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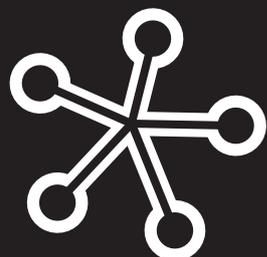


Sit by and watch idly?

Labour market policy
in a period of crisis

*AIAS conference
26 mei 2010*

Conference report



Amsterdam Institute for
Advanced labour Studies

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Sit by and watch idly?

Labour market policy in a period of crisis

CONFERENCE REPORT

Edited by Paul de Beer & Merle Zwiers

AIAS

University of Amsterdam

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Foreword

Wiemer Salverda - AIAS, University of Amsterdam

TIn the past few years the Amsterdam Institute for Advanced Labour Studies (AIAS) performed an in-depth study of the distribution in society of the responsibility for social security and labour market policies. On the occasion of the completion of this research project, which was funded by Stichting Instituut Gak (SIG), AIAS dedicated its traditional annual conference on May 26, 2010, to this topic.

The two books issued from this research were presented at the conference. The first, *The Labour Market Triangle: Employment Protection, Unemployment Compensation and Activation in Europe* (Edward Elgar, 2009), edited by Paul de Beer and Trudie Schils, aims to draw lessons from the experiences with labour market policies in seven European countries. At the conference, Trudie Schils, AIAS postdoc researcher while working on the project and currently assistant professor at Maastricht University School of Business and Economics, introduced the main findings of the book. Three authors who contributed to the book, discussed the policies of their countries in the light of the current economic crisis. Per Kongshøj Madsen of Aalborg University considered the performance of the Danish flexicurity model, which is sometimes heralded as ‘The Golden Triangle’, in the present situation. Werner Eichhorst from the IZA Institute for Employment Research Bonn tried to explain – but also to qualify – the remarkably good performance of Germany in the current crisis. And Jochen Clasen of the University of Edinburgh wondered whether any lessons can be learned at all from the experiences of the United Kingdom. Ruud Muffels of Tilburg University made a rather sobering international comparison of the effectiveness of labour market policies in Europe.

The afternoon session focused on the present labour market policies in the Netherlands. Paul de Beer of AIAS summarised the main findings of the second book, *Wie zorgt voor zekerheid? (Who Cares for Security?)*, Sdu Uitgevers 2009), written by himself, Marcel Hoogenboom, Lucy Kok and Trudie Schils. He laid out two alternative models for the distribution of responsibilities with respect to unemployment insurance and active labour market policies. Joan Muysken, professor of economics at Maas-

tricht University, pleaded for the introduction of a Job Guarantee Plan (JGP) in order to reduce involuntary unemployment. Wiemer Salverda provided a sympathetic, but nevertheless critical comment on this plan.

Three representatives of business (Mr Ton Hopmans, HR Director of Randstad Netherlands, the temp agency firm), trade unions (Ms Agnes Jongerius, chair of FNV, the major confederation) and politics (Ms Jetta Klijnsma of PvdA, the Dutch Labour Party), respectively, discussed the desirable course of labour market policies in the Netherlands in the near future. They agreed on little more than that some changes are, indeed, desirable.

Finally, the chair of the Dutch Social and Economic Council (SER), the main independent body for socio-economic advice to the government comprised of employer and employee representatives and government-appointed experts, Mr Alexander Rinnooy Kan, closed the conference with a contribution listing six labour market problems, six perspectives for policy making concerning these problems and six opportunities for improvement.

AIAS likes to express its gratitude to the speakers, the conference participants and the organisers of the meeting for their contributions.

All contributions to the AIAS Annual Conference 2010 are included in this conference report. We hope it provides the reader with a concise, informative synopsis and discussion of the present views on labour market policies in a period of economic crisis and a good read.

Wiemer Salverda,
Director of AIAS

The Labour Market Triangle: Lessons from Seven European Countries

Trudie Schils - Maastricht University, AIAS

In recent decades, there has been extensive debate on the design of labour market policies in Europe. Compared to the United States, it is perceived that European labour markets are rigid and inflexible, creating inefficient outcomes. One of the concerns that is often raised is the relatively high level of unemployment in Europe, of which a fair share consists of long-term unemployment. Additionally, firms are unable to adapt their workforce to the quickly changing product demand and must deal with a relatively expensive workforce. A final point of criticism concerns the dominant role of the government in the design and implementation of labour market policies and the lack of attention that is paid to specific sector or regional demands.

Although there is some truth in these criticisms, European labour markets still exhibit enormous diversity in their performance and in their institutional framework. Unemployment is, for example, relatively low in several European countries (below the US level) and the high level of employment protection is used as an incentive for firms and employees to invest in firm-specific human capital. Moreover, in many countries, the social partners at the sector level can design labour market regulation in addition or even as a substitute for national regulation.

Therefore, before one can conclude that European labour market policies are too rigid and should be relaxed in many respects, it is important to understand the differences between European countries in the design and outcomes of their specific labour market policies.

These considerations formed the background of a research project undertaken by the Amsterdam Institute for Advanced Labour Studies. With a research team consisting of Paul de Beer, Marcel Hoogenboom, Lucy Kok, and myself, we looked at the distribution of responsibility for social security in several European countries. To what extent should labour market policies be the responsibility of the government, market, or social partners? Does it actually matter whether governments, market actors, or social partners take responsibility for certain policy tasks? To what extent do European countries differ in terms of the design and outcomes of labour market

policies? To answer these questions, we argued that a quantitative analysis of the inputs and outcomes of labour market policies alone would not be sufficient, but that a more qualitative description of the tasks and responsibilities of the various actors, both at the national and at the sector or regional level, is required. The main idea behind this approach was to analyze the differences and similarities in the organization of labour market policies in various European countries, and to go beyond the mainstream indicators for such policies. The countries were not chosen randomly, but according to their perceived differences in the role of the social partners. For example, Belgium, Denmark and Sweden are known to still have unemployment insurance funds which are managed by the trade unions, something which has disappeared in the Netherlands and Germany. However, in these latter countries, the trade unions still play an important role in the design of labour market policy. The UK is added because it represents a liberal country where labour market regulations are less strict and where the trade unions have little say in labour market policy.

The analysis focused on the three core elements of labour market policies: employment protection, unemployment insurance and activation policy. These three components make up the so-called 'Flexicurity Policy Triangle', which has become a guiding model for the design of labour market policies in Europe. In short, the main idea is that low employment protection increases flexibility of the labour market, while fairly generous unemployment insurances protect the unemployed combined with a strong activation policy to ensure that the unemployed return to work as soon as possible. These three policies should be tuned together to create higher flexibility and more dynamics on the labour market, but it is strongly contested whether this would be beneficial for all groups on the labour market and whether it is sustainable in the current crisis.

The countries covered in this research have reformed their labour market policies considerably in the past ten to twenty years towards this 'flexicurity' policy, partly in response to the concerns about European institutions mentioned before. In all countries considered we observed a shift from passive to active measures. This generally means that there is a stronger emphasis on the obligations of benefit claimants. Many countries have tightened the eligibility conditions, either by making it more difficult to claim benefits, or by strengthening the requirements on benefit recipients with respect to search effort, participation in training and/or accepting job offers. In some cases, recipients are even required to perform unpaid work (workfare) in return for their benefits.

Although the eligibility conditions for unemployment benefits have become stricter, the income protection offered to those who are unemployed and who are eligible, does not seem to have changed much in most countries. Two notable exceptions are the Netherlands and Germany. In the Netherlands, the main change was a considerable reduction in the maximum duration of the earnings-related unemployment benefits, mainly affecting older workers. In Germany, the so-called ‘Hartz reforms’ included a radical change in the unemployment benefit system. Overall, this change led to a reduction in the generosity of the benefits for the long-term unemployed.

Perhaps the most controversial element of the labour policy triangle is employment protection legislation. Most economists and employers consider employment protection legislation to be a formidable obstacle to a flexible labour market and are thus in favor of loosening employment protection as much as possible. Most trade unionists and a majority of the population consider employment protection to offer essential protection against the vicissitudes of the free markets and therefore strongly resist any attempt to reduce employment protection, at least for regular workers (as shown by many a worker demonstration in the recent past). It is thus not surprising that governments that wanted to relax employment protection have focused on the regulation of temporary employment. Employment protection legislation for temporary work has been deregulated in all countries considered, with the exception of France and the UK, where temporary work was already completely deregulated in the early 1990s. Government reforms that aimed to change employment protection legislation for permanent workers in the past decades have proven to be unsuccessful.

