicurity matrix (Figure 1), the nexus between job security and various forms of flexibility. There clearly is a trade-off between job security and external numerical flexibility: the more freedom for employers to hire and fire, the lower the job security for individual employees and vice versa. If, however, employees trade job security in for accepting internal numerical flexibility, for example through working time variability and wage flexibility, job security and flexibility may turn into a virtuous circle.

Figure 1: The flexibility-security nexus

	Security			
Flexibility	Job security	Employment security	Income security	Option security
External numerical	to	to / vt / vs	to / vt / vs	to
Internal numerical	vt	vt	(to) / vt	to / vt
Internal functional	vt	vt	to / vt	(to) / vt
External functional	vt	to / vt / vs	to / vt	to / vt

to = trade-off; vt = virtuous circle; vs = vicious circle

[2] For the meaning of these terms see, among others, Wilthagen/Tros (2004); Leschke et al. (2007); Chapter 2: "Flexibility and security in the EU labour markets" of the *Employment in Europe* report (European Commission 2006, pp. 75–118; with more references).

Job security can also induce employees to be loyal to the employer, to invest in firm-specific human capital, to cooperate, and to pass over tacit knowledge to other employ-yees because they don't have to fear internal competition. All this is increasing internal functional flexibility. An example of external functional flexibility would be the oppor-tunity of employers to use high quality job services provided by temp-agency work. The reason is that temp-agencies can pool the risk of fluctuating demand for such services and provide thereby security for the internal workforce of individual employers as well as job security for skilled workers in their own organisation. In other words, the flexicurity labour market will more and more be characterised by hybrid employment relationships combining the advantages of internal with external labour markets.

Regarding the link between external numerical flexibility and employment secure-ity, hire and fire does not necessarily affect employment security. If the labour market provides plenty of job opportunities, for instance through high job turnover and effect-tive demand management, then flexibility and employment security can go hand in hand. The nexus, however, can also be deadly vicious. Apart from rising fluctuation costs, hire and fire policies can lead to an overall feeling of employment insecurity. This feeling in turn may lead to exaggerated savings of employees, thereby lowering con-sumption and effective demand on the one hand; on the other hand – as the case of East-Germany has drastically shown – employment insecurity leads also to postponing fam-ily planning, thereby lowering the birth rate. In addition, employment insecurity also reduces the investment in human capital, thereby leading to a decline in high-skilled labour supply and eventually ending in a vicious circle of flexibility and security.

These examples point out that the flexibility-security nexus should not be con-sidered as a menu à la carte (Gazier 2007). The relationships are systemic, depending on the overall historical context of labour market institutions (Barbier 2007). Depending on this context, the nexus can be a conflicting as well as complementary relationship. Some general rules are therefore required to determine under which circumstances this rela-tionship is conflicting or complementary, and what policies could be applied to avoid or mitigate trade-offs or to foster complementarities.

Figure 2: Combinations of flexibility and security

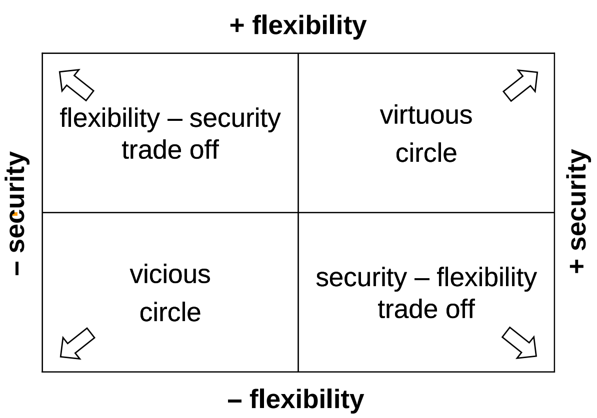
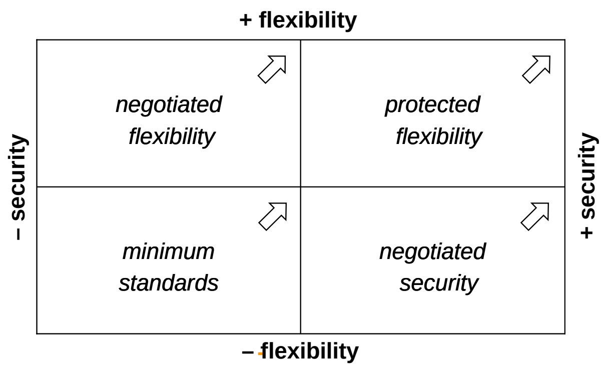


Figure 2 shows flexibility as the vertical axis and security as the horizontal axis in a continuum from the negative to the positive. This makes four possible combinatory relationships: two trade-offs, one in which the increase of flexibility goes on the costs of security, and one in which greater security goes on the costs of flexibility. And there are two complementarities: a virtuous circle, in which flexibility and security mutually enforce each others in a positive direction, and a vicious circle, in which flexibility and security mutually enforce each other in a negative direction.

