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Labor market risks in times of welfare state transformation

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ABSTRACT

This paper is concerned with the link between welfare state reforms and the rising labor market inequality between labor market insiders and outsiders. This labor market inequality represents one of biggest challenges to Europe, especially to Continental Europe.

The paper starts with a review of the most important labor market and welfare state reforms in Germany, France, Italy and Spain, four continental European countries with strong insider-outsider divides. I then study the implications of welfare state reforms on labor market risks in Continental Europe, focusing on the risk for unemployment and temporary employment because these two forms of labor market risks have particularly strong effects on economic and social deprivation and are often linked to a permanently inferior labor market status. Relying on several waves from the EU-SILC (2005-2011) I examine patterns of labor market risks and their distribution between groups with different skill and age levels and the interaction of these two factors in four Continental European countries: Germany, France, Italy and Spain.

The analysis reveals that the development of unemployment and temporary employment varies between the four countries. In Germany, labor market risks have become less unequally distributed since the implementation of the Agenda 2010 in 2005 while labor market inequality has remained constant in France. I relate this back to the rigid labor market and the lack of more than superficial labor market reforms in the last decade until very recently. Indeed, France is a case where we observe a clear effect of a *non-event* mostly at the cost of the younger generation, which is clearly confronted with higher labor market risks than individuals in their prime age of even elderly individuals. Consistent with the politics of 'selective flexibilization', we find pronounced levels of labor market inequality in Italy and Spain, which are only to increase over time. One might speak of a *dualization of the Italian and Spanish labor market between young outsiders and older insiders.*

CONTENTS

1 INTRODUCTION

Labor market inequalities have increased in the post-industrial societies of the 21th century (OECD, 2011a; Emmenegger *et al.*, 2012b) as a result of long-term structural changes such as post-industrialization and globalization and the retreat of the state from the provision of social protection and the regulation of labor markets.

Labor market risks have not become more widespread but also more diverse. Besides the ’old’ labor market risk of unemployment, we also observe the emergence of ‘new’ labor market risks such as atypical employment and long-term unemployment with far reaching consequences for poverty, inequality and social exclusion (Bonoli, 2005; Taylor-Gooby, 2005; Häusermann and Schwander, 2012b; Schwander and Häusermann, 2013).

This development is most evident in Continental Europe. The labor markets of Continental Europe, plagued by low employment rates and high unemployment rates, were under particular pressure to flexibilize and to reduce their rigid institutionalized employment protection which is often seen as a main culprit for these low employment rates (Wren and Iversen, 1998; Esping-Andersen, 1999; Palier, 2010b; Eichhorst and Marx, 2012). The EU as an emerging powerful new actor urged their member states with reports and jointly set targets (for example, the Lisbon treaty or the European Employment Strategy) to adapt their labor market arrangements. This provided both the external pressure on national policy makers to embark on the unpopular reforms but provided them also with the opportunity to shift the blame for the reforms to the EU greatly facilitating the implementation of reforms, particularly in Spain and Italy (Ferrera and Gualmini, 2004; Guillen, 2010; Sacchi and Vesan, 2015).

National power constellation conditioned these how the reform pressure translated in actual reforms. Efforts of unions and employees to preserve the privileges of the core workers resulted in an asymmetrical flexibilization of labor market regulation and increased inequality of labor market risks among the working population (Palier and Thelen, 2010; Schwander and Häusermann, 2013).This asymmetric flexibilization is echoed in welfare state reforms. Ill fitted both to prevent the emergence of new labor market risks and to protect those affected with new labor market risks. Bismarckian welfare states have gradually complemented their social insurance systems with tax financed, but less generous needs tested schemes for those outside the generous social insurance systems (Palier, 2010b). This ‘dualization of the welfare state’ perpetuated labor market inequalities and translates them into income inequalities and more permanent forms of social and economic exclusion. At the same time, Continental European countries managed to reduce their unemployment rate and increase their employment rates throughout the 2000s until the outbreak of the Great Recession in 2008. The aim of this chapter is to analyze *inequality in labor market risks in Continental Europe.*

This crisis hit Europe, and especially the Continental European countries hard. European countries vary with regard to the timing and extent to which the Great Recession has caused labor markets to fumble (OECD, 2012). First and hardest hit were countries with a large financial sector and a housing prize bubble (Jannsen and Scheide, 2010). Consequently, unemployment rates started to rise first in the US, UK and Spain, where in 2007 unemployment was at the lowest level since 1995, only to double from 9.6 percent in 2008 to 20.0 percent in 2010 (ILO 2012). Similarly, countries with a large manufacturing sector such as Germany suffered from the decline in international demand (Eichhorst *et al.*, 2010a). Moreover, there are large differences in the recovery time depending on the capacity of the countries' labor market institutions to absorb economic shocks (Eichhorst et al. 2010; OECD 2012), the effect of their tax and benefit systems as automatic stabilisers (Dolls *et al.*, 2011; Hemerijck, 2012; OECD, 2012) and their capacity to compensate for job losses in one sector by expanding employment growth in other sectors (Eichhorst et al. 2010; Eurofound 2013). At the same time, the merits of flexible labor markets showed. Countries with a high internal flexibility of their labor markets recovered much quicker than countries with rigid labor markets. Germany, for example, recovered much faster than other Continental European countries and is portrayed today as an 'economic miracle' (Eichhorst et al. 2013; OECD 2010; 2012) while in come countries like Italy, Greece and Portugal the recovery has yet to start (OECD 2012).

In this paper, I analyze the effect of welfare state transformations and changes in the regulatory framework of labor markets on the distribution of labor market risks in four Continental European countries from the mid- 2000s onwards. According to the focus on labor market integration, I understand labor market inequality as an unequal *distribution of labor market risks*. More specifically, I focus on unemployment and temporary employment as the dominant forms of old and new labor market risks, respectively. In addition, these two forms of labor market risks have particularly strong effects on economic and social deprivation and are often linked to a permanently inferior labor market status for its negative effects on human capital and work experience (Booth *et al.*, 2000; Kalleberg *et al.*, 2000; Gash, 2008; Giesecke, 2009).

France, Germany, Italy and Spain represent four cases with different reactions to the flexibilization and liberalization pressures. Accordingly, labor market inequality has developed differently in these countries. I examine whether the reforms of welfare states and labor markets have reduced labor market inequality or rather increased labor market inequality in the last decade. Furthermore, the paper aims to shed light on the development of labor market vulnerability among different social groups known for their weak attachment to the labor market and whether labor market inequality between different labor market groups has increased.

The paper is structured as follows. I first discuss the link between welfare state institutions and structure of labor market risks before comparing labor market regulations in Germany, France, Italy and Spain and presenting a short history of their recent labor market reforms. I then present evidence on patterns of labor market risks in the four countries and analyze the development of labor market inequality among different labor market groups. The final section concludes.

2 The Challenge for Continental Europe

The welfare state, understood as a set of social policy and labor market institutions, has been under enormous pressure to adapt to the requirements of a post-industrial, efficient, and internationally competitive labor market with a flexible and high-skilled workforce. The compatibility of welfare state institutions with the requirement of a post-industrial economy influences the functioning of the labor market and impacts both on structure and level of unemployment. Especially the conservative-corporatist welfare states in Continental Europe are pressured to reform. Their strictly regulated labor markets, the resulting high non-wage labor costs and the reliance on the 'male breadwinner' model make them particularly ill-suited for the challenges of a post-industrial economy and society (Palier, 2010b). Perhaps the service sector trilemma exemplifies best the difficulties of Continental European countries to adapt to a post-industrial economy (Wren and Iversen, 1998). The basic idea of the service trilemma is that in the post-industrial era, economies are unable to achieve the three goals of wage equality, high employment and balanced public finances simultaneously, although they are socially all highly desirable. This is because – in contrast to industrial employment – the capacity for productivity increase in service sector employment is low (the famous 'Baumol-disease', see Baumol, 1967). Competitivity, therefore, has to be achieved by means of low labor costs, i.e. low wages. If governments want to increase employment in service sectors, they either have to allow for greater wage dispersion and scarify equality or provide these jobs in public employment at the expense of a balanced budget (Wren and Iversen, 1998).

