DYNAMO

Dynamics of national employment models

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DYNAMO website: http://www.dynamoproject.eu/
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Project description

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

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

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

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

Figure 1.1: Pressures for change on EU National Employment Models

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

It is in this context that the present report takes as its theme the dynamics of national employment models in Europe. Our objective has not primarily been to analyse how employment models differ across countries. Rather it is the question of whether or not, and in what respects, they have continued to differ over the past few decades and possibly will continue to do so in the future that has been at the centre of the DYNAMO project. If there is actually something like a “broad process of liberalization” in Europe, it may indicate that national employment models are seized by a process of convergence towards an increasingly market-led way of organising the supply, demand and utilisation of labour. In fact, the question of whether such a process of convergence is actually taking place at all or whether national distinctiveness continues to be reproduced or renewed may be regarded as crucial for the future of a distinctive European social model, or as we would prefer to phrase it, of the different social models in Europe that contribute to the EU’s distinctiveness relative to other regions in the world.
For the sake of clarity and as noted briefly already, we differentiate ourselves from the widespread understanding of “models” as role models. Not only national but also European and international actors have developed an increasing interest in the sharing of examples of both good and bad experiences across national boundaries. As a result, awareness of the various national employment models and the scope they offer for dynamic and flexible development has increased considerably in recent years. However, the process of learning from so-called best practice often relies on very partial analyses of both performance and of the need for the development of complementary institutions.¹

The ambiguous use of the term “model” is reflected in the ups and downs of “models” in both political and academic debates. Wolf’s statement (1996, as quoted by Coates 2000: 233) that whenever they “embrace a particular exemplar, it turns out to be on the verge of collapse” applies to both right and left. Fulcher (2005: 190) notes that “model status can change rapidly as economic fortunes and international judgements shift”. He refers to the examples of Japan, which “went from model in the 1980s to basket-case in the 1990s”, and to the USA that “went from competitive failure in the 1980s to become the model of shareholder capitalism in the 1990s but now, post-Enron/Worldcom and hugely burdened with debt, is it still a model?” More recent, and European, examples of changing “model status” which will be addressed in the present report are the UK and Sweden. Rubery et al. (2007) put their analysis of the UK model under the headline “From basket case to success story?”, and Anxo et al. (2007) give a striking account of the ups and downs of the Swedish model, which to judge from the literature of the early 1990s was doomed to failure, whereas for many observers today it ranks amongst the best performing EU member states as far as the Lisbon targets are concerned. The most recent example of short-lived PR cycles experienced by national models is Germany, which was hailed by the Financial Times (11 December 2006) as Europe’s “‘sick man’ now turned a picture of health’.

¹ A prime example here is the considerable interest in the Danish so-called flexicurity system; this system, which facilitates transfer job mobility between organisations, is heavily reliant on a high tax base and high levels of benefits, but these complementary institutions are not often stressed in the debate. The European Commission has taken up the call for flexicurity but stresses flexibility and security through employability, with little emphasis on the more conventional social protection that is available in the Danish model (Keune and Jepsen 2007).
The obvious question triggered by these examples is to what extent the Swedish model of today is the same as the one that was written off some 10 or 15 years ago, and if the German model of today is still the one that used to be the flagship of corporatism and strategic coordination in the literature of the 1980s or early 1990s. To answer this question we need to understand the character of change in each individual national employment model.

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

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

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

1.1 Understanding varieties of (welfare) capitalism

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

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

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

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

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

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

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

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

### Table 1.1: Where are the “DYNAMO countries” located in existing typologies?

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


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2 Note that these links maintain the focus on firms as the core actors in any variety of capitalism, which is essential for the VoC literature. Consequently, Hall (2007: 40) has recently integrated an appreciation of variations across welfare states into his VoC analysis as “social policy is a crucial adjunct to coordination”.
Not surprisingly, the typologies based on the ideal-type approach, in contrast to Amable’s cluster-based grouping of countries, leave many “white spots” on the European landscape. Moreover, particular countries exhibit contradictory features. One such is Italy, which is taken as an example both for LME and CME within the VoC literature. Another is Ireland which, in Amable’s work (2003), clusters with the liberal economies (where most authors would presumably locate this country at face value) as far as product market regulation is concerned, but switches to the “continental” group in the final and overall country clustering. Finally, it is important to realise that the clearest and most homogenous features in Amable’s clusters are exhibited by the “market-based” economies, followed by the “social-democratic” cluster, whereas there is much less homogeneity among the “Continental European” group of countries. A similar problematic has been addressed by the VoC literature by creating a third type, namely “mixed market economies/MME”, which includes countries like Italy, Spain or France (Hall/Gingerich 2004: 34). Quite obviously, however, this type is not much more than a residual category for the sake of statistical comparisons, quite similar to Amable’s “continental” cluster of countries. The economies thus described are analysed as “underperforming” (Hancké et al. 2007), thus making them interesting examples for the VoC case only in so far as they demonstrate the squeeze to which countries with inadequate institutional complementarities are being subjected.3 When it comes to a concrete analysis of individual countries, however, the limits of existing typologies become obvious.

