

CESifo DICE REPORT

Journal for Institutional Comparisons

VOLUME 6, No. 4

WINTER 2008

Forum

FLEXICURITY

Peter Auer and
Bernard Gazier
Lans Bovenberg,
Ton Wilthagen and
Sonja Bekker
Torben M. Andersen and
Michael Svarer
Luca Nunziata
Wolfgang Ochel,
Oliver Röhn,
Anja Rohwer and
Thomas Stratmann
Richard V. Burkhauser

Research Report

CONTROL MECHANISMS FOR SOVEREIGN WEALTH FUNDS

Steffen Kern

Reform Model

TWO-TIER EMPLOYMENT PROTECTION REFORMS: THE SPANISH EXPERIENCE

Samuel Bentolila,
Juan J. Dolado and
Juan F. Jimeno

Database

DEPOSIT INSURANCE
EMISSIONS TRADING
ENERGY MARKETS
TEMPORARY LABOUR MIGRATION
ANTI-DISCRIMINATION LAWS
BISMARCK VERSUS BEVERIDGE

News

NEW AT DICE DATABASE,
CONFERENCES, BOOKS



The international platform of Ludwig-Maximilians University's
Center for Economic Studies and the Ifo Institute for Economic Research, Munich

Institutional Comparisons - Ifo's Database for Institutional Comparisons in Europe (DICE) - Microsoft Internet Explorer

Adresse <http://www.cesifo-group.de/portal/page/portal/ifoHome/a-winfo/d3iv?lang=e>

Home | Research | **Economic Facts and Figures** | Policy Debate | Publication Series | Conferences and Events | Media Relations | About Us

Survey Results | Forecasts | **Institutional Comparisons** || Ifo Economic Data | Educational Material | Survey Participation

Ifo's Database for Institutional Comparisons in Europe (DICE)

Introduction

The database DICE is an additional service product of the Ifo Institute. DICE provides systematic information on economic institutions and regulatory systems as well as their economic effects. The information is presented as charts, tables and reports. The user can choose between current comparisons, archived documents from previous years and time series that show developments over time. In most cases, the 27 EU countries as well as some major non-EU countries are covered.

Why DICE?

More than anything else it is the institutional framework of an economy and the implied incentive structure that explain the welfare of a nation. In a time of rapidly expanding globalisation, where people, businesses, capital and goods are becoming increasingly mobile internationally, countries are compelled to compete on the basis of the institutions they have established. No country can afford not to compare its institutions with those of its neighbours, and all countries must aim for international benchmarks and best practices. International institutional data that allow a country to assess its own situation and to prepare reforms are in great demand.

Formats of DICE

The information which DICE contains will be presented in three different formats.

- DICE charts depict selected features of important new institutional-economic developments and are therefore of interest to a broad public.
- DICE tables cover a broad range of topics and offer more detailed and in-depth information.
- DICE reports highlight topical economic developments with brief texts built around graphical illustrations and tables. They are regularly published in the quarterly [CESifo DICE Report](#).

CESifo DICE

[Introduction](#)

[List of all institutional fields](#)

[Search form](#)

[New in DICE](#)

Database links

[Current folders](#)

[Archives](#)

DICE • REPORT
 Journal of the Institute for Economic Research

Reports are regularly published in the quarterly **DICE Report**

Home | | [Contact](#) | [Impressum](#) | [Privacy Policy](#) | [Search](#) | [Print view](#)

© 1999-2008 Ifo Institute for Economic Research, Munich

CESifo DICE Report ISSN 1612-0663

A quarterly journal for institutional comparisons

Publisher and distributor: Ifo Institute for Economic Research e.V.

Poschingerstr. 5, D-81679 Munich, Germany

Telephone ++49 89 9224-0, Telefax ++49 89 9224-1462, e-mail ifo@ifo.de

Annual subscription rate: €50.00

Editor: Christa Hainz (hainz@ifo.de), Wolfgang Ochel (ochel@ifo.de)

Editor of this issue: Wolfgang Ochel

Copy editing: Anne Heritage, Paul Kremmel

Reproduction permitted only if source is stated and copy is sent to the Ifo Institute.

DICE Database: www.cesifo.de/DICE

Forum**FLEXICURITY**

Flexicurity as a Policy Agenda <i>Peter Auer and Bernard Gazier</i>	3
Flexicurity: Lessons and Proposals from the Netherlands <i>Lans Bovenberg, Ton Wilthagen and Sonja Bekker</i>	9
Flexicurity in Denmark <i>Torben M. Andersen and Michael Svarer</i>	15
European Employment and the Flexicurity Option <i>Luca Nunziata</i>	21
Reduction of Employment Protection in OECD Countries: Its Driving Forces <i>Wolfgang Ochel, Oliver Röhn, Anja Rohwer and Thomas Stratmann</i>	29
Creating an EU Flexicurity System: An American Perspective <i>Richard V. Burkhauser</i>	36

Research Report

Control Mechanisms for Sovereign Wealth Funds in Selected Countries <i>Steffen Kern</i>	41
---	----

Reform Model

Two-tier Employment Protection Reforms: The Spanish Experience <i>Samuel Bentolila, Juan J. Dolado and Juan F. Jimeno</i>	49
---	----

Database

Deposit Insurance	60
Emissions Trading in Europe	62
Regulation of European Energy Markets	66
Temporary Labour Migration Programmes	68
Public Awareness of Anti-discrimination Laws	69
Bismarck versus Beveridge: Social Insurance Systems in Europe	70

News

New at DICE Database, Conferences, Books	72
---	----

FLEXICURITY

FLEXICURITY AS A POLICY AGENDA

PETER AUER* AND
BERNARD GAZIER**

A remarkable success, not without criticisms and scepticism

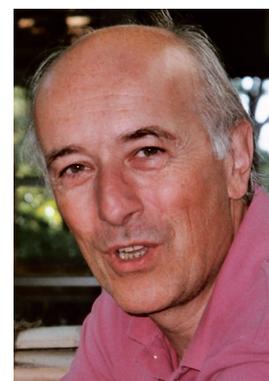
The numerous declarations, communications and decisions made by the EU Commission as well as the many reports and articles written by Europeans on flexicurity bear witness to the success of this concept, at least on paper. Even in the US the Danish model has been enthusiastically discussed by prominent commentators and economists, such as Robert Kuttner and Dani Rodrik. The concept is now well-known worldwide, and seminars on flexicurity have taken place in such diverse countries as Argentina, China, India and Vietnam. More importantly, flexicurity is now the overriding guideline for labour market reform in the EU. Research and policy action following the “common principles of flexicurity” that were adopted by the Lisbon ministerial council in late 2007 have been increasingly funded by EU sources.

Despite this increasing institutionalisation and support from many quarters, there are also critical voices, both from academia and from the unions. Recently the Swedish labour economist Lars Calmfors wrote a critical review of the concept and found that important trade-offs are “swept under the carpet”, maintaining the illusion of a win-win situation. He underlines the danger “that the practice of trying to subsume a number of different policy approaches under the common heading of ‘flexicurity’ leads to less clarity regarding the policy options” (Calmfors 2007).

Numerous attempts have been made at clarifying the various interpretations, meanings and uses of the term (e.g., Jorgensen and Madsen 2007; Wilthagen et al. 2007; Schmid 2008). In this article flexicurity will be seen as one of several policy agendas currently being discussed and its place amongst these investigated. This departure point has two main advantages. First it directs the attention towards the very nature of the flexicurity approach, which is neither a fully integrated theory nor a set of independent policy prescriptions. Second, it reintegrates it into a wider policy debate, which has been dominated for a long time by the demand for more flexibility and reactions to that demand.

The nature and rise of policy agendas: the challenge of “soft co-ordination”

Regional groupings comprising countries that are jealous of their prerogatives and room for manoeuvring, as is the case in the EU, presently rely on the subsidiarity principle and on “soft” laws. This is not true for all areas,¹ but in particular for social, employment and labour market policies and reforms. In this context “soft” steering devices like the “open method of co-ordination” and “bottom-up policy implementation” (with an active role played by national/local actors at every level of responsibility) are a politically feasible approach that enables countries to develop their own approaches. This also applies to international organisations that often have virtually no hold on their member countries other than peer pressure, except in areas where binding minimum rules and follow-up are agreed upon. Policy agendas and strategies are usually not binding, but it may be possible to achieve some convergence in policies by setting targets and by developing guidelines and recommendations. While the European Employment Strategy is the most developed of these strategies, there are similar strategies at work in other international arenas, such as the OECD Jobs Strategy (1994, reassessed in



* Chief, Employment Analysis and Research Unit of the Economic and Labour Market Analysis Department of the Employment Sector, ILO, Geneva.

** Professor of Economics, University Paris 1 and fellow of the Institut Universitaire de France, Paris.

¹ Especially the Stability and Growth Pact criteria are stricter, as is European legislation in many areas, also in the social and labour market field.

2006) and the Decent Work Agenda of the ILO of 1999, which also has an employment strategy arm, the Global Employment Agenda.

These “strategies” and “agendas” go beyond a simple collection of proposed measures with a timetable (a “plan”) and propose an organised set of reasons and measurements underlying several measures and “plans”. They are not directly deduced from one precise and unique theoretical perspective, nor do they simply arise from practice and experience. Policy agendas may be considered an *intermediate* body of more or less strictly interrelated arguments that point to one broad policy direction and classify priorities accordingly in a more or less strict hierarchical order. A set of policy perspectives can become a policy agenda if three conditions are met:

- i. it develops ends, means, targets and indicators;
- ii. it integrates those four elements into a autonomous strategic approach;
- iii. it imposes, through these elements and their justifications, evidence in favour of one particular, but broadly defined policy option.

Policy agendas may be seen as deliberate interventions aimed at transforming existing systems of references in a given field and pointing them in a new direction. They provide a form of cognitive evidence using concepts, values and evaluations. They are developed by experts and policymakers and are refined through debates; they appear in a pluralistic context because they are diverse and perhaps compete with each other.

Four policy agendas

In the field of labour market and social policies, flexicurity coexists with at least three other agendas: flexibility, capabilities and transitional labour markets.

Flexibility

Neo-liberalism is acknowledged by many to be a dominating² reform agenda that entails administer-

ing strong doses of flexibility as a cure. Since the 1980s, the claim has been that in a period where all other markets (goods, services and financial) are increasingly liberalised, the labour markets cannot remain regulated, as changes in the other three will spill over to them. According to this view, the markets (workers) have to adapt and the preferred adaptation channel, in the absence of total wage flexibility, is the (external numerical) mobility of workers and smooth worker reallocation, preferably unhindered by government intervention.

The US labour market still holds as a model for this approach. The *World Economic Outlook* (IMF 2003) predicted gains in growth and employment and decreases in unemployment if Europe chose to adopt US type low labour market level regulations. A low level of regulation is also a condition for being well ranked on the World Bank’s doing business indicators (World Bank, 2004–08). Of concern here in particular is the Employing Workers Indicator (EWI), a set of regulations concerning flexibility/rigidity in terms of working hours and hiring and firing. These indicators (and the ranking) very strongly suggest that labour market regulations are a pure cost of doing business. As a result of the EWI ranking, the old American flexibility/European sclerosis debate has resurfaced. For example Germany and France are ranked 137 and 144, while the US is number 1.³

The flexibility reform agenda treats the exchange of goods on the labour market just as any other good. As a result this agenda is not concerned with worker’s employment security or (wage) distribution policies as they would distort the market. The proponents of the flexibility agenda might not be particularly anti-worker (but anti-union, certainly) because in their equations more flexibility equals increased workers’ welfare: benefits will simply trickle down as a result of improved economic and labour market performance ensuing from the enhanced adjustment capacities of labour markets. In short: “Easier firing brings about easier hiring”. The market will bring the best of all worlds, whereas interventions to correct market failures will not work, leaving little space for polity, policy and ethics. Surely this picture is a caricature of the complexities of thoughts and methods that the proponents of flexibility have developed, but at the core, such thinking prevails.

² The dominance of a “doctrine” is difficult to establish. For example, one of the proponents of what many would call the leading doctrine, economic liberalism, Nobel prize winner James Heckman, criticizes the “prevailing view” in “institutionalists” like Freeman or Abraham and Houseman, who contend that labour market regulations do not cause high unemployment (Heckman and Pagés 2000). It seems that both sides make the claim that the doctrine of the other (market vs. institutions) is dominant.

³ The unweighted ranking of all 15 European countries is 96, the average rank being pushed up by the high marks given to Denmark and the UK.

Capabilities

The flexibility agenda ignores the particular “good or service” that is exchanged on labour markets, which cannot be isolated from the individuals that offer their services for money. They and their families’ livelihood as well as their psychological, social and economic well-being are in fact dependent on what they earn.⁴ This leads us to the second reform agenda, which is based on something quite different, namely on capabilities. This approach is oriented towards developing countries, although the concept claims universal application as can be seen in the Human Development Indicators, which are also relevant for developed countries. It appears to be based less on labour market and employment issues, but more on basic needs and social justice.

It sets a list of priorities established independently from how the labour market functions: health (life expectancy), wealth (per capita income in PPPs) and education (enrolment and literacy rates). These three main issues comprise many additional criteria, such as housing, literacy, access to water and schooling, active participation in political and social life, also with respect to gender, etc. All these factors may be seen as preconditions for a sustainable social and economic life, and are, of course, developed independently by specialised agencies and government departments of each individual country. The objectives set up for various actors, such as social workers, are based on them. One can speak of an agenda when these elements are combined in an integrated way. Although oriented more towards the world-of-work, the Decent Work Agenda of the ILO (ILO 1999) often refers to this approach.

The theoretical reference is the “basic need” concept established by the ILO, which has given way to a “capabilities” theory. It focuses on a specific kind of equality that draws on the use of both resources and capacities provided by both physical and cultural conditions. The capability of using “substantive freedoms” to achieve well-being (welfare) is at the core of this doctrine (Sen 1985 and Nussbaum 2000). Martha Nussbaum (2000) has shown what kind of capabilities are at stake (e.g., life, health, affiliation, control over one’s environment, etc.). The human development indicators that were developed following the ideas of Armatya Sen (Sen 1982) are based

on the three main areas cited above (wealth, health and education).

Flexicurity

Flexicurity was originally developed as an alternative concept to the “flexibility only” mantra of many stakeholders together with other concepts such as Transitional Labour Markets. Dating back to the Dutch debates about temporary work (1997), it developed out of a concern that flexibility could undermine security if institutions are not made compatible with changes in the labour market. Changes towards more flexibility, which are either deliberately sought⁵ or already existing,⁶ should be compensated or accompanied by better (new or reformed) security devices inside and outside firms. The concrete forms of the institutions outside firms’ internal labour markets are subject to debate, but there is some agreement that unemployment benefit schemes, education and training, work and training schemes, job counselling and worker’s accompaniment and placement, workers reallocation in restructuring situations, etc., are the core providers of this external form of security. The concept also emphasises negotiations between the social partners as the main avenue to manage change.

There are more or less encompassing concepts of flexicurity (Gazier 2008). Sometimes the concept is in a “reduced form”, comprising a “golden triangle” of external adjustment between (loose) employment protection, generous unemployment benefits and active labour market policies negotiated by the social partners (e.g., the Danish model as in Madsen 2003). Sometimes it includes a whole array of institutions and social rights as in the recently developed concept of the “common principles of flexicurity” of the EU Commission (EU Commission 2007). The common principles comprise new contractual arrangements, active labour market policies, life-long learning and a modern social protection system (which in itself is composed of an array of policies). Emphasis is also placed on the negotiation of policy combinations through dialogue between the social partners. It includes internal and external flexibility, insiders and outsiders, and should be gender sensitive and cost effective.

⁵ As seen in Wilthagen (2005), and partially also in the TLM and the capabilities approach.

⁶ This rather “fatalist” view is implicit in Auer (since 2003) and others, although scepticism towards the changes in the labour market due to globalisation remains, because stability in employment relations is also a fact of economic life (Auer and Cazes 2003).

⁴ The ILO’s constitution from 1919 asserts that “labour is not a commodity”.

Economically and ethically, flexicurity is interpreted, allowing for some adjustment, as a win-win game because it also provides security to workers. An important ethical dimension of this approach involves rights and duties and therefore individual responsibility. Economics needs politics for equitable outcomes, and there is a belief that it is possible to correct or at least accompany the market.

Transitional labour markets

First formulated in 1995, Transitional Labour Markets (TLM) refers to the development of a systematic and negotiated management of “transitions” in and around the labour market. “Transitions” are understood as any sequence in a personal and professional career (Schmid and Gazier 2002).

While the “flexicurity” roots are dominantly economic and sociological with a strong connection to labour law⁷ and an ethical dimension in the form of rights and duties, the TLM roots are more diverse and integrated. It is based, as is the flexicurity approach, on the economics of institutions and human resource development, political science and on Schmid’s (and also Auer’s) former work, which dealt primarily with policy congruence and complementarities. Ethics, especially questions of equality, equity and justice, play a large role in the TLM approach as well.

The research conducted on labour market policies, both active and passive, has had considerable impact on both flexicurity and TLM. The perception of “transitions” in and around the labour market as a system, typical of TLM, emphasises the interdependency between broad activity spheres, such as education, job searching, domestic and benevolent tasks, and retirement. This view has recently been based on a more micro approach: social risk management (Schmid 2006), which focuses on the different “framing” of risk perception by actors.

The TLM approach takes into account the domestic sphere as a major component of the system of interdependent transitions. The connection to the sociological approach referred to as “life course” (Anxo and Erhel 2008) is obvious. All this leads to a stronger emphasis on equality, especially on gender equality, as a central goal and on the long-term consequences of

transitions. The relevant indicators include many of the preceding indicators assessing workers’ security as well as labour market adaptability, but also transition indicators showing whether individuals are trapped into dominated and precarious positions or whether they benefit from opportunities to find better jobs and perform chosen activities.

In regional terms “flexibility” is closely linked with the US labour market and how it compares to European labour markets. “Flexicurity” and TLM have their regional origin in the analysis of the labour markets of “old” member countries of the EU, and a critical assessment of their success and failures (Auer and Gazier 2006). This analysis has been extended to include transition economies, most of which are now member countries of the EU (Cazes and Nesporova 2007).

Overlapping, external position and internal consistency

This short content analysis shows that many elements (ends, means, indicators and targets) are common to our four agendas. Even if they have reached very different stages of development, there appears to be a kind of continuum. If we start with flexibility, flexicurity can be seen as an agenda that accepts some of the priorities of the former while relying on negotiations between social partners for enriching, implementing and compensating them. The concerns of flexicurity are largely shared by the TLM agenda, which, however, insists on the deliberate management of non-paid work and of all the interdependent spheres of activity. This leads to the “capability” agenda, which focuses on the deliberate management of the preconditions and consequences of work, either salaried or not.

Besides competition between the agendas, there is also some degree of overlapping, evident in the common use of several theoretical references. Sen’s approach is important for TLM, and the analyses in terms of “matching” or labour market segmentation provide resources for the flexibility approach as well as for flexicurity and even TLM.

Key differences are to be found in the emphasis and the ranking of causalities or priorities. While a more precise assessment requires additional research, it is possible to identify two main sources of diversity in these political agendas: the first is their external con-

⁷ Labour law, in particular laws regulating hiring and firing, is, of course, important for all approaches.

nection to more global agendas; the second is their internal consistency and degree of homogeneity.

As regards the external connection, let us consider the importance placed on flexicurity in two wider policy approaches developed by the European Union and the ILO. In fact, flexicurity includes all four objectives of the Decent Work Agenda (worker's rights, employment, social protection and the social dialogue) and is part of the Global Employment Agenda of the organisation. Indeed, decent work is the overall ILO strategy for improving worker's rights, employment and working conditions in the world. The overall strategy of the European Union is the EU's Lisbon Agenda, a broad strategy with the ambitious objective of transforming Europe into "the most productive knowledge economy in the world by 2010". It includes all economic and social policies that might contribute to this aim. The Lisbon Agenda also has some sub-strategies, such as the European Employment Strategy, which encompasses flexicurity.

The main part of the Lisbon Agenda includes a macroeconomic strategy for its 27 member states that aims at some economic (and social) convergence. It has specific economic targets and to ensure their achievement, a variety of sanctions. It has some convergence instruments at its disposal, such as Structural Funds. This economic dimension is missing from the ILO agenda. The overall integration of economic and social policies that the ILO supports at the country level is achieved at the multilateral level by all agencies (and their co-ordination) in the multilateral system. As a consequence, flexicurity is in both cases a partial and a dominated agenda, a means rather than an end.

As regards internal heterogeneity, we have already observed that policy agendas are not unified theories but more or less complex sets of arguments, most often based on several theories. They may appear to be at quite different levels of sophistication and exhibit more or less internal consistency. If we consider flexibility, the emphasis is initially put on prices and wage adjustments because they represent the core market process. But as reality proves "sticky", external numerical flexibility emerges as a second-best priority, and this leads to a more complex and less stable agenda. In the capabilities approach, the way labour markets are understood and managed is something like a black box, even though Sen's concepts are easily applied to salaried work and take

into account the need to focus on such basics as health and livelihood in a global context.

How flexibility and security can be efficiently combined is a question that remains unanswered, even though flexicurity deals with this issue in a case-by-case approach and TLM analyses can provide useful insights. In the end we face the tricky question of causality: if good performance is observed, either in the labour market or with respect to incomes and the health of the workers, is it caused by the policy proposals derived and implemented from a given agenda or is the reverse true, i.e., that some countries with good results can afford complex or socially demanding policies? As regards flexicurity and the success of the Nordic European countries, was it the particular policy of negotiated flexibility and security that made adjustments and developments possible or was it the income and income distribution derived from sound economic policies that made it possible to develop flexibility/security policies that finally interacted positively with economic development in this phase of globalisation?

Is the success of flexicurity sustainable?

The success of flexicurity as a buzzword and a policy agenda seems related to its intermediate stance between adaptation to market pressures and maintaining employment, income and employability security and capabilities. A contributing factor to its success is also that flexicurity is not a model of labour market organisation that is shaped by market forces alone, but that it is a result of negotiations that try to transform trade-offs into complementarities. Even if firms need security (and workers some forms of flexibility), the main point is to negotiate more flexibility for firms and an increase in security for workers.

In terms of labour market success, countries that are said to have been able to organise their labour market in a way that allow for adjustment and security are usually top performers. Countries like Denmark, the Netherlands but also Sweden, Finland and Austria appear to perform better, when both economic and social indicators are measured. Countries that are usually ranked as "flexibility pure"⁸ perform well economically but do not perform as well in

⁸ This is, of course, an exaggeration. The US and to a greater extent the UK and Ireland also have social policies, albeit not as developed as in the Scandinavian countries.

terms of poverty and income equality. Flexicurity and TLM seem therefore to be more in line with the goals of the capabilities approach.

In analogy to the financial systems, which today obviously need more regulation to avoid capital depreciation, a pure flexibility policy for workers may likewise lead to the depreciation of human capital. However, too much regulation would bear – in the financial sector – the danger of overtightening credit access for firms and consumers, perpetuating the crisis rather than solving it. Smart regulation would be the answer and smartness would imply taking into consideration flexibility and security needs of the financial system.

However, even if labour markets are not comparable to financial markets,⁹ the re-regulation of the labour market is also seen by many as the solution to end the turmoil. Again, while it might be time to focus more on employment security, adjustment flexibility is also needed in the labour market. If it is not negotiated, the markets will create it, probably in a negative way. So this is also the time for the social partners to bargaining for win-win solutions on the labour markets that consider both the real need for economic adaptation and for income, employment and employability security for workers. Rather than scrapping flexicurity, solutions should be found that are compatible with the ups and downs of economic life but that reduce the resulting ups and downs in social life.

References

- Anxo, D. and C. Erhel (2006), “Irreversibility of Time, Reversibility of Choices? The Life-Course Foundations of the Transitional Labour Market Approach”, *Cahiers de la Maison des Science Economiques*, ro6058.
- Auer, P. and S. Cazes, eds., (2003), *Employment Stability in an Age of Flexibility*, ILO, Geneva.
- Auer, P. and B. Gazier (2006), *L'introuvable sécurité de l'emploi*, Flammarion, Paris.
- Calmfors, L. (2007), “Flexicurity – An Answer or a Question?” *European Policy Analysis* 6, Swedish Institute for European Policy Studies.
- Cazes S. and A. Nesporova (2007), *Flexicurity: A Relevant Approach in Central and Eastern Europe*, ILO.
- European Commission (2007), *Towards Common Principles of Flexicurity: More and Better Jobs through Flexibility and Security*, European Commission Communication.
- Gazier B. (2008), “Flexicurity et Marchés Transitionnels du Travail: Esquisse d'une réflexion normative”, *Travail et Emploi* no. 113.
- Heckman, J. and C. Pagès (2000), “The Cost of Job Security Regulation: Evidence from Latin America”, *NBER Working Paper* no. 7773.
- ILO (1999), *Decent Work*, ILO, Geneva.
- International Monetary Fund (2003), “Unemployment and Labor Market Institutions: Why Reforms Pay Off”, *World Economic Outlook*, chapter 4.
- Jorgensen, H. and P. K. Madsen, eds. (2007), *Flexicurity and Beyond: Finding a New Agenda for the European Social Model*, DJØF Publishing, Copenhagen.
- Madsen, P. K. (2003), “Flexicurity” through Labour Market Policies and Institutions in Denmark”, in P. Auer and S. Cazes, eds. (2003), *Employment Stability in an Age of Flexibility*, ILO, chapter 3, Geneva.
- Nussbaum, M. (2000), *Women and Human Development*, Cambridge University Press, Cambridge.
- OECD (1994), *The OECD Job Strategy*, Brussels.
- Schmid G. (2006), “Social Risk Management through Transitional Labour Markets”, *Socio-Economic Review* 4 (1), 1–33.
- Schmid G. (2008), *Full Employment in Europe: Managing Labour Market Transitions and Risks*, Edward Elgar, Cheltenham/Northampton, Mass.
- Schmid G. and B. Gazier, eds. (2002), *The Dynamics of Full Employment: Social Integration through Transitional Labour Markets*, Edward Elgar, Cheltenham/Northampton, Mass.
- Sen, A. (1982), *Choices, Welfare and Measurement*, Basil Blackwell, Oxford.
- Sen, A. (1985), *Commodities and Capabilities*, North Holland, Amsterdam.
- Withagen T. (2005), “Striking a Balance? Flexibility and Security in European Labour Markets”, in T. Bredgaard and L. Fleming, eds., *Employment Policy from Different Angles*, DJØF Publishing, Copenhagen, 253–67.
- Withagen T. et al. (2007), *Flexicurity Pathways: Turning Hurdles into Stepping Stones*, report by the European Expert Group on Flexicurity, Brussels.
- World Bank (2004–08), *Doing Business Report*, Palgrave Macmillan, New York.

⁹ Cf. again the ILO constitution of 1919.

FLEXICURITY: LESSONS AND PROPOSALS FROM THE NETHERLANDS

LANS BOVENBERG*,
TON WILTHAGEN* AND
SONJA BEKKER*

Dutch flexicurity: the “normalisation” of atypical work

Labour market performance

In the European flexicurity discourse, the Netherlands and Denmark are often referred to as flexicurity examples (European Commission 2006). Dutch flexicurity policies have been developed rather deliberately and can generally be reconstructed as the normalisation of atypical work while preserving flexibility in the labour market. This approach, combined with the relatively good labour market results over the past years, served as an example at the European level in the early stage of the flexicurity policy-making process.

Recent performance indicators show the following: in 2007, the Dutch employment rate was 74.3 percent and the unemployment rate 3.2 percent, compared to 64.5 percent and 7.1 percent respectively in the 27 EU member states (EU-27). In August 2008, the unemployment rate decreased even further to 2.6, and is now among the lowest in the European Union (Statistics Netherlands 2008). In recent years, economic growth has been modest to good and the inflation has been rather low at 2.0 percent compared to the EU average of 3.2 percent. Even now, in the context of a world-wide financial crisis, the economy still grew by 3 percent in the second quarter of

2008, while the inflation increased to 3.1 percent in September 2008 (Statistics Netherlands 2008). October 2008 showed, however, a sharp decline in both consumer and producer confidence.

In the Netherlands, contractual diversity, including part-time work, fixed-term work and agency work, is widespread. In 2007, 46.8 percent of the employed Dutch labour force worked part-time, which represents a significant increase compared to the 38 percent part-time employed in 1997 (Eurostat). It is also much higher than the 18.2 percent part-time employed in the EU-27 in 2007. In the Netherlands, working part-time is even regarded as a normal and desired type of employment, illustrated by the high amount of part-time workers who report that they voluntarily work in this type of employment. Especially women work part-time (75 percent in the Netherlands compared to 31 percent in EU-27 in 2006). Furthermore, the percentage of employees with a contract of limited duration increased from 12.3 percent in 1997 to 18.1 percent in 2007, which is higher than the EU-27 average of 14.5 percent in 2007 (Eurostat). Moreover, it is estimated that currently nearly 1 million workers conduct their activities outside the traditional employment relationship (self-employed), which is about 12.4 percent of the working population. In some sectors, this type of employment is growing rapidly. In the construction sector, for instance, the number of self-employed workers has increased by 31 percent over the past two years (Statistics Netherlands 2008).

Regulating and negotiating flexibility

Given the rather large number of atypical workers, a very relevant question is how the needs for the security of these workers are met. Security is provided in several ways, depending on the type of flexibility a worker faces. For part-time workers, the pro rata temporis principle (in proportion to the time worked) is strictly applied by law.¹ This holds true not only for the position of the employee under civil



* Tilburg University, the Netherlands.

¹ See more comprehensively Visser et al. (2004).

law, but also for social security legislation and entitlements. Two laws are particularly relevant not only to part-time workers but also to fixed-term workers: the Prohibition of Discrimination by Working Hours Act (Wet Verbod onderscheid arbeidsduur; WVOA) and the Adjustment of Working Hours Act (Wet Aanpassing Arbeidsduur; WAA). The former act came into effect on 1 November 1996. One of the consequences of its introduction was the addition of Article 7:648 to the Dutch Civil Code. This article forbids employers to discriminate between employees on the basis of a difference in working hours in the conditions under which those employees enter, extend or terminate a contract of employment, unless there is objective justification for such discrimination. Clauses that conflict with this ban are void. If the employer terminates the contract in contravention of the ban or terminates it because the employee has invoked this ban, the termination is subject to annulment. The same ban also applies to government employers, now that a stipulation to the same effect has been incorporated into Article 125g of the Central and Local Government Personnel Act.

The Adjustment of Working Hours Act came into force on 1 June 2000. This act is the result of nearly nine years of political negotiation. It represents a very high-profile piece of legislation, as it gives employees the right (albeit under certain conditions) to unilaterally alter the terms of an already existing employment contract.

With regard to agency workers, on-call workers and the like, a new approach to labour market flexibility and security was adopted at the end of 1995. At that time, the Dutch Minister of Social Affairs and Employment made a deliberate attempt in a memorandum called “Flexibility and Security” to strike a better balance between flexibility and (social) security. This memorandum contains an interrelated set of starting points and proposals for modifying the dismissal protection enjoyed by employees in standard employment relationships, abolishing the permit system for temporary work agencies with respect to their placement activities and enhancing the legal position of temporary agency workers, whose relationship with the agency is to be considered, in principle, a standard employment contract.