Like in real marriages, most people probably like to have the best of the world, the virtuous circle. However, as I have shown at the beginning, conflicts or trade-offs turn up as well and vicious circles loom large in real life. Each country will have to find its own ideal balance between flexibility and security. At the European level, one can only formulate some general guidelines. These guidelines can be divided into four strategies: protected flexibility, negotiated flexibility, negotiated security and minimum standards (Figure 3), and all four strategies can be differentiated according to the level of policies – whether they work at the micro, meso or macro level of political activities.

Figure 3: Strategies for managing the balance between flexibility and security



Turning to the first priority, *protected flexibility* would be the proper way to foster a *virtuous circle* between flexibility and security. In general, this strategy compensates risk taking by additional securities or monetary incentives:

- From the macro perspective, the exchange of job security for high income security to foster job mobility would be one possibility to set the virtuous circle of 'flexicurity' in motion. In a knowledge and service based economy, especially in an economy with overwhelmingly small and medium-sized firms and network-like work organisation, the competitive pressure of globalisation requires more and more external flexibility. If one further assumes that higher job turnover affects especially low and medium-skilled people, the combination of generous income security with employment security through active labour market policy seems to be a promising strategy. This is exactly the flexicurity model of the Danes. Another way, the Dutch way, would be lifecourse saving accounts for covering income risks related to flexible employment contracts. The provision of efficient placement services, education or training services and transferable social securities are further cases of protected flexibility at this level. At the labour demand end, temporarily dispensing employers from the payment of contributions to social security would be a possibility to compensate for the high risks of employers recruiting young people looking for their first job, as for instance the Portuguese government recently did successfully.[3]

- At the meso level, collective agreements going beyond wages and covering also training funds and training leaves could foster a symbiotic relationship between flexibility and security.

- At the micro level, civil servants can be regarded as the prototype for 'flexicurity'. This provocation can only be justified in referring to the original concept and not to the often degenerated practice of today. In the classical model the state did not guarantee *job security* to its high level civil servants. As an employer the state provided only *employment security* in exchange of the acceptance to take over all kind of jobs in the range of the servants' ability, including the obligation of regional mobility without any limits. I will not recommend re-establishing this model. The institution of the 'civil servant', however, reminds us that employment security even with the same employer does not exclude contractual arrangements that enhance all kinds of internal and external flexibility. This is probably the reason why we find almost no change in the development of so-called job tenure. There is even evidence that long job tenure – in fact the better expression would be employment tenure – seems to foster productivity (Auer 2007).

Second, the proper strategy to turn the *flexibility-security trade-off* into a win-win situation would be '*negotiated flexibility*'.

- At the macro level, centralised wage formation through collective bargaining without interference of the state is the prototype for negotiated flexibility. However, one could imagine an innovative extension of this model: the social partners could negotiate an anti-cyclical wage flexibility scheme by putting – in case of an economic upswing – parts of the wages into a training fund which could then be used to finance continuous vocational education and training in the cyclical downturn; the state would jump in as co-financing partner by providing tax incentives for such funds.

- Good practice at the meso level are collective agreements with opening clauses at the firm level that under certain conditions allow wage flexibility in exchange of employment protection, so-called concession bargaining. Such negotiated flexibility can also be understood as a way to create procedural justice which – as we know from the new behavioural economics (e.g., Fehr/ Falk 2002) and empirical research – is so important for the acceptance of wage flexibility, especially in case of downward wage adjustment.

- An example for good practice at the micro level would be the legal right to working time reduction under the condition that employees accept the voice of employers in negotiating the implementation of this right. The Netherlands and Germany have introduced such conditional rights.

[3] This dispense (23.75% of the wages) for a maximum period of 36 months also holds for long-term unemployed; more than 80,000 were covered in 2006 (Ministério 2007).

Third, the proper strategy to turn the *trade-off between increasing security and decreesing flexibility* into a win-win situation is '*negotiated security*'.

- At the macro level, the so-called 'soft jobs' and 'flexible jobs' in Denmark are a good example. This type of jobs provides employment security for handicapped, disabled, hard-to-place people in exchange of the acceptance to change jobs or taking over jobs with lower responsibilities and corresponding lower wages. In addition, flexibility is enhanced through competitive bidding of public resources and negotiated out-contracting with municipalities or other organisations providing this type of jobs.

- At the meso level, one could imagine collective agreements about flexible pension entitlements backed up by pension law that allow building up virtual time accounts (virtual contributions) that compensate for discontinuities during the lifecourse.

- At the micro level, entitlements to career leaves (option security) in exchange of negotiated functional flexibility within the firm would be good practice. Another example are so-called activation contracts between authorised case managers and the unemployed in which the unemployed – before signing the agreement – have the opportunity to negotiate the conditions; also opening clauses for re-negotiation would be good practice.

Fourth, the proper strategy to overcome *vicious circles* would be '*minimum standard regulation*' at national or European level.

- At the macro level, national minimum wages (NMW) to avoid cut-throat competition is a highly contested example. To turn this into good practice, it is necessary to include the social partners in the setting, differentiation and continuous adjustment of minimum wages. Although there is no reasonable argument for a unique EU minimum wage, the development of common rules for such a process should be considered. The institutionalisation of the Low Pay Commission (LPC) for setting and monitoring the British NMW is a good practice example. Evidence of about ten years experience shows that the NMW raised the real and relative wage of low paid workers (equity) without adverse employment consequences (efficiency) (Metcalf 2007, p. 53). Due to the high risk of social exclusion through low skills, the issue of minimum standards for education at national or EU level may be even more urgent than considering standards for minimum wages.