In theory, unemployment insurance, employment protection legislation and active labour market policies can be considered as the core components of a labour policy triangle. However, in practice they usually do not form a well-designed and logically consistent policy mix. With respect to the implementation and administration of unemployment insurance and active labour market policies there is some co-ordination in most countries. In most of the countries there is one public body at the local (mostly municipal) level that is responsible for the administration of both policies. However, the funding of the benefits and of the activation measures is often separated. The administration of employment protection legislation is usually assigned to separate bodies (such as labour courts and employers). Political debates about reforms of the social security system and active labour market programs are rarely connected to reforms of employment protection legislation. Even in Denmark, whose

particular combination of policy instruments is lauded as the ‘Golden Triangle’, the three policy areas have different histories and cannot be considered to be a consciously designed policy mix.

Moreover, in most countries there is a sharp dividing line between the administration of unemployment insurance and the administration of the means-tested benefits (social assistance or otherwise) for the unemployed who do not comply with the eligibility criteria for the unemployment insurance or whose earnings-related benefit has expired. As a consequence, there is often a lack of co-ordination between the administrations of policy instruments for short-term unemployed on the one hand, and for long-term unemployed and unemployed with limited work history on the other hand.

As for the role of the social partners in the administration and supervision of labour market policies, this has been restricted in a number of countries. In the Netherlands, the social partners were completely banned from the administration, in Germany and Sweden their role was considerably limited. In Belgium, Denmark and Sweden, the trade unions still play a role in the administration of unemployment insurance. Nevertheless, the role of the trade unions in the administration of unemployment benefits is very limited. They mainly act as some sort of broker between the insured employees, the unemployed and the insurance system, but they do not have the authority to decide on either the insurance policies or the actual granting of benefits.

Perhaps more important, but often overlooked, is the role of the social partners in many countries to complement or substitute national legislation with respect to employment protection by collective agreement at the sector or company level. This means that the legal characteristics of employment protection legislation, as measured in the OECD employment protection indicator, may be of limited relevance in practice.

What about the detailed policy characteristics of the labour policies in these countries? Looking at unemployment insurance first, several input measures can differ between the countries, for example, the required work record, the benefit level, benefit duration, job search requirements, applications of sanctions, the existence of a means test, et cetera. Policy designs can vary tremendously between the countries, which complicates a proper comparison of the systems. In the UK, it is difficult to

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become entitled to unemployment benefits, and additionally, these benefits are short-time and rather poor. However, other subsidies, such as housing benefits, might supplement these unemployment benefits in many cases, making a country comparison difficult. In Denmark, the system is characterized by a universalistic approach and generosity. The other countries are more difficult to rank, since most of them are relatively generous in one respect (for example, replacement rate) and rather strict in another (for example, maximum duration).

Second, in looking at policy characteristics of employment protection, there are again many differences between the countries. As already mentioned, in some countries collective agreements complement or substitute national law, which makes it difficult to assess the actual level of employment protection. In looking at the average for a country as a whole, it shows that employment protection is least strict in the UK, and relatively strict in Sweden and France. Although Sweden, Belgium and Germany score equally high on the OECD EPL indicator, the shapes of their employment protection legislation policy is very different.

Third, policy characteristics of activation policies include the types of activation policies used (for example, counselling, job search assistance, training, subsidized jobs, direct job creation, sheltered workplaces, et cetera) and most countries employ a number of these instruments. It is usually left to the public employment service or the administrative body of the unemployment benefit to decide in which kind of program an unemployed person – or someone else who seeks work – participates. From the country analyses, we can conclude that Denmark and Sweden have the most extensive activation programs, including counselling, training and employment subsidies. The UK is generally thought to rely more on market mechanisms than on state intervention, but in the past ten years the British government has implemented a rather ambitious activation program. In Belgium, France, Germany and the Netherlands too recent reforms are targeted at increasing the speed at which the unemployed return to the labour market and improving the quality of the job match.

It would be interesting to see whether these differences in policy characteristics lead to distinct labour market outcomes, such as particular unemployment rates or shares of long-term unemployment. It is however very difficult to assess variation in labour market outcomes since there are many more factors that affect these outcome vari-

ables. We have nevertheless tried to evaluate the policies this way, by taking a broad range of labour market indicators into consideration.

Looking at output variables that are directly related to the policy, such as the number of unemployment insurance recipients, job tenure, or activation expenditures, these are consistent with what one would expect on the basis of the qualitative description of these policies. Generous unemployment benefit systems result in high expenditures and a large number of benefit claimants, strict employment protection legislation translates into long job tenure, and intensive activation policies result in high expenditures and many participants.

In addition, we looked at some indicators for the effectiveness of labour market policy with respect to its ultimate goals: a well-functioning, flexible labour market and sufficient protection of workers against the income and employment risks of a market economy. We included the unemployment rate, employment rate, and flows into employment and unemployment, share of long-term unemployment and a measure for the expected income loss as a consequence of unemployment. We find that Belgium, Germany, France and the Netherlands have rather small inflows into both employment and unemployment and, consequently, large shares of long-term unemployed and long average unemployment duration. The inflow into employment and unemployment in the other three countries is much larger. When it comes to income security, Belgium, Denmark and the Netherlands have a high level of income security, compared to the other countries examined.

In conclusion, based on the comparison of seven European countries, we assess that the combination of unemployment benefits, employment protection legislation and active labour market policies does indeed matter in terms of labour market performance. However, we are somewhat sceptical about the claim that there is an optimal combination of policy instruments which yields the best results under all circumstances. Denmark's good performance with respect to employment, income security and labour market flexibility might justify the epithet Golden Triangle, but the comparison between Sweden and the UK shows that widely different policies can result in similar outcomes, while the comparison between the Netherlands and Germany shows that similar policies can result in strongly diverging outcomes. There is apparently no direct link between the policy mix and labour market outcomes. This raises the question whether the copying of the Danish policy mix by other countries

would produce the same favourable outcomes as in Denmark. It is probably not only the particular policy mix, but also the specific conditions that apply in Denmark (e.g. the large share of small companies which makes external labour mobility more important than in other countries) that explains the Danish success. Although the governments and social partners of other countries can surely learn from the Danish experience – but also from less successful countries – they will also have to take the particular circumstances in their own country into account in designing the optimal policy mix, not only in terms of instruments, but also with respect to co-ordination and administration. There is not one way to improve socio-economic performance. Moreover, it is very likely that one day the current successful Danish model will have to give way to another, even more successful, paragon.

Against the Wind: Danish Flexicurity and the Crisis

Per Kongshøj Madsen - Aalborg University & IZA

Denmark's labour market policy is generally seen as *the* model for labour market policies in Europe, and perhaps also outside Europe. In the book 'The Danish Experience', Denmark was depicted as, on the one hand, a country with a liberal labour market model and, on the other hand, a Scandinavian type of welfare state (Madsen 2006). And, as it says on the cover of the book, this combination has led Denmark to out-perform most other advanced capitalist countries since the mid 1980s. The question now is, of course, whether Denmark will transform into the country of broken illusions.

The Danish labour market is characterized by a high employment rate (until 2009 the highest in Europe) and a low share of employees with temporary contracts (9% compared to the EU average of 14%). This indicates that due to the flexibility of the Danish labour market, there is no need to hire temporary employees. Moreover, the percentage of individuals that started a job within the last three months is 7%, which is above the EU average. This shows that Denmark has a mobile labour market, which is related to a rather low level of employment protection. Denmark spends a lot on active labour market policy; the spending is twice the EU average. In looking at the development of the Danish economy, it is important to realize Denmark has not and has never been the inventor of a 'golden bullet' that provides a crisis-free capitalist economy. In the post-war years, Denmark had strong business cycles like all the other countries. The Korean War led to a decline in the GDP of more than 3%. The current crisis caused a reduction in the GDP of more than 4%. However, the situation is improving; the forecasts for 2010 and 2011 are more optimistic, in the sense that Denmark is returning to positive growth rates again. In the early 1990s, Denmark had the highest levels of unemployment, almost 13% of the workforce. And then, in the late 1990s and the early 2000s, until the crisis in 2008, there was a decline in unemployment rates and Denmark's labour market was characterized by high employment rates. Over the last year and a half Denmark experienced an increase in unemployment of almost 80.000 individuals. The decline of employment is even higher, it is around 171.000 individuals. This all indicates that the current crisis has had a serious effect on the Danish workforce. This poses a challenge, because

like other countries, Denmark is facing an aging population, and what it needs is a growing workforce instead of a declining workforce. Comparing Denmark to other European countries in terms of the relative increase in unemployment, shows that Denmark has been severely hit by the crisis.

