



Let's get to **Work!**

Vol1

The **Future** of Labour in Europe



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Edited by
Miroslav Beblavý
Ilaria Maselli
Marcela Veselková

Foreword by
László Andor, Member of the European Commission

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MIROSLAV BEBLAVÝ
ILARIA MASELLI
MARCELA VESELKOVÁ

CONTRIBUTORS

LÁSZLÓ ANDOR
MIROSLAV BEBLAVÝ
IAIN BEGG
BAPTISTE BOITIER
VERENA DRÄBING
MARINA FISCHER-KOWALSKI
WILLI HAAS
FERRY KOSTER
JÁNOS MÁTYÁS KOVÁCS
NICOLAS LANCESSEUR
ILARIA MASELLI
NICOLE VAN DER GAAG
OLAF VAN VLIET
MARCELA VESELKOVÁ
PAUL ZAGAMÉ

CENTRE FOR EUROPEAN POLICY STUDIES (CEPS)
BRUSSELS

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Centre for European Policy Studies
Place du Congrès 1, B-1000 Brussels
Tel: (32.2) 229.39.11 Fax: (32.2) 219.41.51
E-mail: info@ceps.eu
Internet: www.ceps.eu

9. LABOUR MARKET INSTITUTIONS IN EUROPE: DIFFERENCES, DEVELOPMENTS, CONSEQUENCES AND REFORMS*

Governments devise various labour market institutions to enhance the functioning of the labour market or to correct and overcome negative consequences that the labour market may have. One of the reasons is that, as is the case with all markets, the market for labour may not function as efficiently as predicted in neoclassical economics. As a result, many countries and economic sectors observe longer or shorter periods of high unemployment. In addition, all kinds of other mismatches can occur, for example if people work more or less hours than they would like, if they are unable to find jobs for which they are qualified, or if displacement takes place. The occurrence of these outcomes and the desire to prevent their consequences can result in government intervention in the labour market. Besides these considerations of market failure, normative and ideological forces may play a role, meaning that the public can be in favour of the government always taking a strong role in the labour market.

Researchers investigating labour market institutions can focus on different aspects of the labour market. To begin with, they can look at the outcomes or at the policies contributing to these outcomes, or both. With regard to the outcomes, full employment may be regarded as the ultimate goal of the labour market and if this is achieved, one may conclude that the labour market is functioning efficiently. Others who focus on government policies are more interested in learning how governments can contribute to

* Chapter 9 was written by Ferry Koster, Associate Professor at the Erasmus University in Rotterdam, and Olaf van Vliet, Assistant Professor at the Leiden University.

achieving full employment. This chapter examines how governments intervene in the labour market and the consequences of this intervention.

9.1 Labour market institutions: Employment, income and labour market protection

There are several approaches to defining labour market institutions. First, one can take a very broad approach in which the labour market is viewed as an institution, that is, a coordination mechanism aimed at matching labour supply and demand. By taking such a starting point, questions arise about the foundation of the labour market. This approach is too broad for understanding the actions that governments take to correct market failures. Taking instead government intervention in the labour market as our point of departure, there is a second choice to be made, again between a broader or a more specific understanding of labour market institutions as forms of government intervention. In the broadest sense, the institutions include any form of government intervention related to the labour market. According to this definition, wage-setting and the regulation of working conditions are also considered labour market institutions. To arrive at a more useful definition, however, one needs to have a somewhat less-inclusive conceptualisation and to only focus on the institutions aimed at dealing with the negative outcomes of the labour market process and those intended to enhance the efficiency of the market.

Based on these considerations, we distinguish three kinds of labour market institutions, each intended to deal with a specific form of market inefficiency. The three labour market institutions of interest are hence distinguished on the basis of their intended function or policy goal:

1. Reducing the risk of unemployment. This set of institutions includes the policies and regulations that increase the security of workers.
2. Preventing income loss. These institutions contribute to the income security of workers, in the sense that they guarantee an income in the event of unemployment.
3. Enhancing labour market transitions. A final set of institutional arrangements aims at increasing the chances that someone finds employment after unemployment (or assisting the transition from inactivity to activity more broadly).

The three aspects of labour market institutions – employment protection, income protection and enabling labour market transitions – form the core of discussions on the functioning of labour markets. And, as a

result, many well-developed indicators are available that have been debated and tested at length, meaning that there is quite some consensus about their applicability. In the following, the most recent versions of these existing measures are presented and examined to provide an overview of the differences between countries and the changes that have occurred over the last 10 to 20 years.

Box 9.1 Labour market institutions

Employment protection: EPL

The level of employment protection in a country is usually measured with the Employment Protection Legislation (EPL) indicator developed by the OECD, which measures "... the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers on fixed-term or temporary work agency contracts".¹ Hence, information is available for two groups of workers: those with regular contracts and those having temporary contracts.

Income protection: URR

The institutions securing the income of workers have been measured in several ways. A common approach focuses on the generosity of the unemployment benefits in a country - or more specifically, the ratio between an individual's income and the replacement income if that individual becomes unemployed. Since unemployment replacement rates (URRs) can differ across occupational groups and household situations, several of these indicators are developed. For the present analysis, a recently constructed database is examined.²

Labour market policies: LMP

Governments can take different kinds of actions to assist the unemployed to find work. Here the analysis is based on the indicators provided by EUROSTAT.³ This measure includes spending on several labour market policies, such as 1) labour market services, 2) training, 3) job rotation and job-sharing, 4) employment incentives, 5) supported employment and rehabilitation, 6) direct job creation, 7) start-up incentives, 8) out-of-work income maintenance and support and 9) early retirement.