- At the meso level, European standards for running temp-agencies – especially by establishing the equal treatment principle – would be a precondition that these intermediate institutions can play a larger role in preventing downward spirals of flexibility and security through their capacity of risk pooling.

- At the micro level, universal social rights beyond employment – for example rights to training, parental leaves, career leaves and giving workers voice at the firm level – can overcome the prisoners dilemma individual employers and employees are facing in case of non-cooperative games. This dilemma is the result of time incongruence, which means the fact that such rights usually induce higher short-term costs than benefits but higher long-term returns than costs. The universality of these rights could avoid opportunistic behaviour in favour of short-term solutions.

To sum up, whether relationships between the different types of flexibility and security turn out to be trade-offs, virtuous or vicious circles depends on the coherent design of labour market policy, especially the complementarity of institutions at the micro, meso and macro level. The Danish ‘Golden Triangle’, for instance, compensates the high risk of job insecurity with generous income security, and active labour market policies contribute much to employment security. Sweden is a good case for balanceing option security and functional flexibility. Universal public child-care provisions and generous parental leave schemes enhance here employment options for men and women, whereas comprehensive education and training opportunities *at all ages* ensure adaptability to labour market changes.

The most important point of this exercise, however, is that the complexity of the flexibility-security nexus allows countries to choose different combinatory regimes (Klammer 2007). This conclusion is confirmed by many other successful EU member states since the existence of the Lisbon strategy. A promising way to frame these complex interrelationships is the theory of transitional labour markets (TLMs).

The theory of transitional labour markets

As a *normative concept*, TLMs envisage a new stage of active labour market policy which focuses on social risks over the lifecourse. The core idea is to empower individuals to take over more risks over the lifecourse not only through making work pay but also through making transitions pay. Four principles underlie this theory.

The first principle is *justice as fairness*. Concerning the goals of policy intervention, the concept of TLMs is opposed to the utilitarian assumption of maximising the happiness for all. TLMs rather emphasise the difference principle by John Rawls (2001) according to which inequality is only justified if it improves the lot of the least advantaged. We have to turn around Tolstoy’s famous statement in his novel *Anna Karenina*: ‘All the unhappy people are unhappy in a similar way.’ There are many ways to happiness, but pain is always the same. Reducing unhappiness, especially caused by long-term unemployment, is something that we can achieve. Maximising happiness is a moving and often futile target as the booming happiness research shows (Layard 2005; Offer 2006).

The second principle is *solidarity in risk-sharing*. TLMs follow the ethic of responsibility by Ronald Dworkin (2000). Rights and obligations are at the core of responsibility ethic. Demanding more individual responsibility requires endowing all individuals with equal opportunities. It also requires the periodic redistribution of resources over the lifecourse since market forces regularly distort distributive justice.

The third principle is *developing individual agency*. TLMs assume great differences in the ability to utilise resources for a fulfilling personal lifecourse (Sen 2001; Salais/Villeneuve 2004). Labour market policy, therefore, has to concentrate on capabilities, which include individualised endowments of resources as well as a supportive social and political infrastructure.

The fourth principle is *transnational social cohesion*. TLMs assume an increasing interdependency through globalisation and internationalisation. Europeanisation of labour markets in particular requires a spatial expansion of the principle of social inclusion, in other words, an expansion of risk-sharing communities beyond ethnic, regional and national boundaries (Ferrera 2005).

As an *analytical concept*, TLMs emphasise the dynamics of labour markets. They focus on flows between different employment relationships rather than on stocks, and they focus on transitions over the lifecourse rather than on one way job-to-job changes. They distinguish especially between integrative, maintenance and exclusionary transition sequences or job careers. They have stimulated a rich set of empirical research on lifecourse mobility which cannot be presented here.[4]

TLMs, however, emphasise also transitions within employment relationships. The often quoted fact that international research finds no remarkable downward trend in job tenure and no remarkable increase in job-to-job transitions (Auer/Cazes 2003) is completely in line with the concept of TLMs. The reason is that many transitions can be performed within stable employment relationships, for instance the shift from full-time to part-time work due to parental leave, or the combination of part-time work with off-the-job training, or internal job rotation.

Such flexibility within a continuing employment relationship explains for instance the fact that the nominal employment rate in Sweden is about 74%, whereas the effective employment rate – which means the rate of employed people who actually work in a week – amounts to around 64%. This observation might even be turned into a normative statement: The more transitions within an employment relationship are allowed or demanded, the higher must be the employment rate to keep the ‘machinery’ of economic prosperity running. The Lisbon objective of 70% employment rate, therefore, might be even too modest in the long run.

The main challenge for European labour market policy is the imbalance between integrative, maintenance and exclusionary transitions. In fact, the current dynamics of transitions tends to lead to new forms of labour market segmentation. Many people get stuck in exclusionary transitions, especially in low skilled jobs or in precarious non-standard employment relationships.