The Dutch coalition government (a coalition of Labour, Liberals and Social Liberals at that time) was unable to reach agreement on the flexibility and security proposals. Subsequently, the Foundation of

Labour was asked for its advice on this matter. The Foundation of Labour is a consultation and advisory body at the central level, which was established at the end of the Second World War. Its members constitute the largest confederations of employers’ and workers’ organisations. Unlike the Socio-Economic Council, the Foundation of Labour has no independent members or representatives appointed by the crown. The Foundation of Labour is central to the Dutch “consultation” economy, or the “Polder Model”, as it is called nowadays. It is an institution that is remarkable for its strategies of positive-sum bargaining. The pursuit of so-called “win-win” strategies and results, as perceived from the point of view of both workers and employers, is at the core of the foundation.

Under the umbrella of the foundation, employees’ and employers’ confederations managed to draft a detailed agreement on flexibility and security. Moreover, at the same time, the employers’ organisations, the trade unions and the non-profit-making employment agency START reached an agreement on regulating the legal position of temporary agency workers after the new laws would come into force. This collective agreement would run for five years. On March 7 1997, the Flexibility and Security Bill was submitted to the lower house of the Dutch parliament, together with the Allocation of Workers via Intermediaries Bill, which provided for the abrogation of permits for temporary work agencies. Without much further debate, the new legislation came into force on 1 January 1999.

The new law abolished the permit system for operating temp agencies. On the one hand, more rights were attributed to flexible workforces. On the other hand, more leeway was created for (prolonging) fixed-term contracts. A key role was and is being played by the collective labour agreements in the temporary agency sector, concluded for the respective periods of 1999–2003 and 2004–09. Temporary agency workers have, depending on tenure, a right to a fixed-term or permanent contract with the agency, to training facilities (individual budget) and pension entitlements. After 26 weeks (or earlier) of working for the same company, they are entitled to the same wage as the employees of that company. The hiring company saves on hiring and firing costs, but pays more for a temporary worker than for their own employees (as the costs for the agency are added to the wage costs of the agency worker).

This example of a flexicurity policy clearly contains an explicit and well-considered trade-off between forms of flexibilisation (i.e., enhanced external numerical flexibilisation) and forms of security for weak groups (i.e., more employment and employability security for temporary agency workers and other non-standard workers such as on-call workers). Furthermore, it is safe to argue that this reform could never have been launched and implemented were it not for the joint efforts of the social partners at both the central and the sectoral levels.

A more recent example of flexicurity policy is the Life Course Savings scheme, which came into effect in 2006. It enables workers to save income or time to be spent on leave periods. Individuals can save a maximum of 12 percent of yearly gross income up to 210 percent of their annual pay, for a maximum of three years of leave (against 70 percent of the wage). Employers may contribute to such a scheme, which can be specified in collective agreements. The employee can save for periods of unpaid leave, e.g., care leave, sabbatical, terminal care, parental leave, training leave or early retirement. Collective bargaining parties are expected to incorporate and facilitate the Life Course Savings scheme into their agreements, and employers are obliged to offer the Life Course Savings scheme to their employees.

New challenges and new policy proposals

Current challenges in the Dutch labour market

Like any other country, the Netherlands continuously faces various labour market challenges and should therefore take the necessary steps for improvement. The European Commission's recommendations to the Netherlands point to the areas in which the Netherlands is lagging behind (Council of the European Union 2008). The latest recommendation strongly urges the Netherlands to raise overall labour supply, especially that of women, older workers and disadvantaged groups. The overall number of hours worked should also be raised. In previous years, the reduction of the gender pay gap and the reduction in rates of early school leaving were also recommended. The OECD and the IMF (2008) have made similar recommendations.

More specially, regulations and policies could be improved in order to strengthen the position of specific groups in the labour market, in particular the

position of ethnic minorities that have difficulties entering and progressing in the labour market. Although unemployment among non-western non-nationals decreased significantly in 2007, the unemployment rate of 9.1 percent is still almost three times higher than the unemployment rate under Dutch nationals.² In the age group of 15–25-year-olds, the unemployment rate amounts to 15 percent for non-western non-nationals and 8.1 percent for nationals. Early school leaving is a problem, particularly among non-nationals. Likewise, the unemployment rate of people with a low level of education is considerably higher than the Dutch average.

Older workers constitute another vulnerable group. Many of these workers have insufficient transition and employment security, meaning that they lack the security to make a timely transition to another job when the need arises, e.g., in cases of company restructuring. The weak labour-market position becomes especially evident once older workers have become unemployed. It usually takes them much longer to find new employment, which increases the risk of becoming long-term unemployed. Their position is further weakened by the lack of investment of Dutch companies in the skills and retraining of their older workers (Bekker et al. 2008). This calls for the development of a general and effective system of transition and employment security that is not limited to large firms, but is also accessible to and affordable for small and medium enterprises.

A third urgent concern in the Dutch context involves the career opportunities of women, including pay gaps and the lack of women in top management of companies and institutions. These poor career opportunities are to a large extent related to the effects of working part-time. The fact that part-time work is a highly desired form of employment and that longer working hours are required to warrant the sustainability of the social security system makes this an even larger challenge for the Netherlands.

A final concern, somewhat paradoxically, regards the position of atypical workers in the Dutch labour market. The growing part of the labour force that has a temporary employment contract or is self-employed, triggers new questions regarding their

² Data from Statistics Netherlands on the basis of the national definition of unemployment, which differs from the international Eurostat definition. The main difference is that Statistics Netherlands regards a person as unemployed only if that person is actively looking for a job involving at least 12 hours a week.

access to social security and the securities attached to open-ended contracts. In general, atypical workers have fewer rights to social security provisions, and their participation in training and education is lower. In addition, workers with a temporary contract do not receive severance pay when their contract expires. The position of individuals with a temporary contract improves if they manage to obtain an open-ended contract. The extent to which they succeed in making this transition seems rather difficult to calculate. The estimation is that in the Netherlands about 20 percent of people with a temporary contract will have an open-ended contract one year later. This percentage is probably somewhat higher for temporary agency workers. Especially young people make the transition to open-ended contracts, whereas low-skilled workers and those with a small part-time job face more difficulties in obtaining a permanent contract (Zijl and Van Leeuwen 2004). Research also shows that among temporary agency workers in the Netherlands about 61 percent would like to have a permanent job. Of these, 33 percent found a permanent job in 2004. Of those who did not look for a permanent job, 18 percent ended up in a job with an open-ended contract (Statistics Netherlands 2006). Even though some researchers would argue that this proves that atypical work is not a dead-end street, this type of employment clearly does not work as a stepping-stone for all. One study showed that although 25 percent of the temporarily employed made a transition to a permanent contract between 1991 and 2001, 20 percent of this group became unemployed.

Proposals from the Committee on Labour Market Participation

Given these labour market challenges and the Dutch tradition of negotiated flexibility, one might expect a new Dutch “package deal” in terms of a well-defined, encompassing strategy to revisit and redefine the flexibility-security nexus, guaranteeing the future adaptability of workers and companies. Yet, recent political debates have been characterised by a rather one-sided and narrow focus on employment protection legislation, leading to harsh confrontations between employers and trade unions and problems within the government coalition. The employers, often with the support of the Ministry of Social Affairs and Employment, maintain that less strict rules on dismissals will support employment creation as a result of a reduction in anticipated firing costs. The trade unions strongly criticise any such labour law modification, since they believe this would not

contribute to employment creation and would only substantially and effectively reduce employee protection. It seems that social partners are less confident today regarding the possibility of finding mutually beneficial solutions than they were in the 1990s.

A recent initiative to come up with a broad approach to labour market issues is the instalment of the Committee on Labour Market Participation by the Minister of Social Affairs and Employment. In June 2008 this committee published proposals and recommendations for raising the labour market participation rate to 80 percent by 2016.³ The proposals suggest labour market reforms while simultaneously alleviating workers’ feelings of insecurity, especially concerning the risk of losing their job. The committee’s report advocates a three-track approach.

The first track addresses the necessity of facilitating and stimulating, as soon as possible, vulnerable groups to find a job or to work more hours. The proposals encourage employers to hire long-term benefit recipients on the basis of temporary wage cost subsidies, including a so-called no risk policy and secondment arrangements. Benefit recipients will have a participation obligation, and part-time workers will be encouraged through tax incentives to extend the number of working hours. At the same time, facilities for combining work and family are being improved, including career, working-time and childcare arrangements.

The second track addresses more fundamental proposals for labour market reform. The basic philosophy of the second track is to give employers, employees and municipalities more responsibility at a decentralised level for employability and transitional security of workers. Additional decentralised responsibility is matched with additional instruments for these decentralised parties to work on employability and employment security. Employment insurance and a work budget are the two key elements in this second track. Concerning the Unemployment Insurance Scheme, the proposal is to turn this scheme into employment insurance, geared towards the prevention of unemployment and a smooth transition to a new job. Employers are required to continue to pay 80 to 100 percent of the worker’s wage payments for a maximum of six months after giving notice to the worker. During this so-called transfer

³ Committee on Labour Market Participation (2008). One of the authors of this paper, Lans Bovenberg, served as a member of this committee.

period, the worker can fully devote himself or herself to finding new employment. If this time span does not suffice, the worker is dismissed, but not before the efforts of both the employer and worker have been evaluated. The unemployed worker then enters a reintegration scheme where the sector of industry bears the financial responsibility and where private or public reintegration organisations can be relied upon. If a new job still has not been obtained after another six months, the responsibility is shifted to the municipality. This new system also benefits the employer, as employment protection legislation is eased by abolishing the current pre-emptive testing of dismissals, conducted by the public employment services. At the same time, during the notice period, the worker may petition the courts to challenge the reason the employer gives for the prospective dismissal, although this notice period is shortened to only one month. Moreover, as indicated above, a gatekeeper (probably the public labour office) evaluates the efforts of the employer to help the employee find a new job during the transfer period.

Regarding the work budget, the proposal suggests the introduction of a Work Budget that replaces the current Dutch Life Course Savings scheme, as explained above, and another tax-favoured employee savings system. The Work Budget has a larger scope than life-course saving and can also be utilised to provide additional income in case of job transitions, setting up one's own business, part-time retirement, training, unpaid leave, a new job or position with lower earnings. The Work Budget is also available to flexible workers, such as workers with a fixed-term contract. The Work Budget is personal and portable, which means that the worker can transfer it from one job to another. It is designed to maintain the worker's employability level and can be used to finance the actual costs of training and schooling. Both the worker and the employer make financial contributions to the Work Budget. The most important sources for the employer's contributions are current severance payments. In the new system with employment insurance, severance pay is paid in addition to the payments during the transfer period only in special situations in which employers do not meet their contractual and other responsibilities towards workers who are laid off. Lower severance payments thus provide room for contributions into the Work Budget. This makes workers less vulnerable to the risk of firm-specific shocks: if the firm that employs them goes bankrupt, workers have already received payments in their Work Budget.

The third and last track includes the proposal to raise the official pension age as of 2016 (by one month per year) in line with the population's increasing life expectancy. The goal is to counteract the decline of the labour supply, caused by a shrinking working population. Currently, Dutch people are entitled to a state pension at the age of 65. The recommended reform would gradually raise this age to 67.

The three tracks are to a certain degree interlinked: especially the second track is essential for the other two tracks. It ensures that the employment gains produced by the first track are in fact sustainable without substantial public spending on wage subsidies. As regards the third track, by enhancing the employability of older workers and the operation of the labour market for these workers, the second track will help to raise the effective retirement age in the future in line with increased longevity.

Conclusions

In the past, the Netherlands has served as an example of a European country with good labour market performance and flexicurity strategies. As codified in, for example, the Act on Flexibility and Security, this approach can be characterised, in hindsight, as the normalisation of atypical work, without doing away with flexibility. The social partners played an important role in developing this approach. However, new labour market challenges have surfaced. In view of the trends of globalisation, the ageing of society and the current financial crisis, there is a real urgency to face these challenges and to come up with a renewed, broadly based strategy to improve labour market performance and enhance labour market participation.

This paper has discussed recent policy proposals that were developed by the Dutch Committee on Labour Market Participation to reform the labour market in the Netherlands. These proposals can be portrayed as concrete suggestions to further develop a flexicurity pathway towards better transition security and more labour market mobility, i.e., the second ideal typical pathway as identified by the European Commission in its Communication on Flexicurity.⁴ In a concrete sense, the proposals illustrate the way in which a particular member state, i.e., the Nether-

⁴ Dated 27 June 2007 (COM (2007)0359).

lands, can continue its own path towards more flexibility combined with more employment and income security by taking notice of its particular path dependence (institutions, culture and political system) and responding to its particular challenges. The proposals are consistent with the traditionally high involvement of the Dutch social partners in employment and labour market policies and the large role played by individual employers. Moreover, the approach builds on regulatory policies based on financial incentives (mandatory continuation of pay during a certain period of time) that have proved rather successful in other domains of labour market policy and social security since the early 1990s, especially the reduction and prevention of disability cases and sickness absenteeism. The same holds true for the various public-private forms of collaboration, implementation and reintegration that have evolved in the Dutch labour market.

We wish to end this concluding section by very briefly addressing two major questions. The first is whether these reform proposals can be expected to further develop Dutch flexicurity by enhancing the adaptability of both workers and citizens? The answer to this question is not straightforward. The Dutch Committee clearly acknowledges that the transformation to the new system should take place slowly and gradually. Support from all major stakeholders, political parties, government, employers and workers and their organisations, courts and various labour market services is indispensable. At this moment (October 2008), the debate on the proposals, which were released in June 2008, has not progressed far yet. In their consultations, the social partners and government gave priority to securing wage moderation in view of a possible economic downturn as a consequence of the global financial crisis.

A second important question involves the relevancy of the proposed reform to other countries. Policy learning and mutual learning are key concepts within the European Employment Strategy. A straightforward transplantation of a country's policies and reforms to another country is generally seen as impossible and undesirable. Looking for inspiration rather than imitation seems to be the best strategy in this respect. To illustrate, the second track of the described Dutch proposals have been informed and inspired by the Austrian system of dismissal regulation and severance pay (*Abfertigung*). Many member states might have an interest in taking notice of the proposals from the viewpoint of mapping out

their own distinct pathway towards flexicurity. This applies especially to those member states that consider offering more employment and income security in their labour markets while simultaneously encouraging job mobility and transitions.

References

Bekker, S., M. Kerkhofs, A. Roman, J. Schippers, M. de Voogd-Hamelink and T. Wilthagen (2008), *Tendrapport aanbod van arbeid 2007*, OSA, Tilburg.

Committee on Labour Market Participation (2008), *Naar een toekomst die werkt (Towards a Future that Works)*, Rotterdam.

Council of the European Union (2008), Recommendation for a Council Recommendation on the 2008 update of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies, no 7275/08, Brussels, 4 March 2008.

European Commission (2006), *Employment in Europe 2006*, Office for Publication, Luxembourg.

Eurostat, Website: <http://epp.eurostat.ec.europa.eu/>

IMF (2008), Kingdom of the Netherlands; The Netherlands 2008 Article IV Consultation: Preliminary Conclusions, March 17.

Statistics Netherlands (2006), *De Nederlandse economie 2005*, CBS, Voorburg/Heerlen.

Statistics Netherlands (2008), "Nederland laagste werkloosheid in de EU", *Webmagazine*, 22 October.

Visser, J., T. Wilthagen, R. Beltzer and E. Koot-van der Putte (2004), "The Netherlands: from Atypicality to Typicality", in S. Sciarra, P. Davies and M. Freedland, eds., *Employment Policy and the Regulation of Part-time Work in the European Union: A Comparative Analysis*, Cambridge University Press, Cambridge, 19–223.

Zijl, M. and M.J. van Leeuwen (2004), *Tijdelijk werk: tussenstap of springplank*, SEO, Amsterdam.

FLEXICURITY IN DENMARK

TORBEN M. ANDERSEN* AND
MICHAEL SVARER*

Introduction

The key word in recent debates on labour market policy has been flexicurity. Is it possible to combine *security* for employees with *flexibility* for employers so as to ensure a well functioning labour market with low unemployment? Denmark has been highlighted as a flexicurity country which, via flexible hiring and firing rules as well as a generous social safety net, has balanced the two concerns in a way that has been conducive to labour market flexibility and low unemployment. Since the unemployment rate in Denmark has been below the European average for several years, many observers have readily concluded that the Danish system works and has positive results. Hence, it is often seen as a model for other countries.

Labour market developments in Denmark have indeed been impressive: in mid-2008 the unemployment rate was close to 1.5 percent (structural unemployment is assessed to be 3 to 3.5 percent). Unemployment has been reduced to a historically low level, and the debate has shifted from focusing on a “shortage of jobs” to a “shortage of hands”. This development has been achieved without significant cut-backs in welfare state provisions, including the social safety net, and employment growth has been consistent with distributional objectives. While business cycle factors have been important for reducing unemployment in Denmark, structural changes have also been important. The following focuses on characterizing Danish labour market policies and on explaining what accounts for the improvement in the labour market situation over the last 10–15 years.

The dramatic change from high and persistent unemployment to very low unemployment and the implied change in the perception of the Danish labour market are succinctly summarized by the following OECD quotes on Denmark:

“The malfunctioning of the labour market is at the core of the macroeconomic imbalances in the Danish Economy”, (OECD Economic Survey Denmark 1990, 57).

“... the flexible labour market, combined with active support for those losing jobs, makes a good starting point to benefit from globalisation”, (OECD Economic Survey Denmark 2008, 21).

How did this change come about? And what can other countries learn from this experience?

The Danish developments and experience offer interesting insights on how to strengthen labour market incentives under tight distributional constraints. Denmark has an extended welfare system with a tightly-knit social safety net and a high level of public service provisions, all of which are tax financed. Labour market policies and institutions are an integral part of the welfare state. The Danish welfare model is based on ambitious egalitarian objectives, and a strengthening of the incentive structure by general reductions in benefits that constitute the social safety net is not a possible policy avenue. Working poor is not a policy option in Denmark. At the same time, it is important to note that an extended, tax-financed welfare state presupposes that a large fraction of the population is in employment. Thus, for the model to be financially viable, the employment rate must be high. The reason is simple: when unable to support themselves, most people have an entitlement to some income support, and at the same time, their tax payments are lowered. It is therefore no surprise that Denmark (and the other Scandinavian countries) have a high labour force participation rate. To put it differently, the welfare model is employment focused. The critical and challenging issue is thus how to strike a balance between the social/distributional objectives and the need to maintain a high employ-



* School of Economics and Management, University of Aarhus.

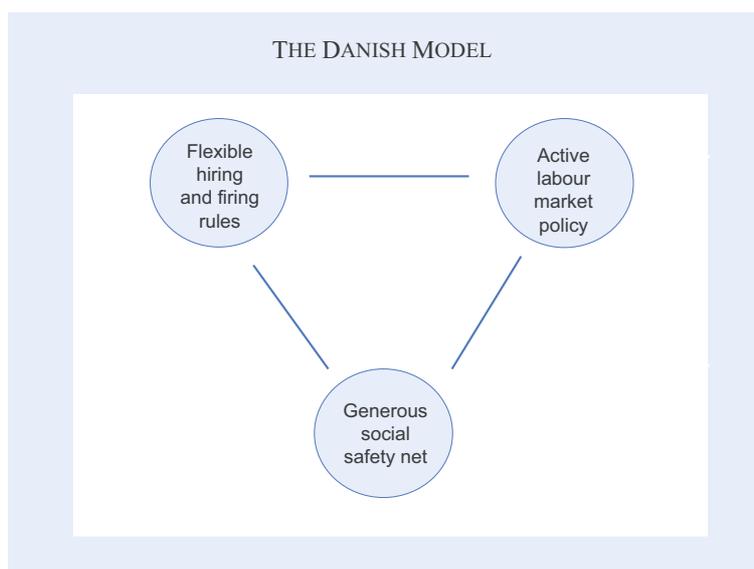
ment ratio. This balance was lost in the 1970s and 1990s, but the reform process since the mid-1990s has contributed to re-establishing it.

The Danish case

The short version of the Danish story is as follows: hiring and firing rules are rather flexible, and the unemployment insurance scheme is generous by international standards. However, this was also the case in the period from the mid-1970s to the early part of the 1990s, where Denmark was routinely listed as a crisis country with problems for almost any macro-economic indicator, including high and persistent unemployment (see the OECD quote above). Therefore, the *flex* and the *security* part of the Danish policy package cannot alone account for the drop in unemployment. This is not denying that these aspects have attractive implications, but they are no guarantee for a low and stable unemployment rate.

To account for the Danish experience, a series of reforms during the 1990s must be looked at. The

Figure 1



main thrust of these was a shift from a passive approach towards labour market policies to a more active focus on job search and employment. The policy tightened eligibility for unemployment benefits, shortened their duration and introduced workfare elements into unemployment insurance and social policies in general. The shift in policy and labour market performance should also be seen in view of macroeconomic developments, which contributed to an up-turn in economic activity and thus also to the political support for the changes. The term flexicuri-

Table

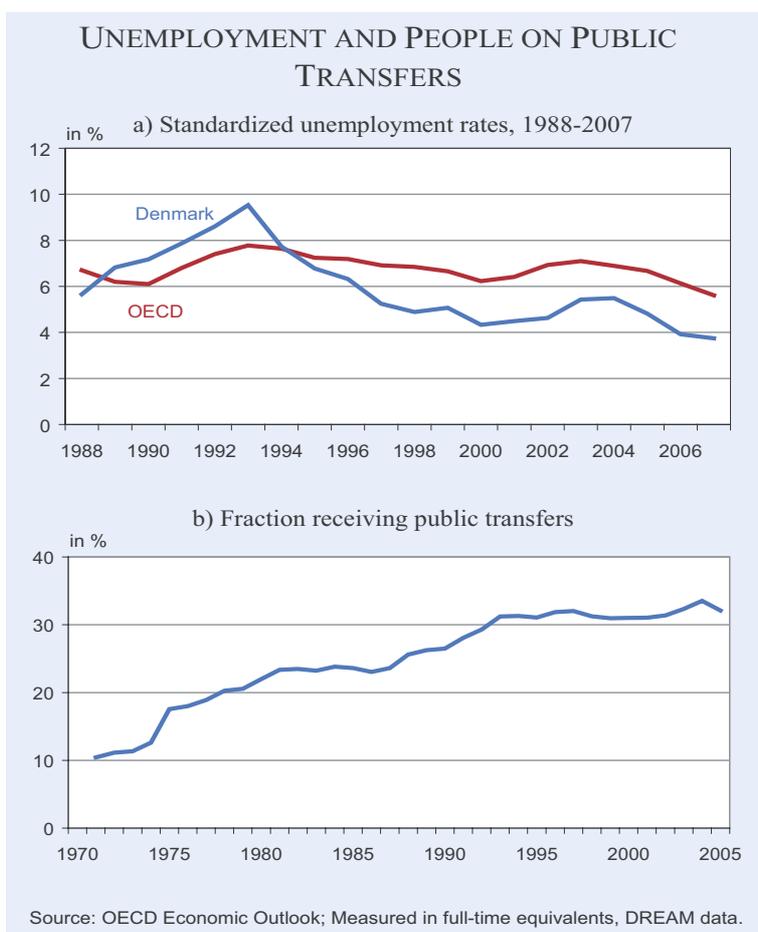
Workfare requirements in the Danish social safety net 2007

	Eligibility	Conditions	Job search	Activation requirements ^{a)}
Unemployment benefits	Voluntary, contribution-based, tax subsidized	Membership: relevant education or employment in the last 12 months. Renewed benefit period: regular work in 6 of the last 36 months. Duration: max 4 years	Mandatory registration in job centre (to be renewed weekly) CV on jobnet Individual job-plan/regular contact to job-centre Active job search (monitored and sanctioned)	Age below 30: after 6 months Age between 30 and 60: after 9 months Age above 60: after 6 months Repeated offers After 2 ½ years full-time activation
Social assistance	Universal, but depends on age, and means tested for married couples based on family income	Mishap precluding self-support	For recipients of social assistance whose main problem is assessed to be unemployment – the same requirements as for those receiving unemployment benefits	Age between 25 and 30 and no education: education offers after 6 months (alternatively lower benefits) Age between 25 and 30: after 5 weeks an offer of 8 weeks' duration, after 13 weeks an offer of 18 months' duration Above 30: after 9 months

^{a)} The actual activity and duration varies across the different groups.

Source: Andersen (2008).

Figure 2



ty is therefore in some sense a misnomer for the “Danish” model. When the model was based solely on flexibility and security, it did not perform well, and public transfers grew considerably. The unemployment rate reached 10 percent, and the fraction of the age group 15–66 receiving public transfers increased from about 10 percent in 1970 to 30 percent in the early 1990s. The social safety net thus

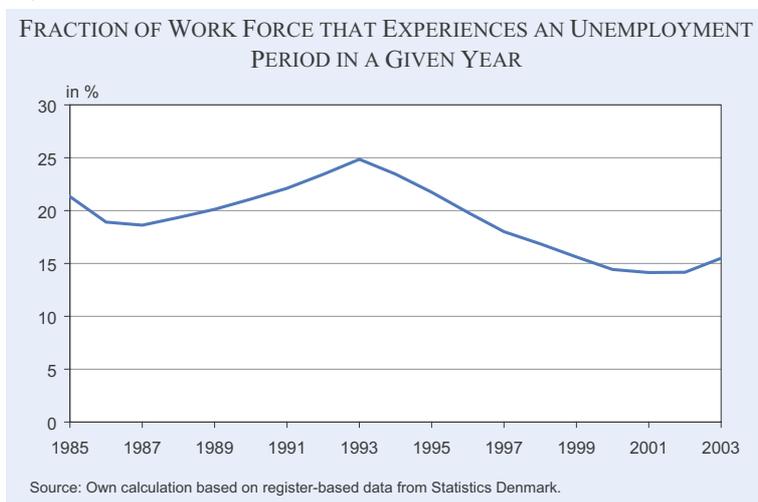
change, the passive period was effectively open-ended because benefits combined with occasional job training would ensure continued eligibility for benefits. After the reform, the benefit period became shorter and activation compulsory for claimants of benefits. Furthermore participation is no longer sufficient for fulfilling the employment criteria to remain eligible for unemployment insurance (UI) benefits, i.e., the

served to protect incomes but did not have an employment focus, which had dramatic consequences for public financing. The model began to function better when an additional element was added – active labour market policies – with a clear emphasis on job search and employment (Figure 1). Prior to the reforms, the welfare system was essentially a passive player between firms benefiting from flexibility and workers from income security. As is often the case in tripartite relations, the passive player is at a clear disadvantage. When a more active approach was taken in labour market policies, it became possible to strengthen employment while maintaining flexibility and income security.

The single most important change as a result of the reforms initiated in the mid-1990s is that participation in activation measures no longer qualifies for remaining eligible for benefits. Before this transition from UI benefits to social assistance (also associated with activation requirements) is a real option. The Table above gives a summary overview of the workfare requirements attached to the social safety net in Denmark as of 2007.

The reduction in the rate of unemployment in Denmark is impressive (Figure 2a), and it was mainly driven by an increase in employment. However, as illustrated in Figure 2b a large fraction of the population in the

Figure 3



age group 18–64 is still dependent on public transfers. While there has been some reduction in this share, it is still at a high level. Hence, while the unemployment problem has been solved, there is still a significant non-employment problem for a large share of the population.

The flexicurity feature of the Danish labour market is reflected in several indicators. A key characteristic is a large incidence of short-term unemployment, i.e., many are affected by unemployment within the year, but mostly only for a short period of time. In Figure 3, the fraction of the work force that experiences unemployment in a given year is depicted.

In 2003 the unemployment rate was about 4.5 percent, but about 15 percent of the work force was affected by unemployment within the year. So although the unemployment rate has fallen by more than 60 percent from 1993 to 2007, the number of people affected by unemployment has only dropped by around 35 percent in the same period; i.e., short spells of unemployment are not uncommon. This indicates that job tenure is relatively short in Denmark. However, surveys persistently show that employees in Denmark perceive a high degree of security (Parent-Thirion et al. 2007), suggesting that the Danish labour market is functioning well under the current business cycle conditions.

Insurance versus incentives

A generous social safety net including unemployment benefits and social assistance provides income insurance for workers. This has a direct welfare effect on risk-averse workers, but it may also be conducive to risk taking and thus labour market flexibility. However, any form of insurance raises problems of moral hazard and adverse selection. These incentive problems have been widely analysed in the literature, which has pointed to the detrimental effects of generous unemployment insurance for search incentives, etc. The political dilemma between insurance and incentives implies that countries with high unemployment insurance would have incentive problems in the labour market and thus

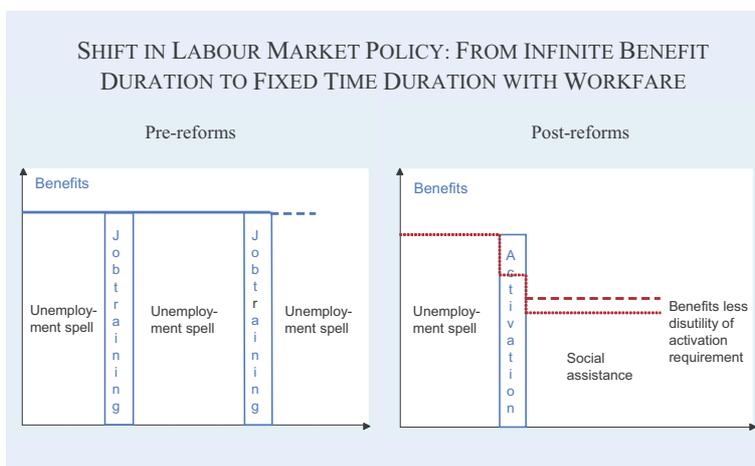
higher unemployment. The Danish experience does not confirm this view.

Active labour market policies broadly interpreted are important in reconciling insurance and incentives. Appropriately designed labour market policies can be used to strengthen job search incentives without reductions in benefit levels. The latter is not a real policy option in a country with strong distributional concerns.

Studies of active labour market policies have focused on the direct consequences of programme participation. Is there a programme effect which improves the subsequent chances of finding a job? While it is important to consider these direct effects, it is equally important to consider the indirect effects since they may have important implications for the moral hazard and adverse selection problems.

Associating some activity requirement with the entitlement to benefits after a specified duration of unemployment effectively amounts to having a benefit level which is duration dependent. The dependency is created because the benefit cannot be claimed passively. Work requirements strengthen incentives precisely in the same way a declining benefit profile does. This means that the effects of workfare elements should not be evaluated solely by the direct programme effect on the unemployed; the indirect effect on the unemployed in terms of increased job searching must also be taken into account. Figure 4 illustrates the effect on individual utility of a workfare requirement. Moreover, wage formation will also be affected since the workfare element reduces the outside options of the employed. A more detailed analysis of the effects of

Figure 4



workfare in terms of striking a balance between insurance and incentives in the labour market can be found in Andersen and Svarer (2008).

Workfare also has screening effects because it reduces the possibility of passively claiming benefits as an alternative to work. Individuals who have a strong preference for non-work alternatives (or engage in black sector activities) will not be able to finance these activities through the benefit system.

Fine-tuning active labour market policies

The reduction in unemployment implies that active labour market policies have been adjusted over the years to take into account both the effects of policy shifts but also the changing composition of the stock of unemployed as a result of the reduction in the unemployment level.

Designing active labour market policies involves a number of concerns. Such activities are costly (direct costs of active labour market policies amount to 1.3 percent of GDP in Denmark), and the shift in the trade-off between incentives and insurance is thus not obtained for free. Two aspects are particularly important, namely timing and programme types.