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

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3 More recently, a fourth type was labelled “emerging market economies/EME”, referring to the post-transitional CEE economies “less as a separate ‘variety’ of capitalism as such than a cluster of countries in transition with only partially formed institutional ecologies“ (Hancké et al. 2007: 4).
game but an essential first step in creating some order out of the chaos of international diversity and providing a framework within which meaningful comparisons can be made” (Fulcher 2005: 178). Typologies and ideal types are ultimately heuristic instruments and abstractions from national specificities. The real world is full of “institutional bricolage” (Crouch 2005). Hence, for the purposes of our analysis, we had to go beyond existing typologies and take into account various aspects which do not “fit” with the level of abstraction needed in the discussion of typologies. While we will often take advantage in what follows of existing typologies of varieties of (welfare) capitalism and refer to the country clusters identified by Amable (2003)\(^4\), our analysis will focus particularly on the contradictory process of change. To this end, we look at interactions between the main elements or pillars of national employment models, i.e. the production, employment and welfare regimes (Table 1.2).\(^5\) In addition to the three segments or pillars of employment models, we also take into account the macroeconomic management of the economy, including the monetary and fiscal policies adopted. Its relevance is underscored, for example, by the high employment growth found in the last decade in the UK (as in the USA), which cannot be explained without taking into account those countries’ expansive fiscal policies.

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

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

Source: own compilation

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

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

\(^5\) The term “regimes” reflects the concept of “institutions as social regimes” as elaborated by Streeck and Thelen (2005) as well as the move within the welfare state literature to a broader approach beyond just welfare states towards a wider set of institutions, including gender regimes or also education systems (Kaufmann 2003, Esping-Andersen 1999).
whether a coordinated market economy operates in a social-democratic or conservative welfare regime, as is the case in Sweden and Germany respectively. It makes a difference if a liberal production regime is matched by liberal employment and welfare regimes as in the UK or if it operates in a corporatist environment as in Ireland. The French and Austrian production and employment regimes may both be characterized by enhancement by the state, but the elitist employment regime in France will yield a totally different trajectory of change than the corporatist one in Austria. Similarly, the distinctive Southern European configuration of little coordination in an environment of strictly regulated product and labour markets and family-based welfare regimes cannot be understood simply by examining coordination among firms. In short, if we want to capture change we have to take into account the nexuses formed by production, employment and welfare regimes. Whether or not an employment regime is inclusive or a welfare regime is geared to the promotion of gender equity may have fundamental implications for the dynamics of a country’s production regime. It should be noted that the importance of these interactions goes beyond the realm of academic analysis. The interlocking character of the three regimes that constitute national employment models, and the influence exerted on them by macroeconomic policy, is equally relevant for policymakers, as will be spelled out in the concluding chapter of the present book. In fact, the widespread failure to understand that employment protection and welfare provision can be productive forces rather than mere compensations for market failures is characteristic of the European project in its present shape.

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

1.2 Change – a contentious issue

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

In the original formulation of their approach, Hall and Soskice were already aware of this problem as they dedicated a chapter to the necessity of “analyzing change in national systems”. The argument there goes as follows (Hall/Soskice 2001, p. 62 ff.):

“We see national political economies as systems that often experience external shocks emanating from a world economy in which technologies, products, and tastes change continuously. These shocks will often unsettle the equilibria on which economic actors have been coordinating and challenge the existing practices of firms. We expect firms to respond with efforts to modify their practices so as to sustain their competitive advantages, including comparative institutional advantages. Thus, much of the adjustment process will be oriented to the institutional recreation of comparative advantage.”