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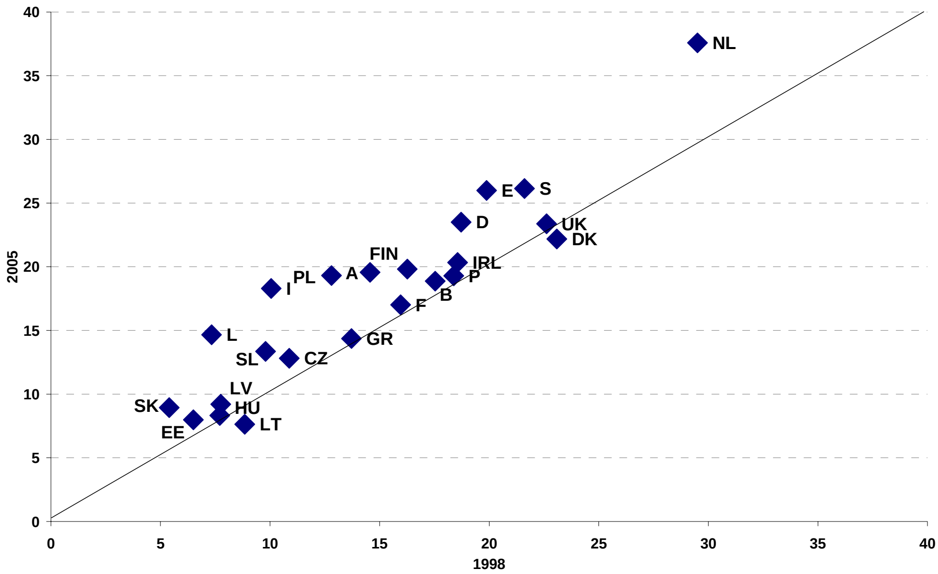
[4] See, among others, O’Reilly et al. (2000), Schömann/O’Connell (2002), Schmid (2002a, 2002b), Schmid/Gazier (2002), Mosley et al. (2002), Gazier (2003), Gangl (2003); Muffels/Luijkx (2006), Román (2006), Schmid (2006), and various contributions in two recently published rich volumes on flexicurity and transitional labour markets by Jørgensen/Madsen (2007) and de Koning (2007).

Figure 4 gives only an impression of this challenge. It shows the non-standard employment rates, which comprise here all jobs in part-time work, temporary work or self-employment. As the clustering above the steady-state diagonal demonstrates, non-standard employment increased in almost all EU member states, especially in the Netherlands, Spain and Italy. Of course, not all of these jobs are precarious or exclusionary. Non-standard jobs, however, often involve a higher risk of exclusion than standard jobs.

Figure 4: Non-standard employment rates in 1998 and 2005



Source: EUROSTAT, Labour Force Survey; own calculations

Non-standard employment:

- Employees with a temporary contract
- Solo-self-employed working full-time outside agriculture
- Part-time workers with permanent contract (employees) and part-time working solo-self-employed persons who define themselves as part-time working

The aim of TLMs is, metaphorically, to provide ‘social bridges’ that compensate for the higher risk of non-standard employment relationships, and to ensure that those jobs become ‘stepping stones’ to sustainable job careers. However, as already mentioned, risky non-standard employment can also be considered to some extend as an expression of the failure to provide institutional arrangements of internal flexicurity. Managing TLMs, therefore, goes far beyond buffering external flexibility through ex-post measures of social protection. Before explaining this point in more detail, the general principal of TLMs shall be briefly summarised.

In sum, managing TLMs aims at helping people to successfully navigate through critical transitions between various employment-relationships or between ‘inactivity’ and employment over the lifecourse. The aim is both to protect against the associated income risks and to encourage both individuals to take chances and make risky transitions as well as companies to be inventive in adjusting their human resources management policies to meet this challenge. By means of the appropriate institutional arrangements (of a financial, legal and organisational nature), TLMs intend to provide ‘bridges’ at critical junctures in individuals’ working lives, as they move between education and work, between dependent employment and self-employment, between unemployment and employment or between being able to do paid work or not due to incapacity or retirement. TLMs assume that the probability of critical events requiring transitions is increasing. Consequently, the need for such transitions to be socially protected is also increasingly pertinent.

On the supply side, the burden associated with work, family and education during the lifecourse has to be reconciled in some way. On the demand side, technical progress or the international division of labour require changes in occupation or the acquisition of new skills and qualifycations. Last but not least, preferences change over the course of the working life related to job dissatisfaction, physical or mental illness, changes in personal circumstances (divorce) or regional mobility required to bring the spheres of work and life together in an acceptable work-life-balance.