The frontloading of workfare requirements will strengthen incentives the most, but it is also very costly, and it will entail a large deadweight loss from programme participation for many who are likely to find a job after a short unemployment spell. This is particularly so in a labour market with a high incidence of short-term unemployment periods. Hence, workfare requirement should be imposed after some duration of unemployment.

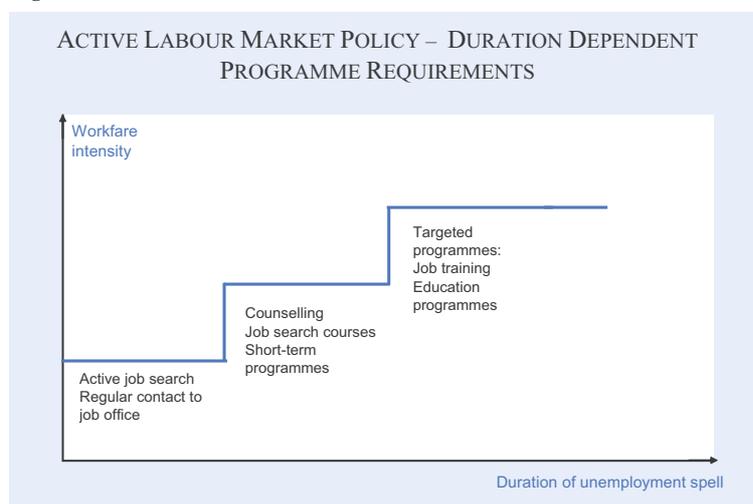
The group of unemployed is heterogeneous, spanning from those who have the qualifications and experience making them readily employable to those who lack these properties (e.g. due to long-term unemployment) and therefore find it very difficult to get a job. For the former group, help with job searching may be sufficient, while for the latter more specific programmes may be needed to

specifically address the constraints lowering their job finding rate. In some cases, it may be easy to identify these constraints (e.g., if the unemployed lack specific skills) while in others it may be more difficult and also depend on market conditions (qualifications become obsolete due to structural changes). In the latter case, avoidance of deadweight losses provides an argument for making workfare programmes duration dependent.

These considerations lead to an optimal profile for workfare requirements as illustrated in Figure 5, where the requirements run from general and relatively costless activities to specific and more costly activities, depending on the duration of the unemployment spell. The duration-dependent sequencing of workfare requirements works to minimize deadweight losses and programme costs while maintaining the incentive effects and addressing more specific programmes to groups for whom it may make a difference.

The selection or targeting of workfare programmes in individual cases may be strengthened by making both participation and the type of workfare programme dependent on some observational characteristics (e.g., extensive educational programmes only available to unemployed without formal education) or by distinguishing between different groups. The latter is done in the Danish social assistance scheme, where claimants are divided into five different groups depending on the extent to which they are assessed to be able to work, and the workfare requirements/programme content differ across the groups. A more sophisticated way of targeting programmes is via so-called profiling. Here statistical

Figure 5



programmes are used to select which programme (if any) is expected to have the largest effect in reducing the length of unemployment spells for a particular individual with given personal characteristics. The advantage of using statistical tools is that accumulated experience from all previous unemployment spells can be used. Currently, several countries including Germany, Switzerland and Sweden are considering introducing statistical targeting tools to assist programme selection (see, e.g., Staghoej et al. 2007).

Business cycle dependence

A key question is to what extent active labour market policies should be business-cycle dependent. This applies at two levels. At the economic level, it may be argued that supply-oriented policies are more effective in a situation where there is an upward trend in the demand for labour. At the political level, it may be argued that it is easier to maintain support for active supply-oriented policies in a situation where unemployment is decreasing. Given current projections for global economic developments, it is therefore an open question as to how the flexicurity model in general and the active labour market policy in particular will work under less favourable business cycle circumstances. If unemployment rises significantly, there is a risk of an overload of activation policies which will either lead to a cost hike and thus a burden on public finances or a reduction in the efficiency of the programmes.

Another issue is how to adopt workfare policies to a situation with higher unemployment. Two responses are possible. One is to shift the different workfare stages to longer unemployment durations, that is, a horizontal shift of the steps in Figure 5. This is similar to an extension of the benefit period in periods with high unemployment as is done in the US and Canada. Another is to reconsider the specific types of activation policies to be used. At the current low level of unemployment, most of the long-term unemployed have some barriers significantly reducing job-finding rates. However, in a slump more “core” workers will be affected by unemployment and also experience longer duration than at present. For these groups, the primary problem is not lack of qualifications and experience per se, but rather to ensure that these do not depreciate too much due to unemployment. This may be countered by a high incidence of short-term activation programmes intended to keep the participants in close contact with the labour market.

Conclusion

The significant reduction in unemployment on the Danish labour market since the mid-1990s is remarkable since it has been achieved without resorting to general benefit reductions. This shows that it is possible to improve incentives in the labour market without turning to benefit reductions. The pivotal elements are the activation policies and the shortening of the benefit period. These measures work both directly by shortening benefit duration and indirectly via the conditions arising from activation. However, these changes have not come without costs since the active labour market policies require considerable resources. In light of the expected downturn in the global and also in the Danish economy, it will be interesting to see whether the Danish flexicurity model will also perform well when unemployment increases.

References

- Andersen, T.M. (2008), “Taxes and Employment – A Scandinavian Puzzle?” Working Paper, Department of Economics, University of Aarhus.
- Andersen, T.M. and M. Svarer (2007) “Flexicurity – Labour Market Performance in Denmark”, *CESifo Economic Studies* 53 (3), 389–429.
- Andersen, T.M. and M. Svarer (2008), “The Role of Workfare in Striking a Balance Between Incentives and Insurance in the Labour Market”, *CESifo Working Paper* no 2267.
- Kluve, J. (2006), “The Effectiveness of European Active Labor Market Policy”, *IZA Discussion Paper* no 2018.
- Parent-Thirion, A., E. F. Macias, J. Hurley and G. Vermeulen (2007), *Fourth European Working Conditions Survey*, European Foundation for the Improvement of Living and Working Conditions, Luxembourg.
- Staghøj, J., M. Rosholm and M. Svarer (2007), “A Statistical Programme Assignment Model”, *IZA Discussion Paper* no 3165.

EUROPEAN EMPLOYMENT AND THE FLEXICURITY OPTION

LUCA NUNZIATA*

Introduction: the status of European labour markets

Until recently, the general consensus was that European labour markets were characterised by excess rigidity and low performance. However, a more careful observation of labour markets regulations and outcomes in Europe over the last two decades suggests how diverse the experience of European countries has been and that the picture of a homogeneously rigid and underperforming Europe does not entirely fit the data.

European labour markets have witnessed an apparent reversal in their performance in the last few years preceding the global financial crisis (Boeri and Garibaldi 2008). In some cases the reduction in unemployment has been striking, as shown in Figure 1.

However, there still remain important differences across European countries and in comparison with the

United States. Figure 2, for example, shows the incidence of long-term unemployment, i.e., the ratio of those who have been unemployed for more than 12 months to total unemployment. We notice how European countries are characterised by a much higher proportion of long-term unemployment than the United States. Still, all countries in the Figure have experienced more or less pronounced negative trends with Spain and the United Kingdom exhibiting the greatest decrease in long-term unemployment.



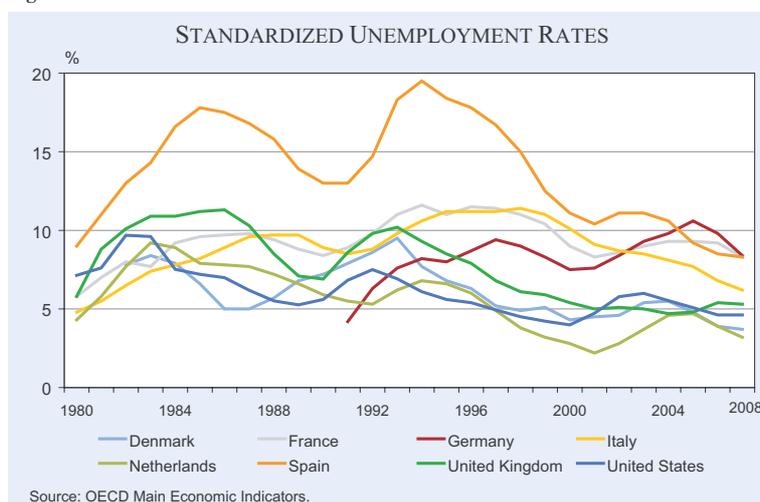
The encouraging performance of European labour markets has been accompanied (but not necessarily or entirely explained) by two major labour market reforming strategies. One model, mainly adopted by continental European countries with rigid employment protection, has focused especially on partial reforms of short-term contracts regulations, leaving permanent employment protection largely unaffected. Another model, adopted, for example, by Denmark and the Netherlands, has instead focused in particular on implementing moderately loose regulations on permanent contracts accompanied by generous and rigidly enforced unemployment benefit provision and effective use of active labour market policies. It is this second approach to labour market regulations that is referred to as flexicurity.

In what follows I will briefly examine the premises and consequences of both approaches to the labour market, bearing in mind that each model representation is by definition a useful but limited rhetorical simplification of the diverse and complex experiences of European countries.

Partial labour market reforms in Europe

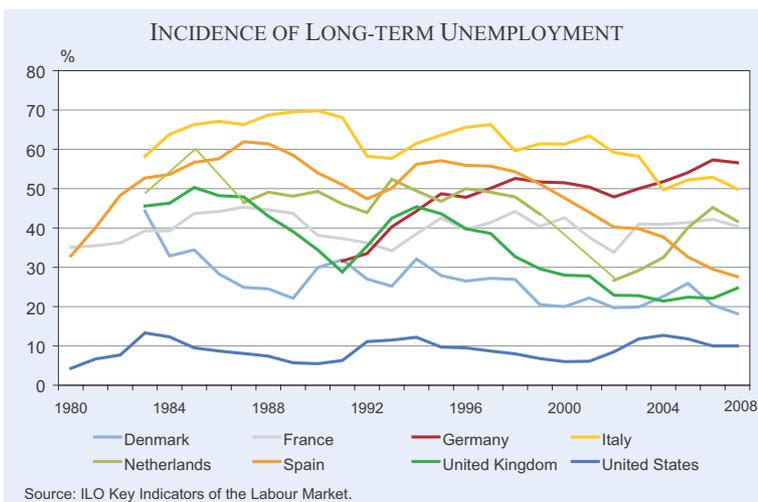
In most continental European countries, the debate on the need for increasing labour mar-

Figure 1



* University of Padua and IZA.

Figure 2



ket flexibility has resulted in a widespread loosening of employment protection legislation, concentrated primarily on temporary contracts regulations.

In Figures 3 and 4 a comparison of the summary indicators provided by the OECD on employment protection in Europe for regular and temporary contracts in 1990 and 2003 (latest data available) indicates how most European countries have adopted reforms aimed mainly at increasing flexibility at the margin rather than reducing employment protection for insiders. This approach can be explained by political economy considerations: the European median voter is part of the insiders' pool, and the unemployed have less impact at the political level than the employed (Saint-Paul 1996).

Looking at the data in Figure 5, the percentage of temporary employees has been rising steadily in the major 12 European countries since the late 1980s. In 1987, only nine percent of employees between 15 and 64 were working under a temporary contract against 14.5 percent in 2006 – a 60 percent increase in 20 years. These numbers more than double if we look at young workers, with more than 40 percent of young employees on average being employed under a temporary contract in 2006. In several countries, more than half of the young workers are employed under a temporary contract, and this phenomenon is not only confined to low-skilled workers.

More flexible regulations regarding short-term contracts are not necessarily at odds with permanent employment. Temporary contracts may in principle play a relevant role in the employers' screening process and may be a viable stepping stone to per-

manent employment. However, they may also lead to an inefficient allocation of human resources and a suboptimal investment in training.

Much research has pointed out that the main factor behind the widespread adoption of temporary contracts is the rigidity in permanent employment protection regulations. As a result, in some countries the regulatory reforms governing short-term contracts seem to have contributed to the creation of a dual labour market, with per-

verse effects on specific categories of individuals, mainly new entrants, and with debatable effects on career prospects and the accumulation of skills for those employed under atypical contracts (see, for example, Booth, Francesconi and Frank 2002; Blanchard and Landier 2002; Nunziata and Staffolani 2007; Autor and Houseman 2005). According to Kvasnicka (2008), temporary employment has the primary function of providing access to work for the unemployed, without increasing or decreasing the chances of subsequent entering into permanent employment. This mechanism could therefore partly explain the reduction in unemployment experienced by several European countries adopting flexible regulations for temporary contracts.

Figure 3

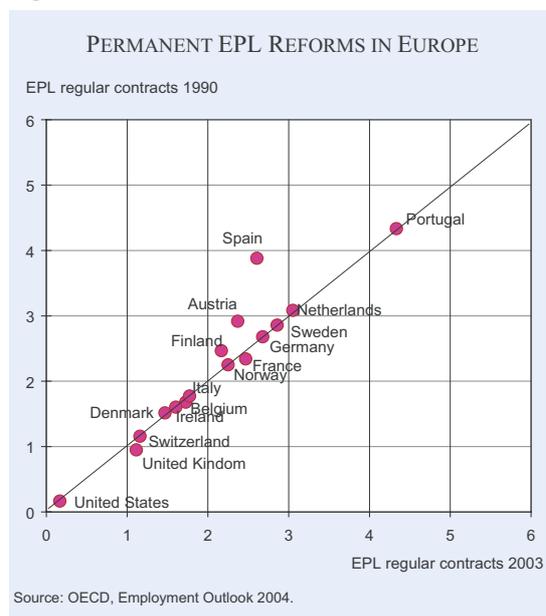
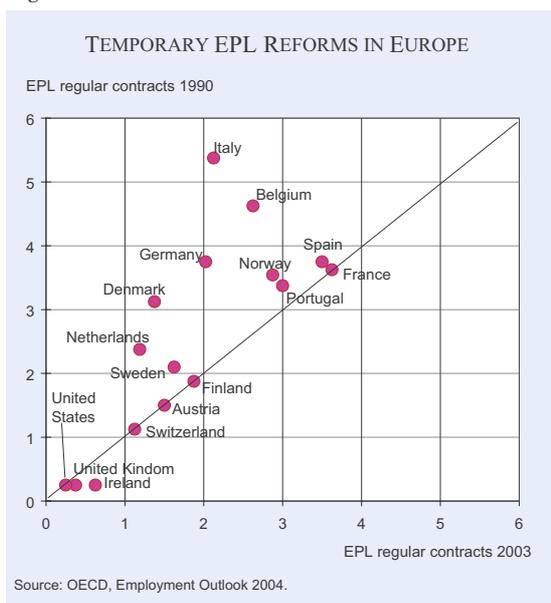


Figure 4



However, easy access to temporary employment does not necessarily solve some of the most relevant implications of labour markets rigidities. For example, strict employment protection legislation has been shown to have a depressive impact on productivity growth (Bassanini, Nunziata and Venn 2008), whereas partial reforms, aimed only at loosening temporary contracts regulations, do not have a significant impact on efficiency and technological change and cannot therefore be considered as substitutes for comprehensive employment protection reforms.

The quest for optimal institutions: the flexicurity option

One possible alternative approach to reforms at the margin is the so-called flexicurity model, meaning an optimal combination of flexibility and security. This implies moderately flexible employment legislation on regular contracts, generous and efficient benefit provision for the unemployed and high spending on active labour market policies.

This approach to labour market reforms has received wide attention from commentators and policy-makers, partly arising from the observation that countries

characterised by a combination of some degree of flexibility and security, namely Denmark and the Netherlands, were also more successful than others in achieving good labour market performance. As economists, we know that correlation is not synonymous with causation or that a positive outcome in terms of some variables of interest is not necessarily an efficient outcome. Nevertheless, despite questions remaining about the effectiveness of these policies in terms of productivity or about the exportability of such a model in countries characterised by different general institutional environments, the recent debate on the design of optimal labour market policies and regulations has been largely influenced by the discussion of the flexicurity option.

Within a flexicured world, workers benefit from effective unemployment insurance and active labour market policies in exchange for looser employment protection. In other words, a flexicurity system puts more emphasis on the protection of workers rather than jobs.

Flexicurity should not be viewed as a clearly defined regulatory model but as a philosophy behind the regulation of the labour market, according to which flexibility does not necessarily mean lack of security and governments take an active role in promoting jobs. Accordingly, labour market reforms should be achieved by securing job protection at optimal, moderately loose levels, while at the same time improving the administration, management and enforcement of the unemployment benefit system and assuring a certain provision of active labour market policies.

Figure 6 shows the diverse combinations of strictness in employment protection legislation of regu-

Figure 5

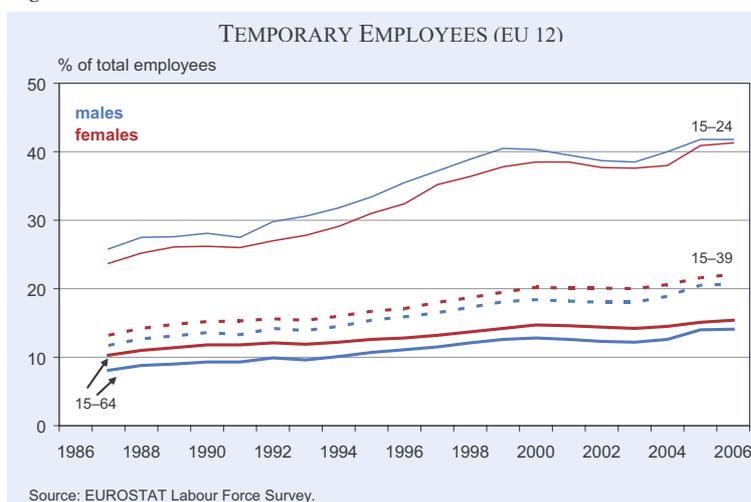
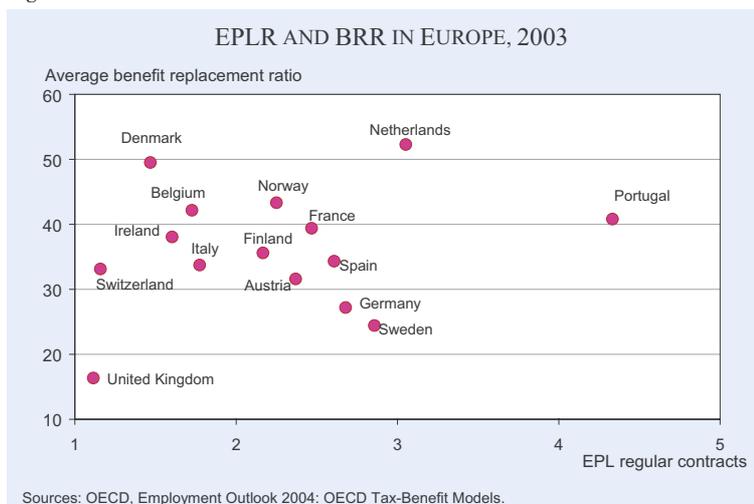
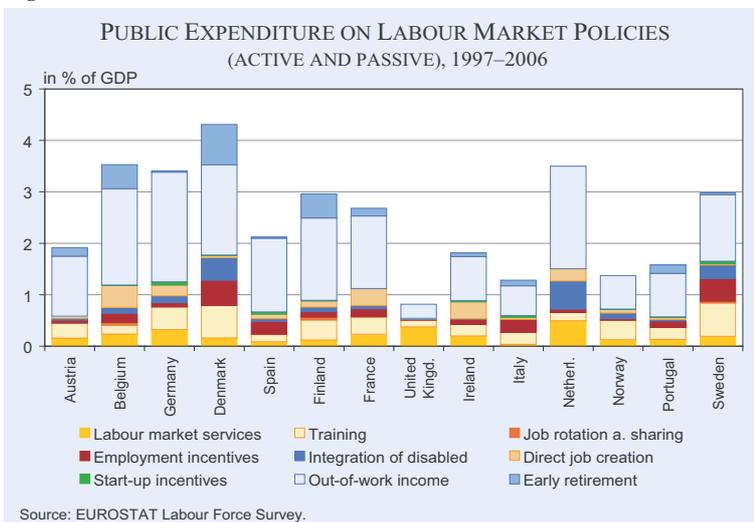


Figure 6



lar contracts and generosity of unemployment benefits measured by the benefit replacement ratio, i.e., the ratio of the average benefit on the average wage in different European countries in 2003. In contrast Figure 7 shows the spending on labour market policies (active and passive), expressed as a percentage of GDP, broken down by components. The characteristics of European countries with respect to these institutional dimensions are quite diverse. We can see how the generosity in active labour market policies is correlated with generous unemployment benefits, but not necessarily with strict employment protection. If we exclude Portugal, the United Kingdom and the Netherlands, the data also seem to suggest a negative correlation between employment protection legislation and the benefit replacement ratio, providing some evidence in support of the hypothesis suggested in the literature of a possible trade-off between these two alternative forms of labour market

Figure 7



insurance (Boeri, Conde-Ruiz and Galasso 2003).

A look at the components of the flexicurity agenda

The effects of reducing permanent employment protection legislation

Historically, employment protection legislation was typically designed to increase job stability by reducing job destruction. Analogously to unemployment benefits, firing restrictions may

be rationalised in the presence of financial market imperfections which limit the ability of risk-averse workers to get insurance against dismissal (Pissarides 2001). However, employment protection restricts the firm's ability to adopt optimal employment levels and by inhibiting efficient job separations it indirectly reduces efficient job creation (Mortensen and Pissarides 1994). The literature provides ambiguous results on the effects of employment protection on unemployment. In general, stricter employment protection may affect employment variability along the cycle by reducing the speed of adjustment towards equilibrium, with a resulting significant effect on unemployment persistence but not on the average level (Garibaldi 1998; Mortensen and Pissarides 1999; Nickell, Nunziata and Ochel 2005 among others). In addition, strict employment protection for regular contracts is found to have a depressive impact on productivity (Bassanini, Nunziata and Venn 2008).

Belot, Boone and Van Ours (2007) provide a rationale for a strictly positive, welfare-improving level of employment protection, suggesting that contexts characterised by rigid employment protection may be beneficially affected by an optimal amount of deregulation in terms of growth performance. The contrary may be true for contexts where employment protection is too low. The optimal level of protection is depen-

dent on other institutional dimensions such as wage rigidities and redistributive policies.

All these considerations point to the positive implications of implementing an optimal degree of employment protection for regular contracts, which would result in reforms focusing on increasing flexibility in the most rigid countries. According to the flexicurity paradigm, this increase in flexibility should be compensated by effective unemployment benefit provision.

Implications of generous, monitored and sanctioned unemployment benefits

Acemoglu and Shimer (1999) show how in an economy with risk-averse workers an efficient level of unemployment insurance may increase output and improve risk-sharing. At the empirical level, the impact of unemployment benefits on labour market outcomes is related to the generosity of compensation, the duration of entitlement as well as the coverage and strictness of the administering system. Most empirical research using aggregate data focus on the first two dimensions, given the available information about changes in provision across countries and over time. The generosity of unemployment benefits has been found to be positively correlated with unemployment via its effect on reservation wages and workers' wage bargaining power as well as job search intensity. However, this effect depends on the duration of entitlement (Nickell, Nunziata and Ochel 2005). In addition, financial incentives and sanctions embodied in the enforcement of the unemployment benefit provision by means of effective monitoring of abuses and policies pushing unemployed back to work are more effective in lowering unemployment than a reduction in the replacement rate (Boone and Van Ours 2006; Van den Berg; Van der Klaauw and Van Ours 2004; and Abbring, Van den Berg and Van Ours 2005).

In general, we may conclude that a limited duration in the provision of unemployment benefits, conditional on effective job search induced by strict job search requirements and effective monitoring, may accelerate transitions from unemployment into employment. Nevertheless, the desirability of such a scheme will depend on the administrative costs of running a system based on monitoring and sanctions.

Active labour market policies

Active labour market policies include all forms of government programmes aimed at helping unem-

ployed individuals find employment again. As seen in Figure 7 they include several categories of intervention that may have a different impact in terms of effectiveness.

The empirical evidence is mixed. For example in their discussion of the Danish labour market performance in recent years, Andersen and Svarer (2007) stress the importance of the shift from a passive to an active attitude to labour market policies during the 1990s. According to Calmfors, Forslund and Helmström (2004), the Swedish experience suggests that active labour market policies have reduced unemployment at the cost of displacing regular employment (excluding the effect of training), with no overall beneficial impact on job matching efficiency. The analysis of OECD data by Boone and Van Ours (2004) suggests that training has a larger beneficial impact on labour market outcomes than public employment services, while job subsidies do not seem to play any significant role. On similar lines and despite the heterogeneous experience across countries and types of workers, most micro-econometric evaluation studies indicate that active labour market policies generally have small or non-significant effects on labour market outcomes (Martin and Grubb 2001).

It is still difficult to provide general policy implications about the effectiveness of such programmes, especially considering the heterogeneous nature of each intervention. Most of the literature agrees, however, on the importance of an active role in administering unemployment benefits.

On the basis of what was outlined above, we may conclude that an effective route to reforming rigid labour markets may consist in reducing employment protection to optimal levels to be defined according to the institutional context and enforcing an efficient and monitored unemployment benefit system. However, there are still issues worth discussing about the implications of adopting such policies in different contexts.

Additional prerequisites and consequences of flexicurity

Wage inequality

Koeniger, Leonardi and Nunziata (2007) have found that labour market institutions are a key determi-

Table 1

Percentage change in male wage inequality (w90w10) if change in institutions to US levels

	AL	CA	FN	FR	GE	IT	JA	NL	SW	UK
Baseline	35	21	53	48	48	48	37	60	66	16
Interactions	34	30	61	66	72	68	64	84	65	27

Notes: The countries are Australia (AL), Canada (CA), Finland (FN), France (FR), Germany (GE), Italy (IT), Japan (JA), the Netherlands (NL), Sweden (SW), United Kingdom (UK). The simulations are calculated on a baseline model and a model including institutional interactions over the period 1973–98.

Source: Koeniger, Leonardi and Nunziata (2007).

nant of wage inequality. More specifically, our empirical results show that employment protection, unemployment benefit generosity and duration, union density and minimum wages are negatively associated with the male wage differential. The variation of the male wage differential linked to institutions is at least as high as the amount explained by a set of trade and technology measures.

Table 1 presents the results of a set of simulations of the change in the 90th-10th percentile log-wage differential predicted by our models if regulations were changed towards US levels (most flexible scenario) in each country. The numbers are obtained using two alternative versions of the empirical model, either excluding or including interactions between institutions. The Table displays sizeable positive changes in the wage differential: an increase between 16 percent and 66 percent for the baseline model and 27 percent and 84 percent for the specification with institution interactions. Not surprisingly, Anglo-Saxon countries have the smallest positive changes since their institutional environment is more similar to the US.

From a political economy perspective, these results suggest that an increase in flexibility may generate inequality levels that may not be compatible with the political feasibility of these reforms.

Nevertheless, according to our model, the inequality effects of more flexible employment protection arrangements in the most rigid countries may be offset by an effective provision of unemployment benefits. These results confirm the view that reforms inspired by flexicurity standards may in principle be a viable way to gain support from the median voter in favour of increasing labour market flexibility. The effectiveness of these reforms should in any case depend on the ease of finding new jobs when unem-

ployed. This, in turn, depends, among other things, on the dynamism of the product market.

Product market regulations

Labour market reforms should be accompanied by parallel reforms in the product market. There are two justifications for this claim. First, from a political economy perspective, a comprehensive strategy aimed at reforming both markets may increase the chances of favourable political support (Blanchard and Giavazzi 2003). Secondly, and equally importantly, less regulated product markets play a significant role in affecting labour market outcomes (Fonseca, Lopez-Garcia and Pissarides 2001).

Table 2 reports the effects of alternative labour and product market regulations on unemployment. The Table shows the implied effect of an adverse shock that would raise unemployment by one percent in a country characterised by mean values of all institutions. Keeping all institutions fixed except the one in question, it is possible to identify the impact of the shock in countries characterised by the lowest (most flexible) and the highest (most rigid) values in the column for that institution, controlling for country fixed effects (Blanchard and Wolfers 2000). Overall, we can see that product market regulations seem to be as relevant as labour market institutions in affecting unemployment, with the barriers to entrepreneurial activity having the largest effect on unemployment.

Accordingly, an increase in labour market flexibility should be accompanied by more competition in product markets. More specifically, removing barriers to entrepreneurial activity is likely to increase the rate of job creation, thereby providing more opportunities for the unemployed in an environment of less secure jobs.

Enforcement of flexicurity principles: judicial system, the public sector and civic attitudes

We have already stressed the importance of the enforcement mechanisms when discussing labour market regulations reforms. In particular, we have seen that the strictness at which the unemployment

Table 2
Change (ΔU) induced by a 1% unemployment increasing shock in countries with an average index

	Employment protection	Union density	Unemployment benefit ratio	Unemployment benefit duration	Bargaining co-ordination
ΔU in country with lowest index	1.02	0.66	0.60	0.69	1.38
ΔU in country with highest index	0.98	1.46	1.49	1.45	0.67
	Weakness of competition policy	Barriers to entrepreneurial activity	Product market barriers to trade and investment	Product market state control	Strength of product market regulation
ΔU in country with lowest index	0.84	0.42	1.23	1.01	0.60
ΔU in country with highest index	1.18	1.43	0.54	0.99	1.25
Note: Indexes increase with rigidity of regulations.					

Source: Estimation by the author.

benefits system is operated, at given levels of benefit, is a key determinant of unemployment duration. Accordingly, the efficiency of the legal system should also be considered crucial in determining the likelihood of success for labour market reforms. There is no point in introducing sophisticated reforms of legislation that underpins the functioning of the labour market if the legal system is not efficient enough to actually enforce these reforms. For example, as regards the strictness of employment protection legislation, all transaction costs related to litigation procedures depend on the ability of the legal system to act quickly for the benefit of the employee as well as the employer. These considerations may cast some doubts on the effects of flexicurity reforms in countries that are characterised by inefficient legal systems. In other words, labour market reforms along these lines should require parallel intervention in other crucial regulatory areas in order to be effective.

Similar considerations apply to the public sector in general. Institutions inspired by the flexicurity paradigm may be very costly in presence of an inefficient public sector, especially if we think about the administrative and monitoring costs associated with the provision of unemployment benefits contingent on the job searching effectiveness of the unemployed or the implications of implementing effective and costly active labour market policies.

Finally, even more doubts are cast on the exportability of such policies if we consider the role of civic attitudes in determining the success of labour market reforms based on flexicurity principles. Algan and Cahuc (2006) have shown that the efficiency of the Danish flexicurity model is based on a strong public-spirited attitude that is largely absent in other European countries. Those attitudes are not easily influenced by policy or by the economic environment since they are usually the product of historical and cultural legacies. As a result, policy makers should be very careful in exporting labour market policies from one country to another, without considering the consequences of the interaction with the overall social model prevailing in both the

source and the target country.

Education and evaluation

The labour market is a social institution and alternative sets of regulations have consequences beyond its limits. It is therefore useful to go beyond a partial equilibrium approach in assessing the implications and prerequisites of reforms.

Perhaps one of the most important questions concerns education. Reforms leading to increased labour market flexibility are doomed to fail in the long run if not accompanied and supported by parallel investments in education at all levels aimed at upgrading skills and promoting innovation and creativity.