As a reaction to the crisis, Denmark implemented so-called 'bank packages' to handle the acute crisis in the banking sector. This has worked out rather successful. Another reaction to the crisis, which has been characteristic for Denmark, has been an expansionary fiscal policy; money has been spend on tax reforms, public investments, support of the renovation of public homes, and other expansive measures. This has positively affected the GDP by 1.1% in 2009 and 0.8% in 2010. Compared to other countries, the Danish expansion of the fiscal policy has been one of the largest among the European countries, both in 2009 and 2010. Another characteristic of the Danish economy are the so-called 'large automatic stabilizers'. This means that when there is an expansion in the economy, taxes go up and unemployment benefits are lowered and, when there is a crisis, it works the other way around. Thanks to high marginal taxes and the coverage of the unemployment benefits system, the Danish economy will not collapse in times of crises.

There have been a number of minor reforms in the labour market policy. First of all, access to work-sharing has been facilitated. However, this has not been as important in Denmark as in other countries; the number was around 8000 persons in the fall of 2009, compared to a workforce of 2.8 million. Second, some measures have been implemented to target the youth as well as long-term unemployment. Finally, more emphasis has been placed on formal education as part of an active labour market policy. The lack of discretionary reforms in Denmark is related to the automatic stabilizers mentioned before, not only with respect to the fiscal policy but also with respect to active labour market policy. This policy is very much rule-based, in the sense that the Danish unemployment system has an activation policy with specific deadlines depending on age and time of unemployment. All these labour market reforms are aimed at increasing labour supply. However, these discretionary reforms have gotten less attention during the current crisis.

The Danish version of the labour market triangle combines on the one hand flexibility with social security, and on the other hand, combines this with active labour market policy. How will this model face the crisis and will it provide some sort of shelter

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from the storm? First of all, it is important to realize that the basic institutions of the Danish labour market date back to 1899, when the so-called general agreement was made between the social partners. An important element of this agreement was the freedom for employers to employ the workforce that they felt fit. At the same time, the employers accepted the trade unions as their legitimate partners in negotiations. Still today, the Danish labour market is rather liberal when it comes to employment protection. There are however some elements of protection for, for example, pregnant women. The Danish system of unemployment insurance was institutionalized in the 1960s and this model has proven to be successful. The Danish economy is characterized by a rather high level of institutional competitiveness, meaning that employment can be protected by moving it from threatened areas of production to more dynamic areas where Denmark has a competitive edge. However, there are certain challenges with respect to income security. First of all, the Danish system of unemployment insurance is often depicted as being very generous. Unemployment benefits are indeed generous *if* you are a low-income worker who has been unemployed for a long period of time. If you are a high-income worker who has been unemployed for a short period of time, it is much less generous. The present crisis has drawn the attention of the trade unions to the fact that the generosity is unevenly distributed. Additionally, Denmark has been experiencing declining replacement rates over the last 20 years. And finally, Denmark has witnessed a decline in the membership of unemployment insurance funds, which implies that about 15% of those who are currently employed will be without a safety net in the case of unemployment. These challenges have caused the trade unions to focus more on job protection. Looking at the current labour market policy, there have been disputed reforms in 2007 and 2009, resulting in a transition to local jobcentres in the municipalities and closing down the state-run PES. This administrative revolution has implied that active labour market policy in some respects is functioning less effective than before. Combined with the rapid rise in unemployment, this has put serious strain on the management of active labour market policy.

In sum, there are, on the one hand, negative indicators for Danish labour market performance, but on the other hand, international comparison shows that this is not excessive. There are problems with income security, when it comes to coverage and replacement rates and there is pressure on the active labour market policy. Based on a number of indicators, we can say that Denmark faces several challenges in providing shelter from the storm. But, on the other hand, we have also indicators of sustain-

ability: (1) the long-term unemployment rate is still the lowest in the EU, (2) the basic security arrangements are still functioning, (3) there are no excessive structural deficits on public budgets, and (4) there is a general political consensus concerning the fundamentals of the labour market model, although there are disputes concerning the need for reforming its different elements. The latest example is a reform of the benefit system imposed by the present right-wing government, which from 2013 will reduce the maximum duration of benefits from four to two years. Not surprisingly, this has strengthened the trade union's claim for more job protection as part of the next round of general negotiations between the social partners. The government has responded that the duration of benefits will still be among the longest in the world, only surpassed by Iceland and Belgium.

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The German Labour Market in a Situation of Crisis

Werner Eichhorst - IZA

During the current crisis, the perception of the German labour market has become much more positive. There is a search for a ‘golden triangle’, an ideal combination of employment protection, active labour market policy and unemployment protection. It has been argued that Germany does not represent a straightforward model. Instead, Germany has a system in which different elements of the labour market are put together, neither flexicure nor liberal, but rather a system with growing employment and a mixture of different types of employment, with additionally a diverse level of social protection attached to them. Germany does not only have a peculiar situation on the labour market, but also an interesting reaction to the economic crisis.

The German labour market has changed tremendously over the last 10 to 15 years. There has been a decrease in the share of inactivity, with at the same time a stable rate of unemployment. There is also a decrease in the share of permanent full-time employment and a quite significant increase in the marginal flexible types of employment which play a peculiar role in the current crisis. On the one hand, Germany has seen several waves of regulation, re-regulation and statutory employment protection and unemployment protection. At the same time, Germany has experienced a progressive development of internal flexibility - basically working time flexibility - in firms, especially regarding skilled workers in manufacturing, which are covered by full unemployment insurance but also by employment protection. Basically, Germany has a widened labour market, and it has reacted in a dual way to the current crisis due to this peculiar institutional set-up. It is interesting to see that the crisis has had little effect on the German labour market so far, Germany has maintained the same unemployment rate for three years now. However, there has been a decline of GDP of about 5% in 2009 compared to 2008. Contrarily, the employment rate only decreased with 1%.

In explaining the role of different institutional elements in determining the translation of the economic shock to the labour market, there are certainly different buffers working here: (1) internal flexibility in terms of working time reduction at the firm

level (within collective agreements) and subsidized short-time working schemes, (2) wage flexibility at the firm or sectoral level (opening clauses, postponement of wage adjustments), and (3) external flexibility that is basically determined by statutory and collectively agreed unemployment protection.

The German labour market is characterized by internal numerical flexibility. This means that an important channel of flexibility in the current crisis has been the strong working time flexibility of full-time workers in the manufacturing sector. There was, however, a stronger reaction in temporary employment as opposed to employment as a total. Finally, there has been a quite significant reaction in hours worked, which decreased with 1.9%.

Export dependency makes the manufacturing sector the most vulnerable sector of the German labour market. However, despite this dependency, unemployment and employment levels have remained stable. This is related to Germany's dynamic service sector which compensates the losses in the manufacturing sector. Data from the Federal Employment Agency shows that in 2010 employment in the manufacturing sector has decreased with 3.9% compared to 2009. At the same time, there are still a number of sectors where employment grows. This adds up to basically stable employment rates. As an institutional buffer, working time flexibility is laid down in collective agreements. In terms of discretionary action, short-time allowances were expended to make it more attractive for employers to keep their skilled staff. This automatic stabilizer was installed to protect the manufacturing sector. This has become much more generous as the unemployment fund takes on social contributions for the hours non-worked and there is an additional subsidy for training incentives during short-time work.

In 2009, Germany had a high short-time work rate. There has been an employment reaction at the flexible margin of the labour market with regards to temporary agency work, which decreased with 20% from 2008 to 2009. This marginal labour force has experienced much more unemployment than other types of work. However, agency work is catching up again, which is an indicator of quick labour market recovery. Still, this type of short-time work remains a risk factor. One can see that Germany is a rather 'extreme' case of internal flexibility, with some external 'buffers', in terms of agency work. The manufacturing sector in particular, is known for the high number of agency workers. After the liberalization of this type of employment in 2003, the

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number in the manufacturing sector increased from 300,000 workers to over 800,000 in 2008. This number decreased with 20% in 2009 as a reaction to the crisis. But the numbers are now increasing again. The high number of agency workers in the manufacturing sector shows that it is an insecure sector.

What can we expect for 2010? It is expected that Germany will experience a period of 'jobless growth'. GDP will increase, there will be some expansion in the flexible types of employment in the hours worked, there will be some additional marginal decline in full-time employment, and there will be some increase in unemployment. Overall, the total employment rate will remain stable, which is an interesting aspect of the German labour market. The labour market is functioning accordingly; the existing institutional buffers dominate the German labour market performance. Policy makers have paid little attention to the discretionary side, short-time work and collective bargaining. There is limited institutional innovation, but there are some elements of flexicurity as the combination of short time work with training and the access of agency workers to short time work. However, these two flexicurity elements have been of limited relevance in practice. There are still some practical difficulties for agency workers to claim unemployment benefits. Further decline in employment in the manufacturing sector and the termination of short time work is expected. This structural adjustment is inevitable, but will lead to job losses in less competitive firms. As mentioned before, the manufacturing sector is under pressure, however, there is some concession bargaining taking place and several jobs are being relocated due to falling productivity and rising labour costs. At the same time, we can see an accelerated move towards the more flexible private service sector. However, the service sector cannot rely on internal flexibility to the extent that the very well established manufacturing sector can. This will lead to a decline in standard employment, and will cause the further growth of flexible work.