Socially managed TLMs, therefore, are institutional arrangements that provide flexicurity over the lifecourse. By safeguarding against losses of earnings and, to some extent, against losses of social status, not only during periods of unemployment, but also during transitions within and between different employment relationships, TLMs extend the principle of unemployment insurance, transforming it into employment or work-life insurance. They act, metaphorically, as employment bridges, preparing the ground for the transition from one employment relationship to another, to enable the combination of several jobs (‘pluriactivity’), to combine gainful work and education as well as gainful work with other non-paid but nevertheless productive activities such as caring for children and frail elderly people or engaging in civic activities.[5]

The TLM approach, thus, is a device for extending the range of active labour market policies considerably. In contrast to the widespread workfare orientation, TLMs follow a *developmental approach* aiming at investing in people as well as in com-

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[5] For an application of TLMs from an Australian perspective see Brian Howe, former labour minister and vice-president under the Australian labour government: “Governments tend to focus on limiting spending rather than on finding ways of investing in people: they are our society's human capital and their unrealised potential can contribute to the community. I argue that the objective of new social policies should be to encourage people to realise their potential by supporting and managing risk. This has often been seen as the responsibility of individuals, but the widespread acceptance in modern societies that change is ongoing places a responsibility on society, on governments, to accept some role in helping people manage risk. It is important to emphasise the underlying purpose of welfare payments for people of workforce age: they are about facilitating change, enabling people to move on from a failed relationship or from bad jobs to better jobs, and ensuring that people who suffer a disability no longer lack a sense of purpose. We need to place greater emphasis on investing in capabilities that improve the way people function in society. This suggests that we need to extend the 'expectation horizon' for people wanting to improve the employment opportunities by improving their access to training opportunities. Similarly, active labour market policies should not be confined solely to offering jobs and placing individuals in work. Follow-up measures are required to transform mere workfare measures into stepping stones for sustainable work and participation in the labour market. Furthermore, while I use the word 'transitions' in the context of lifecourse transitions, it is also important to recognise that many communities are also in transition. Investing in people also means investing in communities” (Howe 2007, pp. 21–22).

munities, thereby extending the expectation horizon of individual as well as collective agencies.[6] Its implementtation requires therefore complex institutional arrangements that follow four principles in one way or the other:

- The *flexible organisation principle*: A flexible work organisation that enables employers and employees to adapt to the challenges of the changing environment in terms of quantity (especially working time), quality (especially skills), and prices (especially wages).[7]

- The *empowerment principle*: Social rights or entitlements which empower individuals to act as autonomous individual agents, and to allow especially choices between different employment statuses according to shifting preferences and circumstances during the lifecourse.[8]

- The *risk sharing or cofinancing principle*: Financial provisions that support cost sharing between public and private actors reflecting the risk structure and allowing multiple usages of insurance funds and private insurance schemes, especially the (preventative) usage of employment insurance for financing measures that enhance employability.

- The *cooperation principle*: Negotiated flexicurity, among others through public-private partnerships in the provision of employment services that focus not only on the unemployed but also on the employed in risk of unemployment or in need of or desire of risky transitions during their lifecourse, and support also firms in their endeavour to enhance employability.

In the following, the social risk management of lifecourse transitions shall be explained and illustrated with some examples.

Employment strategies following the theory of TLM

TLMs concentrate on five critical events over the lifecourse: transitions from education to employment, from one job to another, from unemployment to employment, from private household activities to gainful work and eventually from employment to retirement. Each of these transitions is associated with specific risks: First, the risk of too little or eroding human capital over the lifecourse; second, the risk of income volatility due to fluctuating demand or due to transitions between various employment relationships; third, the risk of restricted income capacities due to social obligations; fourth, the risk of income insecurity due to unemployment; fifth, the risk of reduced or zero income capacity due to disability, chronic illness or old age.

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6 For the conceptual perspective of a developmental welfare state see also Hemerijck (2007).

7 To the complementarities or functional equivalents of adjustment dimensions see especially Gazier (2002); an equivalent to nominal wage flexibility is, for instance, the possibility of combining wages with other income sources such as transfers, equity shares or savings.

8 See, in this vein, also the concept of ‘drawing rights’ by Alain Supiot (2001).

The theory of TLMs assumes that specific risks require also specific securities. According to the principle of *requisite variety* (Ashby 1979), the higher the variety of risks, the higher should be the variety of social securities. The theory of TLM rests also on modern behavioural economics, notably on prospect theory (Kahneman/Tversky 2001). It does not assume consistent rational behaviour but asymmetric risk perceptions. Loss aversion tends to be greater than risk taking for gains. People tend to be myopic related to high risks with small probabilities, but far-sighted related to low risks with high probabilities. As a consequence, many people tend to insure themselves, for instance, against possible disruption of their travel plans but not against the possibility of long-term vocational disability; they are also less willing to save for any education or training that may be necessary in the future than to save for a new and maybe prestigious car. Social protection systems, therefore, often follow a too simple or a different logic than required by lifecourse risks. In the following, I will present some of these systematic misfits and possible remedies.

I distinguish thereby three strategies of social risk management: The prevention or mitigation of risks, and the coping with risks. Prevention tackles directly the causes of risks and should therefore be given priority. However, uncertainty looms large, thus making prevention impossible. Prevention can also be prohibitively expensive or restrict flexible adjustment. Mitigation and coping strategies, therefore, have to complement prevention.