In addition, reforms aimed at reducing employment protection and increasing spending on unemployment benefits and active labour market policies are not budget neutral. It is not yet clear if the financial burden of these reforms may be more than offset by the benefits in terms of increased efficiency and capacity to quickly adapt to macroeconomic shocks, especially regarding the opportunity costs attached to active labour market policy spending. The effectiveness of reforms inspired by flexicurity principles should then always be rigorously assessed by a cost-

benefit analysis and well designed evaluation studies with a particular focus on institutional complementarities.

Concluding remarks

When discussing the possibility of exporting flexicurity principles to European countries currently characterised by rigid employment protection regulations, the question should be raised as to whether there are not additional, hidden determinants that have led to the labour market successes in Denmark and the Netherlands. Furthermore, it is important to ask whether this model would actually work in a similar way under different circumstances. Indeed, institutions and regulations should be regarded as part of a comprehensive social model rather than single aspects separated from their context. Similar regulations may therefore have different consequences in another context and countries characterised by specific social, political and institutional features may respond differently to the same reform.

Bearing this in mind, policies inspired by the need for combining an optimal degree of employment protection for all, accompanied by efficient and effective unemployment benefit provision managed under active policy principles, constitute a potential alternative to partial reforms at the margin involving a widespread adoption of temporary contracts. The question for researchers and policy makers should therefore be about identifying viable ways of adapting such reforms to different contexts, focusing on the single institutional dimensions that seem to work effectively while putting less emphasis on the rest, and bearing in mind the limits of such interventions if we fail to look at the broader picture when designing labour market regulations.

References

- Abbring, J. H., G. J. Van den Berg and J. C. Van Ours (2005), "The Effect of Unemployment Insurance Sanctions on the Transition Rate from Unemployment to Employment", *The Economic Journal* 115, 602–30.
- Acemoglu D. and R. Shimer (1999), "Efficient Unemployment Insurance", *Journal of Political Economy* 107(5), 893–928.
- Algan Y. and P. Cahuc (2006), "Civic Attitudes and the Design of Labor Market Institutions: Which Countries Can Implement the Danish Flexicurity Model?", *IZA Discussion Paper* no. 1928.
- Andersen T. M. and M. Svarer (2007), "Flexicurity – Labour Market Performance in Denmark", *CESifo Working Paper* no. 2108.
- Autor, D. H. and S. N. Houseman (2005), "Do Temporary Help Jobs Improve Labor Market Outcomes for Low-Skilled Workers? Evidence from 'Work First'", *NBER Working Paper* 11743.
- Bassanini A., L. Nunziata and D. Venn (2008), "Job Protection Legislation and Productivity Growth in OECD Countries", *IZA Discussion Paper* no. 3555, paper presented at the 48th Economic Policy Panel meeting.
- Belot, M., J. Boone and J.C. Van Ours (2007), "Welfare Improving Employment Protection", *Economica* 74, 381–96.
- Blanchard O. and F. Giavazzi (2003), "Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets", *The Quarterly Journal of Economics* 118(3), 879–907.
- Blanchard O. and A. Landier (2002), "The Perverse Effects of Partial Labour Market Reform: Fixed-Term Contracts in France", *The Economic Journal* 112, 214–44.
- Blanchard, O. and J. Wolfers (2000), "The Role of Shocks and Institutions in the Rise of European Unemployment: the Aggregate Evidence", *The Economic Journal* 110, 1–33.
- Boeri T., J. I. Conde-Ruiz and V. Galasso (2003) "Protecting Against Labour Market Risk: Employment Protection or Unemployment Benefits?", *CEPR Discussion Paper* no. 3990.
- Boeri, T. and P. Garibaldi (2008), "Beyond Eurosclerosis", paper presented at the 48th Economic Policy Panel meeting, October.
- Boone J. and J. C. Van Ours (2004), "Effective Active Labor Market Policies", *CentER Discussion Paper* no. 87.
- Boone J. and J. C. Van Ours (2006), "Modeling Financial Incentives to Get Unemployed Back to Work", *Journal of Institutional and Theoretical Economics* 162 (2), 227–52.
- Booth A. L., M. Francesconi and J. Frank (2002), "Temporary Jobs: Stepping Stones Or Dead Ends?", *The Economic Journal* 112, F189–F213.
- Calmfors L., A. Forslund and M. Helmström (2004) "The Effects of Active Labour Market Policies in Sweden: What Is the Evidence?", in J. Agell, M. J. Keen and A. J. Weichenrieder (eds.), *Labor Market Institutions and Public Regulation*, Cambridge, MIT Press, Mass.
- Fonseca, R., P. Lopez-Garcia and C. Pissarides (2001), "Entrepreneurship, Start-up Costs and Employment", *European Economic Review* 45, 692–705.
- Koeniger W., M. Leonardi and L. Nunziata (2007), "Labour Market Institutions and Wage Inequality", *Industrial and Labor Relations Review* 60(3), 340–56.
- Kvasnicka, M. (2008). "Does Temporary Help Work Provide a Stepping Stone to Regular Employment?", *NBER Working Paper* 13843.
- Martin J. and D. Grubb (2001), "What Works and for Whom: A Review of OECD Countries' Experiences with Active Labour Market Policies", *Swedish Economic Review* 8, 9–56.
- Nickell S., L. Nunziata and W. Ochel (2005), "Unemployment in the OECD since the 1960s: What Do We Know?", *The Economic Journal* 115, 1–27.
- Nunziata L. (2006), "Recent Trends in OECD Labour Markets: Flexibility and Economic Performance", report for the Department of Trade and Industry, United Kingdom.
- Nunziata L. and A. Staffolani (2007), "Short Term Contracts Regulations and Dynamic Labour Demand: Theory and Evidence", *Scottish Journal of Political Economy* 54 (1), 72–104.
- OECD Tax-Benefit Models (www.oecd.org/els/social/workincentives).
- Pissarides, C. (2001), "Employment Protection", *Labour Economics* 8, 131–59.
- Saint-Paul G. (1996), "Exploring the Political Economy of Labour Market Institutions", *Economic Policy* 23, 263–315.
- Van Den Berg, G., B. Van der Klaauw and J. C. Van Ours (2004), "Punitive Sanctions and the Transition Rate from Welfare to Work", *Journal of Labor Economics* 22(1), 211–41.

REDUCTION OF EMPLOYMENT PROTECTION IN OECD COUNTRIES: ITS DRIVING FORCES

WOLFGANG OCHEL*,
OLIVER RÖHN*,
ANJA ROHWER* AND
THOMAS STRATMANN**

Introduction

In a globalised world structural change is essential if countries want to preserve their competitive edge and reduce their unemployment. A major obstacle to structural change is employment protection. According to the OECD, the summary indicator of the strictness of employment protection (EPL) is relatively high in continental European countries with the exception of Switzerland and Denmark, and relatively low in English-speaking countries.

A reduction in the strictness of EPL, which would increase the flexibility of labour markets, is generally resisted by incumbent workers. In order to overcome this resistance, the European Commission has proposed enhancing income security by providing higher unemployment benefits. According to this “flexicurity” strategy, flexibility is supported by generous income security. Workers will accept a reduction in the strictness of EPL more easily if they receive higher unemployment benefits during periods of unemployment.

As the “flexicurity” strategy is very popular in Europe (European Commission 2006, chapter 2) it is of interest to know whether the generosity of unemployment benefits has been associated with less

employment protection in OECD countries in the past. There are few studies which have analysed this relationship empirically. Boeri et al. (2003 and 2006) investigate the relationship between the generosity of unemployment benefits and the level of EPL strictness. In a cross-section for one year they find a negative relation between the two schemes.

Our approach is different. We want to find out whether changes in the strictness of EPL over time can be explained by changes in the generosity of unemployment benefits. We include 26 OECD countries and consider the period from 1985 to 2003. Apart from the generosity of unemployment benefits we also control for other determinants. They relate to the activation of the unemployed, the power of unions, the strength of government, trust and unemployment.

During the last two decades some European countries have reduced the strictness of their EPL. Governments, however, have pursued a highly selective approach. They have left existing provisions for permanent contracts practically unaltered (with the exception of Spain) and relaxed only EPL for temporary jobs (Figure). However, the latter reforms have not been implemented in all OECD countries but only in some countries. These countries are Belgium, Denmark, Germany, Greece, Italy, the Netherlands and Sweden. In these countries firms’ use of temporary forms of employment has been eased considerably. The most prevalent path of reform involved facilitating the use of fixed-term contracts and/or hiring workers from temporary work agencies.

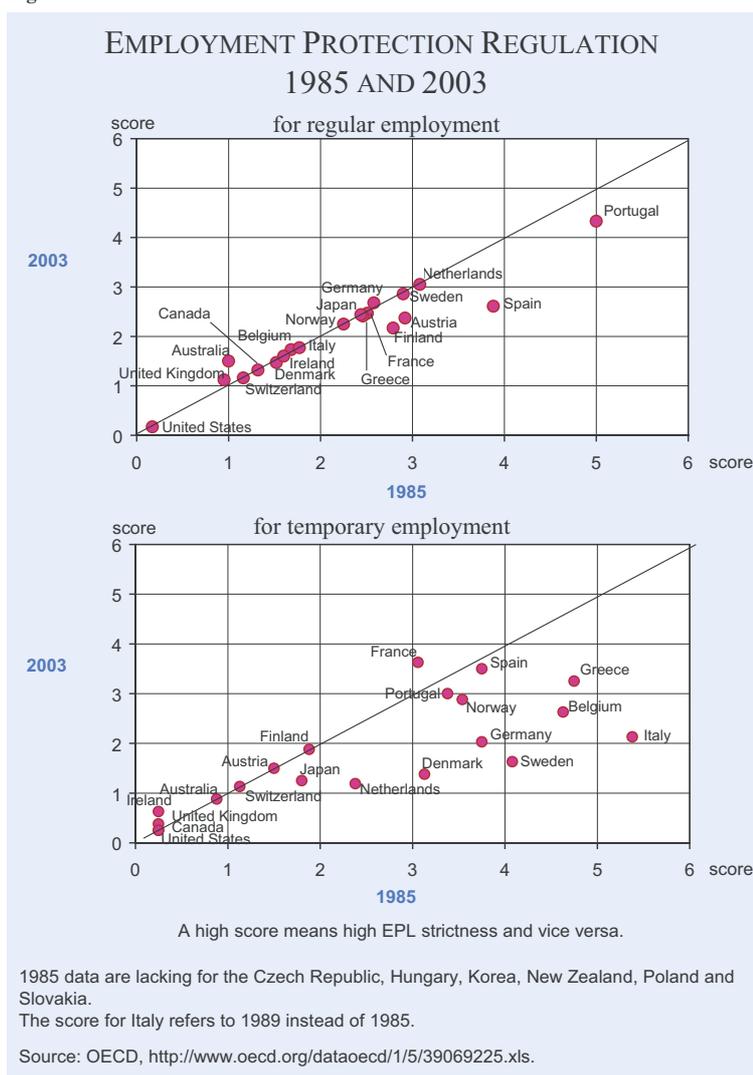
Determinants of employment protection

According to the literature, interest groups, politicians (including the government), political institutions and social values have to be taken into account when analysing the political economy of EPL reforms. In the following we shall discuss some key ideas from the literature. As we will show, the predictions found in the literature on the determinants



* Ifo Institute for Economic Research at the University of Munich.
** George Mason University, Fairfax, VA.

Figure



politically better organized than the unemployed (Fernandez and Rodrik 1992, 1146).

We hypothesize that the resistance of incumbent workers to EPL reforms will be higher for EPL reforms for permanent jobs and lower for EPL reforms for temporary jobs (“reforms at the margin”). This is because incumbent workers are not directly affected by the latter reforms, and potentially they are made better off. They can earn higher wages because labour market tightness increases due to the higher demand for temporary jobs. And if they lose their job they will benefit from the increased job finding opportunities of the unemployed (Saint-Paul 2000, 227–53). The resistance to EPL reforms at the margin will, however, not be negligible. Incumbent workers may recognise that two-tier systems could perhaps be used as an intermediate step towards a complete EPL reform that they are not in favour of. Reforms at the margin gradually build up a stock of workers with temporary contracts. These workers have

of employment protection are often contradictory. We will focus on the political power of incumbent employees to resist EPL reforms, the counterbalancing factors of compensating transfers and of a strong government, and the role of trust in implementing EPL reforms.

The main interest group relevant for EPL reforms are the incumbent employees and their unions who want to protect their jobs by a strict EPL. When the amount of rents – i.e. the difference between the employees wage and the unemployment benefits an individual would receive if unemployed – is high, workers will organize themselves better and are more determined to oppose EPL reforms. While workers fear being negatively affected by a reduction in the strictness of employment protection, the unemployed stand to benefit. Their chances of finding a job would increase. But workers have a higher propensity to dominate political decisions. They are

different interests than those who hold a fixed contract. They can be used as a “political constituency” to support subsequent reforms of core labour market EPL that the government from the beginning may have intended to achieve (Saint-Paul 1996, chapter 11; Dewatripont and Roland 1992). The power of incumbent workers and their unions to resist EPL reforms cannot be easily measured. In this article we use union density as a proxy.

Policy-makers in favour of lower EPL strictness can overcome insider resistance to EPL reforms by offering compensating transfers to those who do not benefit from the reform. Lower dismissal protection may be less worrying to insiders if unemployment benefits become more generous. Activating the unemployed, which increases their re-employment chances, may also reduce the resistance of incumbent workers to EPL reforms. According to Roland (2002), governments should follow a long-term reli-

able policy of providing compensating transfers in order to be able to secure the political acceptance of EPL reforms by the losers. In this paper we measure the compensating transfers by the generosity of unemployment benefits. We use expenditure on active labour market policies as an indicator for the activation of the unemployed.

The stronger a government the easier it is for the government to implement policy change. Strength of government is related to the number of independent branches of government (executive and legislative branches), the party composition of these branches, the role of the “judiciary” and “sub-federal entities” as players in the political system, etc. If the characteristics of the political system constrain the commitment of government to political change – as indicated by our “Political Constraints Index” – it will be difficult for governments to overcome resistance of incumbent workers to EPL. Broad coalition governments, for example, are considered to be an obstacle to EPL reform. They tend to paralyse decision-making, due to the hold-up power of the workers’ wings in the Social Democratic parties (Alesina and Drazen 1992).

So far the literature – as summarized above – has overlooked that the power of incumbent workers and the strength of government may be determined by more fundamental factors, like the prevailing social values. In recent studies the importance of trust has been addressed in this context (see, for example, Algan and Cahuc 2006). Trust (“can people be trusted?”), however, is a general category. It may refer to different groups of persons. With respect to the power of employees, trust can be associated with positive attitudes towards social co-operation. Strong trust may help to overcome collective action problems, thereby sustaining labour unions and fostering resistance to EPL reforms. With respect to workers’ perception of employers, trust may lead to a different form of behaviour. If workers think that they are treated fairly by employers, they are less likely to demand employment protection. And if the people trust politicians, governments are in a stronger position to implement EPL reforms.

Finally EPL reforms might be influenced by the development of unemployment. A rise in unemployment may result in incumbent workers being more determined to protect their jobs. The unemployed, however, will be more strongly in favour of EPL reforms, which might create more employment opportunities for them. And governments may

become more committed to increasing labour market flexibility.

As we have shown, the theoretical arguments do not give clear guidance on the effects of our determinants on changes in employment protection. Empirical research can, however, help to identify the driving forces of EPL reforms.

Data

Our dependent variables are the OECD summary indicators of EPL strictness for the period 1985 to 2003. We use three indicators: the overall EPL indicator (version 1), the EPL indicator for regular employment and the EPL indicator for temporary employment (OECD 2004, chapter 2).

The determinants of EPL are from different sources:

- The union density data are from the OECD (Union Density Database) and Visser (2006). The “adjusted” union membership data define union membership as a proportion of wage and salary earners in employment.
- Unemployment benefits are taken from the OECD. The OECD summary measure of benefit entitlements is defined as the average of the gross unemployment benefit replacement rates for two earnings levels, three family situations and three durations of unemployment (OECD Tax-Benefit Models).
- Public expenditure for active labour market policy as a percentage of GDP (OECD Labour Market Database) is used as a proxy for the activation of the unemployed. The purpose of active labour market policies is to provide active assistance to the unemployed, which will improve their chances of obtaining work. This indicator, however, does not capture all aspects of activation like counselling, placement of the unemployed, benefit sanctions, etc. Unfortunately other panel data are not available.
- As our measure of the constraints on policy change that governments are facing we use the “Policy Constraints Index V” of Henisz (2000) and Wharton School (2006). It measures the extent to which a change in the preferences of any one actor of the political system leads to a change in government policy.
- The indicator “trust” is taken from the World Values Survey. It refers to the percentage of the

population that thinks most people can be trusted. The following question was asked: “Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?”

- Unemployment is measured by the standardised unemployment rate as a percentage of the total labour force (OECD 2007).

Estimation approach

Our panel of countries allows us to estimate a model with country and year fixed effects. One advantage of including country fixed effects is that they control for unobserved country specific variables that are constant over time and influence both employment protection and our explanatory variables. In particular, without these country indicators one may not discover that higher benefits are associated with less protection. This is because unobserved variables such as the political preferences of voters may lead to both higher benefits and high protection. Unobserved or unmeasured left-leaning preferences of voters may make it appear that high benefits are associated with high protection. Country fixed effects control for these political preferences of voters. They control for the average level of protection and benefits and allow for an examination of the effect of changes in benefits on changes in protection.

Thus we estimate the following equation:

$$y_{it} = \beta x_{it} + \mu_i + \gamma_t + \varepsilon_{it},$$

where μ_i is a country fixed effect and γ_t a year fixed effect. We estimate this model for three different measures of employment protection legislation y_{it} . The x_{it} vector includes the generosity of unemployment benefits, public expenditure for active labour market policies, union density, policy constraints and a measure of trust and unemployment. We put the unemployment benefits measurement in logs because we expect that the effect of benefits on employment protection legislation is declining at the margin. We cluster all standard errors by country.

Table 1

Descriptive statistics

Variable	Observations	Mean	Standard deviation	Minimum	Maximum
Overall EPL (score)	215	2.11	1.058	0.21	4.19
EPL for temporary employment (score)	215	2.09	1.476	0.25	5.38
EPL for regular employment (score)	215	2.14	0.963	0.17	5.00
OECD summary measure of unemployment-benefits (%)	215	28.8	12.918	3.0	65.0
Log of OECD summary measure of unemployment-benefits	215	3.23	0.551	1.10	4.17
Trust (%)	135	38.5	14.188	9.8	64.8
Unemployment (%)	206	7.7	3.753	1.6	19.6
Policy Constraints Index V (score)	213	0.77	0.093	0.33	0.89
Public expenditure for active labour market policy (% of GDP)	208	0.79	0.501	0.12	2.83
Union density (%)	186	38.3	21.228	8.1	83.9

Results

Table 1 gives the descriptive statistics for the data. We use in our analysis bi-annual data over the period 1985 to 2003. The overall employment protection index ranges from 0.21 (United States over the entire time period) to 4.19 (Portugal in the late 1980s). The protection indices for temporary work and regular work show similar ranges. They range from 0.25 in the United States, Ireland and the UK to 5.38 in Italy for temporary employment and from 0.17 (United States) to 5.00 (Portugal) for regular employment. The average EPL index is slightly lower for temporary work than the one for regular work. The summary measure of the unemployment benefits, which is defined as the gross replacement rate, has a mean of 29 percent. It ranges from 3 percent in Italy (1989) to 65 percent in Denmark. There are pronounced differences in trust. In Portugal only 9.8 percent of the population trusted other persons, whereas in Norway a high of 64.8 percent trust each other. The lowest unemployment rate was achieved in Sweden (1.6 percent), the highest in Poland (19.6 percent). The Political Constraints Index V ranges from a minimum of 0.33 in Italy to a maximum of 0.89 in Belgium. Whereas the United States only spent 0.12 percent of GDP on active labour market policy, Sweden reached the maximum with 2.83 percent. Union density was lowest in France (8.1 percent) and highest in Sweden (83.9 percent).

Table 2

Determinants of overall EPL

Log of OECD summary measure of unemployment-benefits	-0.233 (0.140)	-0.280** (0.101)	-0.187** (0.086)	-0.181 (0.111)	-0.203** (0.097)
Trust		-0.020** (0.008)	-0.020*** (0.007)	-0.021*** (0.006)	-0.020*** (0.007)
Unemployment			-0.029 (0.018)	-0.03 (0.018)	-0.03 (0.021)
Policy Constraints Index V			1.517*** (0.217)	1.537*** (0.246)	1.722*** (0.275)
Public expenditure for active labour market policy (% of GDP)				0.035 (0.142)	0.114 (0.164)
Union density					-0.015 (0.014)
Constant	3.023*** (0.428)	3.642*** (0.426)	2.557*** (0.402)	2.524*** (0.500)	2.642*** (0.561)
Observations	215	135	132	130	114
R ²	0.9497	0.9594	0.9653	0.9652	0.9666

Note: Robust standard errors in brackets. * means significant at the 10% level, ** at the 5% level, and *** at the 1% level. Year and country effects included but not reported.

Next we move to our estimation results. The dependent variable in Table 2 is the overall employment protection index. The point estimate on the unemployment benefits measure is negative and statistically significant in three of the five specifications. We also estimated these regressions without country fixed effects (not reported). We found that in the regressions that do not include country fixed effects the unemployment benefits measure has a positive sign. The fact that the inclusion of country indicators changes the sign on the unemployment benefits

measure from positive to negative, shows that there are country-specific variables which cause some countries to have above average rates of both unemployment benefits and employment protection and others below average rates.

In Table 2, the estimates on the unemployment benefit measure imply that a one percent increase in benefits leads to an increase of between 0.0018 and 0.0028 points in the employment protection measure. An alternative interpretation is that (given the mean

Table 3

Determinants of EPL for temporary employment

Log of OECD summary measure of unemployment-benefits	-0.409 (0.331)	-0.571** (0.241)	-0.365* (0.213)	-0.328 (0.268)	-0.378 (0.228)
Trust		-0.037** (0.014)	-0.038*** (0.013)	-0.039*** (0.012)	-0.040*** (0.013)
Unemployment			-0.062 (0.040)	-0.065 (0.042)	-0.079* (0.044)
Policy Constraints Index V			3.316*** (0.480)	3.390*** (0.553)	3.463*** (0.561)
Public expenditure for active labour market policy (% of GDP)				0.104 (0.288)	0.126 (0.325)
Union density					0.013 (0.026)
Constant	3.650*** (1.022)	5.104*** (0.909)	2.673** (0.996)	2.471* (1.217)	2.861* (0.993)
Observations	215	135	132	130	114
R ²	0.9088	0.9186	0.9325	0.9301	0.9395

Note: Robust standard errors in brackets. * means significant at the 10% level, ** at the 5% level, and *** at the 1% level. Year and country effects included but not reported.

Table 4

Determinants of EPL for regular employment

Log of OECD summary measure of unemployment-benefits	-0.063 (0.081)	0.003 (0.050)	-0.017 (0.062)	-0.043 (0.078)	-0.034 (0.067)
Trust		-0.002 (0.004)	-0.003 (0.005)	-0.003 (0.005)	0.0002 (0.004)
Unemployment			0.003 (0.013)	0.005 (0.013)	0.02 (0.019)
Policy Constraints Index V			-0.289 (0.287)	-0.326 (0.308)	-0.025 (0.274)
Public expenditure for active labour market policy (% of GDP)				-0.039 (0.073)	0.099 (0.101)
Union density					-0.044 (0.026)
Constant	2.412*** (0.262)	2.198*** (0.207)	2.462*** (0.412)	2.602*** (0.484)	3.460*** (0.985)
Observations	215	135	132	130	114
R ²	0.9707	0.9727	0.9725	0.9727	0.973
Note: Robust standard errors in brackets. * means significant at the 10% level, ** at the 5% level, and *** at the 1% level. Year and country effects included but not reported.					

employment protection measure is 2.11) a one point increase in the benefits leads to a 0.09 and 0.13 point increase in employment protection. These findings suggest that, quantitatively, the correlation between unemployment benefits and employment protection is weak.

Among our other control variables only trust and policy constraints are statistically significant. All specifications in Table 2 show that higher levels of trust lead to less employment protection and that this effect is statistically significant at conventional levels. This suggests that trust is a substitute for regulation. One possible interpretation of this finding is that when workers trust that they are treated fairly by employers, they are less likely to demand employment protection. Another interpretation is that when workers trust politicians and believe in their ability to take care of them it will be easier for governments to convince workers about the necessity of reducing the strictness of EPL. We also find that fewer policy constraints are negatively correlated with employment protection. This suggests that countries with governments that are less subject to checks and balances and that are not paralysed by conflicting parties in coalition governments are more likely to soften employment protection. Our results do not indicate any significant influence of unemployment, public expenditure on active labour market policy and union density on employment protection.

Table 3 uses employment protection for temporary work as the dependent variable. Here the coeffi-

cients on the measure of unemployment benefits, trust and policy constraints almost double in size, and the point estimates that were statistically significant in Table 2 remain so in Table 3. These results show that providing higher unemployment benefits, a higher level of trust and low policy constraints are especially beneficial for implementing EPL reforms at the margin. Higher unemployment benefits may increase the support of their recipients. In addition providing compensation transfers seems to be quite effective in overcoming incumbent workers' resistance to EPL reforms of temporary work. This may be so because liberalising temporary work is confronted with less resistance from insiders than the reduction in the strictness of EPL for regular work. Trust too has a positive impact. And for governments that are facing policy constraints, it is easier to overcome the resistance to EPL reforms at the margin.

In contrast to Table 3, Table 4 shows that our time-varying covariates do a poor job explaining employment protection for regular work. In part this is the case because there is less variation in the regular work employment protection measure within a country, than for the temporary work measure. Many countries have lowered employment protection for temporary work while implementing few changes for permanent work. However, it may also reflect the possibility that policy makers are more willing to increase unemployment benefits in exchange for less protection for temporary work, but not for regular work. The results of Table 4 imply that our findings

in Table 2 are due to the fact that two-tier reforms of EPL have taken place in Europe as shown by the results of Table 3.

Conclusion

Our analysis has shown that changes in the strictness of EPL over time can be explained by the generosity of unemployment benefits. Lower dismissal protection seems to be less worrying to workers if unemployment benefits become more generous. This result is in line with previous empirical research. In addition, our disaggregated analysis has shown that this effect is mainly driven by the temporary component of employment protection. While we find significant effects of unemployment benefits on temporary employment protection, we were not able to detect such effects for permanent contracts. This implies that generous employment benefits reduce the resistance to EPL reforms only “at the margin”.

Generosity of unemployment benefits, however, is not the only determinant of reducing EPL strictness. Our analysis has revealed that a high level of trust and low policy constraints have also been beneficial for implementing EPL reforms in OECD countries. Thus, generous unemployment benefits in combination with a high level of trust and low policy constraints can explain the liberalisation process of temporary work in OECD countries.

References

- Alesina, A. and A. Drazen (1991), “Why are Stabilizations Delayed?” *American Economic Review* 81, 1170–88.
- Algan, Y. and P. Cahuc (2006), “Minimum Wage: The Price of Distrust”, mimeo.
- Boeri, T., J.I. Conde-Ruiz and V. Galasso (2003), “Protecting Against Labour Market Risk: Employment Protection or Unemployment Benefits?” *IZA Discussion Paper* no. 34.
- Boeri, T., J.I. Conde-Ruiz and V. Galasso (2006), “The Political Economy of Flexicurity”, *Documento de Trabajo* 15, Fundacion de Estudios de Economia Aplicada.
- Dewatripont, M. and G. Roland (1992), “Economic Reform and Dynamic Political Constraints”, *Review of Economic Studies* 59, 703–30.
- European Commission (2006), *Employment in Europe 2006*, Brussels.
- Fernandez, R. and D. Rodrik (1991), “Resistance to Reform: Status Quo Bias in the Presence of Individual Specific Uncertainty”, *American Economic Review* 81, 1146–55.
- Henisz, W.J. (2000), “The Institutional Environment for Economic Growth”, *Economics and Politics* 12 (1), 1–31.
- Roland, G. (2002), “The Political Economy of Transition”, *The Journal of Economic Perspectives* 16 (1), 29–50.
- OECD (2004), *Employment Outlook*, Paris.
- OECD (2007), *Main Economic Indicators: Labour Force Survey based Statistics*, Paris.
- OECD Labour Market Database (http://stats.oecd.org/wbos/Index.aspx?dataset-code=SOCX_AGG).
- OECD Tax-Benefit Models (www.oecd.org/els/social/workincen-tives).
- OECD Union Density Database (<http://www.oecd.org/dataoecd/25/42/39891561.xls>).
- Saint-Paul, G. (1996), *Dual Labor Markets: A Macroeconomic Perspective*, The MIT Press, Cambridge, Mass., London.
- Saint-Paul, G. (2000), *The Political Economy of Labour Market Institutions*, Oxford University Press, Oxford and New York.
- Visser, J. (2006), “Union Membership Statistics in 24 Countries”, *Monthly Labor Review*, January, 38–49.
- Wharton School (2006), The Political Constraints Index, POLCON Database (<http://www-management.wharton.upenn.edu/heniz/>, data release 2006).
- World Values Survey 2004/2005/2006 (www.worldvaluessurvey.org).



CREATING AN EU FLEXICURITY SYSTEM: AN AMERICAN PERSPECTIVE

RICHARD V. BURKHAUSER*

Introduction

The United States of America (US) and individual European Union (EU) countries have weighed individual liberty and collective protection quite differently in establishing limits for their internal economic market arrangements and in forming public policies aimed at reducing their population's economic risks. What will ultimately drive the debate about "what *flexicurity* will mean for future EU labor market policies" is the more fundamental question of how individual EU countries' historical "liberty vs. social protection" equilibriums will be reconciled within a fully integrated EU marketplace. A marketplace that itself will have to adjust to an increasingly integrated world economy.

What strikes an American about the EU flexicurity debate is its failure to explicitly recognize what is known in the US as the "state" vs. "federal" debate – a debate that has been raging among us for well over 200 years. The debate about what it means to be both an American and a citizen of one of our 50 states. Hence the typical examples in the flexicurity literature show how a specific country – Denmark, the Netherlands, etc. – moved "on the margin" to make their labor market somewhat more flexible, while maintaining or not greatly changing their politically established level of social insurance protection and its within country distributional consequences. (For example: European Commission 2006; Gazier 2006; Madsen 2006.)

The emphasis is on how a given EU country's social institutions have been made "more efficient" in

response to external market forces or internal demographic forces that required some adjustment to its social contract. There has been little consideration of the relevance of these within-country adjustment examples to the ultimate across-country adjustments to come. Coming, at least in an EU where individual country labor and all other factor and product markets are as open across EU countries as are the 50 individual state markets that make up the common US market. This lack of investigation of how the US resolved its flexicurity issues while integrating its 50 states into a single US marketplace is surprising. Since capturing the productivity gains from fully integrating its individual country markets is presumably the growth engine that will make the whole of EU growth greater than the sum of its individual country parts. And, will best position the EU to thrive in a more integrated world economy.

From my perspective, it is likely that the more fully EU country markets are integrated into a single EU marketplace, the more EU country social institutions will need to be integrated to encompass at least some minimum level of social protection for its now more heterogeneous populations. Therefore, the right question to ask is: "What will an EU system of social institutions look like that, like the US, is founded on the proposition that social cohesion and solidarity do not stop at each state's border but encompass all EU citizens?"