It is easily discernable that the three welfare regimes choose different strategies to solve the trilemma. Labor markets in liberal countries have always been characterized by high levels of wage dispersion allowing for private service sector expansion. The Nordic welfare states pushed employment expansion through expanding public employment while the equalitarian wage setting institutions and rigid labor markets of Continental European countries kept wages relatively high with the effect of restraining employment expansion. What makes the trilemma so vexing is that employment growth is likely to occur only in the service sector because of saturated production markets, globalization and increased international competition (Wren and Iversen, 1998; Wren, 2013). Accordingly, Continental European countries came to be associated with low levels of employment and high levels of unemployment. A trend that was only acerbated by the strategies of labor shedding and low employment rates among women – resulting in the dubbing of the three welfare regimes as ‘the good, the bad and the ugly’ (Manow, 2004). What is more, Continental welfare states have shown difficulties in developing jobs in the highly productive ICT intensive service sectors as their education and training systems are still targeted at providing a skilled workforce for industrial production (Ansell and Gingrich, 2013; Wren *et al.*, 2013).[1]

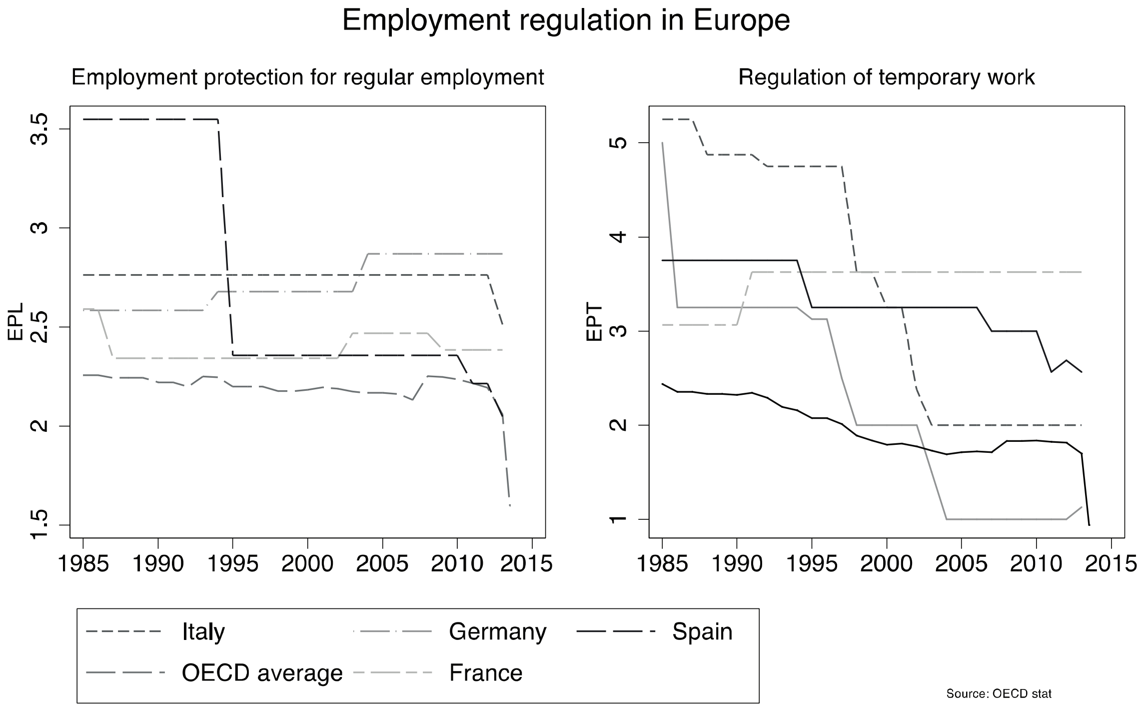
Yet, the link between welfare state institutions and employment works in both directions. Not only does the design of welfare state institutions impact on the growth of service sector employment and hence on employment rates in general, the employment rate itself is important for the sustainability of the welfare state (Nelson and Stephens, 2013). If employment rates are high, many people contribute to the welfare state, making thus a generous welfare state viable. By contrast, where employment levels are low and the proportion of the non-active population (unemployment, housewives, disabled and early retired) is high, generous benefits are likely to generate large budget deficits and pressure for retrenchment. This is particularly true for the Continental welfare state, whose social insurance based schemes are dependent on social contributions (Manow and Seils, 2000a). Consequently, policy makers in Continental Europe started to flexibilize their labor markets in the late 1990s. However, flexibilization was implemented *selectively*, allowing for new and atypical forms of employment at the *margins of the labor market* (Regini, 2000; Toharia and Malo, 2000) while preserving the privileges of standard employed core workers.

As a result of these reforms but also as a result of structural social and economic changes, new labor market risks such as atypical or precarious employment emerged (Esping-Andersen, 2000; Regini, 2000; Kalleberg, 2009; Jessoula *et al.*, 2010; Palier and Thelen, 2010; Eichhorst and Marx, 2012). Figure 1 illustrates this development. In most Continental European countries, employment protection has remained high while the use of temporary contracts has become steadily de-regulated. In Germany, employment protection even increased until 2005, yet temporary work did not become de-regulated either. The only exception is Spain, where standard employed lost part of their admittedly record high employment protection in 1997. But at this time, temporary em-

[1] Although it has to be noted that the low youth unemployment rates in Germany, Austria and Switzerland have attributed to this very reliance on vocational training and enjoys high praise from both the OECD and the European Union.

ployment was already established among Spanish employers as a strategy to enhance external flexibility (Polavieja, 2005), see also Figure 2).

Figure 1: Labor market regulation over time



Indeed, atypical employment accounts for the largest share of job growth in the European Union (Plougmann, 2003; OECD, 2011b). For instance, the number of temporary workers has been growing by 15-20 percent annually between the 1980s and early 1990s, which represents about 10 times the overall rate of employment growth (Standing, 1993). Figure 2 on page 16 confirms the growing importance of temporary employment since the 2000s. Similarly, part-time employment accounts for around 80 percent of the net job creation in the European Union since the mid-1990s (Plougmann, 2003) and amounts to a fifth of EU-27 employment in 2012 (Eurofound, 2013). Of course, part of this flexibilization can be seen as a response to increasing demand for flexible work arrangements from the side of workforce. However, research shows that fixed term contracts tend to imply economic disadvantages in terms of lower wages and lower chances of job promotion and most temporary employed express preferences for a permanent job (Booth*, et al.*, 2000; Kalleberg*, et al.*, 2000; Gash, 2008). In Spain, 80 percent of temporary employed prefer a permanent position to their current job. Furthermore, even voluntary atypical work leads to lower social rights in the European social insurance states since welfare states were created to cover the 'average production worker' (Thelen, 2004; Hinrichs and Jessoula, 2012). For example, many part-time workers only work for short hours, and are therefore excluded from social insurance coverage (OECD, 1999). Moreover, part-time employment is disadvantaged in some pension systems (Häusermann and Schwander, 2012a). Atypical work and unemployment can therefore be interpreted as conditions of social and labor market vulnerability.

Yet, these labor market risks have not become more diverse, they are also increasingly unequally distributed dividing the workforce in insiders with secure positions and outsiders with weak labor market attachment. This unequal distribution of both old and new labor market risks is known as ‘labor market dualisation’ (Saint-Paul, 2002; Rueda, 2007; Palier and Thelen, 2010; Emmenegger *et al.*, 2012a). Although we lack a clear measurement of the extent of dualization due to its multidimensionality and the intricate definition of who is an outsider (see Davidsson and Naczyk, 2009; and Schwander and Häusermann, 2013 for detailed discussions on the concept of outsiders), most scholars agree that dualization is most ardent in Continental Europe (Esping-Andersen, 1999; Palier and Thelen, 2010).