Actual unemployment, labour market transitions and other labour market outcomes are not the main topics addressed here, having been examined elsewhere.⁴ Only the link between protection and innovation will be discussed in more detail in this chapter. The focus is not on the outcomes of the institutions, but rather on whether countries differ with

regard to the use of these institutions and the extent to which their use has changed over time. Besides discussing the institutions separately, we examine their interrelationship. This means that the analysis relates to more general labour market models, such as approaches to transitional labour markets or flexicurity.⁵

Finally, it should also be noted that labour market institutions concern the policies devised by governments and aimed at employees and workers, either by protecting them or by assisting them in the job-matching process. In addition, the preferences and behaviour of these actors may be affected if labour market institutions are established, which in turn can lead to additional adoption processes. Such side effects are not considered in the present analysis, as this chapter is restricted to the purposively designed government institutions.

The remainder of this chapter is structured as follows. First, some specific questions regarding labour market institutions are explored: 1) Do western and eastern European countries differ regarding labour market institutions? 2) What are the consequences of labour market institutions for employment in innovation industries? 3) What role do active labour market policies play in processes of labour market reforms? We then present an overview of the most recent country differences and trends in EPL, URR, and LMPs, in order to shed light on how these institutions have developed and may develop in the near future.

9.2 Modest convergence between western and eastern European countries

One central question in general debates about social policies in the EU is whether the policies of individual countries are diverging from or converging into a single European Social Model.⁶ Regarding labour market institutions, the question is whether the labour market institutions of central and eastern European (CEE) countries are becoming more similar to those in western European countries as a result of Europeanisation.⁷ Clearly, it should be noted at the outset of such analyses that there is some doubt over whether the western European countries have converged into a single model; this may only partly be the case as national models remain relatively stable across time due to national differences, path-dependency

While the social policies of EU countries have converged somewhat, we cannot speak of a single European Social Model.

and so on. Nevertheless, there is evidence that the labour market institutions have become somewhat more alike across time.

First, country descriptions show that benefit systems are insurance-based and characterised by defined benefits (implying a promised specified monthly income) in the CEE countries.⁸ Furthermore, the variation in the country profiles makes it impossible to state there is anything like a single labour market model for CEE countries. Rather, these countries show similar differences to those usually found across western European countries. Hence, just like the diversity in welfare state typologies and regimes in western European countries, the CEE countries can be classified according to different welfare state models. In other words, national-level characteristics remain important in understanding national labour market institutions.

A closer look at developments over time, based on quantitative data, allows us to investigate whether there have been changes in these models with regard to the labour market institutions.⁹ Tables 9.1 and 9.2 provide insights into the answer to that question. They show the coefficient of variation¹⁰ for EPL, active labour market policies (ALMP) and URRs, for three time periods – 1990, 2000 and 2009.

Table 9.1 Convergence of employment protection legislation and active labour market policies

	EPL			ALMP as % GDP		
	1990	2000	2009	1990	2000	2009
Mean 25 countries	2.2	1.9	1.8	0.7	0.7	0.6
Coefficient of variation	0.5	0.5	0.4	0.7	0.7	0.6
Mean EU-18 countries	2.4	2.2	2.0	0.8	0.8	0.7
Coefficient of variation	0.4	0.4	0.3	0.7	0.7	0.5

Notes:

Around 1990 =average 1990-93; around 2000 = average 1998-2001; around 2009 = average 2006-09.

25 countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, United Kingdom and the United States.

EU-18 countries = Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Poland, Portugal, Slovak Republic, Spain, Sweden and the United Kingdom.

Table 9.1 only enables a comparison of EU and non-EU countries. It shows that there has been a decrease in variation in both sets of countries. Hence, there may have been some sort of Europeanisation in EPL and ALMP, but this trend cannot be distinguished from a wider development of convergence of these labour market institutions.

Focusing on URRs allows us to make a broader comparison than is possible with the EPL and ALMP indicators, by separating the effects for a large set of countries and distinguishing between western European and CEE countries. Table 9.2 shows that if all countries are taken into account, there has been an overall trend towards convergence. Zooming in on the EU countries, it is clear that this trend has been somewhat stronger within the EU (the overall decrease in variation is two times higher in this subset compared to the change in all countries). This means that the URRs of EU countries became more alike in the period between 1990 and 2009. Furthermore, the variation dropped more strongly in the CEE countries than the western European countries. Within this subset of countries, the least variation is found.

Table 9.2 Convergence of unemployment replacement rates (single and couple)

	Single person			One-earner couple with two children		
	1990	2000	2009	1990	2000	2009
Mean 34 countries	0.57	0.54	0.53	0.65	0.63	0.62
Coefficient of variation	0.33	0.32	0.30	0.24	0.21	0.20
Mean 27 EU	0.58	0.54	0.53	0.64	0.62	0.61
Coefficient of variation	0.34	0.32	0.28	0.27	0.22	0.20
Mean 15 West-EU	0.59	0.57	0.56	0.66	0.66	0.66
Coefficient of variation	0.35	0.32	0.29	0.26	0.18	0.16
Mean 10 CEE-EU	0.54	0.51	0.51	0.59	0.55	0.53
Coefficient of variation	0.33	0.28	0.24	0.29	0.25	0.19

Note: Around 1990 = average 1990-93; 2000 = average 1998-2001; around 2009 = average 2006-09. See Appendix A for more data years.