More appropriately comparing economic inequality in the US and the EU

The US social model is often dismissed by Europeans who argue that US inequality and labor market flexibility levels (lack of social cohesion and social solidarity) are so extreme that its social institution building offers no insight to policymakers laboring to achieve EU flexicurity. But comparing the US to any single EU country is like comparing apples to oranges, or perhaps better an apple to a mixed bag of fruit. While there is greater inequality in the US than in most individual EU countries, Alber (2006) shows that differences in the level of economic well-being along most dimensions (in-

* Cornell University. Professor Burkhauser completed this paper while he was the R.I. Downing Fellow in Social Economics in the Faculty of Economics and Commerce, University of Melbourne.

come, employment, health, poverty, etc.) across EU countries is wide enough that US economic outcomes lie well within EU country extremes.¹ Hence, in comparing social outcomes between the US and the EU or rather an EU striving to have its marketplace as fully integrated across member states as the US, it is important to consider the social institutions that such an economic integration are likely to bring.

Measuring income inequality

The EU as a whole is closer to the US in both size and heterogeneity of geography and population than is any one EU country. The same is true with respect to comparisons of income inequality. Beblo and Knaus (2001) demonstrate the importance of across-country inequality in the EU by tabulating the income distribution of the combined populations of the ten founding EU countries as well as the percentage of each decile of the distribution originating in each country. In 1995, those living in Germany made up 28.9 percent of the total EU-10 population but a disproportionately higher 42.0 percent of the top decile and a disproportionately lower 20.1 percent of the bottom decile. In contrast, those living in Portugal made up 3.5 percent of the total EU population but 1.4 percent of the top decile and 10.6 percent of the bottom decile. Likewise, those living in Italy made up 20.1 percent of the entire EU-10 population but 9.3 percent of the top and 26.2 percent of the bottom decile. Accounting for such cross-country differences increases measured inequality in the entire EU-10. They find that there is a wide range of inequality across countries, with Portugal (highest inequality) having measured inequality 75 percent larger than the Netherlands (least inequality). Once they make the necessary calculations, the variation across countries contributes 9.3 percent to total EU-10 inequality.

Most recently, Brandolini 2007 compares the EU-wide income distribution in 2000 for the EU-15 and EU-25 with the income distribution of the US in 2000. He shows inequality (based on a Gini calculation) within the EU-25, with its greater heterogeneity of populations, is substantially greater (0.378) than for the EU-15 (0.294) and that US income inequality (0.369) is within them.²

The US began its struggle to establish a set of principles that would ensure social cohesion when, as a confederation of 13 states (some free and some slave), it formally united in 1789. It has continued to adapt them as it expanded its geographical borders to 50 states and opened each to more ethnically and culturally diverse populations. Today, the US continues to be much larger and more heterogeneous geographically, ethnically and culturally than any single EU country. But it is much closer in size, geography, ethnicity and culture to the entire population of the EU-25. Comparing the two, EU-25 citizens are about as unequally distributed across their income distribution as are US citizens, but their mean real income is substantially smaller.

As the country level marketplaces of the confederation of EU-25 countries become more fully integrated, it is likely that average real EU income will rise and that average incomes across EU countries will narrow, especially so, given the proposition that social cohesion and solidarity do not stop at each state's border. But it is hard to believe that the wide differences in the levels of social protections currently existing across its member countries will be maintained. The question then becomes what will be the level of social protection offered to all EU citizens?

This is the reality that confronts EU policymakers as they seek a set of social policies which will move a still relatively loose confederation of nation states towards a united Europe. In so doing, member states will be forced to confront the broader regional, ethnic, cultural and religious differences that have shaped US social policies in our efforts to both reduce inequality and raise living standards for the entire population.

Because cultures have varied so significantly in the US across states and regions, our collective national policies have tolerated greater differences than is the case in the more homogeneous societies of any given EU country. Our national policy is one that specifically allows for deviations at the state and local level. Moreover, national policies that redistribute resources across regions and states required collective approval. No doubt, this has also limited the extent of that redistribution. Nonetheless, to accommodate the broad regional and national differences that exist across the EU countries, it appears likely that policy formation will evolve in a manner that is bounded by similar considerations. In the context of

¹ See Alber and Gilbert (in press) for a richer comparison of US and EU country social models and their economic outcomes.

² See Burkhauser and Couch (in press) for a more detailed comparison of income equality between the US and EU countries over the last two decades. See Burkhauser, Feng, Jenkins and Larrimore (2008) for a discussion of measurement issues in cross-national comparisons of US income inequality trends.

earnings and income inequality, one challenge to a united EU is convincing citizens of its member states that reduction of income inequality in the united EU that requires redistribution across national boundaries is in their collective interest. Similarly, it is also likely that the extent of generosity in the approval of income redistributions across borders will be tempered by the interests of the member states just as it has been in the US.

These same “state” vs. “federal” issues will determine what it means to be both an EU citizen and a citizen of one of its member states (and the rights and responsibilities that go with each) and they are inescapably part of the flexibility debate. Given the more heterogeneous EU-25 population over which these decisions will be made, it is likely that EU social policies will evolve more toward those of the US than to the current policies of the more homogeneous individual EU countries from which most flexicurity examples are drawn. Hence it is useful to consider the foundation of US flexicurity.

The cornerstone of solitary and flexicurity in the US

“Anyone who works hard and plays by the rules shouldn’t live in poverty.”

President William Jefferson Clinton, 1993 Inaugural Address (Clinton and Gore 1992)

Most working-age Americans support themselves and their households through market work. Historically economic growth has boosted the living standards of nearly all working American households. In President Clinton’s words, working-age Americans, who have “worked hard and played by the rules,” not only avoided poverty, but have experienced substantial increases in economic well-being. The key to understanding American flexicurity is our emphasis on employment as the path to economic success and our reluctance to directly regulate wages or working conditions so as not to interfere with how workers and their agents (unions) negotiate with employers.

The relative use of the federal minimum wage and the Earned Income Tax Credit (EITC) as mechanisms to ensure that “anyone who works hard and plays by the rules doesn’t live in poverty” provides a useful example of how American style flexicurity has evolved over time. Social reformers of the late nine-

teenth and early twentieth century confronted by an emerging capitalist system saw direct government regulation of labor markets as the best means of insuring a living wage for all (Ryan 1906). In an era without state or federal income taxes (and hence small revenue bases), without labor unions, and with few government programs to provide income assistance for the working poor, early state minimum wage and hours laws sought to ensure a minimum income for the households of all workers via regulatory boards of “social partners” (government, labor and management). The laws were intended to directly intervene in the marketplace by establishing a set of socially just hourly wage rates. But most such efforts by state legislatures in the early twentieth century were ruled unconstitutional.

The Fair Labor Standards Act of 1938 established the first federal minimum wage. This act marked the culmination of a long struggle to establish that state and federal legislatures could regulate the “freedom to contract” in the marketplace, found in the fourteenth amendment of the US Constitution. But the act steered clear of the “corporate state” type of regulatory boards that still attempt to directly influence market outcomes and through that intervention the economic well-being of their citizens. Instead, the Fair Labor Standards Act simply set one national minimum hourly wage that applied to all states and could be raised as appropriate by Congress. Each state was then free to increase its own minimum wage law above the Federal minimum hourly wage.

Instead of direct intervention in the labor market to affect employment contracts, US social reforms have primarily left it to workers and their agents (unions) to negotiate these contracts within relatively unrestrictive government minimum wage, maximum hours, and workplace safety and environmental regulations. The result is that wage inequality is much greater in the US than in most EU countries but employment is higher and movement into and out of the labor force, and across employers within a state and across states is greater.

While the American social safety net protects those not expected to work – children, aged, disabled – President Clinton captures the broad outline of the “social contract” as understood by the majority of voting Americans in his proclamation that anyone who works hard and plays by the rules shouldn’t be poor. But he also provides the boundary of that protection by implicitly agreeing that anyone who does-

n't work hard and play by the rules cannot depend on government support – there are no guaranteed social minimums in the US. In an American population diverse in regional concerns, race, ethnicity, culture and religion, and one that has historically been willing to accept various waves of new immigrants both across our states and over our national borders, it is this common willingness to provide government support (via redistribution from higher to lower income households) to those who are willing to work that underpins our sense of solidarity. And, it is the expectation of social mobility, given this social insurance rule, which binds us together.

But rather than making “work pay” by directly mandating employers to provide a living wage – in May 2008 the Australian Fair Pay Commission (2008) found that the minimum wage in the US was the tenth highest among the 14 OECD countries with minimum hourly wages, and less than one-half that of the three highest countries based on either nominal exchange rates or purchasing power parity: Luxembourg (EUR 9.29), France (EUR 8.63) and the Netherlands (EUR 8.33) – the US (USD 5.85) has chosen to directly subsidize the working poor via our tax system.³

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, passed by a Republican dominated Congress, signed by President Clinton, and reauthorized in 2006, fundamentally altered the way America provides social protection to single mothers. It ended a federal program of guaranteed cash support for single mothers living outside the mainstream economy (Aid to Families with Dependent Children) and replaced it with a federally funded state-based program of temporary support, pro-work incentives, and a federal commitment to make work pay (Temporary Assistance for Needy Families). In so doing, it encouraged single mothers to invest in themselves, engage in the labor market and break the cycle of public benefits and poverty. Essentially, welfare reform reclassified a population heretofore “not expected to work” – single mothers – to one “expected to work”: This package of 1996 welfare reforms is an example of an American style political compromise that both dramatically reduced the number of single mothers on the welfare rolls after 1996 (from around five million before welfare

reform to under two million today), but even more dramatically increased their employment so that on average their income rose and their poverty rates fell (Meyer and Rosenbaum 2001; Blank 2002; Burkhauser, Daly, Larrimore and Kwok 2008).

The primary positive incentive offered to single mothers who worked was the EITC. It provided them with a substantial wage subsidy. It is the primary federal cash transfer paid to the vast majority of never-married single mothers who now work. The EITC effectively raised the minimum wage for single mothers and has played a large role in their movement into the labor force. In addition to the Federal EITC, in 19 states, those eligible for the federal EITC also receive additional state EITC benefits (Schmeiser 2008). The dramatic improvement in the employment and income of never-married single mothers in the US since 1996 was the result of a policy change that raised the effective wage of low-skilled workers (Meyer and Rosenbaum 2001). But unlike a minimum wage increase, the EITC did not do so by mandating that employers raise the wages they pay to poor and non-poor workers alike. Hence, this policy has none of the negative employment effects of minimum wage increases on employment and on net has increased employment and total hours worked of single mothers (Hotz and Scholz 2003).

As the EU struggles to find the mix of marketplace flexibility and social protection consistent with fully integrating its individual EU country labor markets into a single EU labor market, it will also have to establish the basis for a compatible set of social institutions that will protect the economic security of all its workers. Making that choice is likely to eventually require substantial changes in each EU country's mix of current employment protection legislation and social welfare protection. That is, each country to some degree will have to change from a flexicurity system originally established to satisfy the needs of its more homogeneous population to a flexicurity system that better reflects the willingness of its population to protect and redistribute income across a more diverse EU population. Perhaps when the smoke clears and each EU country has finally agreed to some common basis for each of their flexicurity systems that is compatible with a common EU marketplace, ensuring that EU citizens who work hard and play by the rules do not live in poverty, may not be seen as such a meager standard after all.

³ See Neumark and Wascher (2008) for a comprehensive review of minimum wage legislation on the employment and poverty rates of low skilled workers.

References

- Alber, J. (2006), "The European Social Model and the United States", *European Union Politics* 7 (3), 393–419.
- Alber, J. and A. Gilbert, eds., *European and American Social Models*, Oxford University Press, in press.
- Australian Fair Pay Commission (2008), *Wage-setting Decision and Reasons for Decision*, Australian Fair Pay Commission Publication, Melbourne.
- Beblo, M. and T. Knaus (2001), "Measuring Income Inequality in Euroland", *The Review of Income and Wealth* 47(3), 301–20.
- Blank, R.M. (2002), "Evaluating Welfare Reform in the United States", *Journal of Economic Literature* 40 (4), 1105–66.
- Brandolini, A. (2007), "Measurement of Income Distribution in Supranational Entities: The Case of the European Union", in S. P. Jenkins and J. Micklewright, eds., *Inequality and Poverty Reexamined*, Oxford University Press, 62–83.
- Burkhauser, R. V. and K. A. Couch, "Are United States Inequality and Mobility Trends in the European Union's Future?" in J. Alber and A. Gilbert, eds., *European and American Social Models*, Oxford University Press, Oxford, in press.
- Burkhauser, R., M. Daly, J. Larrimore and J. Kwok (2008), "The Transformation in Who is Expected to Work in the United States and How it Changed the Lives of Single Mothers and People with Disabilities", *Working Papers*, University of Michigan Research Center.
- Burkhauser, R. V., S. Feng, S. P. Jenkins and J. Larrimore (2008), "Trends in United States Income Inequality Using the Internal March Current Population Survey: The Importance of Controlling for Censoring", *NBER Working Paper* 14247.
- Clinton, W.J. and A.A. Gore, Jr. (1992), "Putting People First".
- European Commission (2006), "Flexibility and Security in the EU Labour Markets", in *Employment in Europe Report*, Brussels.
- Gazier, B. (2006), "Flexicurity and Social Dialogue: European Ways", DB EMPL Seminar on Flexicurity (May), mimeo.
- Hotz, J. V. and J. K. Scholz (2003), "The Earned Income Tax Credit", in R. Moffitt, ed., *Means-tested Transfer Programs in the United States*, University of Chicago Press, Chicago, 141–198.
- Madsen, P.K. (2006), "Flexicurity: A New Perspective on Labour Markets and Welfare States in Europe", DB EMPL Seminar on Flexicurity (May), mimeo.
- Meyer, B. and D. Rosenbaum (2001), "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers", *Quarterly Journal of Economics* 116(3), 1063–114.
- Neumark, D. and W. Wascher (2008), *Minimum Wages*, MIT Press, Cambridge, MA.
- Ryan, J. A. (1906), *A Living Wage*, McMillan, New York.
- Schmeiser, M. D. (2008), "Expanding New York State's Earned Income Tax Credit Program: The Effect on Work, Income, and Poverty", PhD dissertation, Cornell University.

CONTROL MECHANISMS FOR SOVEREIGN WEALTH FUNDS IN SELECTED COUNTRIES

STEFFEN KERN*

Introduction

Sovereign wealth funds (SWFs) have attracted great attention lately and busied financial dealmakers, policymakers, economists and the academic community. Starting at the latest in mid-2007 when the scale of the SWFs' business and their potential influence in conjunction with the emergence of new players, mainly in emerging markets, were fully realised by the wider public, an intense policy debate commenced on whether and how SWF transactions should be controlled.

Only one year later, two important advances have been made, the results of which can be expected to deliver instructive empirical evidence from the perspective of institutional economics. On the one hand, SWFs have – under the aegis of the IMF – committed to a set of principles of good conduct in an attempt to appease concerns in many recipient countries. On the other hand, recipient countries, facilitated by the OECD, are working towards a more coordinated approach towards rules inward foreign investments. As international agreements, both initiatives are non-binding, and their effectiveness will critically depend on the willingness and ability of national governments to apply and enforce the internationally agreed guidelines.

* Steffen Kern is Director for International Financial Markets Policy at Deutsche Bank Research, email: steffen.kern@db.com.

This article discusses the two initiatives with a view to their institutional properties, based on a review of the underlying economic forces and political rationale for their realisation.

Cross-border investments – on the verge of a global diffusion of corporate ownership?

The political issues discussed over the past months were sparked off by the recently accelerated rise of SWFs, i.e., government-owned investment funds which are commonly funded by the transfer of foreign exchange assets and set up to serve the objectives of a stabilisation fund, a savings fund for future generations, a reserve investment corporation, a development fund or a contingent pension reserve fund by investing the funds on a long-term basis, often overseas.

This class of institutional investors – comprised of 64 SWFs – today disposes of a total of USD 3.6 trillion, and is developing forcefully, driven by continually high incomes from commodity sales and reserves accumulation for existing funds, as well as the establishment of new entities. The assets are concentrated in the top funds, 10 of which manage more than USD 100 billion each. Thus, the top 10 SWFs administer 85 percent of all sovereign assets.



Figure 1

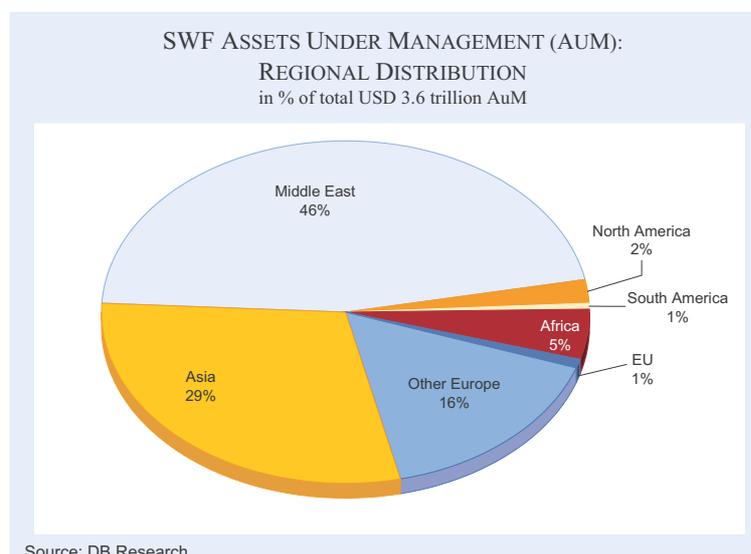
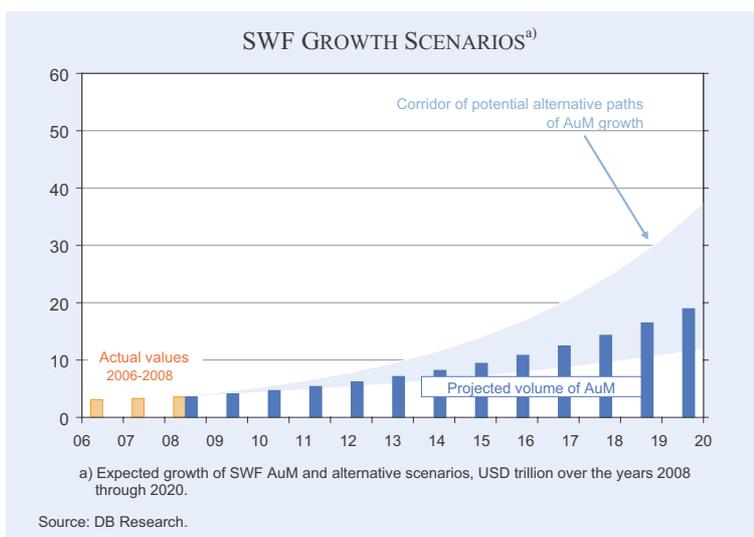


Figure 2



Almost half of all sovereign assets are held by funds in the Middle East. At USD 1.6 trillion in assets or 46 percent of the total, the region represents the highest concentration of SWF assets worldwide. The volume and share of the Middle East is, in fact, likely to be even substantially higher, as no robust data are available on the size of SWFs for a number of states in that region. With around USD 1 trillion in volume, or 29 percent of the total, Asia is the second largest region with SWF assets, followed by non-EU Europe – mainly Russia and Norway – with USD 0.6 trillion or 16 percent of assets and Africa with USD 0.2 trillion or 5 percent. The EU – home to only one SWF-type vehicle, the Irish National Pensions Reserve Fund – and South America, with a share of below 1 percent each, play no significant role in a global comparison (Figure 1).

The rise in assets over the past year amounts to an estimated USD 450 billion, up 14 percent from the estimated volume of assets in mid-2007, keeping in mind the vagueness of the underlying data. The development reflects an increase in the size of a majority of the existing funds fuelled by the continued inflow from government revenues or excess reserves, as well as the establishment of new entities (Figure 2).

The size of the state-owned funds and their growth has greatly influenced public debates, in which SWFs are occasionally characterised as state funds of monstrous size, able to buy up, for example, all the stocks traded on the London Stock Exchange at once. Reality, to be sure, speaks a different language, and it becomes clear that SWFs are – albeit

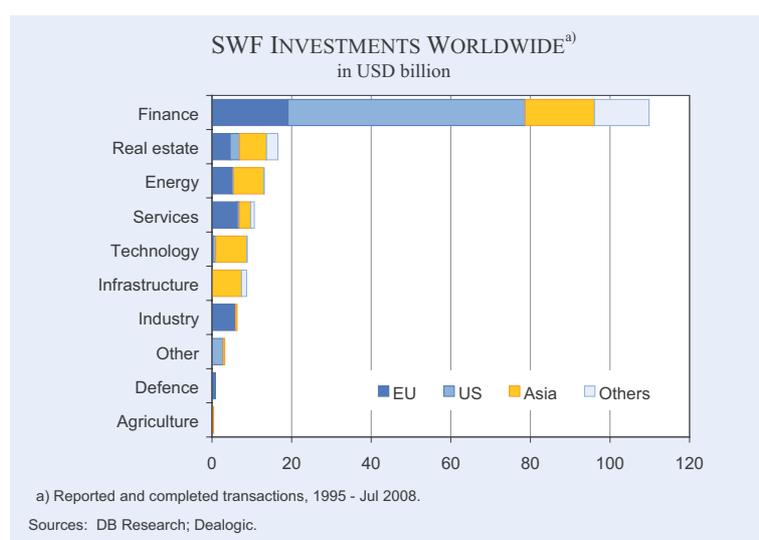
large and growing – a relatively small group of institutional investors, whose total assets under management amount to merely one-seventh of the investment-fund industry, and to less than 5 percent of bank assets worldwide.

This point is also illustrated by the investments SWFs have effectively undertaken. Measured against the reported and completed direct equity investments by SWFs between 1995 and mid-2008, North American and European companies have been the targets of choice for state

investors. 37 percent of the total transaction volume was related to North American enterprises and 32 percent to Europe-based firms. To some extent, this large share reflects that traditional European and American capital markets offer the widest selection of investments and a high level of liquidity, and are thus able to absorb the large volumes institutional investors typically seek to allocate. Other considerations, including expected returns at the time the investments were made or diversification may have contributed to this outcome. Asia is not only home to the most active state investors, but is also among the most preferred regions of investment, absorbing 28 percent of the volumes reported. Investments in Asia are predominantly intra-regional, i.e., they originate to a large part – 83 percent by volume – from Asian SWFs. Intra-regional transactions in the Middle East are, in contrast, much less frequently reported.

In terms of the sector distribution of SWF investments, financial institutions have been the main beneficiaries of SWF funds. This goes back to the transactions related to Wall Street and some European banks with investment volumes unseen to that point. Given that these investments can be regarded as part of a recent, singular phase of investment activity, other sectors deserve attention in view of long-term investment trends. Real estate and construction with USD 17 billion worth of investments, commodities and energy with USD 13 billion, services and retail with USD 11 billion, technology with USD 9 billion, infrastructure and transportation with USD 9 billion, and industry with USD 6 billion are further important targets of SWF investment activity.

Figure 3



Regarding commodities and energy, technology, and infrastructure and transport, Asian enterprises have been the most preferred targets of state investments, mainly reflecting intra-regional diversification. In real estate and construction as well as services, the distribution has been more balanced across the regions. Regarding industrial companies, the EU with its strong and competitive industrial base has been the most interesting investment location. Foreign state investments in defence-related companies – one of the most critical issues in political debates in the US and the EU – have played an insignificant role. The records show only one transaction (Figure 3).

In aggregate, the reported and completed direct equity investments by SWFs worldwide amount to USD 178 billion between 1995 and mid-2008, of which USD 72 billion were invested in 2007 alone. These figures are dwarfed by private capital flows, e.g. the USD 899 billion of private capital that was invested in the emerging markets in the same year. In addition, SWF investments are only one part of a broader trend in the course of which foreign direct investments from the emerging markets – whether from public or private sources – have accelerated substantially in the past decade. With USD 151 billion and USD 44 billion of foreign investments from Asia and the Middle East, respectively, emerging markets have multiplied their participation in global corporate ownership in the past. But, again, it is useful to keep in mind that this compares with a total of USD 2 trillion foreign direct investments globally, more than half of which originate in the EU.

While the size of SWFs is often overrated, public debates also mistakenly focus on this group of investors when it comes to the question whether foreign sovereign investments could harm national security and public order in the recipient country. In fact, states have a number of means and institutions at their disposal through which investments can be pursued. These include public pension funds, development banks, state-owned enterprises and other public entities. Of these institutions, SWFs are the least suspicious in terms of political investment

objectives, as they are known to be long-term oriented financial investors and mainly seeking small minority stakes, many of which have proven and long-standing track records for being reliable partners of their invested companies.

SWFs as foreign investors in the US and the EU – the policy issues

SWFs, no doubt, should be considered important investors, but in terms of volumes they are anything but dominant players in the global marketplace. Nevertheless, their recent growth and investment activities have given rise to substantial concerns in recipient countries, especially the US and the EU, which can be summarised as follows:

- *Financial market stability*

The SWF industry represents a systemically relevant part of the global financial industry. Given the volume of individual funds as well as of single investments held by these entities, this may also apply to individual funds in the industry. It cannot be excluded that an individual transaction undertaken by one SWF may lead to herding behaviour by other market participants, resulting in excessive capital movement and price and rate changes for the security concerned as well as – if contagion effects occur – for correlated assets. In extremis, such herding behaviour can destabilise regional or segmental parts of the financial industry or even financial markets at a global scale. The probability of herding behaviour and contagion is aggravated

by the fact that SWFs have been comparatively opaque entities so far.

- *State funding*
Drawing on budgetary revenues or official reserves, SWFs are state-funded investment vehicles, open to the charge that their activities stand in contrast to the concept of a free market economy with minimum state intervention and distort market activities as their funds are not refinanced at market conditions or do not originate from market activity. With state support to the financial sector in industrialised economies made in response to the financial crisis and its critical importance for restoring well-functioning markets, this argument has surely receded to the background in the current debate.
- *Sale of strategic assets and know-how*
Although SWFs repeatedly emphasised their commercial objectives, much of the public debate in recipient countries has centred around the concern that foreign investors could seek control of companies and assets with non-financial motivations. This, in turn, it was conjectured could pose a threat to national security and public order, especially with a view to the control over and know-how in the defence industry, public and private infrastructure, high technology, and financial markets, but also with respect to accessing natural resources worldwide.
- *Corporate governance*
Finally, critics of foreign state fund investments have argued that SWFs – especially if domiciled in emerging economies – may not be able to live up to corporate governance requirements to the extent established in many industrialised economies. In particular, it has been questioned whether SWFs would be able to meet standards of capital market law and the responsibilities associated with seats on governing or supervisory boards.

National policy responses – the danger of protectionist reflexes

As these concerns were increasingly articulated, governments in many countries have been quick to review their domestic rules governing incoming investments. In the end, legislative or regulatory initiatives leading to concrete changes in market entry conditions have occurred only in four major

economies over the past year, namely the US, Australia, Russia and Germany. The outcomes vary considerably between the establishment or refinement of reasonable review mechanisms for inward investments to the establishment or heightening of outright protectionist barriers to entry of foreign capital.

- *United States*
Since 1988, the United States have operated a review process for foreign investments, undertaken by the Committee on Foreign Investments in the United States (CFIUS), on the basis of which the US president can prohibit incoming investments. Existing rules were sharpened in the course of 2007 and 2008, including the extension of the range of transactions open to CFIUS review and a broadened definition of the review criterion of national security so as to include transactions involving critical infrastructure, energy assets and critical technologies. Further implementing regulations currently under negotiation are likely to substantially lower the trigger value for setting off the CFIUS process and increase the reporting requirements for the companies involved. The so-called FINSA reform clearly sharpens CFIUS as a policy instrument, raising the complexity of the review and making it one of the most demanding foreign investment processes among the industrialised economies – not least for sovereign investors.
- *Australia*
Australia has maintained a foreign investment screening process since 1975, as introduced by the Foreign Acquisitions and Takeovers Act. It is designed to ensure that foreign investment in Australia is consistent with the national interest. The process requires that significant foreign investment proposals be notified to the government and examined by the Foreign Investment Review Board (FIRB), which advises the Treasurer, who can reject proposals deemed contrary to the national interest or impose conditions. The FIRB examines whether foreign investments may have adverse implications for national security, economic development or government policies. In 2008, the government issued additional principles applicable to foreign state investors, including the operational independence of investors from the government, clear commercial objectives, the adherence to adequate and transparent regulation and supervision, and the economic

impact of foreign state investments on Australian business. Even though none of these principles establishes qualitatively new criteria the intervention clearly set the tone for investment policies at a time when the Australian public was, and still is, particularly concerned about the entry of foreign state investors in the areas of natural resources, commodities, ownership and exploration rights as well as processing. Unlike the policy measures in the US and Germany, the Australian approach explicitly includes broader economic and societal interests in its review criteria and does not confine itself to questions of national security.

- *Russia*

In 2008, Russia introduced a Federal Law on Foreign Investments in Companies Having Strategic Importance for State Security and Defence, establishing a process of approval of foreign investments in strategic sectors in Russia. The process features the specification of 42 strategic sectors in which foreign investments are outlawed or can be prohibited by government. Furthermore, it sets threshold values for foreign shares in Russian companies triggering the review process and establishes notification requirements and sanctions. The new law marks a substantial tightening of conditions for foreign investments in the Russian Federation, especially in the strategic sectors identified by the new rules. In addition, it has to be recalled that investments in areas outside the realm of the strategic sectors ringfenced by the new laws are regulated by a number of existing general or sectoral rules, which are tight by international standards. As a result, the Russian investment framework belongs to the most restrictive regimes worldwide, as reflected in the OECD's measures for market openness in which Russia – already prior to the additional restrictions in the new law – ranked third last.

- *Germany*

Germany's proposals for responding to foreign state investments belong to the most widely noted developments in this policy area; nonetheless, the proposed law that emerged from this debate is certainly one of the most overrated political measures of the past months, as it is not nearly as restrictive as argued by some. The proposed law envisages the establishment of a review process under the auspices of the Federal Ministry of Economics for foreign investments originating

outside the EU or EFTA and leading to a stake in a listed or unlisted German company of more than 25 percent. The Federal Government can prohibit or approve with conditions a transaction found to be in violation with the country's security or public order. The draft law can best be characterised as a lightweight version of America's CFIUS review process. With its high trigger value, a generally lean review process and its clear structure, the proposed investment measure is certainly one of the least restrictive in an international comparison.

The overall design of the draft review process represents an appropriate policy response to the challenges as perceived by public policymakers. However, this cannot belie the fact that the draft currently contains a number of shortcomings that should be rectified in the course of parliamentary deliberations before its adoption. This includes comparatively long maximum duration of the policy process and the lack of confidentiality ensured by the law.

In the final analysis, the quality of the new law can only be judged by the way it is applied in practice. Optimally, the process would and should be invoked in as few cases as possible, and certainly only in circumstances where a material threat to public order or security can be detected.

The international dimension – ensuring open markets in a fragmented regulatory environment

The above measures reflect the fact that rules for foreign investments have remained a national prerogative. In practice, economies worldwide are separated from each other in terms of foreign investments by substantial regulatory barriers in the form of direct and indirect hurdles. This discourages important investments, or – if they are nevertheless undertaken – substantially raises the cost, especially considering that the barriers differ widely from country to country and no general patterns exist.

From an international perspective, there are no agreements that provide national governments with guidelines, let alone binding rules, which encourage the liberalisation of investment regimes or at least their standardisation. In addition, there is a growing number of international and bilateral agreements which – while useful per se for facilitating cross-bor-

der capital flows – further fragment the operational environment for international investments. As of end-2006, there were almost 5,500 international investment agreements (IIAs), including more than 2,500 bilateral investment treaties, more than 2,600 double taxation treaties and almost 250 free trade agreements.