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

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

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

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

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

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

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

2 The reproduction of national distinctiveness amidst international commonalities

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

6 A more detailed account and analysis is provided by the DYNAMO reports (http://www.dynamoproject.eu/)
2.1 Patterns of change across and within country clusters

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>Sweden</th>
<th>EU 25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment rate (%)</td>
<td>71.7</td>
<td>72.5</td>
<td>63.8</td>
</tr>
<tr>
<td>(2005)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini coefficient</td>
<td>0.35</td>
<td>0.23</td>
<td>0.29</td>
</tr>
<tr>
<td>(2003)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

\(^7\) Given the divergence among CME countries, the decision on the usefulness of the term “coordinated
market economies” will depend, maybe more than ever, on the focus of analysis. The focus on com-
parative institutional advantages and institutional complementarities will remain pertinent in a VoC
perspective focused on growth and (particularly manufacturing) competitiveness. As to the wider
employment and social model, however, this perspective is losing persuasive power and Amable’s
(2003) approach, which singles out the “Social-democratic” type or cluster will be more useful. As to
the residual “Continental” cluster, however, its heterogeneity is so striking (as Amable himself is well
aware of) that its value as an analytical tool is as questionable as the MME concept.
den. In this respect Austria is close to France, which is regarded in the literature, if at all, as the European reference for “state-led economies” (Coates 2000).

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

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

\textsuperscript{8} The ongoing North-South divide in Italy has found, for the time being, its counterpart in the East-West divide in Germany. However, these well-known examples should not blind us to spatial divisions in other countries, such as Hungary or Ireland, where the underlying logic of the economic dynamic includes both sectoral and spatial concentration.
To conclude, different though comparable problems may also become dominant features of the post-transitional models, whose most salient characteristic, and possibly one of their very few truly common characteristics, may be regarded as the prevalence of dynamics in search of a model. As demonstrated by our Hungarian case, which will differ in many aspects from the other CEE countries, the economic and social trajectory is fragile as the “life cycle” of a low-road, FDI-driven trajectory is coming to an end. The future of the welfare state is highly controversial, since the country is “tempted by the different faces of Europe” (Neumann et al. 2007). This “model-seeking” characteristic of disputes as to the future direction of welfare provision combined with a fragile value-added base is reminiscent of the trajectories of EU countries which started on their catch-up race one or two decades earlier.

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

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

2.2 Common trends of change

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

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

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

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

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

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

Source: DYNAMO reports, own compilation

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

2.3 Different types of change

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

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

As the German country studies for DYNAMO suggest, there is an even more striking example of at least partial “displacement”, namely the fragmentation within the country’s industrial relations system. The “dormant” model was characterised by a lack of independent bargaining power for trade unions or works councils in many small manufacturing establishments and, even more so, in greater parts of the private service sector. In many bargaining rounds, the benchmark rate was set by “pacesetting” plants or regions, with the bulk of the industry moving behind in the slipstream. From a VoC standpoint, employers outside the pacesetting elements of an industry would be regarded as benefiting from the comparative institutional advantage of large-scale bargaining. The more recent German experience, however, tells a different story. As
argued in the German report, the comparative advantages of a stable industrial relations system are no longer taken for granted by increasing numbers of employers. This move by parts of the business sector amounts to nothing less than a calling into question, implicitly or explicitly, of the compromise on industrial relations that was reached in West Germany in the conflict-ridden early 1950s (i.e. a “suppressed historical alternative” has been revitalised). The constraints on employers inherent in this compromise have been gradually regarded as less beneficial than short-term advantages, which have become achievable as a result of the decline of trade union power. As Thelen (2001: 74) rightly points out, “non-market coordination, far from being a self-sustaining feature of particular systems, in fact involves a political settlement and indeed one that has to be renegotiated periodically.” Still, if trade unions decline, and if there is no government action to fill the gap, fewer and fewer employers feel the need to negotiate, let alone renegotiate.\footnote{While Thelen (2001) rightly points to the importance of conflicts of interest on the employers’ side regarding the stability of industrial relations institutions, it must be borne in mind that the ultimate factor which impacts on the balance of power in these conflicts is the influence of organised labour. The clue to understanding the upheaval in the industrial relations system in Germany is the story behind conflicts of interest amongst employers, that is the dramatic decline of trade union power in the post-reunification decade.} As a result of the recent changes in collective bargaining, sheltered and unsheltered parts of the economy now co-exist and regime competition within individual industries is growing.\footnote{It should be added that “displacement” is not the only angle from which this change can be analysed. In the sheltered parts of the economy there is also a great deal of “conversion” involved, comparable with the “supply-side corporatism” highlighted earlier by the example of Austria. This intertwinement of various types of institutional change can be observed in many other cases mentioned in the present chapter. Thus the present analysis is illustrative in nature and far from providing an exhaustive picture.}