(1) First, according to the principles of TLMs, it does not make sense to protect people against the *risk of too little or eroding human capital* through high and long-term unemployment benefits. On the contrary, such generous benefits would damage more than resolve the underlying problem. Equally, in-work-benefits for unemployed youth would not make sense since they would perpetuate the lack of human or social capital. *Prevention* is the main solution here. To prevent youth unemployment, social risk management must already start in kindergarten, in preschools and primary schools. Not only equal opportunities in elementary and secondary education adapted to a knowledge society, but also elementary social skills for communication and learning abilities have to be ensured.

As *mitigation* strategy, it is of utmost importance that the state ensures a training place or a job after six months of unemployment at the latest. All firms must share the risk of lacking human capital and contribute at least financially to vocational training if they are not able or willing to train themselves.

Sufficient education and vocational training is a crucial element of *active securities* over the lifecourse. It is also a precondition for taking over more individual responsibility than in the traditional welfare state. To *cope with this risk*, active labour market policy, therefore, should ensure for everybody a second investment chance over the lifecourse.

Sweden provided *best practice* in this respect. Between 1997 and 2002, the Swedish government invested an annual sum of 350 million Euro for low-skilled people – independently of whether they were unemployed or not – in order to lift their knowledge to a level appropriate to the knowledge economy (Albrecht et al. 2005). This allowed about 100,000 people to get continuous vocational education and training in addition to the normal stock of trainees, which corresponds roughly 2.5% of the working age population.[9]

(2) Second, *income volatility* over the lifecourse is often caused by externally induced job changes or externally enforced short-time work. Income volatility, however, can also more and more be caused by endogenous changes such as changing job preferences, family relocation or even the wish to take a sabbatical. A basic income guarantee especially in old age is a powerful *preventative* strategy to ensure income security for people with discontinuous lifecourses and related income volatility. The Netherlands and the Nordic countries deliver good practices in this respect.

Long-term saving or lifelong learning accounts are proper strategies to *mitigate and cope* with volatile income risks. Since the resulting flexibility or mobility through such saving schemes create positive external effects, the state could step in as co-financing institution by providing tax incentives.

The Dutch lifecourse saving plan (Wotschack 2006) and the Belgian career break system (Román 2006) are *good practices* that could be adopted by other EU member states. However, care has to be taken with respect to some flaws in the present design of these schemes. Young adults, especially, are usually in a lifecourse phase in which they are not able to build up enough savings. Education and care credits might be an appropriate solution for the problem of lacking earning and saving capabilities.

(3) Third, if people's income capacity is restricted for instance due to family obligations, this risk has to be compensated by income supplements or in-kind-benefits. The best and most powerful *preventative measures* are public provision or at least public financing of day care facilities. In-work-benefits, including tax credits, are a proper instrument of risk *mitigation*, especially for low income earners. As a *coping* strategy, full-time or part-time leaves from work due to social obligations should be compensated like wage replacements in case of involuntary unemployment.

Concerning *good practice*, some EU member states already dispose of such schemes, for example Sweden and Denmark. The Grand Coalition in Germany recently introduced wage related parental benefits compensating about 58% of wages up to 14 months, two of which have to be taken up by men. Due to the high individual costs of child care, but also due to the high benefits of child care for the whole society, and last but not least for reasons of gender mainstreaming, the wage replacement could be even more generous for low and medium income earners. Since children and frail grandparents often need care that cannot be planned in advance, also wage replacement for some days per year should be available. Sweden, for instance, acknowledges this need through a contingent of up to 60 days at a wage replacement of 80%.

[9] To give a feeling of the seize of the programme: adjusted to the German population size, this would amount to about 1 million participants more than the present stock of trainees.

(4) Fourth, the proper response to the risk of *income insecurity* – caused for instance through cyclical demand variations or through structural changes – is to provide for generous income security. It is of utmost importance to consider income protection in this case not as a passive measure but as an *active security*.

First of all, however, *preventative measures* through job creation and continuous vocational education and training have first priority. Without thriving job dynamics and without employability fitting the requirements of the knowledge economy (Rodrigues 2002), income protection would indeed turn into a passive measure. If the risk, however, has occurred, the proper *mitigating strategy* is to compensate the income loss through generous unemployment benefits. A generous wage replacement allows the unemployed to search for a new job corresponding to their capabilities without fear to get trapped into a poverty career. The corresponding measure on the other side of the labour market is an effective minimum wage to avoid cutthroat competition. Generous wage replacement also helps maintaining worker's qualifications and competences. Furthermore, it improves the efficiency of job matching. High matching efficiency through unemployment insurance is for instance reflected in longer job tenures after the rematch of insured unemployed compared to uninsured unemployed. In her latest Employment Outlook, even the OECD presented econometric work indicating that reducing medium-term generosity leads to a reduction of productivity.

Appropriate *coping measures* are intensive job search and case oriented job placement services. Again, such services are an investment and not a wasteful consumption. Many EU member states still underinvest in such services during the first months of unemployment. However, long-term or even unlimited wage related unemployment benefits do not make sense for this risk category. Apart from inducing moral hazard, they would not help the long-term unemployed, on the contrary. What involuntary unemployed need is simply the opportunity of a new job. To come back to prevention: The best income security measure for involuntary unemployed is the creation of new competitive jobs through a sound macroeconomic policy.