The severity of investment barriers has been measured across various categories of direct and indirect hurdles as well as sectors. The EU and its member states are, on average, the most open and liberal economies in the world, with Latvia, Belgium, Germany, the UK, Italy, the Netherlands, Ireland, Lithuania and France leading the field. Japan, the US and other industrial and emerging economies follow. Russia, India and China are the most restrictive countries. Paradoxically, a comparison of the degree of restrictiveness on foreign direct investments versus the volumes of sovereign assets at issue suggests that it is particularly countries with extensive state-owned funds at their disposal which currently maintain the strictest regimes when it comes to preventing foreign investment from entering their domestic markets.

With protectionist reflexes against foreign state investors in potential recipient countries looming, the finance ministers of the G7 have asked the OECD to examine possibilities to provide principles for foreign investment policies. In response to this mandate, the OECD recently issued its Declaration on Sovereign Wealth Funds and Recipient Country Policies, calling for

- No protectionist barriers to foreign investment in recipient countries;
- No discrimination among investors in like circumstances;
- Investment restrictions only to address legitimate national security concerns, and subject to the principles of transparency, predictability, proportionality to clearly-identified national security risks and accountability;
- Adherence to OECD General Investment Policy Principles, including, in addition to the above, progressive liberalisation, commitment to not introducing new restrictions and unilateral liberalisation.

These principles and the detailed guidance the OECD provides are important yardsticks for national investment policies. To what extent this will lead to

success in terms of more open and harmonised investment regimes is a different question which critically hinges on four factors.

First, on the political climate. Following the benign international conditions in the 1990s, further market opening has faced increasing opposition in recent years and months. General concerns over the impact of globalisation and concrete national and sectoral protectionist interests in many economies have considerably weakened the political momentum for further liberalisation of capital movements.

Second, on the application. The OECD guidelines are no more than guidelines, effectively leaving political application to national governments, so that the degrees of commitment and the ways of implementation and enforcement are likely to vary. On the one hand, it has to be recognised that the OECD will be using its peer review process to promote adherence to the standards. But the recent dramatic rise in the economic importance and volumes of foreign investments warrants a much stronger commitment by national governments that should result in binding rules along the lines of trade agreements under the WTO.

Third, on the symmetry of market access. Cross-border investments not only suffer from high regulatory barriers per se, but also from the asymmetric way in which many economies pursue foreign investments and benefit from open markets elsewhere while maintaining restrictive rules on inward investment. This is counterproductive, and policymakers should work towards reducing these asymmetries.

Finally, on their scope. OECD guidelines have only a limited geographical reach and primarily address the traditional industrialised countries. It is encouraging that the OECD has made special efforts in its SWF-related work to include some 20 non-OECD countries in its discussions and is intended to maintain and enhance this dialogue going forward.

Good conduct by SWFs – key to greater acceptance in recipient countries

The second crucial political development in response to the rise of SWFs has been the call for rules for the good conduct of these funds, resulting in the G7 mandating the IMF to explore ways of reaching international standards in this regard. In October

2008, the International Working Group of Sovereign Wealth Funds (IWG) issued the results of this process, presenting a set of 24 Generally Accepted Principles and Practices (GAPP), also known as the Santiago Principles.

The GAPP are designed as a voluntary framework which is subject to home country laws, regulations, requirements and obligations. They provide guidance for appropriate governance and accountability arrangements, as well as for appropriate investment practices on the part of SWFs. With the GAPP, the IWG aims to further develop the level of transparency and quality of governance of SWFs worldwide, including a commitment to financial and non-political objectives. In terms of transparency, the principles seek to improve knowledge of investment strategies, including details on the intended use of voting rights, risk management and the use of financial leverage. Regarding governance, the GAPP aim at better information about organisational structures and processes, most importantly featuring a commitment to a separation of fund management and government.

Despite the breadth of the GAPP and their voluntary nature, their adoption no doubt marks a remarkable achievement on the part of the IMF and the members of the IWG, not least considering the political challenges on the way. The success of their implementation will depend on three critical questions:

- Fulfilling expectations of key stakeholders: Can the GAPP satisfy the expectations of the various stakeholders, including policymakers in SWF home countries and in recipient economies, as well as market participants and the wider public? If the GAPP fail to address the key concerns of the main parties to future investment transactions, there is a risk that they will become ineffective and SWFs will continue to face difficulties finding access to certain economies and being accepted as reliable institutional investors.
- Securing broad support and adherence: Will SWFs and the states that run them – whether they participate in the IWG process or not – subscribe and adhere to these principles in practice? If an SWF decides not to embrace the GAPP, will it be subjected to heightened political scrutiny or even resistance in the recipient economies compared to those SWFs participating in voluntary self-regulation as stipulated by the GAPP? In other words, subscribing to the GAPP could become a

cachet among SWFs signalling to recipient economies that the entity is committed to financially-motivated investments and fulfils minimum standards in terms of transparency and governance.

- Ensuring oversight and implementation: Will the IWG and the IMF be able to succeed in overseeing and ensuring their implementation or is there a risk that these voluntary commitments may remain unobserved in the countries to which they are particularly addressed? If committing to the GAPP were to develop into a seal of quality, SWFs would need to back up their commitment with action. They should adhere to financial objectives and implement and apply transparency and governance standards in a way that can actually be monitored by all stakeholders. Establishing a standing group of sovereign wealth funds with a view to carrying forward the work relating to the GAPP and to facilitating dialogue with official institutions and recipient countries on developments that impact SWF operations can be an important measure in this regard.

Conclusion – the global perspective

To conclude this discussion on SWFs and investment policies, it is worthwhile to put the debate into a global perspective. SWFs and their investments are one facet of a new phase of globalisation, which is about ownership of assets globally and a new quality in terms of the participation of emerging markets in the global economy. As many emerging markets have made tremendous economic progress in recent years and are becoming wealthier, private individuals and public institutions in these economies are increasingly engaging in international investments. This has boosted capital flows from the emerging economies to the traditional industrialised economies and resulted in greater and more active participation in global capital markets.

Both are positive and highly welcome developments, considering that – owing to the economic realities in earlier phases of globalisation – capital traditionally flowed from the industrialised countries into the emerging markets. The growing international investments of emerging markets are likely to help them achieve a more established role in world finance, which is more commensurate with their importance in the global economy.

Foreseeable economic developments of this kind call for early and coordinated policy approaches. The IMF's coordinating strategy on SWF transparency and governance is a very positive example of how a swift and targeted policy response brought emerging markets to the negotiating table, actually making them the drivers of the process.

If SWFs can be regarded as harbingers of the growing international involvement of emerging markets in global economics and finance, their case illustrates that an intensification of the dialogue increases the chances of achieving mutually acceptable policy outcomes. Ultimately, there will be a need for stronger participation of the emerging markets in international economic and financial policymaking and diplomacy. Their participation will be an important precondition for reaching joint rules in globalised capital markets.

References

- Backer, L. C. (2008), "The Private Law of Public Law: Public Authorities as Shareholders, Golden Shares, Sovereign Wealth Funds, and the Public Law Element in Private Choice of Law", *Tulane Law Review* 82 (1), 1801–68.
- Beck, R. and M. Fidora (2008), "The Impact of Sovereign Wealth Funds on Global Financial Markets", European Central Bank, *ECB Occasional Paper* no. 91.
- Gilson, R. J. and C. J. Milhaupt (2008), "Sovereign Wealth Funds and Corporate Governance: A Minimalist Response to the New Mercantilism", *Stanford Law and Economics Olin Working Paper* no. 355.
- Greene, E. J. and B. A. Yeager, "Sovereign Wealth Funds – A Measured Assessment", *Capital Markets Law Journal* 3 (3), 247–74.
- International Monetary Fund (2008), *Global Financial Stability Report*, Washington DC.
- International Monetary Fund (2006), *IMF Country Report No. 06/436*, Washington DC.
- International Monetary Fund (2008), *Sovereign Wealth Funds – A Work Agenda*, Washington DC.
- International Working Group of Sovereign Wealth Funds (2008), "Sovereign Wealth Funds – Current Institutional and Operational Practices", <http://www.iwg-swf.org>.
- International Working Group of Sovereign Wealth Funds (2008), "Sovereign Wealth Funds – Generally Accepted Principles and Practices", <http://www.iwg-swf.org>.
- Jackson, J. K. (2006), *Foreign Investment and National Security: Economic Considerations*, CRS Report for Congress, Congressional Research Service, Washington DC.
- Jackson, J. K. (2008), *The Committee on Foreign Investments in the United States*, CRS Report for Congress, Congressional Research Service, Washington DC.
- Jackson, J. K. (2006), *The Exon-Florio National Security Test for Foreign Investment*, CRS Report for Congress, Congressional Research Service, Washington DC.
- Kern, S. (2007), "Sovereign Wealth Funds – State Investments on the Rise", Deutsche Bank Research, *Current Issues*.
- Kern, S. (2008), "SWFs and Foreign Investment Policies – An Update", Deutsche Bank Research, *Current Issues*.
- Kotter, J. and U. Leil (2008), "Friends or Foes? The Stock Price Impact of Sovereign Wealth Fund Investments and the Price of Keeping Secrets", *International Finance Discussion Papers* no. 940, Board of Governors of the Federal Reserves System.
- Miracky, W., D. Dyer, D. Fisher, T. Goldner, L. Lagarde and V. Piedrahita (2008), *Assessing the Risks – The Behaviour of Sovereign Wealth Funds in the Global Economy*, Monitor Group, June.
- Monk, A. H. B. (2008), "Recasting the Sovereign Wealth Fund Debate: Organisational Legitimacy, Institutional Governance and Geopolitics", mimeo, Centre for Employment, Work and Finance, Oxford University Centre for the Environment.
- Organisation for Economic Development and Cooperation (2003), *A Framework for Investment Policy Transparency*, Paris.
- Organisation for Economic Development and Cooperation (2003), *Checklist for Foreign Direct Investment Incentive Policies*, Paris.
- Organisation for Economic Development and Cooperation (2007), *International Investment Perspectives*, Paris.
- Organisation for Economic Development and Cooperation (2008), *International Investment Law*, Paris.
- Organisation for Economic Development and Cooperation (2006), *Policy Framework for Investment*, Paris.
- Reisen, H., "How To Spend It – Commodity and Non-commodity Sovereign Wealth Funds", Deutsche Bank Research, *Research Notes* 28.
- Truman, E. M. (2008), "The Rise of Sovereign Wealth Funds: Impact on US Foreign Policy and Economic Interests", testimony before the Committee on Foreign Affairs, May 21 2008, US House of Representatives, Washington, DC.
- United States Government Accountability Office (2008), "Foreign Investment", report to the Honourable Richard Shelby, ranking member, Committee on Banking, Housing, and Urban Affairs, US Senate, Report GAO-08-320.

TWO-TIER EMPLOYMENT PROTECTION REFORMS: THE SPANISH EXPERIENCE

SAMUEL BENTOLILA*,
JUAN J. DOLADO** AND
JUAN F. JIMENO***

Introduction

In most countries, Employment Protection Legislation (EPL) gives differential treatment to different groups of workers. In particular, dismissal regulations may vary by age, gender, skill, firm size and type of contract, creating a wedge in firing costs across workers. This is particularly the case in various European and Latin American countries where attempts to increase labor market flexibility have taken place through marginal changes in EPL that liberalized the use of fixed-term (or temporary) contracts, while leaving largely unchanged the legislation affecting the stock of employees under open-ended (or permanent) contracts (Dolado et al. 2007).

As a representative country for examining the different effects of two-tier labor reforms, Spain provides a fascinating case study. In this article we summarize the main EPL reforms which have taken place in this country since the early 1980s and take stock of their effects on several labor market dimensions. (For convenience, the Table contains a brief summary of the reforms discussed throughout the text.)

Institutional background

During the late 1970s, the first democratic government in Spain found it hard to dismantle the system

of industrial relations prevailing under General Franco's dictatorship, which was based on rigid EPL regulations and the ban of trade unions, in exchange for almost lifetime job security. Despite the creation of a proper collective bargaining system between employers and unions, a parallel significant reduction in EPL did not take place, since it was feared that it could endanger a smooth political transition to democracy. Hence, following the approval of the so-called Workers' Statute (*Ley del Estatuto de los Trabajadores*) in 1980, two main institutional features characterized the Spanish labor market at that time: a high degree of employment protection against both dismissals and occupational/geographical mobility, and the prevalence of collective bargaining at the provincial/industry level as the means for setting wages, working hours and other employment conditions.

Permanent contracts represented more than 90 percent of all contracts, while temporary contracts could only be used to hire workers performing non-regular productive activities like, e.g., seasonal jobs in agriculture or tourism. Under permanent contracts, firing costs depended on the worker's seniority and on the reasons for dismissal, which comprised: (a) objective reasons (worker's incompetence, lack of adaptation to the job), (b) economic, organizational, and technological reasons, and (c) disciplinary reasons. While being dismissed for disciplinary reasons did not require advance notice, the other two types required written advance notice of 30 days and entailed a mandatory severance pay of 20 days' wages per year of service (p.y.o.s.) with a maximum of 12 monthly wages (including overtime and other bonuses besides the base wage). Dismissed workers under permanent contracts could appeal to labor courts, where judges would decide whether the dismissal was fair, unfair or void. In the last case employers were forced to readmit the worker immediately and, in the case of unfair dismissals, to choose between readmission and termination of the contract with payment of 45 days' wages p.y.o.s. (with a maximum of 42 monthly wages). Further, employers had to pay interim wages (for two months at most) while labor



* Professor of Economics, CEMFI. Email: bentolila@cemfi.es.

** Professor of Economics, Universidad Carlos III de Madrid.

Email: dolado@eco.uc3m.es.

*** Research Division Head, Research Department, Bank of Spain. Email: juan.jimeno@bde.es.

Table

Summary of legal measures on permanent and temporary contracts in Spain, 1980–2006

Legal measures	Permanent contracts	Temporary contracts
Workers' Statute (1980)	<ul style="list-style-type: none"> • Individual dismissals: <ul style="list-style-type: none"> – For objective reasons. – For economic, organizational, or technological reasons. – For disciplinary reasons. • Ruling by labor courts upon appeal: <ul style="list-style-type: none"> – Unfair: 45 days' wages per year of seniority (maximum 42 months' wages) + interim wages. – Fair: 20 days' wages per year of seniority (maximum 12 months' wages) + interim wages. – Void: reinstatement. • Collective dismissal: Administrative approval. Same dismissal costs as fair individual dismissals. 	Minor incidence. Only for seasonal jobs (under stringent regulation).
Law 32/1984		Employment Promotion Contract (EPC) (<i>Contrato Temporal de Fomento del Empleo</i>): For any type of job. Minimum length, 6 months; maximum length, 3 years. Severance pay: 12 days' wages per year of service.
Decree 1/1992	Social security contributions rebates for hiring permanent employees.	EPC minimum duration raised to 12 months and maximum duration raised to 4 years (under certain circumstances).
Law 11/1994	New definition of collective dismissals. Extension of the definition of fair dismissal.	EPC abolished. Temporary contracts only allowed for fixed-term duration jobs. Legalization of temporary work agencies.
Law 63/1997	Permanent Employment Promotion Contract (PEPC) (<i>Contrato de Fomento de la Contratación Indefinida</i>). Severance pay for unfair dismissals for objective reasons lowered to 33 days' wages per year of service (maximum 24 months' wages), only for targeted groups.	Strengthening of causality principle in the applicability of temporary contracts.
Law 12/2001 Law 45/2002	Extension of coverage of PEPC. Elimination of interim wages when dismissal is acknowledged as unfair by the employer and severance pay deposited in court.	Severance pay of 8 days' wages per year of service in some temporary contracts.
Decree 5/2006	Extension of coverage of PEPC. New tax deductions for hiring permanent employees.	Restrictions on continuation of temporary contracts to same employee.

Source: Compilation by the authors.

courts reached their decisions. Collective dismissals could be justified only because of reason (b) and required advance notice to the unions and administrative approval.

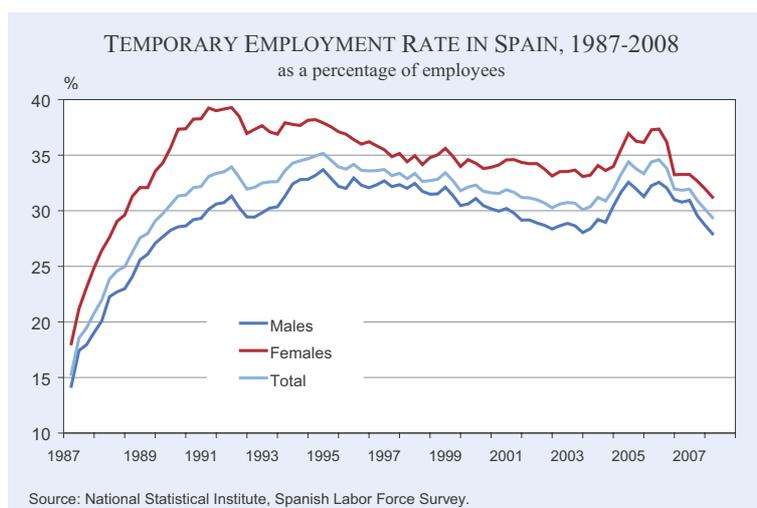
The initial two-tier EPL reform

In 1984, following the strong impact of the second oil price shock on an economy specialized in energy-intensive sectors (e.g., mining, shipbuilding, and steel), the unemployment rate surged to 20 percent, leading to wide-spread social unrest. A more flexible labor market was urgently needed to improve worker reallocation from decaying to more profitable industries. Yet, given unions' opposition to altering the status quo, the only politically feasible way of implementing significant EPL changes was through the liberalization of temporary contracts,

allowing them to be used to hire employees performing regular activities. These contracts entailed much lower dismissal costs than regular permanent contracts and their termination could not be appealed to labor courts. The so-called employment-promotion contract (EPC) had a severance payment of 12 days' wages p.y.o.s. and a maximum duration of 3 years within the same firm, after which the employer had to either terminate the contract or convert it into an open-ended one. The remaining temporary contracts (training, under probation, fixed-term proper and replacement contracts) could be terminated at no cost.

As a result of this two-tier reform, the proportion of temporary contracts in dependent employment exploded to almost 35 percent in the early 1990s (Figure 1). This led to a very high worker turnover rate,

Figure 1

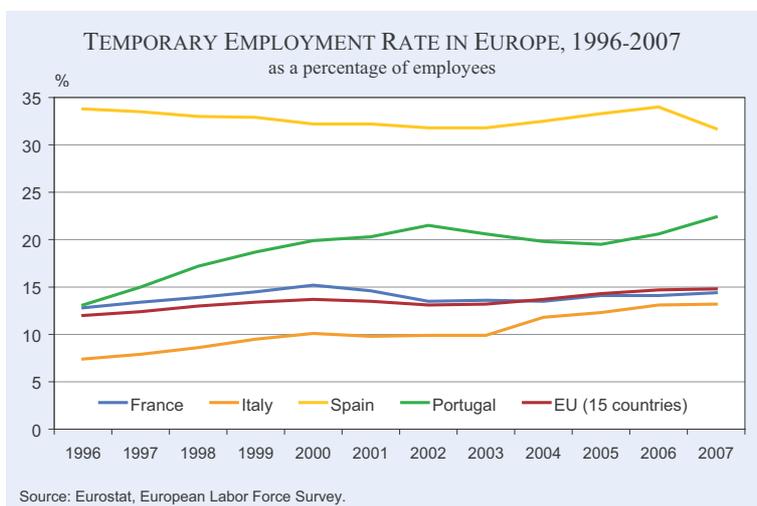


which was reinforced by the easy access to unemployment benefits prevailing at that time (requiring only six months of social security contributions and providing a replacement ratio of 80 percent during the first six months in unemployment). Hence, firms used layoffs as a normal practice, which implied very low conversion rates into permanent contracts (5 percent in 1994 versus 18 percent in 1987). The ensuing threat to the financial sustainability of the unemployment protection system triggered in 1992 a reform lowering the initial replacement rate from 80 percent of the wage to 70 percent. Since then, this high temporary employment rate has become very resilient, turning Spain into the EU country with the largest share of temporary employees (Figure 2).

Four countervailing EPL reforms

In view of this dramatic burst of temporary jobs, a series of countervailing EPL reforms have subse-

Figure 2



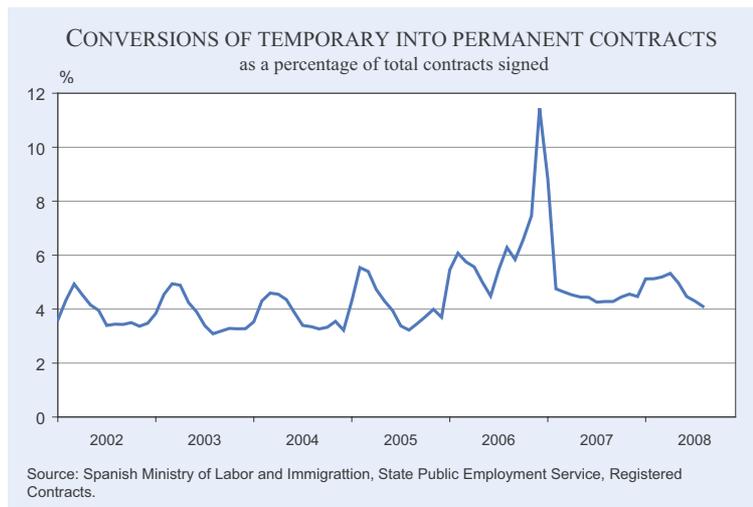
quently taken place in order to offset some of the undesirable effects of the 1984 reform. Their aim was to reduce the incidence of temporary jobs, either by restricting the use of temporary contracts or by reducing mandatory firing costs for open-ended contracts.

The first reform took place in 1994. The conditions for the use of fixed-term contracts were restricted, while the conditions for fair dismissals of workers under permanent contracts were mildly relaxed. Specifically, the EPCs

were abolished, except for some groups of disadvantaged workers (older than 45 years old, handicapped and long-term unemployed workers hired by small firms). Hence, the remaining temporary contracts no longer involved severance payments at their termination. In parallel, the reasons for objective dismissal (b) were extended to include circumstances where the future (rather than the present) financial viability of the firm could be jeopardized absent further adjustment of its workforce. Lastly, temporary work agencies, which had been previously banned, were allowed to operate.

Despite a slight reduction in the temporary employment rate between 1995 and 1997, the arrival of a conservative government, and both the threats and potential gains from Spain's accession to the European Monetary Union pushed the employers' confederation (CEO-CEPYME) and the two major unions (UGT and CCOO) to agree on a new EPL reform in 1997. The agreement called, for the first time, for the creation of a new permanent EP contract (PEPC), available for the following four years, entailing lower severance pay in case of unfair dismissal (33 days' wages p.y.o.s. with a maximum of 24 months' wages). However, this reform was again of a two-tier nature, since the new contracts could not be used for hiring workers aged 30-44 years old with unemployment spells below one year (about 40 percent of the labor force and 33 percent of

Figure 3



employment).¹ This exclusion was due to legal reasons, since it would have been against the spirit of the Spanish Constitution to have two open-ended contracts subject to identical labor regulations except for severance pay (45 versus 33 days' wages in case of unfair dismissal), unless the workers hired were disadvantaged. In addition, the government introduced significant rebates of social security contributions for firms either directly hiring workers under the PEPCs or converting temporary into permanent contracts. The rebates ranged from 40 percent to 60 percent during the first two years of contracts used to hire workers in some targeted groups (youth, long-term unemployed and women under-represented in some industries).

Next, in 2001–02, when the new PEPCs were supposed to expire (for new hires), fearing that their elimination would reduce job creation in the midst of an economic slowdown, the government allowed them to remain in effect and extended their use to some groups of workers who had been adversely affected by the previous reform. Thus, the 2001–02 reform extended the use of PEPCs to the hiring of workers aged 16–30 years old (instead of 18–29) as well as of the unemployed with more than six months of registered unemployment (instead of one year). In addition, a severance payment of 8 days' wages p.y.o.s. was established for some of the still available temporary contracts. However, the most important change was the abolition of the firm's obligation to

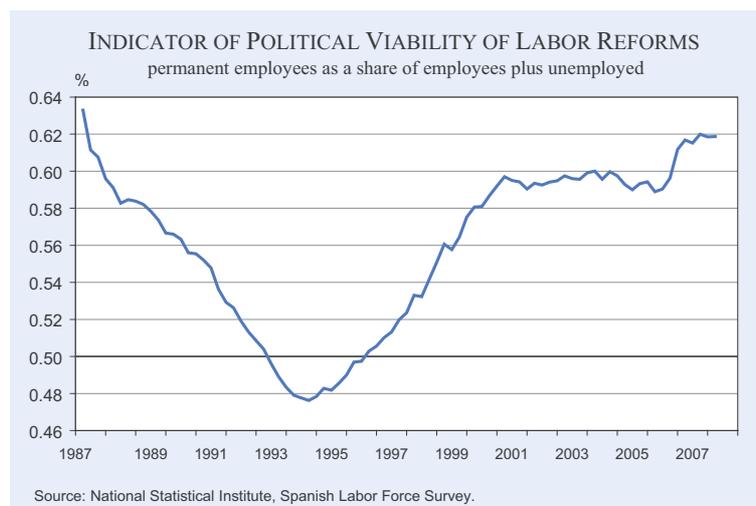
pay interim wages when dismissed workers appealed to labor courts, as long as the firm acknowledged the dismissal as being unfair and deposited the severance pay (45 days' wages p.y.o.s.) in court within two days of the dismissal.

By the mid-2000s, the share of temporary jobs remained very high (33.5 percent) and the number of contracts signed each year was more than 20 times the flow of net new jobs (17.2 against 0.78 million in 2005). Their conversion rate into open-ended con-

tracts remained stable around 4 percent of the total number of contracts (Figure 3) despite the reduction of firing costs for the PEPCs, possibly because the excluded population remained sizeable (28 percent of temporary jobs). For these reasons, a further EPL reform – the latest one so far – took place in 2006. The first policy adopted was to reopen a window of opportunity for the excluded group of workers, but only transitorily. Temporary workers in the age bracket 31–45 could be hired under PEPCs until the end of 2007. Further, if the conversions took place before the end of 2006 and the PEPC lasted for at least three years, the employer would receive a rebate of EUR 2,400 in payroll taxes. The reform also included rebates favoring the conversion of eligible temporary workers (outside the 31–45-year-olds) into PEPCs, extending from two to four years the duration of the rebates approved in the previous two EPL reforms. The proportional rebates were replaced by a lump-sum rebate of EUR 1,200 per year, with the goal of improving the hiring of low-wage workers, for whom the relative reduction in payroll taxes would be larger. Lastly, this reform also mandated that contracts lasting for two years in the same job with the same firm during a period of 30 months would be automatically converted to open-ended contracts. Since the approval of the 2006 reform, there has been a substantial reduction in the temporary employment rate, from 34.4 percent in 2006 to 29.4 percent in 2008:II. Thus, it could be considered a successful reform. However, as reflected in Figure 3, the effect on the flow from temporary to open-ended jobs seems to have been short-lived, being mostly concentrated in the transitory period in which the rebates were awarded and showing a decrease in the course of 2008 towards the lower

¹ There was a loophole, however, since employers could first hire workers in that group through temporary contracts and then convert them into PEPCs. Unions complained and the loophole was eliminated in 2003.

Figure 4



pre-reform values. Indeed, part of the five percentage-point reduction in the share of temporary contracts can be attributed to the large destruction of temporary jobs in the construction industry, due to the burst of the housing bubble since the beginning of 2008.²

The political economy of two-tier EPL reforms

Understanding of the political determinants of labor market reforms has become one of the key topics of research on European unemployment during the latest two decades (Saint-Paul 2000). In the specific case of the Spanish EPL reforms, a simple indicator of the political support for those reforms is the ratio between the number of workers under permanent contracts and the sum of total employees (permanent and temporary) and the unemployed. Roughly speaking, a value of this ratio above 0.5 means that workers under permanent contracts are the median voters, i.e. the insiders whose interests the labor unions will try to protect. Conversely, a ratio below 0.5 signals that the temporary employees plus the unemployed become the median voters dictating the unions' goals. Figure 4 depicts that ratio since 1987. Since the indicator was well above 0.5 in 1984, the introduction of EPCs can be rationalized as the only politically feasible way forward at a time when unemployment was very high and increasing, employment creation was very low, and, hence, there were very few job opportunities for displaced work-

ers. By 1993, with the widespread use of fixed-term contracts and a further increase in unemployment, the indicator fell below 0.5. This suggests the opening of a window of opportunity for the reforms that took place in the mid-1990s, helping to explain why the interests of the workers under fixed-term (and new permanent) contracts and the unemployed in favor of higher labor market flexibility led to less stringent EPL. Afterwards, the ratio has been on the rise, reaching a value of 0.62 in 2007, so that new reforms reducing the

dismissal costs of permanent contracts do not seem feasible in the near future. This conclusion might be premature, however: if we consider workers under PEPCs as part of the constituency for higher flexibility and exclude them from its numerator, the ratio would reach a value close to 0.5.³

Lessons from Spain

In what follows, we summarize the main lessons, based on a rather large series of empirical studies, drawn from the Spanish experience since the mid-1980s (Dolado et al. 2002).

1. There is overwhelming evidence that fixed-term contracts and lower firing costs increase the volatility of employment by raising both the hiring and firing rates. For instance, García-Serrano (1998) finds that a rise of 1 percentage point in the proportion of fixed-term contracts increases the flows from employment to unemployment, unemployment to employment, and employment to employment by 0.26, 0.16, and 0.34 percentage points, respectively, and reduces job tenure by 2.3 percent, namely, by two months in a mean-elapsed job tenure of nine years. Moreover, in sclerotic labor markets, most of the cyclical volatility in unemployment comes from the unemployment outflow rate, as opposed to the inflow rate (Petrongolo and Pissarides 2008). This is the case in France – which has high EPL – where, according to these authors, the outflow rate from

² The adjustment has indeed been harsher, since the temporary employment rate fell from almost 36 percent in 2006 to 30.2 percent in 2008:III in the private sector, while it has remained around 26 percent in the public sector.

³ Official data do not allow us to distinguish between workers under the old and new permanent contracts. Our statement is based on Toharia's (2008) estimate that the share of PEPCs in total permanent contracts was around 15 percent in 2007.

unemployment contributed 91 percent of unemployment volatility, above the 75 percent found for the flexible United Kingdom, while the Spanish figure is still lower at 60 percent.⁴

2. Insofar as the use of fixed-term contracts implies a rise in the hiring rate, they have helped to reduce long-term unemployment, especially in periods of high growth. Bover and Gómez (2004) find that exit rates to temporary jobs are ten times larger than exit rates to permanent jobs, although, as unemployment duration increases, the reduction in exit rates is larger for exits to temporary jobs than to permanent ones. Thus, as the share of temporary workers surged to one-third of all employees between 1987 and 1992, the incidence of long-term unemployment decreased a lot, from 67 percent in 1987 to 47 percent in 1992. This was due to the rise in the average unemployment outflow rate following the availability of fixed-term contracts for regular activities, since there was a very limited use of active labor market policies (the other main determinant of long-term unemployment) over the period. Subsequently, however, the incidence of long-term unemployment increased from 48 percent to 56 percent in the recession of the early 1990s, possibly due to job-to-job flows by temporary workers crowding out the employment prospects of the long-term unemployed who had lost their permanent jobs. Since the late 1990s, there has been a remarkable reduction in the long-term unemployment incidence, which reached 22 percent in 2007, marking the end of a very long-lasting period of high growth.