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

The same applies to “layering” of institutions. The expansion of French active labour market policies during the 1990s, which led to increases in both public spending and
precarious employment, illustrates this type of change. A second example from France would be the decentralisation of collective bargaining in the course of the introduction of the 35-hour week. The working-time legislation that stipulated that the payment of subsidies to employers granting shorter working hours to their workers should be coupled to the existence of a local agreement gave a boost to local collective agreements in the French economy at the beginning of the present decade. While this side effect was explicitly intended by the socialist government, the trade unions’ local organising and bargaining power did not keep pace. Thus decentralisation led eventually to greater employer supremacy in the bargaining system rather than a rebalancing of the bargaining levels.

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

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

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

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

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

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

Comparing the Austrian with the German case is interesting. As long as leading actors
support the basic institutional setting, there will be a comparatively strong “rub ff
effect”. If major actors draw back, thus leaving the employment model increasingly “unsustained”, the rub-off effect will eventually fade.\(^\text{11}\)

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

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

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

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

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

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

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

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

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

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

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

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

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

13 The cases of Sweden, Germany and the UK demonstrate that this also holds for political strategies. The policies of social-democratic governments inspired by “third way” ideas may contrast across institutional settings and political “cultures” even if, at first glance, there is considerable overlap (privatisation of utilities, combination of tax/insurance-based and private elements in the pension systems, ALMP, “investment friendly” corporate tax reforms, etc.). We will return later to the case of utilities, which reflects the different capacities of national employment models to “digest” product market deregulation and the differing “rub-off effects” produced by similar political approaches.
<table>
<thead>
<tr>
<th>Policy area</th>
<th>Germany</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal policy</td>
<td>Main target: to increase private investment by cutting state revenues and spending&lt;br&gt;Reduction of public employment&lt;br&gt;Reducing public deficits by austerity&lt;br&gt;All-time low for public investment&lt;br&gt;Weaker R&amp;D expenditures&lt;br&gt;Tax reforms -&gt; weakening of tax base + tax cuts for higher incomes</td>
<td>Main target: to increase both employment and private investment without endangering public revenues and spending&lt;br&gt;Safeguarding most of public employment&lt;br&gt;Turn towards austerity but focus on reducing public deficits by growth&lt;br&gt;Recovery of public investment&lt;br&gt;Soaring (mainly private) R&amp;D expenditures&lt;br&gt;Tax reforms -&gt; widening of tax base + lower tax rates</td>
</tr>
<tr>
<td>Monetary policy</td>
<td>Euro&lt;br&gt;Maastricht-centred</td>
<td>Independent&lt;br&gt;Support of turnaround by devaluations of Swedish Crown</td>
</tr>
<tr>
<td>Education</td>
<td>Low priority</td>
<td>High priority</td>
</tr>
<tr>
<td>Gender approach</td>
<td>Continuing promotion of “modernised” male breadwinner model; recently additional support for dual-earner households</td>
<td>Continuing promotion of dual breadwinner model</td>
</tr>
<tr>
<td>Industrial Relations approach</td>
<td>Drift towards gradual fragmentation supported by state as employer</td>
<td>Urge for recovery of centralised coordination with strong elements of decentralization</td>
</tr>
<tr>
<td>Labour market reforms</td>
<td>Background of weak economic growth; substantial cuts in benefits of long-term unemployed; weakening of training in ALMP</td>
<td>Background of accelerating economic growth; continuing emphasis on training</td>
</tr>
</tbody>
</table>