Sources: Adopted from van Vliet et al. (2012). Unemployment replacement rates dataset among 34 welfare states 1971-2009 (van Vliet and Caminada, 2012)

The research presented above leads to a nuanced answer to the question of the extent to which the labour market institutions in western

European and CEE countries have converged. While the quantitative data show patterns of convergence and lead to the conclusion that the labour market institutions of these countries have become more alike, the qualitative analysis underlines that national differences between these countries still exist. Furthermore, the quantitative analysis also shows that national differences matter in understanding labour market institutions. This means that the countries may have grown closer to each other in some regards, but that national circumstances still have a strong impact on them. Hence, there is little evidence of a single European Social Model of labour market institutions of the member states.

9.3 Do labour market institutions influence innovation?

Another relevant issue – both for social policies and scientific research – concerns the question of how labour market institutions relate to the innovativeness of countries. Two positions can be taken in this debate. On the one hand, it can be argued that labour market institutions hinder the development of innovations, for example because they decrease flexibility in the labour market and take away incentives for improvement. On the other hand, it can be argued that labour market institutions provide a secure environment in which innovations can flourish, for example because the consequences of failure are less severe and employers and employees are able to invest in human capital.

Murphy, Siedschlag and McQuinn suggest that EPL and innovation intensity are negatively related to each other.¹¹ In countries where EPL is stricter, the overall level of innovation is lower. Furthermore, the overall effect of EPL is different if the indicator is decomposed into the EPL for regular workers (EPLR) and the EPL for temporary workers (EPLT).¹² While the first indicator is not related to innovation intensity, the second is. This means that employment protection of regular workers does not explain the innovation intensity of industries, but that the employment of temporary workers does. This, in turn, seems to indicate that countries where companies have more external flexibility, meaning that they can more easily hire and fire temporary workers, are more innovative. Second, it turns out that the levels of EPL matter, but not the changes in EPL. This seems to indicate that countries that have increased or decreased their levels of employment protection have not gained or lost in terms of innovativeness. Over and above the

There is little evidence that labour market institutions increase the innovativeness of countries.

effects of EPL on innovation intensity, the extent and duration of unemployment benefits led to lower innovation intensity in industries with a higher job reallocation propensity, while higher coordination and higher centralisation of wage-setting led to higher innovation intensity in the same group of industries.

In contrast, Beblavý, Drahokoupil, Myant, Kureková and Domonkos, in their case studies of the automotive and software industries in CEE countries, show that labour market institutions were relatively unimportant in relation to the innovations within these two industries.¹³ Other factors, like past experience, the availability of financial resources and access to networks, matter more in that regard. This is, however, not to say that labour market institutions do not have an impact on innovation at all. This is evidenced, for example, by the notion that the acquisition of human capital, which may be enhanced by labour market institutions, plays a role. Nevertheless, the main conclusion of this qualitative study is that more employment protection does not necessarily lead to improvements in terms of innovation.

The differences between the results of the studies by Murphy et al. and Beblavý et al. are – at least to some extent – due to different research designs and the selection of different countries. However, there is at least one conclusion that they have in common: innovativeness is not enhanced or improved by labour market institutions. And, more strongly, there may even be a negative relationship between EPL and innovation. So, while there may be all kinds of reasons for introducing such institutions, increased innovativeness does not seem to fit that list.

9.4 Are unemployment benefits and job protection substitutes?

The interrelationships between different labour market policy instruments are important for policy reforms. A single labour market policy instrument is embedded in a large number of welfare state institutions in a country. These interrelationships have been taken into account in the welfare regime literature, in which welfare states are regarded and conceptualised as configurations of various policy instruments.¹⁴ However, in the quantitative comparative political economy literature, welfare state institutions are generally treated as isolated policy instruments. When it comes to unemployment benefits, EPL and active labour market policies (ALMPs) are particularly relevant. Unemployment benefits and

employment protection are often considered as substitutes in terms of providing income protection to employees.¹⁵ Hence, when EPL decreases, it can be expected that unemployment benefits become more generous.

The trade-off between unemployment benefits and EPL is the main axis of the flexicurity model of the EU. At the EU level, the concept of flexicurity is integrated in the

There is a trade-off between unemployment benefits and employment protection legislation.

European Employment Strategy, which is aimed at increasing employment and reducing unemployment. The main characteristic of flexicurity is that it is intended to overcome the tensions between labour market flexibility on the one hand and the provision of social security for workers on the other.¹⁶ Flexibility and security are viewed as complementary. The flexicurity model builds on the combination of flexible labour markets, generous unemployment benefits and a strong emphasis on activation. Flexible labour markets can be seen as beneficial for job creation, especially during periods of recovery after a recession, but they generally imply lower levels of economic security. Welfare state programmes, such as unemployment benefit schemes, provide economic security, but they can have adverse effects, such as longer unemployment spells and thus higher public expenditure and less mobility in the labour market. Furthermore, ALMPs such as labour market training, services of employment agencies and subsidised employment are aimed at increasing labour market participation and at reducing the adverse effects of generous unemployment benefit schemes.

Flexicurity is presented as a package of policy reforms for the labour market. Lower levels of employment protection for employees are compensated by more generous unemployment benefits and with high efforts on ALMPs.¹⁷ Such reform packages could be successful, as they can be expected to overcome the opposition from employees.¹⁸ Hence, we test the hypotheses that the strictness of EPL is negatively related to the generosity of unemployment benefit schemes and that efforts on ALMPs are positively related to the generosity of unemployment protection.

To examine the role of ALMPs and EPL in unemployment benefit reform, we ran pooled time series regression analyses.¹⁹ The models include conventional political economy variables, such as measures for political parties, corporatism and globalisation. The results are presented in Table 9.3.