3. As is well known, a non-marginal reduction of EPL has an ambiguous effect on average labor demand, since it increases the incentives to both hire and fire workers (Bentolila and Bertola 1990). Less is known about the effects of targeted reforms, except that the transitional dynamics from a rigid to a two-tier regime tend to be associated with a transitory increase in employment, as firms adjust to a new desired temporary employment ratio (Bentolila and Saint-Paul 1992) or they fully adjust upwards in upturns and only partly fire workers in downturns, leading to what is known as a “honeymoon” effect (Boeri and Garibaldi 2007). Also, Dolado et al. (2007) argue that two-tier EPL reforms achieve a larger reduction in unemployment when they are targeted to workers with lower and more volatile

productivity. However, if wage-setting is adversely affected by the existence of a dual labor market, then unemployment might rise. On the one hand, there is empirical evidence regarding adverse effects of fixed-term contracts on wage pressure in Spain – discussed below – at least until the early 1990s, and possibly today. On the other hand, as pointed out before, temporary contracts helped reduce hysteresis, which was a major determinant of the rise and persistence of the Spanish unemployment rate. Thus, whether temporary contracts are good or bad for unemployment seems to depend on what period one looks at. In the most recent period, fixed-term contracts (but also the new permanent contracts with lower redundancy payments) may have helped reduce the unemployment rate from a high of 20 percent in 1997 to a low of 8 percent in 2007. Moreover, the availability of flexible contracts has clearly eased the assimilation of the big immigration boom that has taken place since the mid-1990s. Immigrants went from representing 1.3 percent of the labor force in 1996 to 16 percent in 2008. Over that period, 61 percent of immigrants were on fixed-term contracts vis-à-vis 33.6 percent of the natives. Indeed, immigration, as discussed in Bentolila et al. (2008), has meant the de facto most important reform in the Spanish labor market. However, the prospect of bouncing back to a high unemployment rate during the current recession (the IMF forecast for 2009 is 14.7 percent) is definitely facilitated by the low firing costs associated with temporary contracts and the observed increasing wage pressure by workers with permanent contracts.

4. A rise in the turnover rate decreases the probability of investing in specific human capital or receiving specific training at the firm and, therefore, may decrease labor productivity and Total Factor Productivity (TFP).⁵ This is particularly so if the conversion rate of fixed-term contracts into permanent contracts is low, reflecting the fact that employers use those contracts more as a flexible device to adjust employment in the face of adverse shocks than as a screening device under asymmetric information. Güell and Petrongolo (2007) have analyzed the determinants of the probability of these conversions, finding two very pronounced spikes at one and three years of duration for fixed-term contracts. The first spike agrees with the screening device rationale

⁴ We report figures for the latest period available for each country, since the periods do not coincide across countries.

⁵ Bassanini et al. (2008) find a negative effect of EPL regulation of permanent contracts on TFP growth in OECD countries, but do not find a significant effect of EPL regulation on temporary contracts.

and applies mostly to skilled workers, whereas the second just reflects their use as a more flexible alternative for downsizing (coinciding with the maximum legal duration before 1994). With low conversion rates, it is not surprising that investment in on-the-job training seems to be negatively affected by fixed-term contracts. Indeed, the probability of receiving free or subsidized on-the-job training during the 1990s was 22 percent lower for workers under fixed-term contracts than for workers under permanent contracts, whereas Dolado and Stucchi (2008) attribute one-third of the fall of TFP in Spanish manufacturing firms during 2001–05 to the disincentive effects of the low conversion rates on temporary workers' effort. Finally, the results in Guadalupe (2003) suggest that temporary employment increases work accidents, which happen to be three times larger for workers under temporary contracts than for workers under permanent contracts.

5. As for the effects on wages, increased dualism in the labor market may imply a higher wage pressure if labor unions protect the interests of permanent workers in wage bargaining. Bentolila and Dolado (1994), using microeconomic data on firms, find that an increase of 1 percentage point in the rate of temporary employment raises the growth rate of permanent workers' wages by about 0.3 percent. A different effect of fixed-term contracts on wages stems from the observed negative wage differential for workers under these contracts relative to workers under permanent contracts. Although, in principle, wage rates cannot be differentiated by contract type, several empirical studies find that, after controlling for observed and unobserved heterogeneity in personal and job-related characteristics, permanent workers earn around 10 percent more, for men, and about 5 percent, for women, after controlling for observed skills, occupation, and firm (De la Rica 2004). The evidence also indicates that the wage gap is associated with employers' decisions to under-classify temporary workers when assigning them to occupational categories (which determine their wage), probably to cut total labor costs. Insofar as better educated workers are more prone to under-classification than less educated workers, that process should lead to a widening of the earnings distribution for the former group, a fact that fits well with the increasing phenomenon of over-education, which affects 21 percent of Spanish workers with a college degree.

6. Lastly, higher worker turnover leads to increased uncertainty and therefore fixed-term contracts have

been found to reduce geographical labor mobility, fertility and youth emancipation (see Antolín and Bover 1997; Ahn and Mira 2001; and Becker et al., 2009, respectively).

On the whole, the Spanish evidence on the labor market effects of two-tier reforms in EPL seems to support the following predictions: (a) a large increase in worker turnover; (b) a reduction in long-term unemployment insofar as the gap between the degree of EPL strictness of permanent and fixed-term contracts is reduced; (c) a fall in investment on specific human capital and a decrease in labor productivity and TFP; (d) a decline in the regional migration, fertility and youth emancipation rates; (e) a widening of the wage distribution for higher-educated workers; (f) a neutral or slightly positive effect on employment, particularly after the 1997 reform.

Prospects for the future

As discussed earlier, despite the transitory success of the last two-tier labor reform in 2006, the share of temporary jobs in Spain still almost doubles the average share in the EU-15 and more than doubles the share in the Italian economy, with a similar sectoral structure. Thus, there is ample room for improvement in desegregating an embedded dual system of employment protection where workers under temporary contracts face much higher labor market risks (e.g., unemployment and low human capital accumulation) than those under permanent contracts. The current steep slowdown in the rates of growth of GDP and employment in the Spanish economy, after 14 years of high growth, could jeopardize some of the past achievements and it is very doubtful that new marginal labor reforms will be effective. Instead, a sensible and credible long-term reform should instead aim at closing the gap between the firing costs of permanent and temporary contracts introducing a gradual *EPL*. Job security provisions under the current dual system of regular (45 days' wages p.y.o.s.), PEPCs (33 days' wages p.y.o.s.), and fixed-term contracts (8 days' wages p.y.o.s.) are proving too discontinuous to avoid a large number of dismissals in the near future. This leads employers to convert very few temporary contracts into open-ended ones while they find it cheaper to dismiss temporary workers.

Since workers under permanent contracts are currently the median voters in the potential constituency of unions, a radical reform does not seem to be po-

litically feasible. However, what might be feasible would be to maintain the current average level of job security provisions – i.e., the amount of dismissal costs paid by firms – while changing its distribution so that severance payments increase smoothly as workers accumulate job tenure. Economic theory predicts that a lower differential between those dismissal costs would unambiguously increase employment since it would facilitate contract conversions, thereby reducing worker turnover which often raises unemployment (Cahuc and Postel-Vinay 2002; Blanchard and Landier 2002). One possibility would be to replace the existing system of permanent and temporary contracts for new hires by a single permanent contract with smoothly increasing severance payments, e.g., 8, 12, 15, 20, and 25 days' wages p.y.o.s. during each of the first five years of the contract and 36 days' wages p.y.o.s. afterwards. With these mandated payments, we have calculated that the cost of firing a worker with ten years of job tenure would be almost identical ($80+5 \times 36=260$ days' wages) to the expected cost under the current provisions (257 days' wages).

References

- Ahn, N. and P. Mira (2001), "Job Bust, Baby Bust: Evidence from Spain", *Journal of Population Economics* 14, 502–21.
- Antolín, P. and O. Bover (1997), "Regional Migration in Spain: The Effect of Personal Characteristics and of Unemployment, Wage and House Price Differentials Using Pooled Cross-Section", *Oxford Bulletin of Economics and Statistics* 59, 215–35.
- Bassanini, A., L. Nunziata and D. Venn (2008), "Job Protection Legislation and Productivity Growth in OECD Countries", *IZA Discussion Paper* no. 3555.
- Becker, S., S. Bentolila, A. Fernandes and A. Ichino (2009), "Youth Emancipation and Perceived Job Insecurity of Parents and Children", *Journal of Population Economics*, in press.
- Bentolila, S. and G. Bertola (1990), "Firing Costs and Labor Demand: How Bad is Eurosclerosis?" *Review of Economic Studies* 57 (3), 381–402.
- Bentolila, S. and J. Dolado (1994), "Labour Flexibility and Wages: Lessons from Spain", *Economic Policy* 18, 53–99.
- Bentolila, S., J. Dolado and J.F. Jimeno (2008), "Does Immigration Affect the Phillips Curve?: Some Evidence for Spain", *European Economic Review*, in press.
- Bentolila, S. and G. Saint-Paul (1992), "The Macroeconomic Impact of Flexible Labor Contracts, with an Application to Spain", *European Economic Review* 36, 1013–47.
- Blanchard, O. and A. Landier (2002), "The Perverse Effects of Partial Labour Market Reform: Fixed-Term Contracts in France", *Economic Journal* 112, 214–44.
- Boeri, T. and P. Garibaldi (2007), "Two-tier Reforms of Employment Protection Legislation: A Honeymoon Effect", *Economic Journal* 117, 357–85.
- Bover, O. and R. Gómez (2004), "Another Look at Unemployment Duration: Exit to a Permanent versus a Temporary Job", *Investigaciones Económicas* 28, 285–314.
- Cahuc, P. and F. Postel-Vinay (2002), "Temporary Jobs, Employment Protection and Labor Market Performance", *Labor Economics* 9, 63–91.
- De la Rica, S. (2004), "Wage Gaps between Workers with Indefinite and Fixed-Term Contracts: The Impact of Firm and Occupational Segregation", *Moneda y Crédito* 219, 43–69.
- Dolado, J., C. García-Serrano and J.F. Jimeno (2002), "Drawing Lessons from the Boom of Temporary Jobs in Spain", *Economic Journal* 112, 270–95.
- Dolado, J., M. Jansen and J.F. Jimeno (2007), "A Positive Analysis of Targeted Employment Protection Legislation", *Topics in Macroeconomics* 7, 1471.
- Dolado, J. and R. Stucchi (2008), "Do Temporary Contracts Affect Total Factor Productivity? Evidence from Spanish Manufacturing Firms", unpublished manuscript, Dept. of Economics, Universidad Carlos III.
- García-Serrano, C. (1998), "Worker Turnover and Job Reallocation: The Role of Fixed-Term Contracts", *Oxford Economic Papers* 50, 709–25.
- Guadalupe, M. (2003), "The Hidden Costs of Fixed-Term Contracts: The Impact on Work Accidents", *Labor Economics* 10, 338–58.
- Güell, M. and B. Petrongolo (2007), "How Binding are Legal Limits?: Transitions from Temporary to Permanent Work in Spain", *Labor Economics* 14, 153–83.
- Petrongolo, B. and C. Pissarides (2008), "The Ins and Outs of European Unemployment", *American Economic Review* (Papers and Proceedings) 98, 256–62.
- Saint-Paul, G. (2000), *The Political Economy of Labour Market Reforms*, Oxford University Press, Oxford.
- Toharia, L. (2008), "La Reforma Laboral de 2006: Evaluación Económica de sus Resultados", Seminario Ortega y Gasset de Empleo 2008, Madrid.

DEPOSIT INSURANCE

Trust is a prerequisite for financial intermediation. The recent financial crisis highlights how important depositors' trust in the financial system is. In order to protect depositors in the case of a bank failure and thereby foster confidence in the banking system nearly all OECD countries (with the exception of Austria and New Zealand) have established deposit insurance.

The World Bank (2007) provides an overview of the features of the deposit insurance schemes. However, recent events suggest that in the case of a systemic crisis often additional measures are needed in order to ensure that the depositors remain confident. Therefore, comparing the features of the deposit insurance scheme at the outset of the crisis can provide valuable insights.

Deposit insurance systems differ in their funding (Table 1). In nearly all OECD countries they are funded by the banks themselves. The funding can be ex ante by the regular collection of a premium which is then accumulated. The ratio of accumulated funds to total bank assets is rather low implying that the

accumulated funds may be enough to pay out depositors if only a single bank fails but cannot cover the expenses if the majority of banks cannot repay. Alternatively, the premium can and is in some countries collected ex post, meaning that all the other banks must pay out the depositors of a failing bank. In some countries, the premium is based on the assessment of the bank's risk. The management of the fund can be by the private banks or by the public or by both together. Interestingly, the allocation of the management of the fund does not depend on whether the deposit insurance is funded by the bank or by the state.

Another important characteristic of a deposit insurance scheme is its coverage (Table 2). Most importantly, there are limits per account, the amount of which differs quite substantially between countries. Sometimes the deposits are only partially insured because there is coinsurance. The deposit insurance systems vary with respect to whether they cover foreign currency deposits. Interbank deposits are usually not covered. Moreover, there are debt liabilities, such a subordinated debt or bonds, that are not protected. Notably, in all countries for which information is available non-residents may not be discriminated against with respect to coverage. Finally, in

Table 1

Deposit insurance – funding

	Is there an explicit deposit insurance protection system?	Is it funded by (check one): the government, the banks, or both?	Are premia collected regularly (ex ante)?	Do deposit insurance fees charged to banks vary based on some assessment of risk?	If prefunded, what is the ratio of accumulated funds to total bank assets?	Who manages the insurance fund? Is it managed:		
						solely by the private sector	jointly by private public officials	solely by public sector
Austria	Yes	banks	No	No	n.ap.	Yes	No	No
Belgium	Yes	banks	Yes	Yes	0.00065	No	Yes	No
Czech Republic	Yes	banks	Yes	No	0.00198	No	Yes	No
Denmark	Yes	banks	Yes	No	0.17	No	Yes	No
Finland	Yes	banks	Yes	Yes	0.0018	Yes	No	No
France	Yes	banks	Regular intervals, ex ante	Yes	0.0018	Yes	No	No
Germany	Yes	banks	Ex ante and ex post.	No	n.a.	No	No	No
Greece	Yes	banks	Yes	No	0.006	No	Yes	No
Hungary	Yes	banks	Yes	Yes	0.005	No	Yes	No
Ireland	Yes	banks	Yes	No	0.002	No	No	Yes
Italy	Yes	banks	No	Yes	n.ap.	Yes	No	No
Luxembourg	Yes	banks	No	No	n.a.	Yes	No	No
Netherlands	Yes	banks	No	No	n.ap.	No	No	Yes

Continued: Table 1

	Is there an explicit deposit insurance protection system?	Is it funded by: the government, the banks, or both?	Are premia collected regularly (ex ante)?	Do deposit insurance fees charged to banks vary based on some assessment of risk?	If prefunded, what is the ratio of accumulated funds to total bank assets?	Who manages the insurance fund? Is it managed:		
						solely by the private sector	jointly by private public officials	solely by public sector
Poland	Yes	banks	Ex ante and ex post	No	0.0054	No	Yes	No
Portugal	Yes	banks	Yes	Yes	0.004	No	Yes	No
Slovak Republic	Yes	banks	Yes	No	Negative 0.0221 i.e., negative due to reimbursements in 2000–04.	No	Yes	No
Spain	Yes	banks	Yes	No	0.003	No	Yes	No
Sweden	Yes	n.a.	Yes	No	0.001	No	No	Yes
United Kingdom	Yes	banks	No	No	n.ap.	No	No	No
Norway	Yes	banks	Ex ante and ex post.	Yes	0.015 of covered deposits + 0.005 of bank's assets.	No	Yes	No
Switzerland	Yes	banks	No	No	n.ap.	No	Yes	No
Australia	No	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
Canada	Yes	banks	Yes	Yes	n.a.	No	No	Yes
Japan	Yes	both	Yes	No	0	n.a.	n.a.	n.a.
New Zealand	No	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
United States	Yes	banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: n.a. = not available; – n.ap. = not applicable.

Source: http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/Banking_regulation_Survey_III_061008.xls.

most countries membership in the deposit insurance scheme is compulsory.

The recent crisis so far has brought changes in the amounts covered and now the amounts covered are often guaranteed by the government.

Reference

World Bank (2007), Bank Regulation and Supervision Database, World Bank, Washington DC.

C.H.

Table 2

Deposit insurance – coverage

	What is the deposit insurance limit per account?		Is there formal coinsurance, that is, are depositors explicitly insured for less than 100% of their deposits?	Does the deposit insurance scheme also cover foreign currency deposits?	Are inter-bank deposits covered?	As a share of total assets, what is the value of large denominated debt liabilities of banks (e.g., subordinated debt, bonds, etc.) that are definitely not covered by any explicit or implicit savings protection scheme?	Are non-residents treated less favorably than residents with respect to deposit insurance coverage (either in terms of coverage for which they are entitled or the actual protection provided)?	Is participation in the deposit insurance system compulsory for all banks?
	in USD	in EUR unless otherwise stated						
Austria	25,500	20,000	No	Yes	No	n.a.	No	Yes
Belgium	25,500	20,000	No	Yes	No	n.a.	No	Yes
Czech Republic	31,875	25,000	Yes	Yes	No	0.08	No	Yes
Denmark	54,900	300,000 DKK	No	Yes	No	0.39	No	Yes
Finland	31,875	25,000 per bank per client	No	Yes	No	0.36	No	Yes
France	89,250	70,000	No	No	No	n.a.	No	Yes
Germany	25,500	20,000	Yes	No	No	n.a.	No	Yes
Greece	25,500	20,000	No	Yes	No	n.a.	No	Yes
Hungary	32,520	6,000,000 HUF	Yes	Yes	No	0.31	No	Yes
Ireland	25,500	20,000	Yes	Yes	No	n.a.	No	Yes
Italy	131,696	103,291	No	Yes	No	0.60	No	Yes
Luxembourg	25,500	20,000	No	Yes	No	0.01	No	Yes
Netherlands	25,500	20,000	No	Yes	No	n.a.	No	Yes
Poland	28,496	22,350	Yes	Yes	No	n.a.	No	Yes
Portugal	31,875	25,000	Yes	Yes	No	0.24	No	Yes
Slovak Republic	29,314	727,400 SKK	Yes	Yes	No	n.a.	No	Yes
Spain	25,500	20,000 per depositor	No	Yes	No	0.15	No	Yes
Sweden	36,750	250,000 SEK	No	Yes	n.a.	n.a.	No	Yes
United Kingdom	63,387	31,700 GBP	Yes	Yes	n.a.	n.a.	No	Yes
Norway	339,400	2 mill. NOK	No	Yes	No	0.39	No	Yes
Switzerland	24,888	30,000 CHF	No	Yes	No	0.54	No	Yes
Australia	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
Canada	92,500	100,000 CAD	No	No	Yes	n.a.	No	Yes
Japan	n.a.	n.a.	n.a.	No	No	n.a.	No	Yes
New Zealand	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
United States	100,000	100,000 USD	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: n.a. = not available. – n.ap. = not applicable.

Source: http://siteresources.worldbank.org/INTRES/Resources/4692321107449512766/Banking_regulation_Survey_III_061008.xls, http://siteresources.worldbank.org/INTRES/Resources/4692321107449512766/DepositInsuranceDatabase_2003_040408.xls, <http://efdi.net/scarica.asp?id=102&Types=DOCUMENTS>.

EMISSIONS TRADING IN EUROPE

Emissions trading remains high on the agenda for climate policy. In July 2007, at their Heiligendamm meeting in Germany, the G8 heads of states and governments mentioned that “market mechanisms, such as emissions-trading within and between countries (...) can provide pricing signals and have the potential to deliver economic incentives to the private sector. Fostering the use of clean technologies, setting up emissions-trading systems and, as many of us are doing, linking them are complementary and mutually reinforcing approaches.” They also mentioned the need to “share experience on the effectiveness of the

different policy instruments [including emissions trading] in order to better provide the international business community with a predictable and long-term perspective, and strengthen and extend market mechanisms by, inter alia, developing and extending existing programmes”. The G8 declaration refers to the ambitious 2050 objectives set up by Canada, the EU and Japan. While non-binding, this reference suggests that the G8 leaders are considering significant changes in emission patterns that are likely to increase the interest in emissions trading schemes as well as other policy options.

Simultaneously, in a communiqué with the German presidency of the G8, the heads of state or government of five large developing countries – Brazil, China, India, Mexico and South Africa – underlined

Table

Summary of 27 national allocation plans as of October 2007

Member State	1 st period cap	2005 verified emissions	Proposed cap 2008–2012	Cap allowed 2008–2012 (in relation to proposed)	Additional emissions in 2008–2012 ^{a)}	JI/CDM limit 2008–2012 in % ^{b)}
Austria	33.0	33.4	32.8	30.7 (93.6%)	0.35	10
Belgium	62.1	55.58	63.3	58.5 (92.4%)	5.0	8.4
Bulgaria	42.3	40.6	67.6	42.3 (62.6%)	n.a.	12.55
Cyprus	5.7	5.1	7.12	5.48 (77%)	n.a.	10
CzechRep.	97.6	82.5	101.9	86.8 (85.2%)	n.a.	10
Denmark	33.5	26.5	24.5	24.5 (100%)	0	17.01
Estonia	19	12.62	24.38	12.72 (52.2%)	0.31	0
Finland	45.5	33.1	39.6	37.6 (94.8%)	0.4	10
France	156.5	131.3	132.8	132.8 (100%)	5.1	13.5
Germany	499	474	482	453.1 (94%)	11.0	20
Greece	74.4	71.3	75.5	69.1 (91.5%)	n.a.	9
Hungary	31.3	26.0	30.7	26.9 (87.6%)	1.43	10
Ireland	22.3	22.4	22.6	22.3 (98.6%)	n.a.	10
Italy	223.1	225.5	209	195.8 (93.7%)	n.k.	14.99
Latvia	4.6	2.9	7.7	3.43 (44.5%)	n.a.	10
Lithuania	12.3	6.6	16.6	8.8 (53%)	0.05	20
Luxembourg	3.4	2.6	3.95	2.5 (63%)	n.a.	10
Malta	2.9	1.98	2.96	2.1 (71%)	n.a.	Tbd
Netherlands	95.3	80.35	90.4	85.8 (94.9%)	4.0	10
Poland	239.1	203.1	284.6	208.5 (73.3%)	6.3	10
Portugal	38.9	36.4	35.9	34.8 (96.9%)	0.77	10
Romania	74.8	70.8	95.7	75.9 (79.3%)	n.a.	10
Slovakia	30.5	25.2	41.3	30.9 (74.8%)	1.7	7
Slovenia	8.8	8.7	8.3	8.3 (100%)	n.a.	15.76
Spain	174.4	182.9	152.7	152.3 (99.7%)	6.7	ca. 20
Sweden	22.9	19.3	25.2	22.8 (90.5%)	2.0	10
UK	245.3	242.4	246.2	246.2 (100%)	9.5	8
Total	2,298.5	2,122.16	2,325.34	2,080.93 (89.5%)	54.61	–

^{a)} The figures indicated in this column comprise emissions in installations that come under the coverage of the scheme in 2008 to 2012 due to an extended scope applied by the member state and do not include new installations entering the scheme in sectors already covered in the first trading period. – ^{b)} The JI/CDM limit is expressed as a percentage of the member state's cap and indicates the maximum extent to which companies may surrender JI or CDM credits instead of EU ETS allowances to cover their emissions. These credits are generated by emission-saving projects carried out in third countries under the Kyoto Protocol's project based flexible mechanisms, known as Joint Implementation (JI) and the Clean Development Mechanism (CDM).

Source: OECD International Energy Agency (2007), p. 9.

“the crucial role of economic incentives, in particular by carbon markets, for the necessary investments in climate friendly technologies at large scale.”

Today, regional emissions trading systems are being set up, legislative proposals are put forward, options for creating broad regimes or broadening existing regimes are considered, from personal carbon trading and “domestic offsets” to upstream regimes. Cost control measures of various kinds are also being discussed, as well as allocations and other design issues.

The early lessons from the first phase of the European Emission Trading Scheme (ETS) have been taken into account in the revision of existing and the design of new schemes, and in refreshing the debate on emission trading features. Since the AIXG (Annex I Expert Group on the United Nations Framework Convention Climate Change) October 2006 meeting, there have been updates in the EU ETS on two fronts – the approval and decisions from the European Commission (EC) on the second round of national allocation plans (NAPs); and the review of the existing scheme, for which legislation has been passed, and post-2012 developments.

The Table shows a summary of NAPs in all 27 EU countries assessed as of October 2007. Member states have to propose a cap (upper limit) of their emissions that can be cut by the European Commission. The States had until June 30, 2007 to set up their second NAPs for the period 2008 to 2012. With regard to the proposed number of allowances, the Commission accepted some of these NAP2 in their entirety (those from Denmark, France, Slovenia, UK), and imposed relatively minor changes (less than 10 percent) on eleven other countries. But it also cut Hungary’s NAP by 12.4 percent, the Czech Republic’s by 14.8, Slovakia’s by 25.2, Poland’s by 26.7, Malta’s by 29, Luxembourg’s by 37, Lithuania’s by 47, Estonia’s by 47.8, Cyprus’ by 23, Romania’s by 20.7, Bulgaria’s by 37.4, and Latvia’s by 55.5 percent. Poland, alongside the Czech Republic, Lithuania, Estonia, Slovakia, Latvia and Hungary, are suing the Commission for these decisions.

The European Commission is being more stringent on the allocation level in the second trading period – compared to the first trading period – to reach its Kyoto target and avoid undue distortions of the internal market. While the sum of all member states’ proposals would have led to an increase of 3.2 percent in emissions compared to 2005 verified emis-

sions, the sum of the decisions by the Commission will lead to a decrease of 6.5 percent. Compared to the first trading period, there will be fewer allowances in the market. The second trading period will also see more auctioning: Germany (< 9 percent) UK (7 percent), Netherlands (> 4 percent), Ireland, Hungary, Lithuania, Austria and Belgium.

C.Z.

Reference

OECD International Energy Agency (2007), “Emissions Trading: Trends and Prospects”, Paris.

REGULATION ON EUROPEAN ENERGY MARKETS

A broad debate in Germany over high energy prices has been in progress for some time now. The focus is on the four big energy giants RWE, Vattenfall, E.ON and EnBW, which have divided Germany in four energy districts, and are said to be abusing their monopoly. This is not only a national problem, but an issue in every European country, as the power supply industry is a natural monopoly. For consumer protection and particularly for adequate end-user prices a reasonable regulation is needed to mitigate the effects of inherently too little competition on energy markets.

Two institutions are actively committed to the adequate and coordinated regulation of European energy markets. First there is the Council of European Energy Regulators (CEER). It is the organisation in which independent national regulators of electricity and gas in Europe voluntarily co-operate to protect consumer interests and to facilitate the creation of a single, competitive, efficient and sustainable internal market for gas and electricity in Europe. CEER is a non-profit association under Belgian law and a preparatory body for the work of the second institution, the European Regulators Group for Electricity and Gas (ERGEG). ERGEG is an Advisory Group of independent national regulatory authorities. ERGEG was established on 11 November 2003, pursuant to Directive 2003/796/EC, to assist the Commission in consolidating the internal market for electricity and gas, in particular with respect to preparing draft implementing measures in the field of electricity and gas. Its members are the heads of the national energy regulatory authorities in the 27 EU member states.

In their joint annual report they emphasised, that a regulation of markets with vertically integrated energy utilities is important to ensure investment in new infrastructure, as energy markets in the European Union often are highly concentrated. However, a number of countries with large vertically integrated energy utilities strongly oppose “ownership unbundling”, in other words the splitting up of the transmission (grid) businesses, and the production and supply businesses. The Table shows that ownership unbundling has been realized in only a few countries, which is a problem according to CEER/ERGEG, as such energy giants can be slow to im-

prove market transparency and may well have little incentive to build necessary infrastructure, which would introduce competition in their domestic markets. To expect corporate goodwill on their part is not enough. This is why CEER/ERGEG strongly advocate that EU legislation – fully implemented – is needed to effectively separate the Transmission System Operator (TSO) from the production and supply businesses in both electricity and gas. Furthermore, a Regional Independent System Operator (RIO) does not resolve the EU’s deeply rooted problem of undue discrimination on the part of vertically integrated firms – effective unbundling has to be a prerequisite for any RIO model. Effective unbundling addresses one of the key barriers to investment, namely the incentives for the TSO, but it cannot address all such barriers. Others, such as building authorisations and permit for transmission network infrastructure (beyond the remit of energy regulators) remain critical issues which need to be urgently addressed. Effective unbundling, coupled with legal obligations for TSOs to develop and operate an integrated EU grid subject to proper regulatory oversight facilitates transparency, co-operation among network operators and stimulates investment in and access to infrastructure – key issues identified in the Sector Inquiry. This in turn would enhance security of supply and put pressure on prices.

Another important point is regulated end-user tariffs that hamper competition and should be abolished. The ERGEG conducted a status review of end-user price regulation. The survey (published in June 2007) assessed the effects on market functioning of member states maintaining regulated energy prices. The ERGEG report underlined that fully open markets with well-functioning competition cannot co-exist in the long run with regulated end-user energy prices. The clear message in an accompanying position paper (published in July 2007) is that end-user price regulation distorts the functioning of the market and jeopardises both the security of supply and the efforts to fight climate change. Therefore end-user price regulation should be abolished, or where appropriate, brought into line with market conditions. The ERGEG report calls on all countries which are in a transitional period to publish (by 1 July 2008) an individual road map to remove regulated prices. In practising countries regulated end-user energy prices should only continue for the shortest possible period. In those member states where there is only one supplier, ERGEG

Table

Electricity markets

ERGEG/CEER members	No. of electricity TSOs	Number of ownership unbundled electricity TSOs	Regulated end-user electricity prices in open market
Austria	3	0	No
Belgium	1	0	No
Bulgaria	1	0	Yes
Cyprus	1	0	Yes
Czech Republic	1	1	No
Denmark	1	1	Yes
Estonia	1	0	Yes
Finland	1	1	No
France	1	0	Yes
Germany	4	0	Yes
Greece	1	0	Yes
Hungary	1	0	Yes
Ireland	1	0	Yes
Italy	9	1	Yes
Latvia	1	0	Yes
Lithuania	1	1	Yes
Luxembourg	12	0	No
Malta	n.ap.	n.ap.	n.ap.
Norway	1	1	No
Poland	1	0	Yes
Portugal	3	1	Yes
Romania	1	1	Yes
Slovak Republic	1	1	Yes
Slovenia	1	1	No
Spain	1	1	Yes
Sweden	1	1	No
Netherlands	1	1	Yes
United Kingdom	1	1	No

Note: n.ap. = not applicable.

Source: ERGEG/CEER (2007), p. 29.

urges the member state governments and regulators to act rapidly so as to create an environment to attract the new entry of suppliers. The Table shows that end-user electricity prices are still regulated in the majority of EU countries.

C.Z.

Reference

ERGEG/CEER (2007), 2007 Annual Report of the European Energy Regulators, Brussels.