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

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

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

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

2.5 Does institutional distinctiveness still matter?

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

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

14 The implication is the absence of a positive impact of earnings inequality on employment, which is supported by various statistical analyses (Employment in Europe 2005: 193). The exploration of the importance and meaningfulness of various indicators for a more quantitative evaluation of employment models was not part of the DYNAMO project and cannot be spelled out here. For a critical assessment of indicators of economic and social wealth cf. Gadrey/Jany-Catrice (2007).
in the labour market, these pressures include, first, the upgrading of the skills hierarchy in labour demand in the advanced countries due to international competition and technological change at a time when international labour migration and failures of national education and training policies tend to produce an oversupply of unskilled labour in many countries (Miguélez et al. 2007).15 Second, in Continental and Southern European countries in particular, so-called “labour market reforms” have given rise to precarious segments and a dualisation of labour markets (Karamessini 2007b). Third, changing consumption patterns linked with soaring female labour market participation have boosted the demand for public and private services which must be affordable, imposing the chronic “cost disease” on the more labour-intensive of these service activities (Bosch/Wagner 2005b). Fourth, the continuously shifting international division of labour includes the permanent temptation in the more advanced, but job losing, countries to trigger races to the bottom for the sake of safeguarding endangered low-skilled jobs by gradually drifting towards the low road (Haipeter/Banyuls 2007). Similarly, the recent analysis by Buchele and Christiansen (2007) of the United States shows that the shifts in labour’s share in GDP are attributable to a multitude of pressures resulting from an increasingly integrated global economy, including the combined effects of pressure on wages and jobs (particularly those exposed to international competition) and unemployment. Thus, it is for a bundle of reasons that inequality has become a permanent and major challenge to welfare regimes, which may have repercussions on the employment and production regimes. As the DYNAMO reports indicate, national employment models of various types “digest” this challenge in different ways.

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

15 The impact of labour migration here does not necessarily stem from unskilled workers but rather from workers prepared to do unskilled jobs at low wages irrespective of their educational attainment.
and more gently in the United States, implying that average wages have failed to keep pace with labour productivity”.  

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

![Graph showing wage share of national income](image)

a) Total labour compensation, including employers’ social security and pension contributions and imputed labour income for self-employed persons. 

b) GDP-weighted average of the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom. 

Source: OECD estimates using the OECD Economic Outlook database.

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

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

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

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

![Graph showing the ratio of the 90th to 10th percentile earnings across countries.]

Source: OECD Employment Outlook (2007: 286)

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

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

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

Source: OECD database on Earnings Distribution.

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

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18 The same applies to an EU-US comparison; cf. Rosenberg (2007).
The generation after the Second World War was the result of policies that began in the Great Depression with the New Deal and were amplified by both public and private actions after the war. This stability was not the result of a natural economy; it was the result of policies designed to promote it.” Thus, they argue, it was a shift in political priorities that initiated the new long-term trend that has seen wages losing track with productivity increases over recent decades.

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

<table>
<thead>
<tr>
<th></th>
<th>Risk of poverty before social transfers (%)</th>
<th>Risk of poverty after social transfers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HU</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>SE</td>
<td>29</td>
<td>11</td>
</tr>
<tr>
<td>FR</td>
<td>26</td>
<td>12</td>
</tr>
<tr>
<td>AT</td>
<td>24</td>
<td>13</td>
</tr>
<tr>
<td>DE</td>
<td>24</td>
<td>15</td>
</tr>
<tr>
<td>EU 25</td>
<td>24</td>
<td>15</td>
</tr>
<tr>
<td>UK</td>
<td>26</td>
<td>18</td>
</tr>
<tr>
<td>ES</td>
<td>22</td>
<td>19</td>
</tr>
<tr>
<td>IT</td>
<td>22</td>
<td>19</td>
</tr>
<tr>
<td>EL</td>
<td>24</td>
<td>21</td>
</tr>
<tr>
<td>IE</td>
<td>31</td>
<td>21</td>
</tr>
</tbody>
</table>