Table 9.3 Fixed effects regressions of net unemployment benefit replacement rates, 1990-2009

	Model 1 18-EU countries	Model 2 18-EU countries	Model 3 18-EU countries
Left government (t-1) x Unemployment rate (t-1)	-0.005*** (0.002)	-0.006*** (0.002)	-0.005*** (0.002)
Left government (t-1)	0.076*** (0.022)	0.083*** (0.026)	0.077*** (0.023)
Right government (t-1) x Unemployment rate (t-1)	-0.005** (0.002)	-0.007*** (0.003)	-0.004* (0.002)
Right government (t-1)	0.057** (0.024)	0.072*** (0.028)	0.048** (0.024)
Corporatism (t-1)	-0.034 (1.058)	0.154 (1.191)	-0.158 (1.100)
Capital mobility (t-1)	-0.035*** (0.012)	-0.051*** (0.017)	-0.045*** (0.015)
Trade openness (t-1)	-0.054* (0.031)	-0.072** (0.030)	-0.043 (0.032)
Unemployment rate (t-1)	0.210 (0.164)	0.267 (0.190)	0.208 (0.177)
GDP per capita (x 10 ⁻²) (t-1)	-0.024 (0.020)	-0.017 (0.023)	-0.008 (0.021)
Age dependency ratio (t-1)	0.538*** (0.154)	0.662*** (0.132)	0.560*** (0.167)
EPL (t-1)	-3.357*** (1.293)		-3.758*** (1.337)
ALMP expenditure (t-1)		2.477** (1.232)	0.190 (1.036)
Constant	53.742*** (12.520)	38.385*** (11.720)	48.585*** (13.945)
Rho	0.651	0.599	0.632
N x T	303	293	285
Adj. R-Squared	0.909	0.910	0.913

Notes: Unstandardised coefficients; panel-corrected standard errors in parentheses; Prais-Winsten transformation [AR (1) disturbances].

Each regression includes country and year dummies (not shown here).

EU-18 countries: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Poland, Portugal, Slovak Republic, Spain, Sweden and the United Kingdom.

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

Source: Adopted from van Vliet et al. (2012).

As expected, the strictness of EPL is negatively associated with the generosity of unemployment benefit schemes, and ALMP expenditures are positively related to unemployment protection. However, the result for ALMP expenditure does not hold when EPL and ALMP expenditure are both included. The results suggest that EPL and unemployment benefits can be considered substitutes. This provides support for the idea behind the flexicurity model, i.e. that lower levels of EPL for employees can be compensated with more generous unemployment benefits.

9.5 Labour market regulation: Recent trends

As the previous sections show, labour market institutions may have a certain impact on the functioning of labour markets. Hence, zooming in on cross-national differences as well as developments across time can provide information on how these institutions and their outcomes may develop.

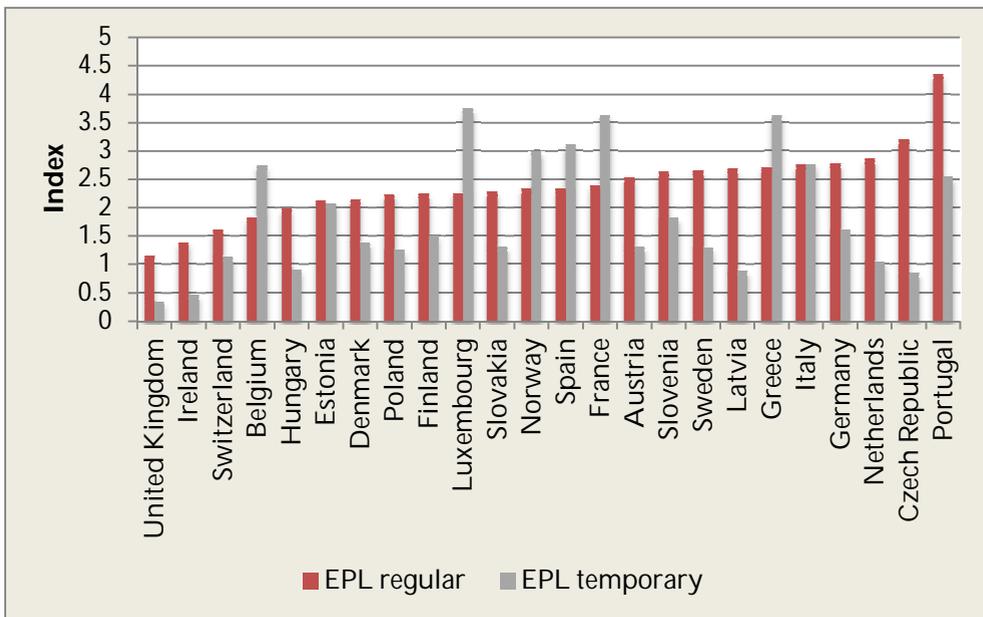
9.5.1 Employment protection

Country differences

We first investigate the level of employment protection using the Employment Protection Legislation Index. The indicator is based on 18 items, which are converted into an index ranging from 0 to 6 (higher scores indicate stricter regulation). As Figure 9.1 shows, the average level of employment protection for regular and temporary workers varies considerably across Europe. Furthermore, from Figure 9.1 it can be seen that countries scoring high on protection of regular workers are not necessarily the ones in which the protection of temporary workers is also high. According to the figure, the employment protection of regular workers is high in Portugal, the Czech Republic and the Netherlands, and low in Switzerland, Ireland and the UK. With regard to the employment protection of temporary workers, Portugal, the Czech Republic and the Netherlands have a far lower score compared to the other countries, while Switzerland, Ireland and the UK are also among the low-scoring countries

on EPL for temporary workers. Belgium and Luxembourg stand out, as the employment protection of regular workers is below average while EPL for temporary workers is high in these two countries. Finally, it should be noted that in most countries the EPL of temporary workers is lower than the EPL of regular workers, but there are some exceptions such as Greece, where the average EPL for regular workers is 2.70 and 3.63 for temporary workers.