This is the reason why the employment and the broad economic guidelines still need better coordination. Furthermore, the recently introduced *Global Adjustment Fund* goes in the right direction but deserves a critical review. The idea of this fund is to help job seekers who have lost their jobs due to globalisation. However, Europeanisation of the labour market itself causes great strains between winners and losers, which is partly beyond national responsibility. The present sum of 500 million Euro is too meagre. The regulations of this Fund are too restrictive and solely conceived in reactive rather than preventative terms. Given the challenge of continuous vocational education and training especially for low-skilled adults, it should be considered to develop the Global Adjustment Fund further into a *European Knowledge Lift Fund* according to the bold Swedish model. Such a fund would also support the idea of ensuring a European wide minimum education.

(5) Fifth, it would be misplaced to protect the *risk of reduced or zero income capacity* due to disability or old age through long-term unemployment benefits. The use of unemployment insurance for early retirement was one of the greatest mistakes of

several EU member states during the 1990s. This risk needs to be managed by other measures.

Active labour market policy – if it deserves its name – should concentrate on *prevention* since the causes of diminishing income capacities are well known. Income capacity, therefore, should and could be re-established through regular individual work assessments, through corresponding training measures or through workplace adjustment. In other words: Not only workers have to be made fit for the market, but also the market has to be made fit for the workers – a slogan aptly coined by Bernard Gazier (2007).

The risk of diminishing income capacity can also be *mitigated* through the partial compensation of the related income loss. Such wage insurance would be an essential and innovative element of transforming conventional unemployment insurance into employment insurance. Especially mature-adult workers need such insurance since they are facing large income losses in case of unemployment and subsequent re-employment. This need is also nourished by the fact that internal labour markets providing implicit wage insurance are eroding. Moreover the escape to early retirement as an income insurance device is not any longer an option. Wage insurance would increase the acceptance to take over lower paid jobs, especially when they are combined with training vouchers to make the new jobs sustainable and to improve the chances to climb up again in the career ladder.

Last but not least, individualised rehabilitation is still a much underutilised measure to *cope* with the risk of diminishing income capacity. Another possibility is the creation of transitional jobs as it is the case in most Scandinavian countries, especially in form of the Danish *'flexjobs'*, the Swedish *'plusjobs'* or jobs created by various forms of social enterprises, as it is the case for instance in the Netherlands.[10] *Good practice* is especially to be found in the comprehensive approach of active ageing in Finland which succeeded to increase the employment rate of elderly by 18 percentage points within eight years.

Summary and overall conclusions

Flexicurity, first of all, *is and should not be a unitary concept*. Although it is necessary to formulate common principles for the European member states in order to prevent a tendency to use this term in an instrumental way, it must be kept in mind, that the key actors understand different things under this term. Their conflicting perceptions reflect

[10] The target group of the Danish 'flexjobs' consists of persons with a permanently reduced workability who are not entitled to pre-pensions. The employer receives a wage subsidy amounting to one third, one half or two thirds of the minimum wage depending on the extent to which the work-ability of the person is reduced. The person in a 'flexjob' receives wage according to collective agreement. The number of persons in such jobs rocketed recently to a level of 40,000, which would correspond in Germany to a level of 600,000, 1.5% of the active labour force. As of January 2006, the Swedish 'plus-job' is an enhanced form of employment subsidy made available for 20,000 long-term unemployed men and women, targeted at quality-improving work in the public sector in order to minimize displacement effects. The employer receives a subsidy of 100% of the wage cost up to a specific ceiling.

the tension of different interests that cannot be defined away. Science, too, can only provide a framework to understand the complexity of the contested issues. The problem of divergent interests can only be solved through bargaining or negotiation as a device of information gathering, communication and compromise. The revitalisation of the social dialogue, in other words *negotiated flexicurity* at all levels – firm, branch, nation and Europe – is therefore of utmost importance for giving the Lisbon Strategy and the European Social Model more flesh to the bones. Employability security over the life-course through continuous education and training in particular could be a promising bargaining issue, including the establishment of branch specific collective training funds – may be even at the European level.

Second, negotiated flexicurity, however, may lead to new *insider-outsider cleavages* and social injustice. Hence, care has to be taken to avoid such negative effects by setting minimum standards and fair rules of negotiation. The government at various levels may also jump in as co-financing partner to overcome the prisoner's dilemma in which rational actors choose a suboptimal equilibrium. This is the scientific reason why we need not a *Lisbon-minus*, but on the contrary a *Lisbon-plus*, as Anthony Giddens (2007, p. 170) has aptly formulated. The Global Adjustment Fund is a step in the right direction. However, further bold steps in this direction are needed to raise the social legitimacy of the Lisbon Strategy. I suggested a *European Knowledge Lift Fund* according to the Swedish model targeted to the low-skilled to raise the overall level of knowledge to an appropriate level of the knowledge economy.