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

Source: Employment in Europe 2005, p. 123

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

Among the countries covered by DYNAMO, the risk of relative poverty based on market income, i.e. before social transfers, is the second highest in Sweden, whereas in the same country the poverty risk is second lowest after social transfers. Next to Sweden, poverty is least tolerated in the three countries with continental welfare regimes. Given the high market earnings dispersion in Sweden and also in France (where it equals the UK level), this represents an obvious and major challenge to the redistributional capacities of these welfare states.
Not surprisingly, the UK ranks above the EU-25 average on both indicators, but the reduction of the poverty risk by social transfers is almost as great as in Germany (the reduction rate is even higher in Ireland but social transfers cannot fully compensate for the market-initiated poverty risk in that country). This underscores the finding of the British DYNAMO report that, although the UK’s residual welfare state functions in an environment more tolerant of inequality than in other European nations, it has over the past decade been increasingly required to tackle the poverty problem. It is true that substantial relief to public spending has been provided by the statutory minimum wage, which sets limits on indirect subsidies for bad jobs in private services. It should be noted, however, that the opportunity for the UK government to increase anti-poverty spending, including in-work benefits, has been provided by high growth rates, which may not continue in the medium-term. As Rubery et al. (2007) summarise, “the prosperity of the UK is based on relatively fragile conditions that might undermine its sustainability. Perhaps most important is its over reliance on credit. It is also vulnerable to the political cycle and if the increased expenditure on public services is not deemed by the electorate to have delivered high volume and quality, the next phase of the political cycle might see retrenchment and a return to lower growth and public expenditure. The current method of financing the expansion of the public sector also raises the spectrum of future generations paying a far too high price to the private sector for its current investment.”

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

19 Note that the positive picture on Hungary in Table 4.3 is based on 2002 figures and may be not fully up to date as earnings inequality has soared rapidly in this country over recent years (cf. Figure 4.3 for more recent figures), which may also increase the risk of poverty.
The three countries with Southern welfare regimes are strikingly similar: initial poverty risks are below the EU average but social transfers make only a minimal contribution to poverty reduction. As analysed in the Italian and Greek DYNAMO reports, this mainly reflects limited capacities rather than a simple circumvention of social obligations. Ultimately it is still the family that acts as a safety net for those exposed to the social risks associated with the large and ever growing precarious segments in the labour market. This contributes to the further expansion of the extensive informal sector, which official statistics fail to capture. The informal sector, in turn, erodes the fiscal base and thereby reduces the scope for developing more comprehensive welfare systems.

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

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

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

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

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

<table>
<thead>
<tr>
<th>Examples of ‘fit’ with national model</th>
<th>Ongoing areas of conflict/tension?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partial</td>
<td>Full</td>
</tr>
<tr>
<td><strong>AT</strong></td>
<td>High use of self-employed</td>
</tr>
<tr>
<td>State-led market economies</td>
<td></td>
</tr>
<tr>
<td><strong>DE</strong></td>
<td>No specific sectoral agreement for collective bargaining; patchy provision from other sector agreements</td>
</tr>
<tr>
<td><strong>FR</strong></td>
<td>Flexibility exercised outside the Aubry working-time legislation</td>
</tr>
<tr>
<td>State-led market economy</td>
<td></td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>Exceptionally high use of freelancers</td>
</tr>
<tr>
<td>Liberal market economy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risk to job security posed by outsourcing and offshoring</td>
</tr>
<tr>
<td><strong>EL</strong></td>
<td>High use of individual wage bonuses</td>
</tr>
<tr>
<td>State-led familial market economy</td>
<td>Firms avoid formal definition of working time</td>
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Source: Grimshaw et al. (2007)
If we take an expanding IT sector as an indicator of the potential for future growth and competitiveness, it becomes obvious that there are different institutional gateways to that future, quite in line what would be suggested by a VoC approach. At the same time, tensions and contradictions become evident under all circumstances. Even in an LME environment, which in principle offers the best “fit” with many of the sector-specific requirements of the IT industry, there are paradoxical tensions emerging, such as the unionisation challenge to US firms that are taking advantage of the outsourcing strategy of the public service in the UK, which in fact has given a major boost to the industry over recent years in that country. In a nutshell, changes in the production regime may cause tensions with the employment regime and, conversely, contradictory repercussions may radiate from the employment regime towards the production regime.

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

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

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

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

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

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

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

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

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

To summarise, national or regional authorities continue to enjoy a certain degree of freedom to set quality standards for services, which influences the demand for certain qualifications and skills among the workforce. However, the provision of financial resources for transport services remains limited. Thus, the decision on the level of service required is a purely political one that determines the price to be paid by passengers and the level of public subsidy required. This establishes the framework for determining both wages and the potential profitability of the transport operations. The lower the level of public commitment is, the greater the pressure on employment conditions will be. This brings existing labour market regulations into play. The more they relied primarily on the public character of ownership in the past, the greater the strain on labour standards will be in a less regulated environment. The bottom line here is the increasing importance of more general protection of employment conditions at national level once traditional product market regulations begin to be eroded.