Figure 9.1 Employment protection legislation

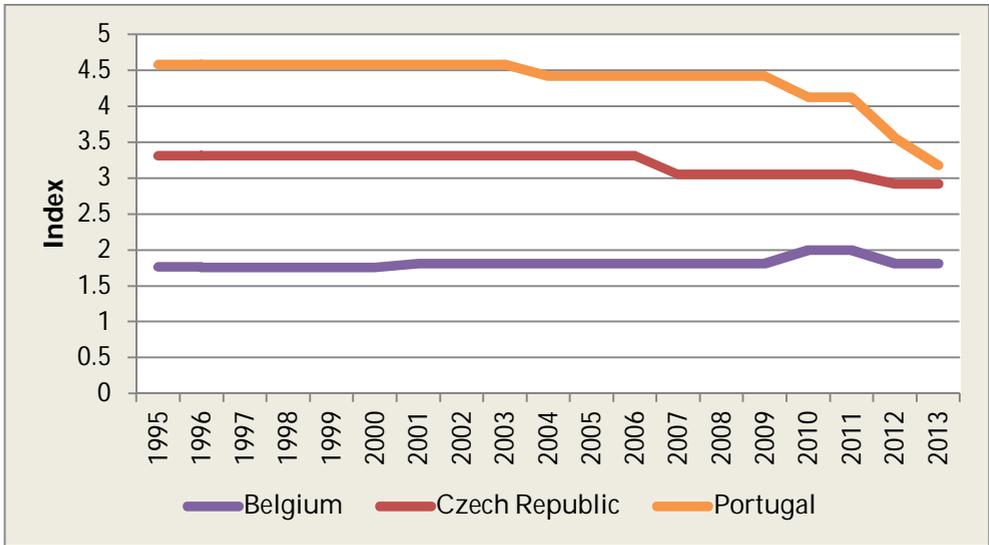


Source: OECD (2013).

Time trends

By presenting the changes in EPL for regular workers between 1995 and 2003 for a selection of countries, Figure 9.2 illustrates some of the core developments that took place in that period. In addition to showing that EPL levels tend to remain stable for longer periods of time, the figure also indicates that if there are changes, they are in a downward direction. The clearest example of this trend is found in the two countries with the highest average level of EPL for regular workers. In 1995, the EPL of Portugal was 4.58, but this dropped to 3.18 by 2013. Likewise, the EPL for regular workers decreased in the Czech Republic from 3.31 in 1995 to 2.92. In other countries, like Belgium for example, the strictness of EPL remained the same.

Figure 9.2 Employment protection legislation for regular workers, trend 1995-2013

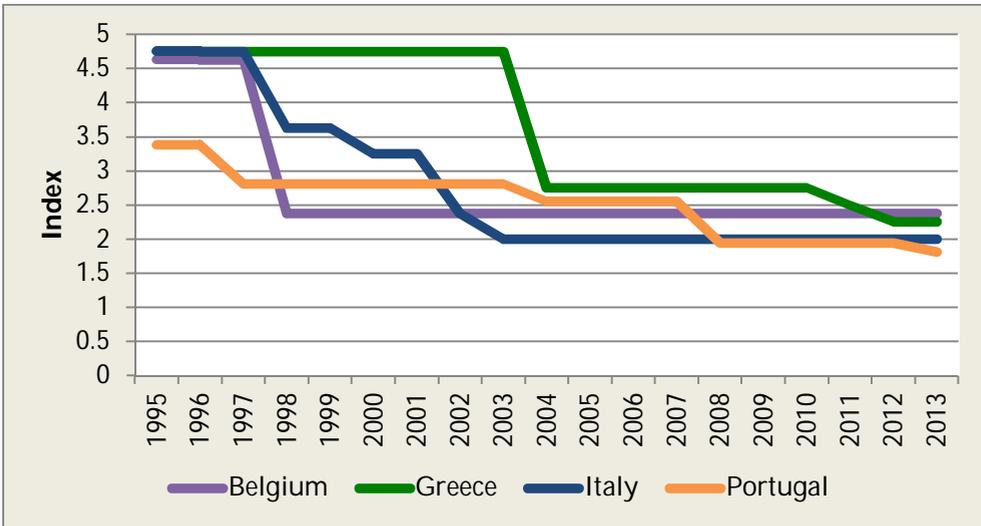


Source: OECD (2013).

In Figure 9.3, the trends are presented for temporary workers. It can be concluded from the figure that the EPL for temporary workers also decreased in the period between 1995 and 2013. For example, in the 1990s the EPL for temporary workers was comparatively high in Greece (around 4.75). By 2013, this figure had decreased to 2.25, also meaning that the difference in EPL between regular workers and temporary workers disappeared in that country. Italy and Belgium followed a similar path: in Italy, EPL for temporary workers dropped from 4.75 in 1995 to 2.00 in 2013; in Belgium it fell from 4.63 to 2.38 in the same period. A clear example of a country moving in the opposite direction is Poland. In the 1990s, the EPL for temporary workers in Poland was 0.75, and by 2013 this dimension of the EPL had increased to 1.75.

While the level of employment protection decreased particularly for temporary workers...

Figure 9.3 Employment protection legislation of temporary workers, trend 1995-2013



Source: OECD (2013).

The two EPL indicators show that the level of employment protection varies considerably across European countries. Furthermore, some countries tend to put more emphasis on the protection of regular workers and others more on protecting temporary workers. As the trends show, these are not communicating vessels, in the sense that if protection of regular workers goes down, temporary workers will have higher employment protection, and vice versa. On the contrary, the trends show that apart from the stable patterns and some exceptions, there has been a decline of employment protection in those countries with the highest levels of EPL in the 1990s.