What is more, these labor market risks have a distinct socio-structural foundation. From the literature on the micro-foundation of labor market dualization and labor market sociology, we know that post-industrial labor markets hold different employment prospects for women, young labor market participants, low-skilled and immigrants than for men, those in their prime age, higher skilled individuals or natives. Part-time and to a lower degree also temporary employment is clearly gendered, in particular in Continental Europe (Esping-Andersen, 2000, 2009; Fellini and Migliavacca, 2010; Schwander and Häusermann, 2013). Similarly, atypical employment is more widespread among younger labor market entrants than among the elderly workforce (Esping-Andersen, 2000; Chauvel, 2009; Ranci, 2010; Schwander and Häusermann, 2013). In France and Spain, for example, over 50 percent of young adults in dependent employment were employed on a temporary basis in 2010, while this rate was much lower for employees in their prime age (ILO 2012: 4).

I will therefore analyze the distribution of unemployment risks as an old labor market risk and the risk for temporary employment as an example of a new labor market risk across four Continental European countries: France and Germany as two Northern Continental countries, and Spain and Italy as two countries of Southern Europe. The analysis will focus on skill and age and their interaction as determinants for labor market vulnerability. Throughout the analysis, gender has proven of less importance for labor market inequality with regard to unemployment and temporary employment risks. In particular, the disadvantage of women is rather static over time. Evidence of gender as a determinant of labor market risks is therefore not presented systematically but discussed only selectively when shown relevant.

3 A SHORT HISTORY OF LABOR MARKET REFORMS IN GERMANY, FRANCE, SPAIN AND ITALY

Before analyzing the distribution of labor market inequality, I will briefly review the most important labor market reforms in Germany, France, Spain and Italy starting with Germany as a case of profound flexibilization.

3.1 Germany

Throughout the 1990s and early 2000s, Germany was dubbed the “sick man in Europe” (Economist, 2004) for its sluggish growth rates, persistently high unemployment and low employment rates. With the path-breaking Agenda 2010 – and the aid of a decade of wage moderation and advantageous currency rates – it managed a spectacular turn around and is now the celebrated poster child of labor market liberalization.

Many and different reasons have been proposed to explain why the red-green government under Chancellor Schröder undertook such an extensive reform of the German welfare state which was thought to be reform resistant and stalemated (see Kitschelt 2003).[2] Regardless of the political motivations, the Agenda 2010 signifies undoubtedly a turn away from the traditional Bismarckian ‘social insurance’ welfare state model (Kemmerling and Bruttel, 2006; Seeleib-Kaiser and Fleckenstein, 2007).[3] Since the reforms in the labor market are usually considered to be the heart of the reform package, the following discussion focuses on the changes in labor market policies, implemented in a package of four *Hartz* laws.

The first two *Hartz* laws, enacted in 2003, increased the activation orientation and tightened benefit requirements. Once the spell of unemployment lasts longer than 18 months, the unemployed are forced to take any available job, regardless of their original qualification and pay. On the other hand, labor costs were lowered with the introduction of so-called *mini-jobs* that reduced social contributions on low-paid jobs and secondary employment. Another activation measure was the so-called *Ich-AGs* (‘me inc.’), i.e. the facilitation of small (and smallest) enterprises. The third *Hartz* law foresaw an internal reform of the public placement agency with the aim to improve management and placement of jobseekers.

2 Kemmerling and Bruttel (2006) emphasize the window of opportunity provided by a scandal in the PES (Public Employment Service), Hassel and Schiller (2010) point to the looming collapse of West German communes due to the sky-rocking expenditures for long-term unemployed related to the German federal system, Rehm (2014) advances the argument that public support for generous unemployment benefits decreased due to increasing inequality in labor market risks. Others point to policy learning effects and the model role of the British labor market and welfare reforms (Fleckenstein and Seeleib-Kaiser 2007).

3 But see Clasen and Goerne (2011).

The last, and by far most controversial, *Hartz* IV law reformed the structure of the unemployment insurance. In the past, Germany had known three kinds of assistance for unemployed: unemployment benefits, unemployment assistance and social assistance. The unemployment benefit system builds on an insurance principle and pro-insider orientated: benefits are earning-related and the generosity depends on contribution records, as well as the age and family status of the job seeker, thus highly benefitting (male) insiders. After up to 32 month (one of the highest duration of unemployment benefits in the OECD), the unemployed move to the unemployment assistance. For unemployment assistance, benefits are lower but still earning related (54 percent of previous earnings) and *unlimited*. Only those who do not qualify for unemployment insurance/assistance (lone parents, those with incomplete contribution records or marginally employed) relied on social assistance, a means tested and stigmatized benefit. What is more, unemployment benefits were often used as a pre-early-retirement scheme (Manow and Seils, 2000b). Unemployed above the age of 58 were not expected to return to the labor market but received the first three years of unemployment benefits (often topped up by their employers to receive benefits corresponding to original levels of their wages) before qualifying for early retirement.

Hartz IV stands for a radical change of this system. It reduced the generous earning-related unemployment benefit (*Arbeitslosengeld I)* from 32 to 12 months for those below the age of 55 and merged unemployment and social assistance to a single flat rate and means-tested benefit called *Arbeitslosengeld II (*colloquially called *Hartz IV).* The *Arbeitslosengeld II* corresponds roughly to the level of the former social assistance benefit. More than two thirds of the unemployed today have to rely on the means-tested benefits (Hassel and Schiller, 2010; Seeleib-Kaiser and Fleckenstein, 2007). Considering that the ‘old’ welfare system protected status and qualifications of skilled insider workers, these reforms represent a major break in the orientation of the German welfare system. At the same time, however, regulation of regular contracts even slightly increased with a sequence of reform steps between the mid-nineties and the “Agenda 2010” package of 2003, basically changing only the threshold of the size so that firms with fewer than ten employees are exempt from dismissal protection when it comes to new hirings (see Figure 1).

One of the reason why Germany is celebrated for its labor market reforms is that is seems unaffectedness from the economic crisis in the late 2000s. To meet the crisis, additional measures to increase the external flexibility were enacted in 2008. The use of short time working programs was facilitated and subsidized and the duration of the program enhanced (Eichhorst *et al.*, 2010b). As these programs prevent the dismissal of those already employed – unemployment hit mainly the marginal labor force (Eichhorst et al. 2010) – they benefitted insiders. So does the prolongation of *Arbeitslosengeld I* for those above 50 to 24 months depending contribution period. In 2012, the government re-regulated temporary employment by introducing the principle of equal treatment of temporary and permanently employed.

In sum, the German labor market has become much more flexible in terms of the use of atypical employment, but insiders have lost large parts of their previous privileged position in the social insurance system and are much more subjected to the vagaries of flexible labor markets. At the same time, built-in measures such as short-time working programs protecting those already in employment helped Germany to weather the storm of the Great Recession and to limit the negative effects on the labor market.

3.2 France

Just as pre-Agenda Germany, France is seen as a country with severe structural labor market problems and the need for reform is seen paramount (Eichhorst, 2007). Accordingly, France has changed its labor market policies but rather slowly and incrementally in a dualizing way. With fairly high institutionalized protection of regular employment (see Figure 1), the most important means to introduce flexibility are temporary contracts. This is true despite a relatively strict regulation of fixed-term employment.[4] Consequently, France is seen as a dualized country (Palier, 2010a; Palier and Thelen, 2010; Clasen and Clegg, 2012; Clegg, 2012) with the most important dividing line between older and younger workers (Eichhorst, 2007). This dualization between younger and older workers is both seen in terms of social protection, where older workers enjoy more generous protection than younger workers and in terms of labor market risks.