In times of crisis, countries benefit from institutional settings and switch to routine responses rather than attempt to introduce new types of policies. Germany in particular benefits well from established institutions, especially from collective bargaining and working flexibility, but also from short-time work allowances. Internal flexibility plays an important role in the German labour market; however, it is not sufficient to survive the crisis. Automatic stabilizers play a major role in the crisis; they prevent increases in unemployment to lead to major declines in domestic demands. Germany still benefits from earlier reforms such as unemployment benefits and the activation

and streamlining of active labour market policy. The German ‘jobwunder’ is characterized by policy reforms that have been rather parametric and path-dependent.

Lessons from the UK

Jochen Clasen - University of Edinburgh

The British labour market model is the ‘odd-one out’; it is traditionally weaker in terms of insurance, spending on active labour market policy, and employment protection. Training is not necessarily state-organized; most training is taken on by private companies. Policy responsibility is still very centralized, despite the Scottish government and the Welsh assembly. Social security and spending is organized by a centralized system while the implementation of active labour market policy is the responsibility of local networks. There are some non-governmental organizations involved in evaluation (commissioned), scrutiny (social security advisory committee) and in the implementation of employment programs (local partnership and voluntary sector). Under the New Labour government (1997-2010), the social partners have gained more influence, but there has not been any real change towards corporatism. The Labour government was not interested in involving the social partners in direct policy making. However, the social partners play a larger role nowadays in consultation and local collaboration and implementation. There is certainly a much closer connection between active and passive labour market policy. These fields used to be entirely separate, but are now integrated within the Jobcentre Plus, which is in charge of both functions, social security and active labour market policy. There is much greater coherence now in active labour market policy than there was before the mid-1990s. There is also a much more ambitious approach; as indicated by a shift in policy focus from unemployment as a problem towards worklessness, that is towards the inclusion of groups that traditionally fall outside the labour market. The government also takes working-age inactivity more serious. Overall, we can say that despite these developments there has not been a great shift towards increasing spending on active labour market policy as a whole. Overall, there has been *some* increase, but compared to other European countries, the UK is still lagging behind.

There has been a focus on young people, because youth unemployment is a major issue here together with long-term unemployment. There has been a shift away from job creation and training towards counselling, job search support and intensive case management (and in-work training elements). Additionally, the benefit conditionality has been strengthened under this welfare-to-work regime. Finally, Labour has emphasized that its policy was not ideological but that it was evidence based, meaning

that there is a lot of evaluation of labour market programs and continuing support for policy reforms and policy implementation. The benefits insurance system has been eroding in the UK, there is a shift towards a one-tier means-tested system. The OECD figures show that the UK is conspicuous in terms of low generosity in unemployment support. However, unemployment benefits are only one part of the package; unemployed people receive other types of benefits such as housing benefits and help with local taxation, et cetera. In order to compare what unemployed people receive, one has to go beyond unemployment benefits and unemployment insurance.

The flexible 'New Deal' programs lead to a greater benefit homogenization. This means that there is less complexity within the system, there are fewer programs for different (non-working) groups. One system for everyone makes the support more individualized, more tailored towards individual needs. The 'Employment Support Allowance' is the new incapacity support program, which is much more focused on work than previous programs. The Labour government was not really concerned with unemployment as such, which meant a decline in the number of people receiving job seeker allowance. However, the total number of working-age individuals receiving benefits has hardly changed. Since the mid-1990s, the UK has thus experienced a development towards a system of 'triple integration', which means integration between active and passive, between insurance and assistance and between 'classic unemployed' persons and other working-age benefit recipients.

In terms of a reaction to the crisis, like other countries, the UK experienced an increase in unemployment. The unemployment rate went up from 5.5% to 8%. There has been a decline in full-time employment, but part-time employment remains unaffected. Additionally, there is a rise in long-term unemployment. Youth unemployment is a perennial British problem, which is particularly affected during the current crisis. However, if we compare the effects of the current crisis to the early 1980s and 1990s, it shows that the effects are less severe, thanks to bank subsidies and 'quantitative easing' and other measures to protect the economy, such as the (temporarily) lowering of indirect taxes (VAT) in order to increase incentives for consumption. Moreover, the UK has paid particular attention to home owners. The UK has 70% home ownership and by temporary abolishing the stamp duty - which is a particular tax that is attached to the buying and selling of homes - many home owners have actually gained from low interest rates.

Short-time work has also played a role in the crisis, albeit not as a government-led programme but as based on individualized short-time working deals within companies.

There has not been a big shift in the British labour market policy as a response to the crisis. The UK experiences more marketization in active labour market policy, there is a stronger focus on young unemployed people – the so-called NEETs (not in education, employment or training) - and there is a slight improvement in redundancy pay. There has not been a big change in expenditure. There have been financial incentives to move off benefit and into work ('back-to-work credit') and there have been housing and temporary job subsidies.

In sum, the UK is not a flexicurity model, it is a flexibility model. The British labour market is characterized by flexibility without security. It is not a 'golden triangle'. However, different components of the British labour market are much more cohesive now than before. Middle income groups benefit very little from this particular model, and they mainly rely on companies. Moreover, the UK experiences a further decline in trade union membership and collective bargaining, with large differences between the public and the private sector.

Lessons from the Labour Market Triangle for Labour Market Policies during and after the Crisis

Ruud Muffels - Tilburg University

First, if we compare the Netherlands with other countries - Denmark, Sweden, Germany, France and the UK, respectively - is that the right comparison to evaluate the Dutch performance? It might be valuable to pay some attention to other countries worldwide. Second, policy makers take Denmark as *the* flexicurity model, but does policy mimicking makes sense? It is clear that path dependency plays an important role: Germany maintains its stability, the UK maintains its incentives, Sweden maintains its policy of wage solidarity, et cetera. The question is whether country cases studies on the joint impact of particular policies and their components of the labour market triangle teaches us something.

Looking at the consequences of the economic crisis and the forecasts for the coming years it shows that Europe and the US are in the worst situation compared to other countries. Northern Europe and the UK are more successful in preventing unemployment and maintaining employment security compared to Southern Europe. The forecasts of 2015 show that the more advanced economies are performing badly in terms of GDP growth rates, employment and public debt. Public debt will have an impact on the economic situation of Europe and the US for more than 5 years.

There have been different 'golden triangle' models: Sweden, Japan, the Netherlands and, currently, Denmark. The next golden triangle might be Germany, because Germany has been doing incredibly well, not only during the last couple of years, but already for more than 50 years. Think, for example, of the reunification with East Germany, which was successful because of their strong economy. It is important to remember that the performance of the labour market is dependent on the performance of the economy. Indeed, Denmark is performing well in terms of GDP growth rates, low unemployment rates, et cetera. But what about the insider-outsider issue? This is something that we also see in the UK: the disabled, older workers, low-skilled immigrants pay the price for these economic programs. Another issue is the job quality in modern economies; we see demanding work that leads to work stress,

which in turn leads to incapacity, disability. Moreover, the modern economies have to face the challenge of the aging population. In the future, this will lead to shortages on the labour market; therefore, sufficient employability policies are required to deal with this.

The advanced economies of Sweden, Denmark and the Netherlands are faced with the same problems: high labour demands, demanding work and outsiders. Temporary work plays an important role in modern economies. Modern labour markets need flexible labour in order to compete with the upcoming economies of India and China. In the US and Europe there is a minimum wage, which hinders wage flexibility. Therefore, as a reaction to the crisis, temporary workers are the first to be dismissed. However, when the economy recovers, temporary workers are hired again.

The UK did an incredible job in terms of labour market performance, in creating high levels of employment security. The UK has a flexible labour market, and temporary workers have the possibility to move into a permanent job. The UK is known for having a weak system of income security; there is large wage inequality, long working hours, there are many working poor, many low-paid jobs (part-time, casual jobs, self-employed). There is competition between the low-skilled, low-paid immigrant and native worker. In sum, the UK is doing a great job in terms of employment security, but is dealing with a lot of insider-outsider problems and low payment, et cetera.