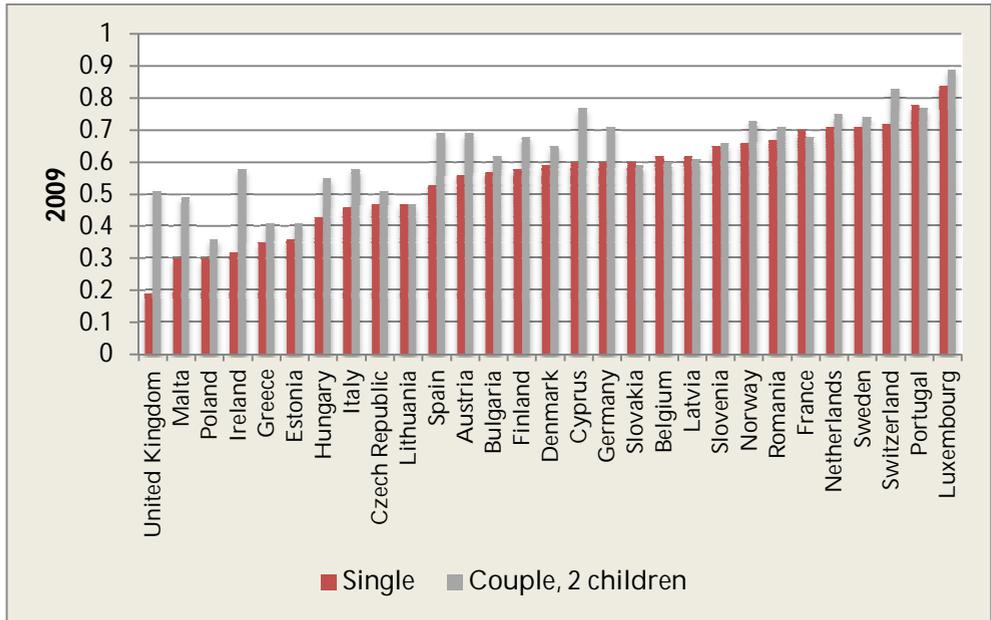
9.5.2 Unemployment benefits

Country differences

Next, we turn to the level of unemployment benefits, measured by unemployment replacement rates (URR). Although there are different ways of measuring this indicator (for example, a distinction is made between net and gross replacement rates), a comparison of the URRs provided by van Vliet and Caminada shows that the rank order of these measures is quite stable.²⁰ Because the ordering of the countries is largely the same, only one indicator is used to get an impression of how the countries score on this

dimension. Since URRs may vary across different household types, the results are presented for single workers and couples with two children. Overall, one-earner couples with two children have higher URRs than single workers. The data are shown in Figure 9.4.

Figure 9.4 Net unemployment replacement rates (average production worker), 2009



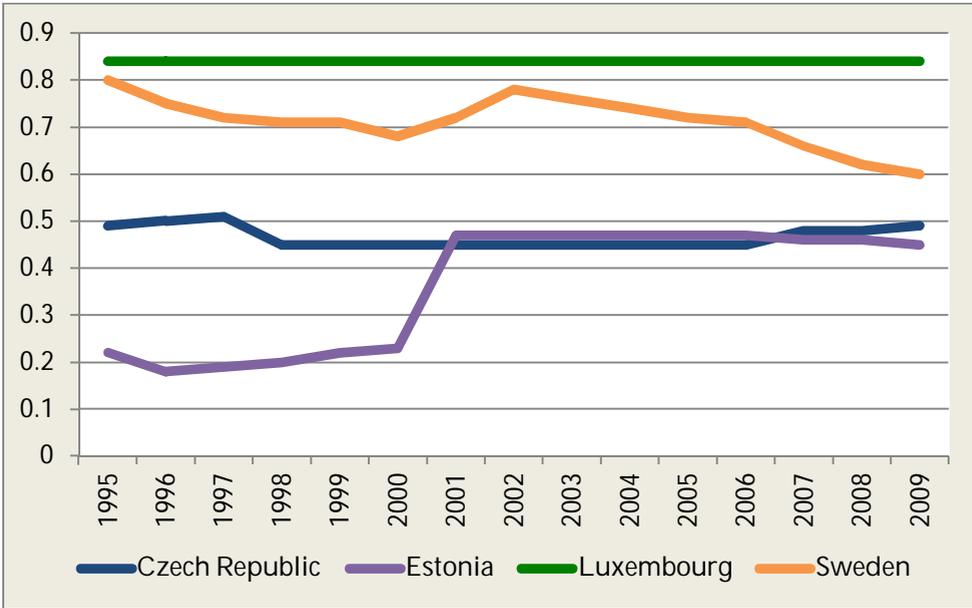
Source: van Vliet and Caminada (2012).

Time trends

Figures 9.5 and 9.6 show the developments over time for the different URR indicators for a selection of countries. The figures show that in some countries there is considerable stability of URRs across time, the main example being Luxembourg where URRs remained high for the whole period investigated. The Czech Republic is also among the countries with little changes in URRs. Furthermore, there are some countries in which URRs have increased sharply. For example, the URR tripled in Estonia between 1995 and 2000, and stayed at that level afterwards. A further notable pattern is found in Sweden, where URRs were amongst the highest in the 1990s, then declined before returning to the highest level again at the beginning of the 2000s, only to decline after that again.