Regarding the social protection side of dualization, unemployment insurance is strongly segmented in France. It provides different activation and protection schemes for different groups of unemployed whereas the generosity of benefits and length of entitlement is high particularly for older workers. This is true even after cuts from 60 to 42 months in 2002 and to 36 months in early 2006 for the unemployed aged 50 and over (Eichhorst, 2007). In addition, several bridges to early retirement are still available. Elderly workers are also particularly protected from dismissal by the so-called *Dalalande contribution*, a contribution to be paid in case of dismissal of a worker above the age of 50 (Jamet, 2006).

By contrast, both labor market integration as well as social protection is more problematic for younger labor market participants. For example, young adults are not entitled to the minimum income scheme *revenue minimum d'insertation* (RMI). The *Contrat*

[4] Fixed-term employment is allowed only for replacing employees on leave, for temporary need of labor, seasonal or sectoral reasons and only up one renewal and a maximum duration of 18 months (24 months for specific reasons) (Eichhorst, 2007).

Nouvelle Embauche (CNE) which relaxed employment protection for newly employed in smaller firms is mostly used to employ younger adults. A bill generalizing the CNE for all young people below 26 the *Contrat Première Embauche* (CPE) was withdrawn by the government after major protest in spring 2006. At the same time, France continued on its path of 'insertion', i.e. providing for different models of fixed-term subsidized employment addressing diverse target groups of unemployment (Clasen and Clegg, 2012). Since 2001, the *plan d'aide au retour à l'emploi* (PARE) combined unemployment benefits with return to work schemes and brought the public employment service and unemployment insurance closer together (Palier, 2005). Yet, these measures did not lead to a stronger activation of unemployed or a reduction of labor market risks. In contrast to the Agenda 2010 reforms, PARE affects only a minority of unemployed (Jamet, 2006). And the relatively high level of guaranteed minimum income and minimum wages allow only for a reduced effectiveness for in-work benefits (Eichhorst, 2007).

Taken together, the French labor market remained fairly regulated for standard employment but has implemented different measures to allow for more flexibility, which comes often in the form of temporary employment. As a result, the French labor market holds different prospects for younger and older cohorts.

3.3 Italy

For much of the post-war period, Italy represented another candidate for the label "sick man of Europe" for its poor macro-economic performance in terms of employment, inflation, public debt or economic growth. In addition, strong insider-outsider divides between fully protected insiders in the primary labor market, often working in large companies in the industrial sector, and outsiders in atypical employment are a defining feature in the Italian labor market since the 1970s (Ferrera, 1996; Jessoula*, et al.*, 2010). Self-employment has traditionally been an important form of atypical work in Italy, and recently, especially the so-called *parasubordinati*. Black or gray employment represents another form of atypical employment, particularly in the South of Italy (Gualmini, 1998). The institutional design of unemployment insurance and the unions' strategies of wage setting acerbated insider-outsider divides, particularly as these insider institutions were not offset by similar activation or integration institutions for outsiders (although proposals to facilitate the integration of young adults in the labor market by introducing a system of vocational training to introduce a system of active labor market policies were seriously discussed in the wake of the employment crisis in the 1970s (Ferrera and Gualmini, 2004)). We will see that labor market risks remain unequally distributed in Italy, although temporary employment complements self-employment as dominant forms of atypical employment.

By the early 1990s, the traditional employment policy approach of ‘labor shedding’ and ‘competitive devaluations’ had reached its limits: the strategy of recurrent devaluations was hindered by the ambition to enter the European Monetary Union (EMU) and Italian policy-makers were forced to substantially modify the policy repertoire in order to tackle persistently high unemployment rates and declining employment levels in the subsequent years (Ferrera and Gualmini, 2004; Jessoula and Alti, 2010). Italian policymaker managed to defrost the labor market and recalibrate social policies, but also to enhance decision making processes and managing public finances more efficiently (Ferrera and Gualmini, 2004). Some even go as far as to call the 1990s “a real quantum leap in terms of institutional capacities” (Ferrera and Gualmini, 2004 10) or the “Copernican revolution” (Salvati, 1997: 9). Yet, these policy reforms provided only temporary alleviation and introduced most of all selective flexibilization of labor markets thereby increasing labor market inequality as the following discussion will show. Among the most important reforms of this hopeful period was the elimination of the automatic indexation of wages to prices that was so advantageous to insiders and the reform of collective bargaining in 1992/93 just after the ‘Tangentopoli’ scandal (Jessoula and Alti, 2010).

Four years later, the center-left cabinet headed by Romano Prodi pushed forward a path-breaking reform of employment policies, the so-called *Treu-reform.* The reform prompted a ‘*selective flexibilization’* of the labor market: flexibility was pursued ‘at the margin’, that is, by favoring the spread of atypical, flexible contracts with lower labor and redundancy costs than typical full-time permanent jobs, and re-launching part-time work. At the same time, the automatic conversion of temporary contracts to permanent contracts was abolished (Ferrera and Gualmini, 2004). By contrast, job security for insiders remained untouched (Jessoula, 2012) and the social protection side, i.e. unemployment insurance was not reformed. Hence, temporary employment was to become the dominant form of atypical employment alongside of self-employment. Within two years the number of temporary employment rose from 5.1 percent to 9.3 percent (Ferrera and Gualmini, 2004, p. 101), while part-time employment grew much slower. Again, the EU, in particular the Maastricht Treaty, and later the discussion about the European Employment Strategy (EES) exerted a crucial influence in inducing a policy learning effect among Italian policy makers (Jessoula and Alti, 2010).[5]

After a failed attempt of the Berlusconi Government II to reduce employment protection for insiders, i.e. to reform the famous Article 18 on the Workers Statute in 2002, the line of selective liberalization was continued throughout the 2000s until the outbreak

[5] The influence of the EU is shown in the Legislative Decree 368 of 2001, implementing the 1999 EU Directive (1999/70/EC), which eliminated the need for employers to justify the need to limit the duration of a contract.

of the crisis in 2008.[6] In addition, the government ended the Minimum Insertion income, which had established a minimum safety net for outsiders. Instead, resources have been re-directed to the ordinary unemployment insurance, which benefits mainly insiders (Jessoula and Alti, 2010, p. 176). In line with this, conservative familalism remained the dominant principle of the Berlusconi social policy strategy. In-kind family benefits that would allow women to combine paid work and family remained underdeveloped (Oliver and Mätzke, 2014), causing Italy's fertility rate to drop to 1.2 in the 1990s, one of the lowest fertility rates among OECD countries (OECD, 2014).

Just as the EU acted as catalyst of labor market and social policy reforms, the persistent crisis since the 2008 has the potential to act as catalyst for labor market and social policy reforms. The crisis has caused unemployment to increase again after a long decrease of unemployment and increase of employment rates. Flexible workers were the first victims of the crisis and the shortcomings of 'selective flexibility' without security dramatically appeared (Jessoula*, et al.*, 2010). Although Italy has been repeatedly criticized for its slow reaction to the crisis, a series of reforms has been implemented that re-regulate the use of temporary employment by facilitating the conversion of fixed term to permanent contracts if the reason for the contract is not naturally limited. Equally, the *Riforma Fornero* (Law 92) of 2012 introduces further restriction on the use of temporary contracts. Yet, the most noteworthy and intensely debated rules contained in the reform concern the revision of Article 18 of Workers' Statute intending to reduce *employment protection for insiders*. Currently, PD prime-minister Mateo Renzi is attempting a revision of the Article 18. Unsurprisingly, the attempts are met with fierce responses of the unions.

3.4 Spain

If Germany stood out as the paragon of the conservative welfare state, Spain is considered as the paragon of 'selective flexibilization' at the margins of its labor market (Bentolila and Dolado, 1994; Toharia and Malo, 2000; Eichhorst*, et al.*, 2010b). Until 1997, it had one of the highest employment protections for regular employment in the OECD. Therefore, temporary employment became the favorite mean to increase external flexibility and Spain introduced temporary employment as early as 1984. Subsequently, temporary employment expanded rapidly and in 1991, a third of employees held a temporary contract (Polavieja, 2006).