Germany is characterized by high levels of employment security, stable employment rates, no youth unemployment, but still the job mobility is quite low. The German labour market also has to deal with outsiders; however, these are well protected. Temporary work has played an important role during the crisis. The German employment rate increased during the crisis because of temporary work arrangements. Short-time work arrangements are important components of flexicurity policies. It provides employment security and it functions as a buffer in times of economic crises, in the sense that the workforce can be reduced without having to fire people. The current crisis shows that employment protection is not necessarily a bad thing, it prevents employers from too easily firing people. In the US, there is wage flexibility which leads to many working poor. In Europe, we have flexible work, which can also lead to a reduction in wages. The most important question thus is how the situation of temporary workers can be improved. This means that policies should focus on improving the employment security of flexible workers. As mentioned before, short-time

work arrangements are part of a flexicurity package. These types of policy should not focus on making work pay, but rather on making transitions pay. It is important to stimulate transitions on the labour market: from unemployment to employment, from part-time unemployment to full-time employment, et cetera. Short time work is a way of creating in-work benefits, allowing and improving the transition from unemployment to employment and making the movement less dramatic. It is important to keep in mind that government subsidies for short-time work arrangements are helpful in the economic crisis, however, after the crisis there is a need for other policies. I believe there is a need for policies that focus on the employability of older workers, working time flexibility (as in Germany, Denmark and Sweden), and innovation. Moreover, the segmentation between standard and non-standard jobs should be reduced, there is a need for more security for temporary workers and less security for permanent workers. Finally, if we want to compete with the emerging economies, we need both flexibility and security in the labour market.

Who Should Take Responsibility for Unemployment Compensation and Activation?

Paul de Beer - AIAS, De Burcht

In 2008, a state committee, chaired by Peter Bakker, envisioned a future without mass unemployment. The real problem of the future would be a lack of workers. The financial crisis has cruelly disturbed this rosy dream. Although the unemployment level has risen less than anticipated, nevertheless the number of unemployed has grown by 160,000 in one and a half year. During the first decade of the 21st century the unemployment rate remained below 4% of the labour force in only three years. And even though the labour force will shrink in the near future, unemployment will probably remain a common phenomenon. After all, this crisis will certainly be followed by new crises. Moreover, the thought that a shrinking labour force results in a structurally lower unemployment rate is neither supported by modern economic theory nor by empirical evidence. (EU countries with a declining labour force experienced slightly higher unemployment rates between 1997 and 2007 than countries with a growing labour force).

So, unemployment will still be one of the most important risks that working people face in the future. There are, therefore, good reasons to reconsider the design and implementation of programmes to prevent unemployment (such as dismissal protection and active labour market policies) and to mitigate the consequences of unemployment (such as unemployment benefits). Much reforms have already been implemented in this policy area in the Netherlands in the past ten years. For example, the maximum duration of unemployment insurance has been reduced from 7.5 to a little over 3 years, the administration of unemployment insurance has been transferred from bipartite sectoral bodies to one national public body (the UWV) and a market of private re-integration services has been created.

However, most political parties pleaded for new reforms as part of their platform for the general elections of 9 June 2010. Several parties want to reduce the maximum duration of unemployment insurance to one year, some others want to let employers pay for the first half year of the unemployment benefit. Some parties advocate

transferring (part of) the tasks of UWV to the municipalities, while the liberal party VVD is in favour of a larger role of private companies in the administration of social insurance.

In view of the many reforms that have already been implemented in the past but have apparently not been successful – at least, according to the political parties – it is well-advised not to carry out new radical reforms overnight. One should first carefully weigh the pros and cons. Two questions, in particular, need to be answered first.

First, what is the preferred relationship between unemployment compensation, employment protection and active labour market policies. In the past, these were largely separate policy fields, but they should be much closer related in the future.

Secondly, one should carefully distribute the responsibilities for each of these policy domains. In the past, the distribution of responsibilities has been changed frequently, but this was not based on a clear vision of the optimal distribution. For example, the social partners have been jointly responsible for the administration of unemployment insurance for most of the post-war period, while the Public Employment Service was responsible for active labour market policies and employment protection. Since 2002, the public UWV carries responsibility for both unemployment insurance, dismissal protection and activation policy, while the municipalities administer social assistance and activation policy for their clients. This has made the distribution of responsibilities much clearer. But this does not imply that the present distribution is optimal. While the municipalities are also fully responsible for financing social assistance – since they receive a lump-sum subsidy from the state – the expenses of the UWV are still reimbursed by the state – since it has no other tasks and, therefore, cannot shift funds between different programmes.

In order to improve our understanding of the best co-ordination of social benefits, employment protection and active labour market policies and the optimal distribution of responsibilities for them, AIAS has performed an in-depth study in the past four years. The main results of this study have been published in the book *Wie zorgt voor zekerheid? (Who cares for security?)* by Paul de Beer, Marcel Hoogenboom, Lucy Kok and Trudie Schils. The book concludes that there is not one optimal distribution of responsibilities. To start with, unemployment compensation, employment protection and activation policy have various goals and the weighing of these goals is not a

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scientific question but a political issue. Nevertheless, it is possible to say something about which configurations are *not* optimal.

First of all, although this may be stating the obvious, a pure private model, in which the government does not interfere with benefits, dismissals and activation, is neither theoretically nor empirically feasible. There are simply too many market failures to be able to manage without government intervention.

Secondly, a pure centralised state model, although certainly feasible, since it largely resembles the current Dutch configuration, is wrought with government failures. The main problem is that a public administration hardly experiences any incentives to reduce the number of benefit claims and promote re-integration. Although the central government can try to push the public administrator to improve its performance, it cannot really force it, since there is no competing administrator to compare it with (benchmarking) or to pass its tasks onto.

Thirdly, sharing or spreading responsibilities is also not desirable. In the Netherlands, the social partners, the municipalities and the (regional) public employment service have shared responsibilities for a long time. Since both the social partners and the municipalities could shift the financial burden of benefits onto the society, this resulted in an inefficient and ineffective administration. The termination of this model in the late 1990s was therefore quite sensible.

Now, what about models that may be preferable? In general, these should comply with two conditions.

- 1) First, the same actor should be responsible for both benefit administration and re-integration activities. This makes it much easier to shift funds between benefits and re-integration and, thus, take into account the positive impact of effective activation on the number of benefit claims. This will therefore provide the right incentives for activation.
- 2) Secondly, the same actor that decides about benefits and activation should also bear the financial burden of its decisions. So, it should not be possible to shift the expenses onto another actor, such as the central government.

There seem to be two viable models that comply with both conditions. The first is a sectoral model and the second a municipal model.

In a sectoral model the social partners – trade unions and employers associations – share the responsibility for unemployment insurance and activation policies (and, possibly, dismissal protection) at the sectoral level. As a consequence, unemployment insurance and activation policies are also fully financed from sectoral funds. This model has two advantages. Arrangements regarding unemployment insurance and activation will become part of the bargaining over collective labour agreements. Thus, the social partners can weigh more generous benefits or more activation against, for example, higher wages. Wage moderation may then partly be compensated by a smaller number of unemployed and, hence, lower expenses of unemployment benefits. Moreover, the responsibility for unemployment benefits and activation will then be carried by the actores that are directly involved in and have the best knowledge of the functioning of the labour market, which might speed up the return of the unemployed to work or the changing of jobs by employees.

Although the social partners are responsible for unemployment insurance and activation policies in this model, this does not necessarily imply that they also carry out the administration themselves. They might decide to outsource the administration to private insurance and re-integration companies.

The main weakness of this model is that, as the unemployment insurance benefit expires, the long-term unemployed have to be transferred to the municipalities who administer social assistance. As a consequence, the longer the unemployment spell, the less incentives the social partners have to take costly activation measures, since both the remaining benefit duration and the probability of successful re-integration become smaller. To prevent activation efforts from declining, the social partners should get a fine for each long-term unemployed that is transferred to a municipality.

The second model that complies with both conditions is the municipal model in which the municipality carries the responsibility for all social benefits and all re-integration activities for unemployed people of working age. Thus, in addition to social assistance, the municipality is also responsible for the administration and financing of unemployment insurance and the activation of redundant workers. The main advantage of this model is that there is no longer a cut-off line between short-term

and long-term unemployed. However, an important drawback is that municipalities have no direct link with the sectoral labour market, which is still important for most dismissed workers. Thus, it will be rather difficult for them to guide employees who are recently dismissed or will be dismissed shortly, to a new job, unless they succeed in co-operating with the sectoral social partners.

As noted before, it cannot be judged on scientific grounds, which of these two models is the best. This is really a political issue. Although several political parties seem to opt for the municipal model, they are not explicit yet about the funding of unemployment insurance. Moreover, some other parties seem to be in favour of a greater responsibility for employers in the first period of unemployment, which comes close to the sectoral model. So, at the moment of writing it is not yet clear into which direction the distribution of responsibilities will change in the coming years.