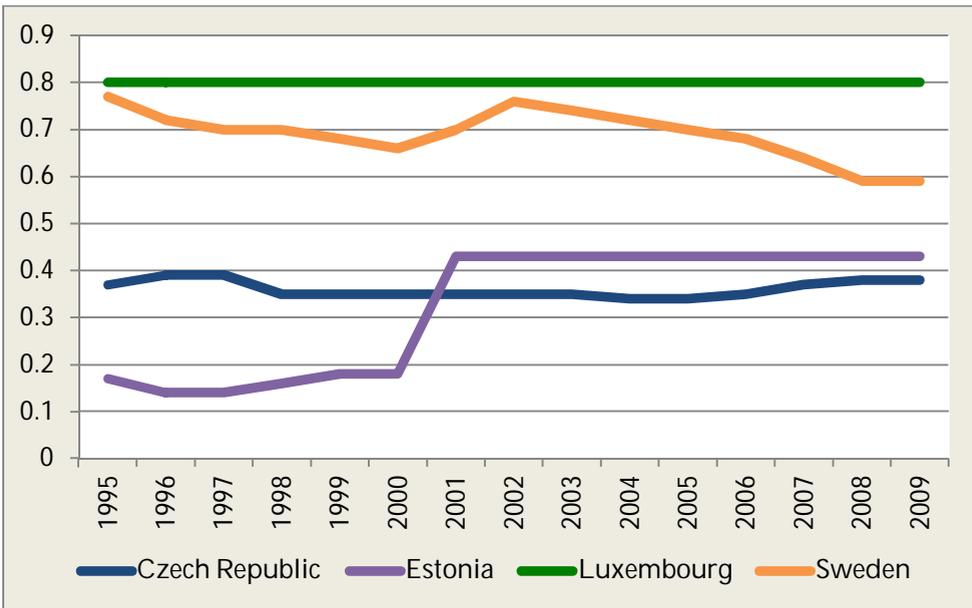
...unemployment benefits are remarkably stable...

Figure 9.5 URRs for average production worker (single), 1995-2009



Source: van Vliet and Caminada (2012).

Figure 9.6 URRs for average production worker (couple), 1995-2009



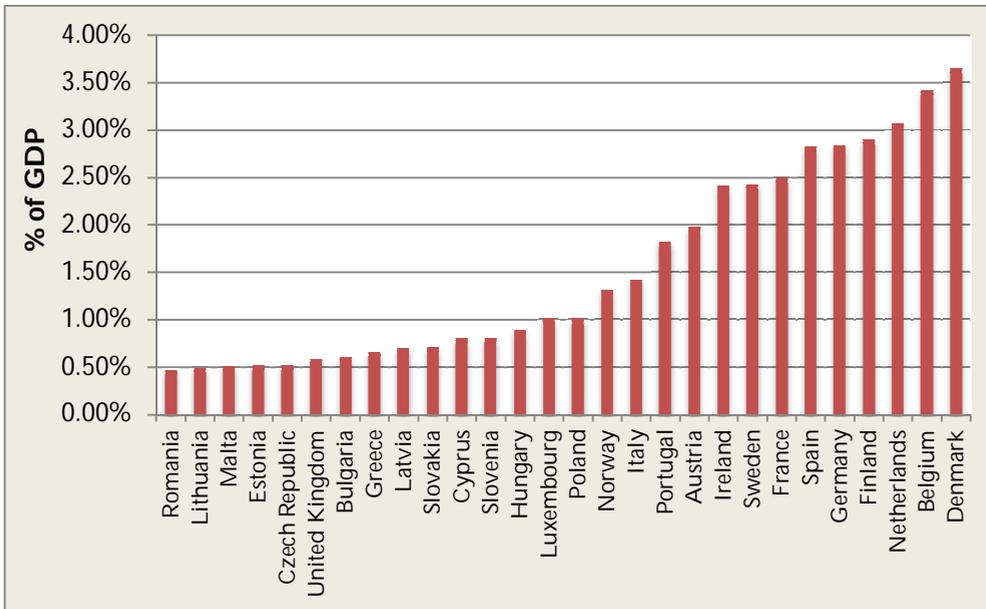
Source: van Vliet and Caminada (2012).

9.5.3 Labour market policies

Country differences

Looking at Figure 9.7, it is clear that government spending on labour market policies varies considerably across the European countries. Several countries spend around 0.5% of GDP on such policies (Romania, Lithuania, Malta, Czech Republic and Estonia), while other countries spend about six times as much (Finland, the Netherlands, Belgium and Denmark).

Figure 9.7 Spending on labour market policies as a % of GDP, average 1998-2011



Source: Eurostat (2013).