Just as in Italy, the desire to stick to the Maastricht criteria lead to reforms in the Spanish labor market and welfare state, but in contrast to Italy in a retrenching and fur-

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6 Law 30/03 further pursued flexibilization at the margin by introducing a number of new atypical contracts (that is, on-call work, job sharing, and so on).

ther dualizing way. Conditions for unemployment benefit entitlements were tightened in 1992 from 6 to 12 months of previous contributions (Guillen, 2010). Accordingly, coverage rates fell and it is safe to assume that they fell particularly among temporary employed that had more difficulties in meeting the tightened requirements. Expenditure growth on activation policies also slowed down for the rest of the decade (Gutierrez and Guillen, 2000). Only in 2000, an active integration subsidy was created for aged long-term unemployed. The 1990s witnessed two further waves of labor market flexibilization but also an equalization of social rights between atypical employment forms and standard employment in 1999. Among other measures, the flexibilization reforms from 1993/1994 included promoting job creation through new tax and social contribution exemptions for employers contracting outsiders (young adults, long-term unemployed, elderly or disabled workers). The measures also fostered work-experience and job-training contracts and the reduction of barriers for certain kinds of redundancies. On this occasion, and in contrast to the 1984 reform, part-time contracts were more vigorously promoted by providing them with more public subsidies. The 1996 reform promoted the creation of open-ended contracts, modified part-time contracts and reduced the cost of redundancies (Guillen, 2010). These flexibilizing reforms had the simultaneous effect of lowering the old labor market risks of unemployment but increasing the new labor market risk of temporary employment. In the early 2000s, the rate was still twice as high as the OECD average and 80 percent of newly created jobs were assigned on a temporary basis (Polavieja, 2006, Figures 1 and 2).

When coming back to power in 2006, the Socialist PSOE undertook another attempt to limit the use of temporary power by limiting the subsequent renewal of temporary contracts. One year later and following EU legislation, the PSOE government enacted the 'Law on Gender Equality' to reduce labor market inequality between men and women.

In Spain, the deep and perturbing employment crisis that followed the busting of the housing bubble in 2008 lead not only to sky-rocking unemployment rates (see Figure 2), but also to a profound reform of labor market policies in February 2012. With the intention to increase hiring on permanent contracts, the reform improved the flexibility of the collective bargaining system, decreased employment protection for regular employment and introduced a new contract as a bridge between temporary and permanent employment reform. Although the OECD expresses some optimism about its potential to reduce labor market inequalities and suggests that the reform had been responsible for the creation of about 25'000 new jobs per month in 2012 (OECD, 2013), it is too early to analyze the impact of the reform.

From this section, I develop the following expectations: First, due to the secular pressures for a flexible labor force and given that temporary employment provides a mean for flexible adjustment of labor market supply, non-reforms might have a just the same effect of labor market risks as dualizing reforms do. I therefore expect labor market risks to be less unequally distributed in Germany, while labor market inequality is expected to increase in France, Italy and Spain. At the same time, I expect labor market risks to be particularly concentrated among the younger cohorts in France, Italy and Spain.

4 The incidence of labor market risks in Continental Europe

To get an impression of the development of labor market conditions in general, let us first have a look at the incidence of unemployment and temporary employment in the four countries over time in contrast to the general development of OECD countries in Figure 2.

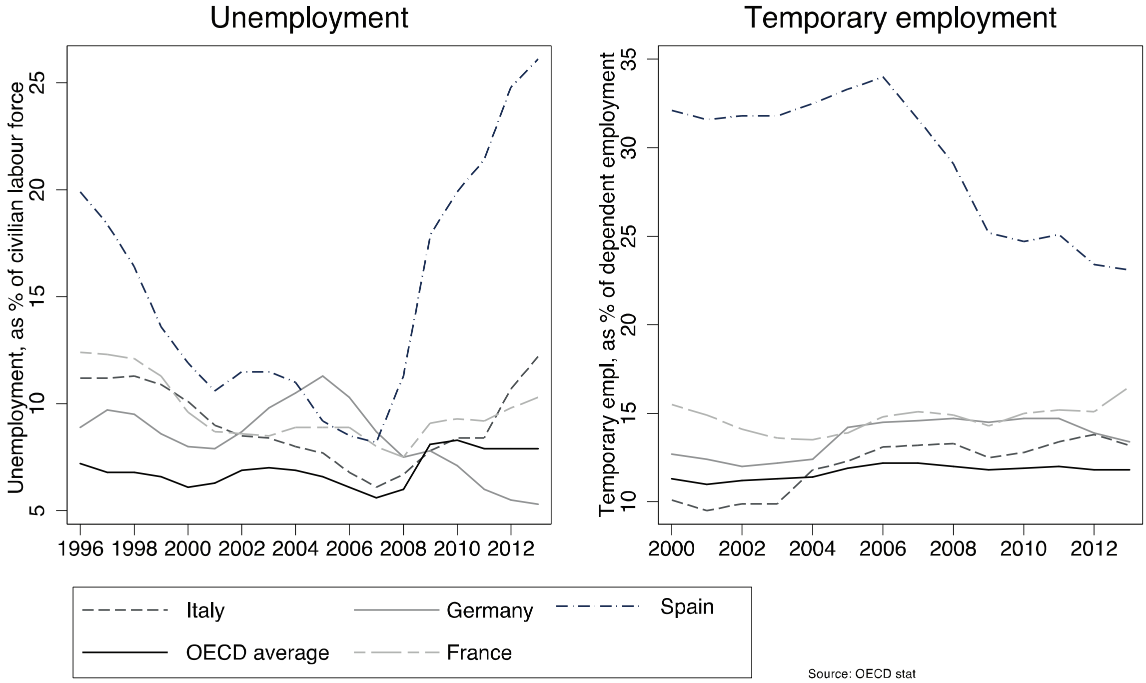
We first note that the four countries display above OECD-average rates of unemployment and temporary employment for most of the time under consideration. They thus confirm the notion of sclerotic Continental labor markets (Jessoula and Alti, 2010). As the only country to have implemented substantial welfare and labor market reforms, Germany experienced a steady decline of unemployment since the introduction of the Agenda 2010 in 2005. Unemployment rates fall below OECD average in 2009 both as a result of the sharp increase within the OECD but also of the decline of unemployment in Germany. Today, Germany has achieved near full employment. At the same time and again as a consequence of the Agenda 2010, temporary employment steadily gains importance until 2011. In 2011, 14.7 percentage of the workforce holds a temporary contract.

The second insight we gain from Figure 2 is the exceptional labor market situation in Spain. Spain clearly stands out for its high levels of both unemployment and temporary employment among the four countries but also from an OECD perspective. After a period of steadily decreasing unemployment in the 1990s and 2000s, when the selective flexibilization of the Spanish labor market resulted both in decreasing unemployment but also extremely high level of temporary employment, the bursting of the housing bubble and the subsequent break-down of the construction sector and other sectors that marked the Great Recession in Spain caused unemployment rates to soar up again. In 2013, unemployment stood at a record level of 26.1 percentage (Eurostat 2014). At the same time, the extremely high levels of temporary employment were substantially reduced, when the contracts of many temporary employed expired and they moved into unemployment.

Unemployment and temporary employment are also persistent problems in the rigid French and Italian labor markets. Just as in Spain but at a lower level, the economic crisis ended the recovery from unemployment in the two countries. At the same time, the proportion of individuals employed on a temporary basis is continuously growing since the 2000s.

We conclude that we see divergent patterns of the development of unemployment and temporary employment. While temporary employment and unemployment work as substitutes in Germany and Spain, both indicators of labor market rigidity increase in France and Italy.