The Preferred Employment Policy for the Netherlands

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The importance of a sustainable level of full employment is undisputable. First, there is the moral argument that every person should be able to earn a living. This might even be considered a basic requirement for civilization. Work is socially indispensable, both for the individual citizen and for society at large.

Secondly, there is the economic argument that it is inefficient to leave part of the available workforce idle instead of letting everybody contribute to national wealth. Besides, people who are out of work often claim a benefit, which causes extra costs that may hinder economic growth. The economic need to raise employment is reinforced by the demographic trend of an ageing population and a shrinking labour force. In order to sustain our future prosperity, it is essential to increase the labour participation rate.

Depending on whether one adheres to the moral argument or the economic argument for increasing employment, one might prefer different kinds of employment policies.

Those who endorse the moral argument will, in general, be in favour of macro-oriented policies which pay attention to the opportunities of workers to choose their preferred kind of job, and to social security of workers. Those favouring the economic argument of full utilisation of labour resources will focus more on microeconomic adjustment processes and the need for incentives that foster labour participation, but will not pay much attention to individual rights.

Although most policy makers and politicians start from economic arguments, I would like to focus on the moral arguments for increasing employment. I will therefore first pay attention to the importance of macroeconomic policies and next focus on the individual right to decent work and social security.

The importance of an effective macroeconomic policy is, unfortunately, too often neglected. After all, “it’s the economy, stupid!”, according to the famous dictum of Bill Clinton. Unemployment is caused by either fluctuations of labour demand over the business cycle (including economic crises) or by structural imbalances. The latter may be due to a lack of incentives for adjustments, but also to deliberate policies that generate recessions to squeeze out inflation (Nickell, 2010). In most cases, expansive government policies are the best way to reduce unemployment. Since the 1980s, these Keynesian demand-side policies have lost political clout out of fear of accelerating inflation. Thus, the European Central Bank aims for a stable inflation rate of two percent. Most labour market analyses show that this is compatible with a ‘natural’ unemployment rate of about seven percent! It is rather astonishing that an unemployment rate of seven percent is considered to be ‘natural’ and, therefore, acceptable, while an inflationary rate of say four percent is deemed far too high and in danger of accelerating. Consequently, the fear for inflation gets too much weight as compared to the unfavourable consequences of a high unemployment rate.

In a period of economic crisis, in particular, expansive government policies are of great importance. They provide a safety net that mitigates the decline of effective demand and they offer insurance against fundamental uncertainty (Skidelski, 2009). Only the national government is able to play this role, although it should confer and co-operate as much as possible with the social partners, as is part of the long tradition of the Dutch polder model. Besides, national policies should preferably be co-ordinated between countries to prevent the effects of expansive policies from spilling abroad.

We can learn important lessons from the failure of the employment policies after the first and second oil crises of the 1970s. A special issue of CES-Ifo summarises the main lessons, in line with the economic perspective. To start with, it is of overarching importance that persons are not excluded from the labour market. Workers who are dismissed all the same, should first get the opportunity to find a job on their own. Numerous studies have shown that policies that focus on the short-term unemployed are often ineffective or even counterproductive (by distracting the unemployed from looking for a job) and therefore cause a high deadweight loss (Andersen, 2010). But the longer unemployment continues, the more difficult it becomes to find a job. In the end, the long-term unemployed may be effectively excluded from the labour market or withdraw themselves from the labour market. It is, therefore,

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of the utmost importance to prevent long-term unemployment. Hence, one should focus primarily on those unemployed who run the risk of sliding into long-term unemployment. Only after this has turned out to be a success, one should focus on the ‘granite core’ of very long-term unemployed who hardly have any chance of getting back to work at all. The main instruments for preventing long-term unemployment are training, counselling and wage cost subsidies. But if these instruments are not successful one should offer the long-term unemployed the opportunity to do (voluntary) community work, organised by municipalities (cf. Nickell, 2010; Ljungqvist, 2010). One should carefully separate this voluntary work from regular paid work. Preferably, it should be temporary, to prevent people from being diverted from the regular labour market.

Even though policies to prevent long-term unemployment are badly needed, they will not suffice to guarantee every citizen a paid job. Actually, they are mainly inspired by the economic argument for increasing employment, that is, the full utilisation of resources. They emphasize the obligation of the unemployed to ‘earn’ their own living and forestall them from losing their employability. As an alternative, I propose a Job Guarantee Plan (JGP), which is based on the moral argument for full employment. This JGP starts from the observation that markets often fail because of a lack of demand and that full employment is essential for society.

The idea of a job guarantee stems from a long tradition in the USA. It was advocated by institutionalists, such as Copeland, Gordon, Minsky and Wray. These authors are in favour of a role of the government as employer of last resort – see Mitchell and Muysken (2008) for an overview. Also Mitchell has been very active in proposing plans for a job guarantee in Australia.

The basic idea of the JGP is that the government offers a fixed wage job to anyone willing and able to work. This job will be paid according to the mandatory minimum wage, thus keeping the earnings below the prevailing wage on the labour market. The Job Guarantee acts as a job buffer, ensuring that there is full employment over the business cycle, while inflation is being kept under control. The JGP does not raise inflation even though there is no (involuntary) unemployment because the wage of the JGP is below the market clearing wage. If there would be any inflationary pressure, the government could easily suppress this by tightening its fiscal and/or monetary policy. Since the non-accelerating inflation rate of unemployment rate under a JGP

would be much lower than the 'ordinary' NAIRU, it would result in much less wastage of labour resources.

But would it also work in practice? A macro-econometric simulation by Fullwiler shows that a JGP offers quite satisfactory outcomes for the USA. There have also been some rather successful field experiments in Argentina, South-Africa and India (Wray, Mitchell, Drèze) – see Mitchell and Muysken (2008) for an overview. In the Netherlands, a few experiments had only limited success, but this may be due to the fact that they were not incorporated in macroeconomic policy.

In implementing the JGP it is important to keep it flexible, open and experimental, so that one can learn from experience. Local and individual initiatives should be welcomed. This means that each municipality or neighbourhood and each individual unemployed person could come up with a concrete proposal for work under the JGP. Each reasonable proposal will be tried out, but will be interrupted again when it turns out to be a failure. Thus, one can learn from both the successes and the failures of others. Successful experiments may then be implemented on a larger scale. To give some examples of possible activities that may be implemented:

- informal care for elderly people (e.g., transport, courses, helping with ICT);
- refurbishing the neighbourhood (e.g., playgrounds, green areas, a neighbourhood platform);
- designing and developing inner-city plans (banishing cars, reducing energy consumption).

It is important to involve the social partners (trade unions and employers) in the implementation of the JGP. It might thus become a public-private-partnership. (However, I am quite wary of PPP's since the partners often have asymmetric positions.) There might also be a relationship with activities on the shop floor, such as training. One should realise that training and education are not a panacea for all evils. As long as there is a shortage of jobs, training is paramount to stirring a cup of tea. But training within a paid employment context, created by the JGP, helps overcome the churning of unemployed through the current active labour market policies: there always has to be the prospect of a job after training! Training on the job will strengthen the motivation of the worker and will probably yield a higher return. For this reason

it is indispensable to involve the employers in the JGP, since they will have to create trainee posts.

I conclude that it is unacceptable to consider an inflation rate of no more than two percent and an unemployment rate of seven percent to be ‘natural’. Macroeconomic policy should focus much more on creating full and valuable employment. This makes a more demand-side oriented policy essential. Looking for a job when there are too few jobs will simply result in a reshuffling of jobs instead of a reduction of unemployment. Thus a Job Guarantee Plan is a superior alternative to the current active labour market policies.

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Comment on Muysken

Wiemer Salverda - AIAS, University of Amsterdam

I heartily welcome Joan Muysken's attempt to leave the beaten track and hold a mirror up to the face of the Dutch labour market, since the economic crisis will have a major impact on this. Even though the rise of unemployment seems to turn out better than anticipated, the strongest increase probably still has to come.

Muysken's proposal for a Job Guarantee Plan (JGP) is sympathetic for a number of reasons. First, it will foster creativity among the unemployed. Perhaps, it could even better be named 'venture benefits'. This is badly needed, since the Netherlands, up to date, focuses more on becoming a low wage country which hampers productivity growth, than on boosting creativity and innovation.

In addition, the JGP also stresses voluntariness instead of a singular striving for the highest possible rate of employment. It is good to realize that the highest rate ever obtained was found in Romania under Ceausescu. Maximising the rate may also render a lot of marginal jobs and marginal labour-market attachment.