The interaction and mutual dependence between product and labour market regulations is equally important in the construction industry, even though the underlying story is different. As the DYNAMO sector studies show (Recio 2007), two major types of employment models in construction have so far coexisted in European countries. The high-road type has focused on guaranteeing professional development through the combination of training processes, division of tasks, and institutions that provide employment security in a context of seasonal fluctuations, mobility of manpower and great product variability. The low-road type is based on learning on the job, strong competition between workers and subcontracting, which leads to poor working conditions and insufficient safety nets, only palliated in recent years by the strong growth in the countries where this model is predominant.

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

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

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

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

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

3.2 Tensions within the employment regime - welfare regime nexus

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

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

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

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

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

Table 3.3: Female employment rates (in % of population aged 15-64 and in full-time equivalents), 1995 and 2006

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

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

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

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

A rough indicator of the incidence of such strategies is provided by the OECD statistics on gross public expenditures on social services as a percentage of GDP (Figure 3.2). Note that the data exclude cash benefits and refer solely to services for social purposes paid for by public bodies.
Apart from health services, which account for the bulk of social services expenditures, it is obvious that expenditures on other social services differ substantially across the EU countries covered by DYNAMO, ranging from 0.8 % in Italy to 7.4 % in Sweden. On the basis of the typologies relevant to national employment models, Sweden can be singled out as the flagship of the Nordic model at the top end, while the Southern countries, together with Ireland, bring up the rear. This contrasting picture of Nordic vs. Continental and familialist welfare regimes accords fully with what would be expected within welfare regime typologies. The picture for the other Continental welfare regimes is less homogenous. Austria and Germany seem to form a group that is very close to the familialist group of countries, whereas the provision of social services in France is much more advanced, thanks to the developed child care system. Interestingly, Hungarian social services appear to be as well funded as those in France, which reflects a split in public attitudes between an LME-type production

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21 Sweden is an outlier even among Nordic countries, but the ranking of these countries relative to other European countries remains unchallenged: Public spending on “other social services” as % of GDP is 6.3 % in Denmark, 4.9 % in Norway, 4.8 % in Iceland, and even Finland with 3.7 % ranks way above the OECD average (OECD 2007b).
regime and a Social-Democratic orientation when it comes to the welfare state. Maybe surprisingly, the UK as the LME flagship ranks second among DYNAMO countries. Obviously, an LME may, in principle, be compatible with a high level of social services as long as the value-added base in the economy allows for it (which is of course true for any other variety of capitalism). This condition is given in the UK but not in Hungary, where the contradiction between production regime and welfare regime is evident (Neumann/Toth 2007).

It should be noted, however, that the picture based on public expenditure data may be incomplete or even misleading, since social services may be provided by private or not-for-profit organisations rather than just by public organisations, and paid for by private households. Thus it is useful to include data on labour input into social services irrespective of the funding structure of the organisations delivering the services. As individual services may be categorized differently across countries (e.g. childcare or elderly care may be categorised as education or health services respectively), Figure 3.3 shows the weekly hours worked per capita in education, health and other social services in order to give the full picture of the labour input into social services in a wider sense. This measure differs from the ones usually applied in the literature, such as “the share of service employment in total employment”. Our indicator - “total hours worked per capita of population” - shows the importance of social services for labour markets irrespective of other variables, such as the share of manufacturing or the age structure in a given country (for the rationales behind different tertiarisation indicators and the NACE codes for service industries cf. Bosch/Wagner 2005a).
By and large, the data on trends in labour input into social services over the past decade support the picture provided by social expenditure data. Sweden and the UK as the high-end countries have rapidly expanded the hours worked in social services as a whole. Remarkably, the build-up of social services has been fastest in the UK of all the countries covered. It should be noted, however, that this build-up has taken place within the UK government’s “market state” strategy, in which social services are being increasingly supported by cash benefits given to private households and service provision is being increasingly outsourced rather than being delivered within the public service. Interesting additional insights include the finding that Ireland and the Southern countries, with the possible exception of Italy, are catching up much faster than the Continental welfare regimes in Austria and Germany. The division between the latter group of countries, on the one hand, and the two flagship social-democratic and liberal welfare regimes, on the other, remains as pertinent today as it used to be, as shown by the data on social expenditures.