Figure 2: Unemployment and temporary employment in Continental Europe over time



5 PATTERNS OF LABOR MARKET INEQUALITY IN CONTINENTAL EUROPE: DATA AND OPERATIONALIZATION

In the next step, I analyze the development of labor market inequality in Germany, France, Spain and Italy from 2005-2011 with two specific sets of questions in mind. First: have labor market risks become more unequally distributed in terms of unemployment and temporary employment? In other words, has the difference between insiders and outsiders widened because insiders have become even more shielded or because outsiders have become more vulnerable? The second question we are interested in refers to the structure of labor market inequality. Have labor markets become more unequal for different age or skill groups or between men and women? Does the importance of these determinants changes over time, i.e. do we observe young adults to gain at the expense of lower skilled individuals or at the expense of women? Let us recapitulate our expectations: labor market inequality is expected to increase in France, Italy and Spain but not in Germany as a result of the restructuring of the labor market and the removal of employment obstacles with the implementation of the Agenda 2010. I also expect labor market risks to be particularly concentrated among the younger cohorts in France, Italy and Spain.

There are several ways to conceptualize labor market inequality depending on the specific research question one has in mind. According to the focus on labor market participation I understand labor market inequality as an unequal *distribution of labor market risks*. I focus on unemployment and temporary employment because these two forms of labor market risks have particularly strong effects on economic and social deprivation and are often linked to a permanently inferior labor market status for its negative effects on human capital and work experience. More specifically, I show how these labor market risks are distributed between different socio-structural groups, i.e. I analyze patterns of labor market inequality according to three determinants of labor market success: gender, age and education.

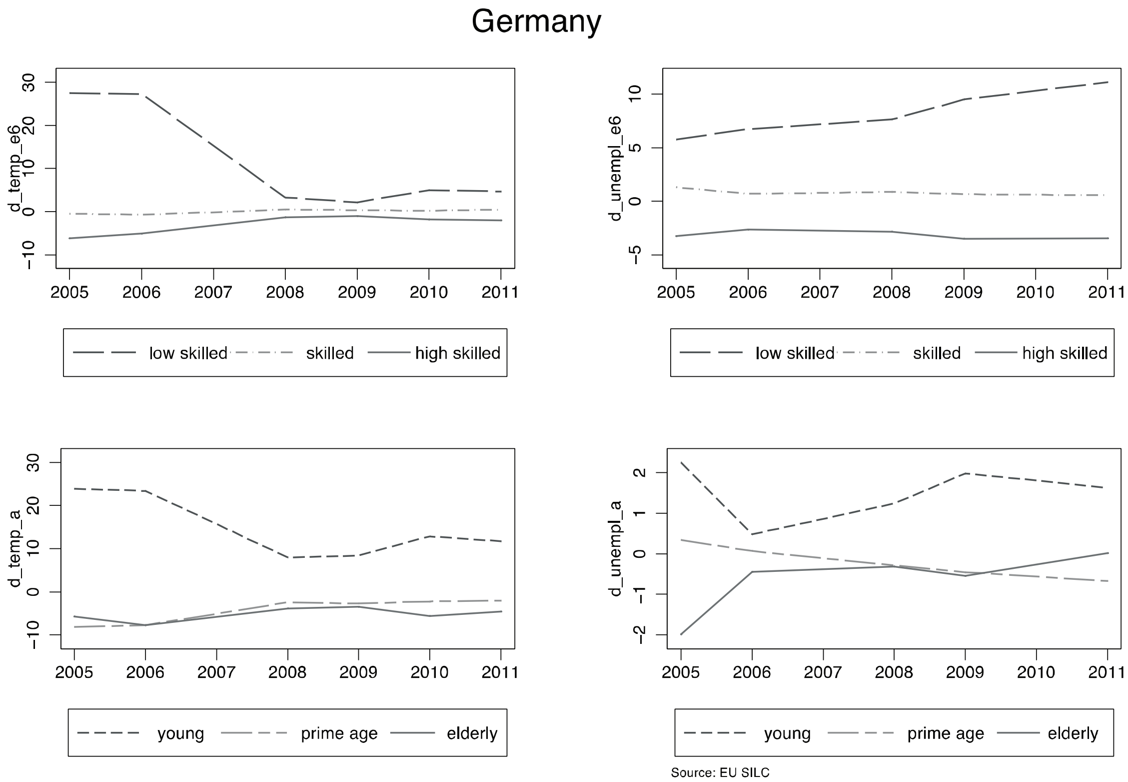
Age and education are measured in three categories: 18-35 years denotes the cohort of young adults, 36-49 years the cohort of prime aged individuals, and those above the age of 50 are older workers. Note that the analysis is restricted to individuals in working age. An individual with low skill levels holds a degree below completed secondary education, a skilled individual has secondary to post-secondary education and high-skilled individuals hold a tertiary degree.

How do we measure labor market risks? Labor market risks are the probabilities of becoming unemployed or being temporary employed. These probabilities are measured by the unemployment (temporary employment) rates of the individuals' reference group minus the national rate of unemployment (temporary employment). Hence, labor market risks are measured as the deviation of a group from the country specific mean of unemployment (temporary employment) rate. The rationale behind this measurement is that the risk of an individual depends on the incidence of atypical employment or unemployment within his/her occupational category. Hence, the occupational categories link the individual to a social group sharing similar labor market risks. Also, we have to subtract the national rate of unemployment/temporary employment to control for an overall increase of unemployment/temporary employment. Accordingly, risk exposure is high for individuals whose group-specific rate is above the national average (see Schwander and Häusermann 2013 for a more extensive discussion on the relationship between labor market vulnerability, labor market risks and the incidence of atypical employment and unemployment among an occupational reference group). To analyze the development of labor market inequality, I rely on various waves of the EU-SILC *(survey on income and living standards*). This survey is unrivalled by the number of respondents per country and wave. Since I want to analyze labor market risks of different socio-structural groups and unemployment and temporary employment are labor market conditions that affect nevertheless a minority group of individuals, a large number of respondents is essential for a thorough analysis of labor market risks.

6 PATTERNS OF LABOR MARKET INEQUALITY IN CONTINENTAL EUROPE

The following figures show the distribution of labor market risks. Lines represent the deviation of group-specific rates of temporary employment (left side) or unemployment (right side of figure) from the national average in the particular year.

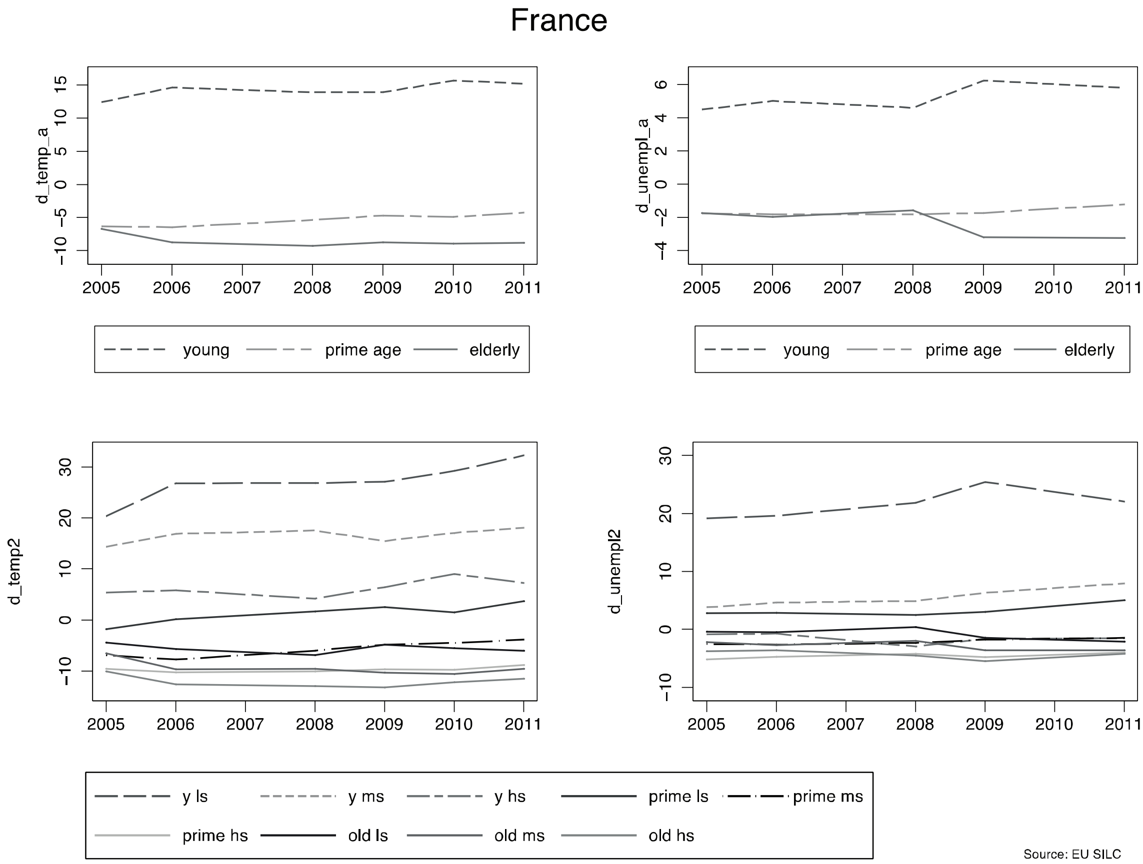
Figure 3: risk for temporary work and unemployment per skill and age category