Third, the flexicurity debate still lacks a focus on the most critical transitions over the lifecourse. Why should income security be only related to income risks of jobless people? Why should security not be provided for income risks related to critical transitions over the lifecourse? Why should insurance not cover the income risks related to transitions between family work and gainful employment, between dependent work and self-employment, from high-paid to low-paid jobs, between full-time and part-time work, from work to gradual retirement? The common slogan *'making work pay'* relates only to transitions from unemployment to employment. Managing the *balance of flexibility and security* over the lifecourse, however, *requires a wider set of opportunities* through *'making transitions pay'*. A crucial element of such a strategy is the establishment of *new social rights that go beyond employment*, as Alain Supiot (2001) said, for instance the right to training leaves, care leaves, intermediate working time reduction or even long-term sabbaticals. These rights should be made conditional of contractual negotiations between employers and employees or between social partners.

Fourth, managing social risks over the lifecourse therefore requires a system of *work-life insurance* that is built upon three pillars: First, a universal basic income guarantee that ensures a life without persistent poverty; second, the extension of unemployment insurance to an employment insurance that also covers employability and to some extent volatile income risks; third, private or collectively bargained insurance systems targeted especially at lifecourse risks related to the knowledge and care economy, such as life-long-learning accounts, time-saving accounts or care-leave systems in which governments at various levels can join the venture through tax subsidies, standard setting and co-financing partners.

Fifth, the *system of employment insurance* would serve three functions: generous income protection for a restricted period of time in involuntary unemployment; employment security through active labour market policy that is not only confined to offering jobs and placing individuals in work but that also supports follow-up measures to transform mere workfare measures into stepping stones to sustainable work; and finally better inclusion of non-standard workers in labour law and social security systems.

Sixth, one innovative element of employment insurance is the concept of *wage insurance*. Such an insurance would cover to some extend the loss of wage income when changes of employment become necessary due to structural change, for instance trade adjustment, or due to the loss of individual productivity, for instance through attrition of work and income capacities. Acceptance of intermediate downward mobility should be rewarded by active labour market policy aimed to re-establish upward mobility.

Seventh, as the successful countries demonstrate, *flexicurity has to be embedded in a sound macroeconomic policy*. Without a sustainable job creation dynamics, all employability and stepping-stone strategies are in danger to end in a cul-de-sac or to displace other categories of workers. Because Europeanisation, in particular the Euro-zone, increases interdependencies, coordinated efforts to stimulate sustainable economic growth are required, especially through investments into a better European economic and social infrastructure. Moreover, the neglect of macroeconomic policy also leads to a lack of functional equivalents of labour market flexicurity on the demand side. Cheep consumer credits, tax subsidised learning accounts, inequality insurance and real estate price insurance would be examples for flexicurity on the demand side (Shiller 2003).[11]

To conclude, this paper should have shown that proper risk management of TLMs can modify the traditional full employment goal in two ways in order to modernise the corresponding overarching goal of the European Employment Strategy. On the one hand, TLMs temper the drive for full employment by widening the concept of work and by valuing non-market categories of work as meaningful productive activities. On the other hand, TLMs increase the ambition for full employment by extending the range of job opportunities people are able to choose during their lifecourse. If 'more and better

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[11] Even if it had to be put in the US context, of special interest and in the vein of Dworkin's concept of distributive justice is Shiller's proposal of an inequality insurance. "The idea […] is that the government should set by legislation the level of income inequality, in most cases probably initially roughly equal to the level of inequality today, and create a tax system that prevents inequality from getting worse. The idea is that if income inequality begins to get worse, then taxes automatically become more progressive as a correction. The tax changes would be automatic because the tax would be framed as enforcing a measure of inequality rather than specifying tax rates. I am calling the program *insurance*, quite loosely, to frame the program in the public mind as the risk management vehicle that it is, and to highlight that it will not wrest from anyone from the standpoint of today. Inequality insurance is not a Robin Hood plot to take money from the rich and give it to the poor. Like other risk management devices, it focuses only on protecting all of us from future risks" (p. 149). That system would ultimately pay negative taxes to people of the lowest income. There is a risk, because the economy is a very unpredictable allocator across people. Especially in the rich countries, inequality is increasing. Advanced technology often means that a smaller number of skilled people supply their services over a wider area, producing a 'winner-take-all' effect, where only the best do well, and these lucky few command enormous incomes (Shiller 2003, pp. 149–164).

jobs' shall make sense, modern full employment shall not only provide freedom from want but also freedom to act.

With respect to the functioning of labour markets, the TLM approach acknowledges the power of markets and therefore focuses on strategies that 'make workers fit for the market.' However, TLM also acknowledges the problems of market failure and the risk of reduced working capacity during the lifecourse for various reasons (disability, care obligations, off-the-job training), which in turn also necessitates to 'make the market fit for workers'.

The goal of TLMs is to encourage more flexibility while maintaining sufficient levels of security. However, this does not mean a simple flexibility-security trade-off based on the treacherous notion of 'balancing flexibility and security'. Such a careless wording opens the doors for utilising the concept of flexicurity arbitrarily for any kind of political interests. The aims of TLMs are more ambitious: they are about encouraging a complementary relationship between flexibility and security. TLMs are about ensuring security in transitional employment relations based on 'stepping stones' or 'building bridges' to overcome critical events during the lifecourse while reducing the probability of being trapped by lack of solidarity in taking over more risks. Only such 'active social securities' will encourage workers to make the risky decisions that are the preconditions for creativity and productivity enhancing flexibility.

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