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

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

These data reflect an institutional complementarity, which does indeed appear to be a comparative advantage for some countries but a comparative disadvantage for countries with continental and southern welfare regimes. However, it should not be forgotten that female employment rates are increasing irrespective of limited social services provision. The consequence in countries with continental / familialist welfare regimes is that increasing female labour market participation is accompanied by fertility rates way below the EU average. In the UK, on the other hand, the potential lynegative effect on fertility rates of childcare services lagging behind the rapidly increasing demand is outweighed by means-tested benefits and, most importantly, the relatively young age at which graduates start their careers (Rubery et al. 2007), which obviously allows to become established in their careers before starting a family.
Moreover, in some countries - and Germany is the most prominent example here - women continue to enter the labour market on reduced working hours, thereby not making full use of the qualifications they have acquired. As a consequence, the value-added base needed to meet the demographic challenge to welfare states in the short run is being restricted, as is the potential to modify demographic trends in the longer run.

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

<table>
<thead>
<tr>
<th>Predominantly formal care market</th>
<th>Sweden, France, UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Important informal care market (predominantly family carers) and growing share of formal market</td>
<td>Germany, Austria</td>
</tr>
<tr>
<td>Predominantly informal care market (family carers and immigrant labour)</td>
<td>Mediterranean countries</td>
</tr>
</tbody>
</table>

Table 3.4: Care regimes

Source: Own compilation based on Simonazzi (2007)

Systems relying on in-kind provision, contracting out and “tied” cash allowances (to be used to hire private carers) are the most effective in creating a formal market. Those systems relying mostly on unconditional cash allowances (monetary transfers) have slowed down the creation of a formal market for care, encouraging instead the supply from the informal market, either family carers or carers hired by the family in the market. In the Southern European countries this process is still under way, because the limited amount of public funds for elderly care has not yet been able to create a formal market. This is slowly changing in Spain, for instance, particularly since the Dependent Persons Act was passed, and there is a general trend towards the regulation and formalisation of the elderly care labour market. Thus the interaction between the care regime and the national employment model can lead to very different results in terms of the kind of employment that is created and ultimately determines whether the increasing demand can be met internally or whether immigrant workers are needed in order to make good labour shortages.
The UK, Sweden and France fall into the first category, i.e. the creation of a market for care, but have different experiences in terms of the supply of domestic care labour. In the UK, care service jobs have been traditionally classed as manual work and have required no formal qualifications for entry (in line with many manual jobs in the UK labour markets). With the increasing marketisation of services, cost pressures have further encouraged the development of a low-paid and casualised workforce (Anxo and Fagan, 2005). Low wages and other poor employment conditions, low levels of educational attainment, a negative public image of social care work, organisational aspects which reduce job satisfaction (e.g. constant change, poor management) and the stress of the work are at the basis of the difficulty that the sector faces in workforce recruitment and retention. The increasing role of the private (mainly for profit) sector in care services in the UK may be exacerbating these problems. In contrast, Sweden’s system of long-term care services is designed to support women in the workplace and to professionalize care-giving to older people needing help. Compared to other countries’ caregivers, Sweden requires the highest levels of education and pays the highest salaries. Anxo and Fagan (2005: 140) observe that “the qualifications levels required for entry to home care work have generally been rising in Nordic countries, from a base that is already high compared to the situation in some other countries such as the UK. Thus in Finland and Sweden, three years of training in upper secondary school is now a typical entry requirement”.

Table 3.5: Use of insurance allowance: Germany and Austria

<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>Austria</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of recipients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash allowance</td>
<td>50.4</td>
<td>80</td>
</tr>
<tr>
<td>In kind</td>
<td>19.1</td>
<td>5</td>
</tr>
<tr>
<td>Residential care</td>
<td>30.5</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: National Reports

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

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22 The impact of high cost pressure on job quality in private services was highlighted, in the DYNAMO project, by the example of the hotel/restaurant sector. Jany-Catrice and Ribault (2007) summarise the dilemma in this industry by pointing to the contradiction between the persistent call for higher service quality and a simultaneous deskilling or de-professionalisation of jobs as a response to competitive pressures and to the international division of labour.
care, with a highly regulated system of qualifications and professional degrees has produced a dualistic market.

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

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

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

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

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

4 Conclusions

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

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

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

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

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

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

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

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