Starting with the distribution of labor market risks in Germany, we see that not only the risk for unemployment has become less frequent since the introduction of the Agenda 2010 (see Figure 2), it has also become more equally distributed between different age and skill groups. The left side of Figure 3 shows the unemployment risks for three age and three skill groups and demonstrates that the distribution of labor market risks has become more equal since the implementation of the Agenda 2010. For both young adults (aged 18 to 35) and low-skilled individuals (below secondary education), the risk for unemployment, which was considerable at the eve of the Agenda 2010, has been shrinking since then. At the same time, we observe a widening inequality of risk for temporary employment because temporary employment risks increase for exactly the same groups while it remains constant for elderly and higher skilled individuals. Hence, it seems that the Agenda 2010 replaced one form of labor market inequality with anoth-er form of labor market inequality. While the prolonged transition from education to a stable position in the labor market certainly increases economic insecurity and might have other negative effects such as postponed family formation, it certainly leads to less social and economic exclusion than unemployment.

I would like to add that both the risks for unemployment and temporary work are not particularly gendered. This, of course, could not be said for part-time work which is strongly and constantly gendered in both its voluntary and involuntary version in Germany (results not shown, see the contribution by Irene Dingeldey to this volume). To maintain the focus of the paper on temporary employment and unemployment, I refrain from analyzing part-time employment systematically.

*Figure 4: Labor market risks according to age und skill*age in France*



Things are different in France as the figure above shows. In France, labor market risks are highly unequally distributed between young adults and those in their prime age of above 55 both in terms of unemployment and in terms of temporary employment. Elderly even became *less* exposed to unemployment and temporary employment risks over time. Hence, while the overall situation on the French Labor market deteriorated, the elderly were able to shield themselves from these vagaries, leading to a higher dualization between the generations. Policies such as the *Dalalande contribution* that make the dismissal of elderly workers more costly have certainly contributed to this development.

Looking at the interaction between age and skill levels, we clearly see from the two panels on the lower part of Figure 5 that low skill levels are most problematic for younger cohorts. Their exposure to unemployment and temporary employment risks is between 20 and 30 percentage pointed above the national mean. But temporary work is not confined to low-skilled young adults; young adults with medium or high levels of education are also over-proportionally at risk to work in temporary employment. By contrast, education helps to reduce the unemployment risk not only in general but also for young adults. Although skilled young adults still have a considerable higher unemployment risk than the rest of the workforce.

I conclude that in recent years labor market inequality remains stubbornly high in France. I relate this back to the rigid labor market and the lack of more than superficial labor market reforms in the last decade until very recently. Indeed, France is a case where we observe a clear effect of a *non-event* mostly at the cost of the younger generation, which is clearly confronted with higher labor market risks than individuals in their prime age of even elderly individuals.

Consistent with the politics of 'selective flexibilization', we find pronounced levels of labor market inequality in Italy and Spain, which are only to increase over time. Hence, despite an unequal development of unemployment and temporary employment at the aggregate level (see Figure 2), Italy and Spain show similar patterns of labor market inequality. Unemployment on the whole tends to decrease from the 1990s until the outbreak of the economic crisis in 2008 in both countries what attenuates the aggregate unemployment risks. Yet, this cannot be said for young adults: For young adults unemployment risks remained high until 2008. The economic crisis contributed to a modest further divide in unemployment risks in Italy, increasing the risk for young adults but not for workers in their prime age or older workers. In Spain, the crisis was immediately felt but only among the younger workers. Unemployment risk sky-rocketed from 2008 to 2010 for young adults, while older workers managed both to reduce their risk for unemployment *and* stabilizing their risk for temporary employment. By contrast, for young adults in Italy, temporary employment rates are between 9 and 19 percentage points above the national mean. With excess rates between 16 and 20 percentages points, the young adults are even more disadvantaged in Spain. Hence, we clearly find *a dualization of labor market risks between young and older workers with regard to both new and old labor market risks*.

Again and in contrast to France, these labor market risks are *independent from skill levels* as the two panels on the lower part of Figure 5 and Figure 6 show. In both countries, unemployment rates and rates of temporary employment are decidedly higher young adults with low, medium or high skill levels than for other groups. The only group that faces a higher exposure to unemployment risks besides young adults are low-skilled individuals in their prime age whose unemployment risks has been steadily increasing since the outbreak of the crisis. At the same time, higher skilled adults are somewhat less exposed to the risk of unemployment. The crisis seems to have emphasized the importance of skills at the expense of generation in terms of unemployment as the easing unemployment risks for young adults with high-skill levels indicate.