TEMPORARY LABOUR MIGRATION PROGRAMMES

Legal temporary migration is significant in OECD countries. The movements covered under this rubric are heterogeneous and include both higher and less educated migrants. Most of these temporary migrants, however, work in low-skill occupations. Seasonal workers are the largest single category, although working holiday-makers are growing in number. Trainees, although generally required to have some education or skills, may be employed in low-skill occupations. "Other temporary workers" include a mix of both high and low-skilled workers, service-providers and free-circulation migrants, among others.

Temporary work programmes currently in place in OECD countries are structured differently. Invariably, the duration of the permit depends on the employment offered. Usually the duration is less than one year, especially for the agricultural sector. The offer of employment is also subject to a labour market test, where the job offer must be advertised to residents and conform to certain minimum wage and contractual criteria. In some countries employers must guarantee housing and pay transportation. They may also be obliged to pay repatriation costs for overstayers.

Temporary workers are employed primarily in the agricultural sectors, but also in tourism, food processing, cleaning, hotels and restaurants, and construction.

Table

Temporary work permit programmes for low-skilled workers

Country	Programme	Maximum length of stay allowed	Guarantees required	Sectors involved	Number of participants	Limits
Canada	SAWP	<8 months	Labour market test; employer must pay transportation and housing (can deduct from salary)	Agriculture	18,000 (2006)	None
Canada	Temporary Foreign Worker Programme C (intermediate qualifications and clerical)	<2 years	Labour market test; cover all recruitment costs; help find suitable, affordable accommodation; pay full transportation costs from home country; provide medical coverage until the worker is eligible for provincial health insurance coverage	All sectors	34,000 (2006)	None
Canada	Temporary Foreign Worker Programme D (elemental qualifications and labourers)	<2 years	Labour market test; cover all recruitment costs; help find suitable, affordable accommodation; pay full transportation costs from home country; provide medical coverage until the worker is eligible for provincial health insurance coverage	All sectors	3,500 (2006)	None
France	Seasonal Agricultural	<6 months/annually for 3 years	Labour market test or shortage list; employers must guarantee housing	Agriculture	17,000 (2006)	None
Germany	Bilateral Agreements	<8 months	Employers must provide housing (can deduct from salary)	Agriculture, other temporary	290,000 (2006)	None
Italy	Seasonal Work	<9 months	Demonstrate existence of (but not necessarily provide) housing; must pay repatriation costs for overstayers	Agriculture, tourism	64,540 (2006) (requests)	80,000 (2008)
Korea	Employment Permit System	3 years + 3 year renewal	Labour market test	All sectors	80,000 (2006)	Target 110,000 (2007)
New Zealand	Recognised Seasonal Employer	<7 months	Labour market test; employer must demonstrate (but not necessarily provide) housing and pay half transportation costs; employer must pay repatriation costs for overstayers	Agriculture	5,000 (2007)	Quota of 5,000 (2007)
Spain	Contingent	<9 months	Labour market test or shortage list	All temporary sectors	78,000 (2006)	None

Table continued:

United Kingdom	Seasonal Agricultural Worker Scheme (SAWS)	<6 months	Employers must guarantee housing but can deduct costs	Agriculture	16,000 (2005)	Limited to Romanian/Bulgarian citizens from 01/01/08
United Kingdom	Sector Based Scheme	12 months	Employers must guarantee housing but can deduct costs	Food processing	3,500 (2007)	3 500 (2007); to be phased out
United States	H-2A	<10 months	Employer must pass labour certification test, pay at least enough to counter adverse wage effects, provide housing and cover one-way transportation costs	Agriculture	50,000 (2006)	None
United States	H-2B	<10 months, renewable up to 3 years	Employer must pass labour certification test	Non-agriculture, especially landscaping, cleaning, hotels and restaurants, construction	200,000 (2006)	Capped at 66,000 entries annually

Source: OECD, SOPEMI 2008, p. 158.

The number of temporary workers permitted to immigrate is limited in some countries by quotas. In the United Kingdom only Romanian and Bulgarian citizens are allowed to work under the Seasonal Agricultural Working Scheme.

W.O.

Reference

OECD, SOPEMI (2008), *International Migration Outlook*, annual report, Paris.

PUBLIC AWARENESS OF ANTI-DISCRIMINATION LAWS IN OECD COUNTRIES

To deal with discrimination problems in their societies, all OECD countries have implemented legal and institutional frameworks prohibiting gender and racial discrimination.¹ Institutional frameworks are the different bodies engaged in the promotion and enforcement of anti-discrimination policies.

In all these countries, the enforcement of anti-discrimination laws depends mainly on the action of individuals who have experienced discrimination. But practical experience has shown that enforcement on the individual level, especially in the labour market, has not often been very effective. What is the implementation problem and what could be improved?

Informing the public

Evidence from various countries suggests that one implementation problem is that the public is poorly informed as to such rights. The survey “Special Eurobarometer 263” of the European Commission in 2007 documents this lack of information (Figure).

- In 14 of 19 European countries, where the information about anti-discrimination laws is available, less than 50 per cent of the population is aware that discriminating when hiring new employees is unlawful. Furthermore, public awareness of anti-discrimination provisions concerning ethnic origins tends to be less than for gender discrimination. Exceptions are countries like Finland, the Netherlands, Sweden, Denmark and United Kingdom.
- On average, two thirds of European Union citizens do not know their general anti-discrimination rights. Awareness is highest in the Netherlands where over the half of the people claim to know about their rights.

¹ For the specific anti-discrimination provisions of the countries, see “Anti-Discrimination Regulation” in the CESifo DICE Report 03/2007.

To remedy this information problem most governments have established equal treatment bodies or other specialised bodies to increase public awareness of anti-discrimination rules (Table).

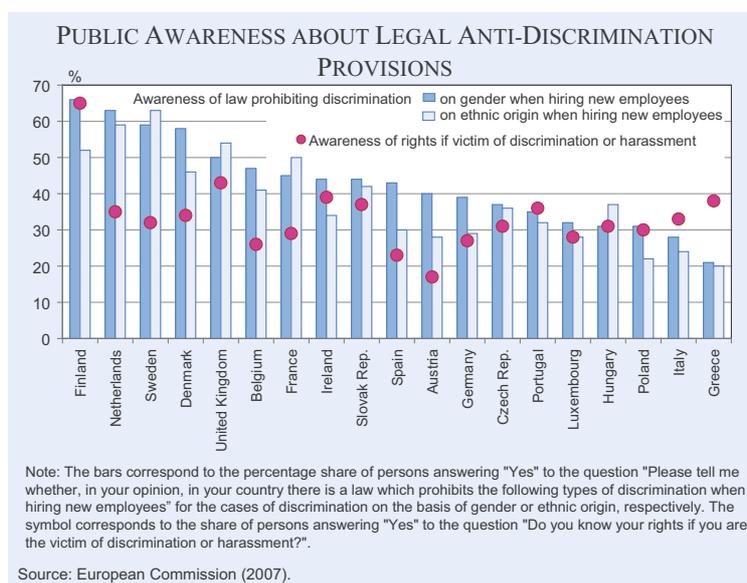
Most of the OECD countries inform the public of statistics on discrimination, especially on discrimination in the workplace. In addition nearly all OECD countries run information campaigns to change public opinion and to inform the public of their legal rights.

In addition to the general information, it is also important that employers are well-informed about the legal rules and assisted in improving their performance on equality. Many of the national equality bodies of the OECD countries provide publications of codes of good practices or other guidance documents for the employer, but often with lower priority than information campaigns for potential victims. These publications help employers assess their own performance. Nearly one fourth of the observed OECD countries do not have such guidelines for employers from national equality bodies (Czech Republic, Greece, Italy, Poland, Portugal and Spain).

More transparent legal and institutional frameworks

Another problem regarding the implementation of anti-discrimination laws is the lack of transparency of the legal and institutional frameworks of the respective countries. Greater complexity means less transparency for ordinary people.

Figure



Table

Public awareness of discrimination issues and public access to the anti-discrimination framework^{a)}

	Measures aimed at raising public awareness, conducted by equal treatment bodies or other specialised bodies ^{b)}				Public access to the anti-discrimination framework	
	Publication of statistics on discrimination	Information campaigns to change public opinion	Publication of codes of good practice for employers	Information campaigns to inform the public of their legal rights	Complexity of the legal framework ^{c)}	Complexity of the institutional framework ^{d)}
Austria (FL)	Yes (low)	Yes (high)	Yes (also done by trade unions)	Yes (high)	Low	Medium
Belgium (FL)	Yes (gender: high) (ethnicity: medium)	Yes (gender: medium) (ethnicity: high)	Yes (gender: low) (ethnicity: medium)	Yes (gender: medium) (ethnicity: high)	Medium	Low
Czech Republic	No	No	No	No	High	No EB
Denmark	Yes	Yes	Yes	Yes	High	High
Finland	Yes (gender: low) (ethnicity: medium)	Yes (low)	Yes (gender: high) (ethnicity: low)	Yes (low)	High	High
France	Yes (medium)	Yes (high)	Yes (medium)	Yes (high)	High	Low
Germany	Yes (low)	Yes (medium)	Yes (high)	Yes (high)	Low	Low
Greece	Gender: yes (medium) Ethnicity: no	Yes (gender: high) (ethnicity: medium)	Gender: yes Ethnicity: no	Yes (gender: high) (ethnicity: medium)	Medium	High
Italy	No	Yes (high)	No	Yes (high)	Medium	Low
Netherlands ^{e)}	Yes (medium)	Not explicitly (low)	Not explicitly (medium)	Not explicitly (low)	Low	Low
Poland	Yes (low)	Yes (gender: high) (ethnicity: low)	No	Yes (gender: high) (ethnicity: low)	Medium/high	High
Portugal	Yes	Yes	No	Yes	High	Medium/high
Spain ^{e)} (gender only)	No	No	No	No	High	EB not yet operational
Sweden	Yes (low)	Yes (low)	Yes (medium)	Yes (high)	Medium	Low
United Kingdom	Yes (low)	Yes (high)	Yes (low)	Yes (high)	Medium	Medium
Norway	Yes	Yes	Yes	Yes	Medium	Low
Switzerland ^{e)} (gender only)	Yes (high)	Yes (medium)	Yes (high)	Yes (medium)	Low	Medium
Australia (FL)	Yes (high)	Yes (medium)	Yes (medium)	Yes (high)	Medium	Low
Canada (FL)	Yes (high)	Yes (low)	Yes (medium)	Yes (medium)	Low	Low
Japan ^{e)} (gender only)	Yes (high)	Yes (high)	Yes (high)	Yes (high)	Medium	Low
Korea ^{e)}	Yes	Yes	Yes	Yes	Medium/high	Medium
Mexico	Yes (high)	Yes (high)	Yes (high)	Yes (high)	High	High
United States (FL)	Yes (medium)	No	Publication of guidance documents	Yes (high)	Low	Low

Note: EB = equality body; FL = information reported in the Table refers to federal laws.

(Table continued)

^{a)} Whenever no distinction is made between gender and ethnic grounds, answers cover both. – ^{b)} Annotations in parentheses refer to the level of priority attributed by the body in charge of implementing the specified task. High, medium and low, respectively, mean above, close to and below-average importance of the specified task in the actual overall workload of the corresponding body. – ^{c)} High, medium and low, respectively, refer to a situation where the core legal framework to ban discrimination in the labour market is built on both specific legislation and general laws or codes (be they labour, civil or penal codes, employment acts or constitutional laws); on a combination of anti-discrimination laws covering specific areas (e.g., equal pay, working condition, etc.) or grounds (gender, ethnicity); on a single, comprehensive anti-discrimination law (covering all grounds). – ^{d)} Low, medium and high, respectively, refer to a situation where the responsibilities attached to the promotion and enforcement of anti-discrimination policies are held by: a single body, two bodies and more than two bodies. – ^{e)} Country notes: Japan: there is no specific anti-discrimination legislation covering racial/ethnic minorities. For this reason, discrimination on ethnic or racial grounds is not covered in the analysis conducted for the purpose of this article, although some legal provisions exist that in principle allow workers to bring a discrimination case before the courts. Korea (complexity of the institutional framework): while there is a single equality body, the latter is not really specialised in discrimination issues. Rather, the National Human Rights Commission aims at securing human rights in general, which tends to make its role on discrimination cases per se less visible (at least compared to a situation where there is a unique equality body dealing with discrimination cases only). Netherlands: equal treatment bodies have no explicit role on information campaigns, publication of statistics or code of good practices for employers, but the government does have these goals and tries to reach them actively. Spain: there is no specific anti-discrimination legislation covering racial/ethnic minorities. For this reason, discrimination on ethnic or racial grounds is not covered in the analysis conducted for the purpose of this article, although some legal provisions exist that in principle allow workers to bring a discrimination case before the courts. Switzerland: there is no specific anti-discrimination legislation covering racial/ethnic minorities. For this reason, discrimination on ethnic or racial grounds is not covered in the analysis conducted for the purpose of this chapter, although some legal provisions exist that in principle allow workers to bring a discrimination case before the courts. Moreover, the Federal Commission against Racism and the Service for Combating Racism may offer guidance and counselling to victims of discrimination. More specific equality bodies can be found in a small number of cantons.

Source: European Commission (2007).

A comparison of the different frameworks of the observed countries shows that complexity is greater with regard to the legal frameworks (the case in 9 countries) than with regard to the institutional frameworks (the case in 6 countries). In Denmark, Finland, Poland, Portugal and Mexico the legal and institutional anti-discrimination framework is quite complex. Less complex legal frameworks are found in Germany, the Netherlands, Canada and the United States (Table).

Effective enforcement of legal rules largely relies upon employers' understanding of the legal framework, but here too evidence indicates that improvement is necessary.

Introducing a single equality act would be one way for many countries to simplify the legal and institutional frameworks, which would give ordinary people and employers a clearer picture of the overall statutory and institutional regulations. This would improve information campaigns and lead to better enforcement of the anti-discrimination laws. Discrimination cases and their court outcomes, if well publicised, would also be an important vehicle of cultural change.

U.J.

References

- OECD, Employment Outlook 2008, 162–168.
 European Commission (2007), Discrimination in the European Union, Special Eurobarometer 263, Wave 65.4.

BISMARCK VERSUS BEVERIDGE: A COMPARISON OF SOCIAL INSURANCE SYSTEMS IN EUROPE

A European comparison of the financial systems for social insurance reveals considerable differences, but a general classification into two basic systems is still possible. What we may call the Bismarck system is based primarily on social insurance contributions; the financing of the other system, the Beveridge sys-

tem, is from taxes. In other words, an optimal Bismarck system leads to no redistribution between various income groups, but the Beveridge system does contain a redistribution (Kolmar 2007; Cremer and Pestieau 2003). There is, however, a trend in Europe for the two financing systems to converge.

The Bismarck system goes back to German Chancellor Otto von Bismarck, who with the introduction of a statutory health insurance (1883) in Germany paved the way for a comprehensive social insurance system. Bismarck's goal was to counter social unrest and socialism and also to weaken economically the voluntary social insurance of the trade

Table

Sources of funding for social protection, 1995–2005 (percentage of total receipts)

	General government contribution			Total			Social contributions			Protected individuals ^{a)}			Other receipts ^{b)}		
	1995	2000	2005	1995	2000	2005	1995	2000	2005	1995	2000	2005	1995	2000	2005
Austria	34.4	32.5	33.1	64.6	66.2	65.3	38.5	39.1	37.9	26.1	27.1	27.4	0.9	1.3	1.6
Belgium	26.1	25.3	24.7	71.1	72.2	73.4	49.0	49.9	51.4	22.1	22.3	22.0	2.9	2.5	1.9
Bulgaria	n.a.	n.a.	36.1	n.a.	n.a.	60.7	n.a.	n.a.	42.4	n.a.	n.a.	18.3	n.a.	n.a.	3.1
Cyprus	n.a.	45.0	53.7	n.a.	37.3	34.7	n.a.	20.5	19.7	n.a.	16.8	15.0	n.a.	17.7	11.6
Czech Republic	20.8	25.0	18.1	78.1	73.8	80.7	53.4	49.8	54.3	24.7	24.0	26.4	1.2	1.2	1.2
Estonia	n.a.	20.6	20.4	n.a.	79.0	79.4	n.a.	79.2	79.0	n.a.	n.a.	0.4	n.a.	0.2	0.1
Denmark	69.7	63.9	63.2	24.0	29.4	28.8	10.2	9.1	10.3	13.8	20.3	18.5	6.3	6.7	8.0
Finland	45.8	42.9	43.7	47.4	50.0	50.2	33.7	38.0	38.8	13.7	12.0	11.4	6.9	7.0	6.1
France	21.5	30.3	30.6	74.9	65.9	65.6	47.4	46.0	44.7	27.5	19.9	20.9	3.5	3.8	3.8
Germany	28.3	31.8	35.6	69.2	66.1	62.7	40.5	38.5	35.0	28.7	27.6	27.7	2.5	2.1	1.6
Greece	29.0	29.2	30.7	60.9	60.8	58.4	37.4	38.2	35.5	23.5	22.6	22.9	10.0	10.0	11.0
Hungary	n.a.	31.6	34.8	n.a.	59.8	57.9	n.a.	47.0	42.0	n.a.	12.8	15.9	n.a.	8.7	7.3
Ireland	62.8	58.3	53.9	36.3	40.2	40.0	22.3	25.1	24.7	14.0	15.1	15.3	0.8	1.5	6.1
Italy	30.0	40.6	41.4	67.6	57.7	57.0	50.3	42.8	41.7	17.3	14.9	15.3	2.3	1.6	1.6
Latvia	n.a.	33.5	35.3	n.a.	66.5	64.0	n.a.	50.2	47.1	n.a.	16.3	16.9	n.a.	0.0	0.7
Lithuania	n.a.	38.9	39.6	n.a.	59.6	59.8	n.a.	53.7	53.8	n.a.	5.9	6.0	n.a.	1.5	0.5
Luxembourg	47.0	46.9	45.3	47.8	48.5	51.3	25.9	24.7	26.9	21.9	23.8	24.4	5.2	4.6	3.4
Malta	32.3	30.5	34.5	64.2	66.8	62.7	45.5	45.3	43.5	18.7	21.5	19.2	3.4	2.6	2.8
Netherlands	17.1	14.4	19.9	63.8	67.5	67.8	21.0	29.4	33.4	42.8	38.1	34.4	19.2	18.1	12.3
Poland	n.a.	32.5	39.2	n.a.	55.3	50.3	n.a.	30.5	28.0	n.a.	24.8	22.3	n.a.	12.2	10.4
Portugal	31.9	39.1	42.2 ^{c)}	53.6	53.0	47.4 ^{c)}	35.9	35.6	31.7 ^{c)}	17.7	17.4	15.7 ^{c)}	14.5	7.9	10.4 ^{c)}
Romania	n.a.	n.a.	11.7	n.a.	n.a.	73.2	n.a.	n.a.	49.7	n.a.	n.a.	23.5	n.a.	n.a.	15.0
Slovak Republic	35.5	31.0	14.0	62.6	66.8	80.5	46.4	48.3	62.0	16.2	18.5	22.4	1.9	2.2	1.5
Slovenia	n.a.	31.5	31.7	n.a.	66.3	67.4	n.a.	27.0	27.4	n.a.	39.3	40.0	n.a.	2.2	0.8
Spain	30.3	29.4	33.3	67.1	68.0	64.5	50.0	51.8	48.9	17.1	16.2	15.6	2.7	2.6	2.1
Sweden	49.8	45.8	48.0	42.3	49.9	49.8	37.0	40.5	41.0	5.3	9.4	8.8	7.9	4.3	2.3
United Kingdom	50.5	46.4	50.5	47.9	52.4	47.9	25.4	29.9	32.4	23.3	22.5	15.5	0.9	1.2	1.6
EU-27	n.a.	n.a.	37.6 ^{d)}	n.a.	n.a.	59.1 ^{d)}	n.a.	n.a.	38.3 ^{d)}	n.a.	n.a.	20.8 ^{d)}	n.a.	n.a.	3.4 ^{d)}
EU-25	n.a.	35.4	37.7	n.a.	60.9	59.0	n.a.	38.7	38.2	n.a.	22.2	20.8	n.a.	3.6	3.3
EU-15	32.1	35.6	37.9	63.9	60.9	58.9	39.2	38.7	38.2	24.7	22.2	20.7	4.0	3.5	3.2
Norway	62.2	60.5	55.8	37.0	38.4	44.1	22.6	24.4	29.5	14.4	14.0	14.6	0.9	1.1	0.1
Switzerland	19.2	21.0	22.2	62.0	60.4	59.7	31.8	29.3	27.6	30.2	31.1	32.1	18.8	18.6	18.0

a) Employees, self-employed, pensioners and others. – b) Resources of various kinds such as interests and dividends. – c) 2004. – d) Estimated value.

Source: Eurostat, Database of Living Conditions and Welfare, Social Protection Receipts, Receipts by Type, 2008.

unions and church-run labour federations (Franke 2004). The Bismarck system is characterised by the following three points:

- The insured persons are employees or gainfully employed;
- The financing is via contributions, graduated according to income;
- The contributions to be paid are based on wages or salaries.

The Beveridge system is named after William Henry Beveridge, who in 1942 presented a comprehensive report to the British Parliament on social policy. The report contained concrete proposals for the creation of a comprehensive social insurance system which included the integration of social insurance forms, the creation of a general health service including workplace accident insurance, the introduction of family assistance, the maintenance of a high and stable employment rate as well as protection against mass unemployment (Franke 2004). These proposals were the foundation for the postwar British social insurance scheme. The Beveridge system is marked by the following:

- It includes the entire population;
- It is primarily financed from the state budget;
- It calls for uniform, lump-sum contributions.

The aim of the Bismarck system is thus to assure a standard of living while the Beveridge system focuses on securing a subsistence level.

It is not always clear what EU country can be assigned to what system, since no country follows either of the two systems in its pure form and the deviations among individual benefits can be significant (Table).¹ Over time, there are also some shifts towards the Beveridge or the Bismarck model. This means that a clear system allocation is not always possible (Berié and Fink 2000).

The Table provides an overview of revenue for social protection according to system types, as a percentage of total receipts for 1995, 2000 and 2005 (see also Eurostat 2005). Here it is evident that the most important source of financing for social protection in the EU-27 in 2005 was social insurance contributions,² which accounted for 59.1 percent of total

receipts. Government allocation from tax revenues amounted to 37.6 percent. In addition other receipts³ account for 3.4 percent of total receipts.

In the Czech and Slovak republics as well as in Austria, Belgium, Estonia, France and Slovenia the portion from social insurance contributions exceeds 65 percent of total receipts.

In contrast, Cyprus, Denmark, Ireland, the United Kingdom and Norway finance their social protection systems primarily from taxes, whose share of total receipts is more than 50 percent.

These differences can be explained historically. The northern European countries have strong ties to the Beveridge system, whereas in the countries in the middle of the Continent the Bismarck system is dominant. Over time, however, these differences between European countries have gradually become weaker. For example, in the past ten years tax financing has grown in countries in which it was previously low (France, Italy and Portugal), and the importance of contributions in which government grants have been high has increased (Slovak Republic).

Since a convergence of the two systems in a country comparison over time is apparent, we may ask why this convergence has occurred. Both the Bismarck and the Beveridge system had two basic goals (Purton 1996). The first is to tackle the problems of poverty and income inequality, to foster social cohesion and to advance the efficiency of the economy as a whole. The second is to improve individual security and alleviate unknown social risks. This was to be achieved by unemployment, health and old-age insurance.

Since the inception of the systems, the economic and social climate in Europe has changed. This also includes demographic changes (Thode 2003). An increase in life expectancy has led to an extension of periods of non-employment and dependency. Moreover, changes in fertility rates⁴ have also impacted the financing of the social insurance system. This has been accompanied by a shift in the age structure of the population: the share of people above 65 has

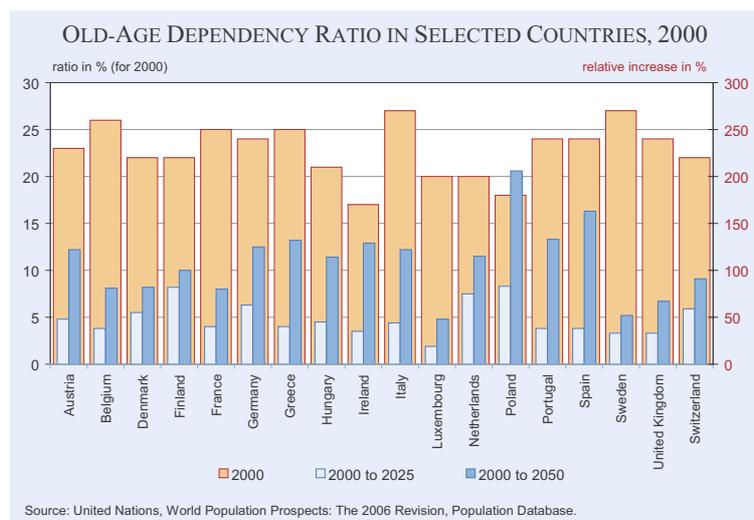
² The social insurance contributions can be divided into contributions paid by the protected individuals (wage earners and salaried employees, self-employed, pensioners and others) and contributions paid by employers.

³ Other receipts include interest and dividends.

⁴ The general fertility rate is the number of live-born children per 1,000 women of child-bearing age between 15 and 45 (sometimes between 15 and 49). Family status of the women and legitimacy of the children are not taken into account.

¹ The Table was taken from the DICE database.

Figure



increased and the share of younger cohorts has declined.

This has meant a strong increase in the old-age dependency ratio. The Figure shows this ratio for 2000 and the relative increase up to 2025 and 2050. The combination of an increase in average life expectancies and the decline in the fertility rate will lead to a doubling of the old-age dependency ratio. Whereas in 2000 the ratio between those over 65 and the working-age population was 1 to 4, in 2050 it will be nearly 1 to 2.

Since the population pyramid has inverted, social insurance contributors must support an increasing number of people who no longer contribute. This is something the Bismarck system did not envision.

But the Beveridge system is also under demographic pressure. In terms of health care, the demographic changes are becoming an increasing burden on tax revenues both quantitatively (more older and illness-prone people) and qualitatively (more expensive medical services and technology). The problem here is the financing of the health care system must compete for tax allocation with other policy areas.

This means that the Beveridge type social insurance systems are also becoming impossible to finance. A pure systemic change in itself is no solution. It is still unclear how far the trend of convergence will go. But one thing is certain: as long as there is a difference in living standards among the European countries, a full convergence cannot be realistically expected (Pestieau 2006).

A.R.

References

- Berié, H. and U. Fink (2000), *Europas Sozialmodell – Die europäischen Sozialsysteme im Vergleich: Eine volkswirtschaftliche Analyse*, WISO Institut für Wirtschaft und Soziales GmbH.
- Cremer, H. and P. Pestieau, (2003), "Social Insurance Competition between Bismarck and Beveridge", *Journal of Urban Economics* 54, 181–96.
- DICE (Database for Institutional Comparisons in Europe), <http://www.cesifo.de>.
- Eurostat (2005), "Der Sozialschutz in der Europäischen Union", *Statistik kurz gefasst* no. 14.
- Franke, S. F. (2004), *Soziale Sicherungssysteme, Wirtschaft, Arbeitswelt und Globalisierung*, Universität Stuttgart, Diskussionsbeitrag.
- Kolmar, M. (2007), "Beveridge versus Bismarck Public-pension Systems in Integrated Markets", *Regional Science and Urban Economics* 37, 649–69.

Pestieau, P. (2006), *The Welfare State in the European Union, Economic and Social Perspectives*, Oxford University Press, Oxford.

Purton, H. (1996), "European Welfare States in the 1990's: An Economic Analysis of the Challenges and Efforts at Reform", *CEPS Research Report* no. 19.

Thode, E. (2003), "Securing Pensions for the Next Fifty Years – Achievements of Recent Reforms in Selected Countries", *CESifo DICE Report* 1, 3–10.

United Nations, World Population Prospects: The 2006 Revision, Population Database, <http://esa.un.org/unpp/index.asp?panel=2>.

NEW AT DICE DATABASE

Recent entries to the DICE Database

In the months September, October and November 2008 the DICE Database received about 220 new entries, among them more than 30 concerning the regulation of financial markets. In the compilation “DICE Special: Financial Market Regulations” there are some tables dealing with the topics of banking supervision, deposit insurance, bank entry and insolvency. Another special point was the establishment of the topic “Innovation” with several subfolders containing tables and charts on policy support, regulation policies and measurements of innovation performance indicators. Furthermore there are some new entries in different folders as well as updates of existing entries.

Some topics are mentioned below:

- Business Regulations
- Comparison of Wage Levels
- Corruption Perception Index
- Legal Structure and Security of Property Rights
- Mandatory Old-age Pension Schemes
- Protection of Intellectual Rights
- Regulatory Quality
- Tax Privileges of Parents
- Union Density
- Values.

FORTHCOMING CONFERENCES

CESifo–Delphi Conference on Human Capital and the Global Division of Labor

12–13 June 2009, in Delphi

CESifo and the Department of International and European Economic Studies (DIEES) at the Athens University of Economics and Business (AUEB) will once again organise a joint conference as part of the CESifo–Delphi Conference series. The 2009 conference will take place at the European Cultural Centre in Delphi. Invited speakers at the conference will include Philippe Aghion (Harvard University), Elias Dinopoulos (University of Florida), Oded Galor (Brown University) and Joseph Zeira (Hebrew University of Jerusalem).

Scientific organiser(s): Thomas Moutos, George Economides and Peter Egger.

Economic Science Association Conference 2009 25–28 June 2009, in Arlington, VA

The conference is organised by the Interdisciplinary Center for Economic Science at George Mason University.

NEW BOOKS ON INSTITUTIONS

Financial Markets and Institutions

Anthony Saunders and Marcia Millon Cornett
4th ed., McGraw-Hill Irwin, Boston 2009

International Financial Management

Cheol S. Eun and Bruce G. Resnick
5th ed., McGraw-Hill Irwin, Boston 2009

Understanding Politics: Ideas, Institutions and Issues

Thomas M. Magstadt
8th ed., Wadsworth, Belmont, CA 2009

Imposing Values: An Essay on Liberalism and Regulation

N. Scott Arnold
Oxford University Press, New York, NY 2009

Law for Business

A. James Barnes, Terry Morehead Dworkin and Eric L. Richards
10th ed., McGraw-Hill Irwin, Boston 2009

DICE
Database for Institutional Comparisons in Europe
www.cesifo.de/DICE

The database DICE was created to stimulate the political and academic discussion on institutional and economic policy reforms. For this purpose, DICE provides country-comparative information on institutions, regulations and the conduct of economic policy.

To date, the following main topics are covered: Business and Financial Markets, Education and Innovation, Energy and Natural Environment, Labour Market and Migration, Public Sector, Social Policy, Values. Information about Basic Country Characteristics is provided for the convenience of the user.

The information of the database comes mainly in the form of tables – with countries as the first column – but DICE contains also several graphs and short reports. In most tables, all 27 EU and some important non-EU countries are covered.

DICE consists primarily of information which is – in principle – also available elsewhere but often not easily attainable. We provide a very convenient access for the user, the presentation is systematic and the main focus is truly on institutions, regulations and economic policy conduct. Some tables are based on empirical institutional research by Ifo and CESifo colleagues as well as the DICE staff.

DICE is a free access database.

Critical remarks and recommendations are always welcome.

Please address them to

ochel@ifo.de

or

hoffmann@ifo.de

or

rohwer@ifo.de