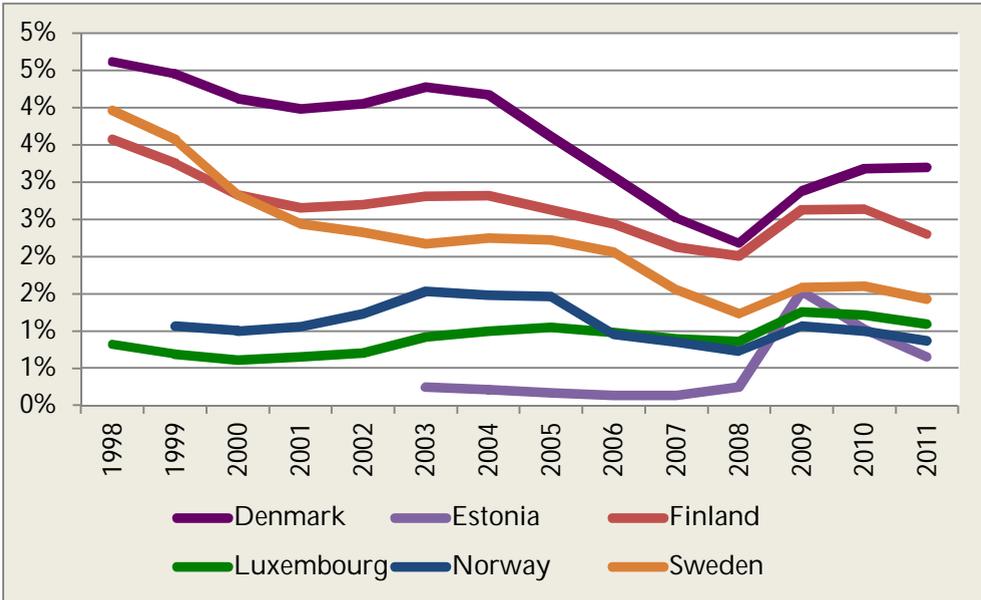
Time trends

If we turn to the time trends of labour market policies, some noteworthy patterns emerge, as Figure 9.8 shows for a number of countries. From the beginning of the 2000s, those countries spending the most on labour market policies started to spend less. This is evidenced by the patterns that Finland, Sweden and Denmark show, for example. At the same time, the countries spending less began spending more, which is the case with Luxembourg and Norway, for example. As a result, the countries came closer to each other around 2007. As the economic crisis hit, spending

...and labour market policies have been related to the economic crisis.

on labour market policies started to increase in all countries again. Because the countries that had the highest levels of spending spent comparatively less, the countries have diverged somewhat. Nevertheless, immediately after 2008, spending on labour market policies started to decline in almost every country.

Figure 9.8 Spending on labour market policies as a % of GDP, 1998-2011



Source: Eurostat (2013).

9.6 Decline in spending on protection reversed by the crisis

The labour market institutions of EU countries have witnessed considerable changes. Most of these trends are in the direction of decreasing levels of protection and of spending on social arrangements, apart from the relative stability that is also found in some countries. However, one particular trend that stands out concerns the development of labour market policies. While spending on these arrangements also decreased for a while, they increased as the economic and financial crises hit Europe and the world. Whether this recent upsurge is permanent or temporary is hard to tell yet from the data. Addressing this issue requires a longer timeframe – that extends into the future – than can be investigated here.

With regard to policy recommendations, only a few conclusions can be drawn from the analysis. To evaluate the functioning of the labour

market institutions and to formulate policy advice would require focusing more on their outcomes, while the emphasis in this chapter is on the development of labour market institutions. Extending the analysis would allow us to say more about the resilience of welfare states, for example.²¹ It is likely that changes in labour market institutions can have an impact on the behaviour of individuals and companies.²² However, as Koster and Fleischmann show in their multi-level analyses of 13 European countries, these conclusions are far from unambiguous as some policy goals are not met through the use of labour market institutions, while at the same time the application of the labour market institutions can have consequences for parts of the labour market other than those targeted.²³ Hence, the most valuable policy advice that can be formulated in that regard is that policy-makers should be aware that there is a complex relationship between labour market institutions and the labour market behaviour of individuals (and companies). Therefore, they should monitor closely what is happening in the labour market and whether labour market institutions are adapting, either in the direction of more spending and protection or in the other direction.

Given the mixed findings with regard to labour market institutions, constant monitoring of policies and outcomes is required.

There is at least one area in which labour market institutions seem to have an unequivocal outcome, namely with regard to the impact that employment protection legislation has on innovation intensity in countries. Here we see that labour market institutions do not support innovation and may even hinder it. In that regard, the observed trend towards lower levels of employment protection may be a step towards more innovative behaviour of European companies. However, whether this prediction will hold will only be seen in the future, once the impact of labour market reforms is more visible.

Overall, it can be concluded that the efficiency and impact of labour market institutions, and hence the advice for policy-makers, crucially depends on which outcomes are preferred. While extending labour market institutions may have desired consequences in one domain, they may lead to unwanted consequences in others. As a result, continuing research into these complexities will be required to monitor labour market developments. This particularly holds for the reforms that are being undertaken in a large number of countries; these may support both social and economic goals, but to what extent and why needs to be continuously investigated.

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Notes

¹ OECD (1999).

² van Vliet and Caminada (2012).

³ Eurostat (2013).

⁴ Koster and Fleischmann (2012).

⁵ For the discussion of transitional labour markets, see Schmid (1998). For the discussion of flexicurity, see European Commission (2006).

⁶ Giddens (2007); Koster and Kaminska (2012); Paetzold and van Vliet (2014).

⁷ Draxler and van Vliet (2010).

⁸ Beblavý et al. (2011).

⁹ van Vliet et al. (2012).

¹⁰ The standard deviation rises with the mean of the corresponding dataset. Therefore, we use the coefficient of variation as a measure of dispersion. The coefficient of variation is defined as the standard deviation divided by the mean of the corresponding dataset.

¹¹ See Murphy et al. (2013).

¹² The results from the base model are presented, but they are similar to the more extensive models, which are therefore not reproduced here.

¹³ Beblavý et al. (2012).

¹⁴ Esping-Andersen (1990).

¹⁵ For example, Blanchard and Tirole (2004, 2008); Boeri et al. (2006).

¹⁶ Viebrock and Clasen (2009).

¹⁷ European Commission (2006, 2007a, 2007b); Boeri et al. (2006); Wilthagen and Tros (2004); Madsen (2007).

¹⁸ Eichhorst and Konle-Seidl (2005).

¹⁹ van Vliet et al. (2012).

²⁰ van Vliet and Caminada (2012).

²¹ For example, see Bigos et al. (2013).

²² For example, see Koster and Fleischmann (2012); Murphy et al. (2013).

²³ Koster and Fleischmann (2012).