Finally, a further strengthening of the obligations of the unemployed may increase the 'moral hazard' of policy making since the blame for a failing policy is then easily shifted onto the unemployed.

It is important to realize that there is room for making policy choices. It is in vogue now to stimulate the employment participation of older workers. However, the bonus for older persons staying in work is very costly and also a waste of money given the large deadweight loss.

In spite of my sympathy for the JGP, I would like to put forward some potential problems with respect to the desirability, the feasibility, the sustainability and the workability of the proposal.

The JGP seems to intend a return to the 'Golden 1960s' when full employment was self-evident. But many things have changed since then. The educational level of the labour force has risen. Nowadays, the labour force includes a large share of women,

while it was almost exclusively male in the 1960s. The number of youngsters and ethnic minorities in the labour force has grown. The labour market has become more international – think of the Poles who return to their home country during a recession. The share of services in total employment has increased tremendously. And there has been an impressive technological development, represented most markedly by the ICT revolution. So, is it really possible to return to the situation of the 1960s?

A basic assumption of the JGP is that the jobs will be paid indefinitely according to the minimum wage. An important reason for this is to contain inflationary pressure. However, for some (actually, most of the unemployed) the minimum wage may be equal to instead of below the market going wage. Moreover, will it really be possible to keep the wage at the minimum for a long time? Prolonged stays in such a minimal position do not seem feasible as the example of collective labour negotiations for similar jobs in the 1990s (“Melkert jobs”) has shown – in the end these introduced wage scales of up to 30% above the minimum wage. And, finally, shouldn’t socially useful work be paid according to the societal benefits it yields?

I have also some questions about the impact of the JGP on the social security system. Will the job guarantee be restricted to those who receive a social benefit? Does this include both an unemployment insurance (WW) benefit – which might be higher than the minimum wage – and a social assistance benefit? Will these benefit claimants still experience sufficient incentives to leave the benefit and accept a regular job? And will this not cause a strong pull towards others who are not entitled yet to a benefit? Who will monitor and control whether they exercise sufficient effort in their

work (don't you need an employer for this)? And will it not increase the moral hazard of employers to lay off employees?

The next point regards training and education. For most of the vulnerable groups on the labour market, training is exactly the problem: they have become unemployed just because they didn't get sufficient education. How would this be changed by the JGP?

Apart from the wage costs, which can be largely paid from the savings on benefits, also some investment costs will have to be incurred to create new jobs. To enable this, perhaps, the JGP could be combined with a public venture fund to support innovative activities.

To what extent can we draw lessons from previous experiences, such as the subsidized Melkert jobs from the 1990s? And can the JGP be linked to already existing measures, such as the recent act on 'investing in youth' (WIJ), which intends to guarantee every person below the age of 27 either a job or training? Perhaps we can also learn something from the Danish experiences?

Finally, it is not entirely clear to me whether the JGP is intended to be a general proposal, that can be implemented any place, any time, or a measure that is especially intended for the current situation of economic crisis. If it is a general measure, it seems to be specifically focussed on vulnerable groups on the labour market. If it is addressed at the present situation, then the problem is a shortage of work instead of specific individual problems. Moreover, there will be a tremendous pressure on public expenditures in the near future, which makes the actual implementation of the JGP not very likely.

I would like to conclude by making two final comments which hark back to where I began.

First of all, the treatment of the unemployed should not be a kind of activation therapy (focussed on disciplining the unemployed), but should stimulate and utilise the innovative potential. That is what the JGP can contribute to.

Secondly, the individual rights of benefit claimants vis-à-vis the social security administration should be guaranteed, especially if the administration has a direct interest in reducing the financial burden of benefits. Here a charter for the rights of benefit claimants is badly needed.

Panel Debate

The participants of the panel debate were:

- Ton Hopmans, HRM manager of Randstad Nederland, the largest temporary work agency of the Netherlands.
- Agnes Jongerius, president of the largest Dutch trade union confederation, FNV.
- Jetta Klijnsma, former state secretary for Social Affairs and Employment (2006-2010).
- Maarten Keune (professor of social security and industrial relations at the University of Amsterdam) presided over the debate.

Klijnsma started by stressing the positive impact of government policies on the economy and the labour market. However, she acknowledges that the economic crisis is not over, yet. Therefore she warned against drastic budget cuts in the near future, since they might harm economic recovery. But in the long term, it is essential that the budget is structurally balanced. Gradually increasing the retirement age is one of the means to accomplish this.

To improve the labour market situation, the creation of so-called ‘work plazas’ (*werkpleinen*), in which the federal social security agency, UWV, and the municipalities co-operate, has been an important innovation. In some cases, the co-operation between UWV and municipalities is excellent, in other cases it still needs improvement. To achieve this, it is important to make more precise agreements about who should do what.

More generally speaking, the rule for the administration and implementation of labour market policies should be that the actor that is best equipped for a particular task, should be responsible for it. Thus, UWV should administer and pay out social benefits, while municipalities know more about the individual circumstances and needs of benefit claimants. The big puzzle is who should be responsible for activation measures and which measures are effective. It should be clear, nevertheless, that everyone should be offered an opportunity to work, if necessary outside the sphere

of regular jobs. However, such additional jobs should never be paid below the mandatory minimum wage.

Hopmans is reminded of his father who used to say: don't look at your limitations, but at what you are able to do. In the Netherlands, there is a real schism between the haves and the have-nots. The haves should not be patronized. The new generation should not be burdened with the ideas and ideals of the older generation, such as a permanent job.

He is shocked about the quality of education in the Netherlands. Teachers are busy doing the wrong things. The transition from school to labour market is badly organised. As a consequence, employers import knowledge workers from Eastern Europe, because they cannot find them in the domestic labour market. This is partly caused by putting too much emphasis on freedom instead of on craftsmanship.

With respect to the labour market, the issues that really matter are not discussed. The UWV is functioning badly, simply because it has insufficient knowledge of the labour market. It is important to state clearly who is to do what. In his opinion, the most important problem is the strict dismissal protection of civil servants. If you really want to help an unemployed person with a weak labour market position, you should assign to him a passionate professional who acts without regard for rules and regulations. Public-private-partnerships might help in accomplishing this task.

Jongerius would rather leave it to the experts to decide whether the crisis is almost over yet. Nevertheless, she is worried by the fact that the European heads of government seem to be primarily interested in reducing budget deficits instead of devising a plan for economic growth and decent jobs. In the new programme Europe 2020 unemployment and the economic crisis are absent. There appears to be a lack of urgency with respect to the problem of unemployment and youth unemployment, in particular. The same applies to the campaigns for the Dutch general elections: too much discussion about budget cuts, too little about employment.

With respect to the distribution of responsibilities, she is in favour of shared responsibilities between the government and the social partners. The regulation for temporary short-time work (*deeltijd-WW*) is a good example. Even the UWV proved to be able to act quickly! Perhaps, the Dutch reaction to the crisis was not so bad, after all.

Nevertheless, part of the burden of the crisis has come to rest upon the shoulders of the flexible segment of the labour market. Flex workers and self-employed have absorbed part of the reduction of employment and thus kept the unemployment rate relatively low. But since they do not show up in the official statistics, they are easily overlooked by the employers and the government.

Salverda asks who will pay the price for the present policy. The number of fulltime jobs among youth has decreased strongly during the crisis, so it appears that they experience a severe drop of income. Even well-educated school-leavers have a tough time finding a job.

Muffels argues that the employment protection legislation makes it harder for outsiders to become an insider. The core labour market is locked for them.

A third person from the audience suggests that a central contact is needed to improve the connection between vocational education and the labour market.

According to *Klijnsma*, parttime work is not only disguised unemployment but also a conscious choice of many women. The downside of relaxing employment protection is that weaker groups among the insiders will be more easily dismissed. She agrees that the interaction between vocational education and the labour market should be much improved. This should be an important topic in the regular meetings between the social partners and the government.

Hopmans argues that it would be no problem at all to get thousand people back to work.

With respect to employment protection, one should ask why someone is dismissed in the first place. This is often caused by a malfunctioning feedback culture in companies. Management should talk with employees much sooner if they do not function well and should offer them an outplacement trajectory before they are fired. Dismissal protection is only needed to compensate for income insecurity. The higher someone's earnings, the less need there is for protection.

He supports the idea of letting companies pay for the first period of an unemployment benefit. However, for weak labour market groups something else is needed to make it attractive for companies to hire them. Reducing flexibility will certainly *not* help in this respect.

Jongerius agrees that labour market flexibility helps ‘us’ in passing through the crisis, but some have to pay a high price for that. Moreover, she thinks that the large flexible segment might also be explained by the fact that employers are obliged to pay sickness benefits for two years. In her view there exist quite some prejudices regarding vocational education. She thinks that small-scale organisations are best, such as the recently started craft schools (*vakcolleges*).