*Figure 5: Labor market risks according to age und skill*age in Italy*

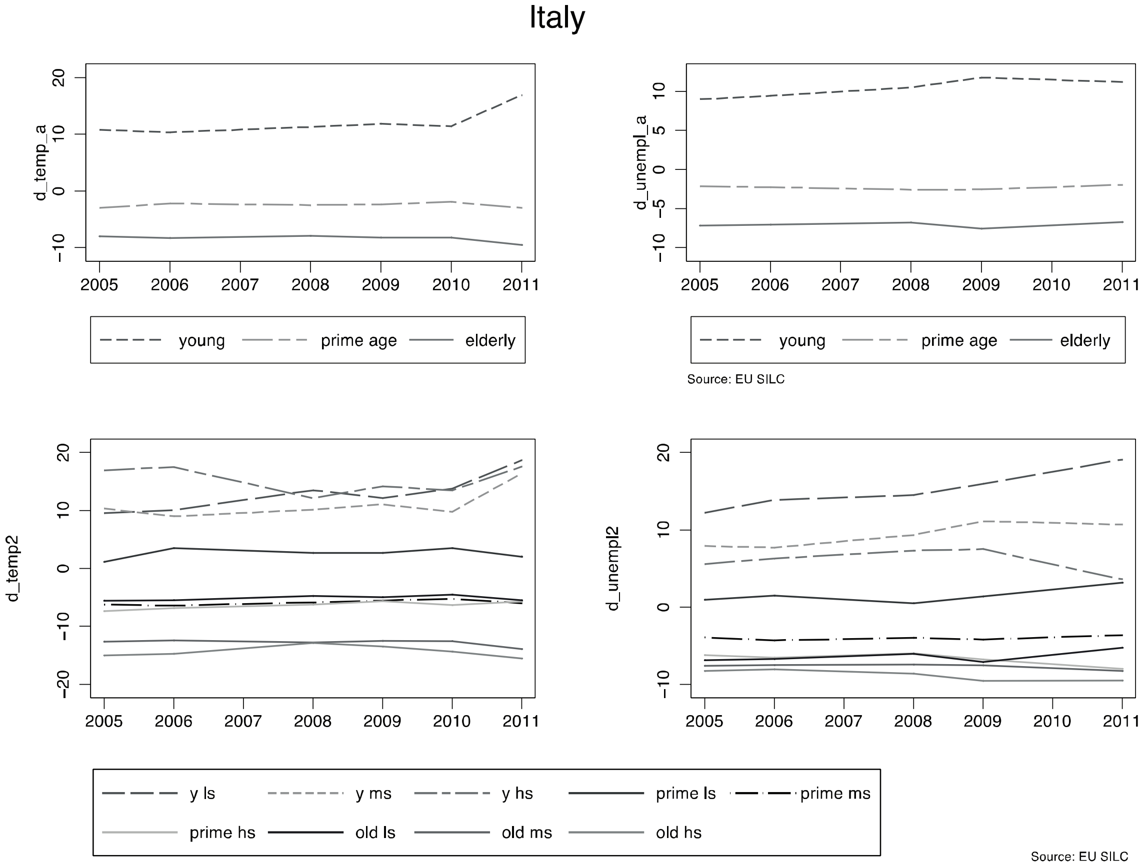
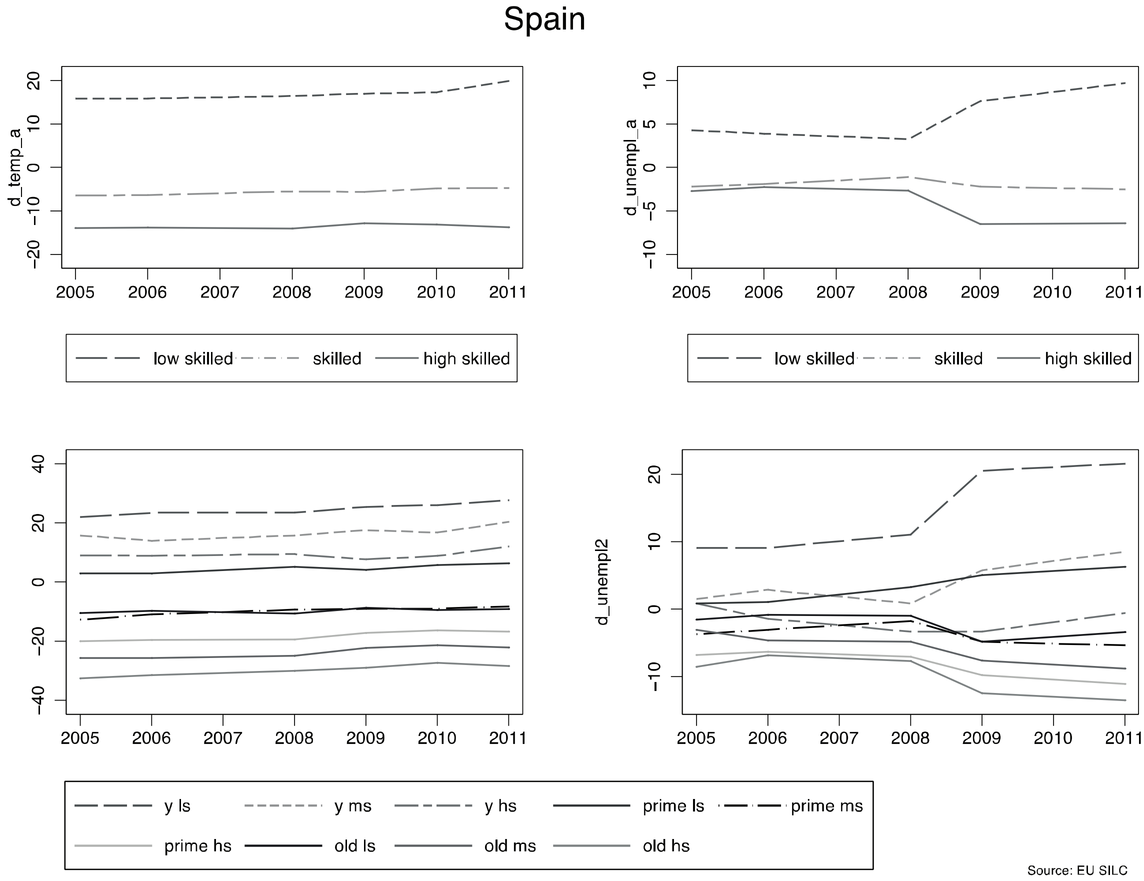


Figure 6: Labor market risks according to age und skill x age in Spain



I conclude that labor market risks in Italy and Spain are unequally distributed and clearly along the lines of generation. Although young adults with higher skill levels managed to ease their risk for unemployment in Italy, labor market risks are so unequally distributed that one might speak of a *dualization of the Italian and Spanish labor market between young outsiders and older insiders.*

7 CONCLUSIONS

Rising economic inequality in the OECD countries is one of the most worrisome developments in the last decades for its many negative consequences on economic prosperity, democratic sustainability and prospects of individuals' pursuit of personal happiness and self-fulfillment. One of the reasons for the rise in economic inequality are the increased and more diverse labor market inequalities for which the state is less able to compensate than in earlier times. These labor market risks have not increased all over Europe, they have also become more diverse. Besides the old labor market risk of unemployment, they include also new labor market risks such as long-term unemployment, temporary employment, part-time or marginal employment. This paper is interested in these labor market risks and the unequal distribution of labor market risks within the work force that. I analyze the effect of welfare state transformations and changes in the regulatory framework on the distribution of labor market risks from the mid-2000s onwards. Germany, France, Italy and Spain represent cases with different reactions to the pressures of labor market flexibilization exerted from increased international competition and supra-national actors as the EU.

Relying on several waves from the EU-SILC I examine patterns of labor market risks and the distribution of labor market risks between groups with different skill and age levels and the interaction of these two factors. I conclude that we observe varying patterns of the development of unemployment and temporary employment in the four countries. In Germany, labor market risks have become less unequally distributed since the implementation of the Agenda 2010 in 2005 which reforms the German labor market profoundly while labor market inequality has increased in Spain and Italy and remained constant in France.

The strongest dividing line for exposure to labor market risks in Germany was between those individuals with low-skill levels on the one hand and those with medium or higher skill level on the other hand. Yet, differences between the groups were declining for both forms of labor market risks. Due to the economic recovery unemployment decreased in the observed time period also in absolute terms while temporary employment becomes more prevalent. By contrast, in France, Italy and Spain, it are most of all young adults which have to bear the brunt of labor market risks while those in their prime age and even older workers are shielded from the vagaries of flexible labor markets. In France, it even seems that older workers managed to protect themselves even more vigorously from unemployment during the economic crisis by means of policies such as the *Delalande contribution*, which makes dismissal for older workers particularly costly. I would also like to stress that while the labor market situation is also distressing for young adults in France, particularly for those with low skill levels, in Southern Europe labor market risks are concentrated among the younger cohort *regardless of their skill levels*. In Spain, labor market inequality has substantially widened between younger and older cohorts since economic crisis and labor market reforms have been unable to alleviate the situation. Hence, while higher education represents an escape of labor market risks in France to some extent, even this way to a stable labor market position is blocked in Italy and France. Both Italy and Spain have implemented new reforms to provide more security for the temporary employed and to facilitate the conversion of temporary to open-end contracts. Due to the limited time having passed since their implementation, the effect of these labor market reforms could not yet be analyzed.

Let me end the paper with a speculative remark. Given the persistent difficulties of these countries to recover from the Great Recession, one could speculate whether labor market inequality along the lines of age has a potentially negative effect on economic performance while the concentration of labor market risks among the lower-skilled - as in Germany - seems to be less problematic for employment and economic growth.

The hope remains that the crisis exerts sufficient pressure on policy makers to enact labor market reforms that reduce the concentration of labor market risks among one generation at the gain of older generation. The waste of innovation, human capital and human opportunities are likely only to prolong the economic straits of these countries.

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