A Labour Market Policy Agenda for the Future

Alexander Rinnooy Kan - SER

In view of the challenges that we are facing today, I would like to discuss with you six labour market problems, six policy perspectives and six opportunities for improvement. The background for my reflection is constituted by the present economic crisis, which, hopefully, is in its final phase, and the ecological crisis, in which we are still fully submerged. The combination of both crises points to an ethical crisis about the rules of the game.

Presently, we are facing six large problems with respect to work and employment.

- 1) First, there is the dual face of the labour market: in the short term there is a shortage of work as a consequence of the economic crisis, while in the long run we will be facing a shortage of workers, due to the ageing of the population and the shrinking of the labour force.
- 2) Secondly, despite the many pleas for life long learning, we still haven't made much progress in this area. Actually, we need twice the amount of training of workers that is currently the practice in the Netherlands.
- 3) Thirdly, the position of elderly workers is still the main weakness of the Dutch labour market. The functioning of the labour market of elderly is clearly not up to the mark.
- 4) Fourthly, there is an increasing differentiation of employment relations (think, for example, of the strong increase in the number of self-employed) that does not fit nicely with the prevailing labour market institutions, which are still primarily based on the idea that 'one size fits all'.
- 5) Fifthly, there are still many problems at the bottom of the labour market. Low educated people still experience low employment rates and high unemployment rates.

- 6) Sixthly, too much labour potential and talent is still underutilized, especially among ethnic minorities.

We can approach these problems from at least six different policy perspectives.

- 1) First, the perspective of a European labour market will become increasingly important. Although labour market policies and institutions are still a national responsibility, the mobility of labour and capital within Europe forces us to take account of the relationship with the European labour market at large.
- 2) Secondly, good educational policies are a precondition for a well-functioning labour market and will be even more so in the future.
- 3) Thirdly, it may be time for a revival of industry policies. An important question will then be whether this should be a generic policy or whether we should devise specific policies for specific industries.
- 4) Fourthly, the evolution of labour costs will remain an important policy issue. The Netherlands has a tremendous track record with respect to wage moderation and quick adjustment of wages to the business cycle. But maintaining this track record requires continued attention.
- 5) Fifthly, the tax system will need adjustment in order to get the right incentives that foster a sustainable development in both economic and ecological terms.
- 6) Sixthly, labour market institutions also have to be adjusted to changing circumstances. These institutions are actually a form of crystallized trust, which cannot be changed overnight, but must nevertheless gradually adapt to evolving labour market conditions.

Many of these perspectives have already been addressed in advises of the Social and Economic Council (SER) and will probably get more attention in the near future.

Finally, I would like to suggest six possible directions that labour market policies should take.

- 1) First of all, increasing the labour participation rate should continue to be the overarching objective. Although we have made strong progress with respect to the employment rate in persons, these figures are perhaps too rosy because of the large share of part-time work. The full-time equivalent employment rate of the Netherlands is still rather mediocre in a cross-national perspective.
- 2) Secondly, the employability of workers still needs more attention. This may require institutional reforms, such as the introduction of individual training rights.
- 3) Thirdly, the unemployment insurance scheme (WW) needs reconsidering. It might be desirable to increase the (financial) responsibility of the social partners, for example, by financing the first period of the unemployment benefit at the sectoral level.
- 4) Fourthly, the funds for activation measures should also be used for prevention, which is often more effective than re-integrating unemployed into the labour market.
- 5) Fifthly, more efforts are needed to reduce benefit dependency of people at the bottom of the labour market and to get them back to work.
- 6) Sixthly, improving the labour market position of elderly is badly needed. The recent agreement between the social partners on the retirement age and a reform of the (second pillar) pension schemes has brought the heated argument on pensions to a satisfactory end. Now, it is time to make a further step ahead and focus on the labour market position of older workers.

About the authors

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Information about AIAS

AIAS is an interdisciplinary institute of the University of Amsterdam, established in 1998, with a focus on labour. As a network organisation, AIAS brings together high-level expertise at the University of Amsterdam from five disciplines:

- Law
- Economics
- Sociology
- Psychology
- Health and safety studies

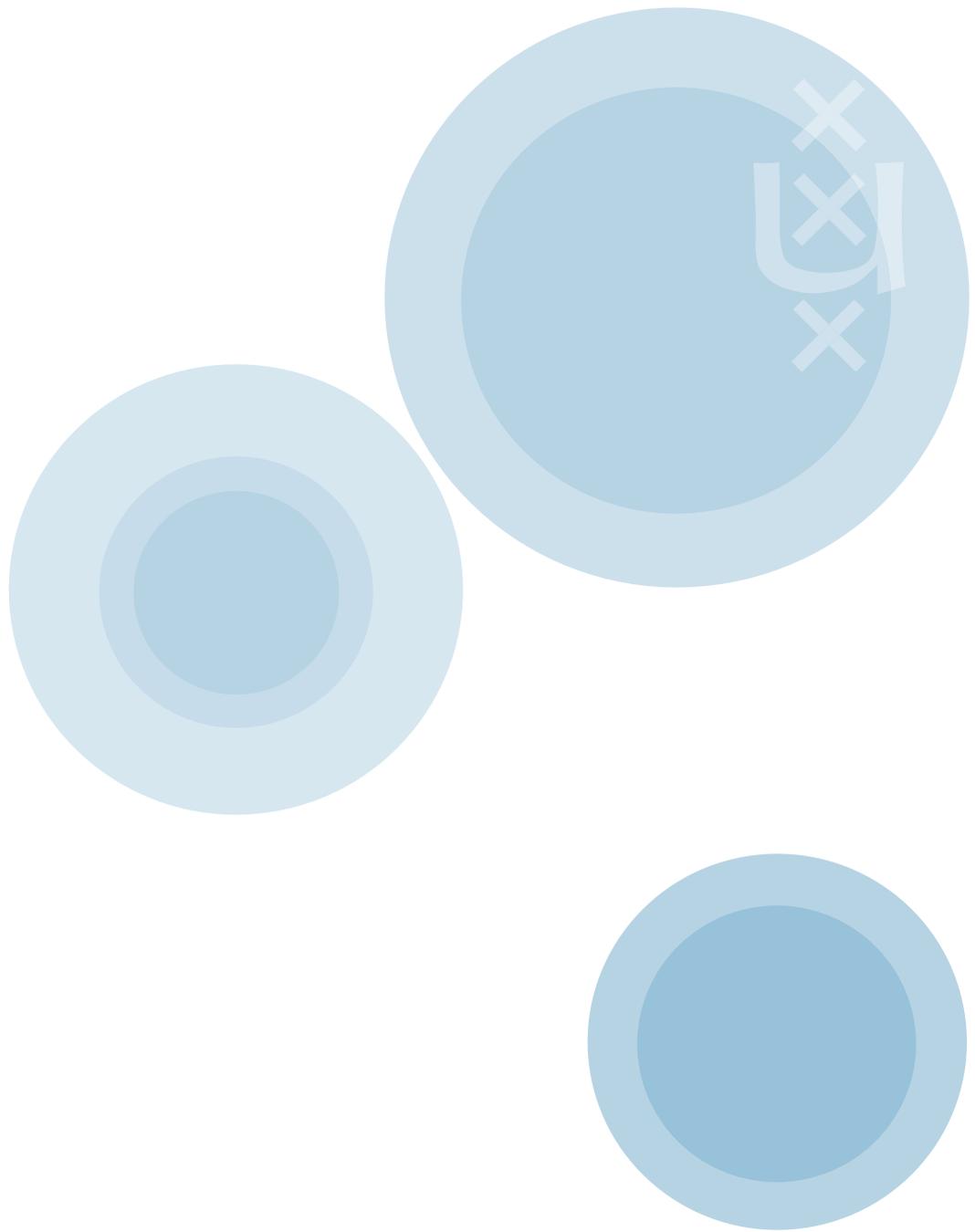
It is a leading expert centre in the Netherlands and Europe for research on industrial relations, wage formation and labour market inequalities, organisation of work and social security.

AIAS has an extensive research programme (2010-2013) *Rebalancing Labour, between Market and Regulation* aimed at studying Social Regulation & Coordination of Markets, Individual Transactions in Markets, and Societal and Individual Effects and mutual interactions, in the face of Europeanization and global economic and social change. This builds on the research performed by the member scholars of the institute.

AIAS is an accomplished coordinator of international research projects (e.g. LoWER, Equalsoc, Woliweb, Dempatem, and GINI which just started) and organiser of concomitant conferences, workshops and websites.

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