

**Protected mobility for employment and decent work:**

**Labour market security in a globalised world**

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**Abstract:**

Recent ILO research found that a cluster of OECD countries that might be called "numerically flexible" does in fact demonstrate good labour market results: employment rates overall and rates for relevant groups (young/female/older) are higher and unemployment is lower than in countries with less numerical flexibility as measured by employment tenure.

However, when considering indicators of job quality (measured by wages, perceived employment security, access to training, etc.) the picture is mixed, with some countries exhibiting low shares of good quality employment and some others high shares. The discriminating variable seems to be labour market institutions and policies. If they are extensive there is "protected flexibility", and job quality as well as perceived job security are high. In the absence of such policies ("unprotected flexibility"), job quality and job security suffer. A conclusion is that if efficiency and equity are sought in labour markets in open economies then institutions and policies for "protected mobility" should exist.

Institution building (or transformation of existing institutions) is important on several accounts. Firstly, globalisation and technical change transforms employment relations and entail more volatility and less security, because employers cannot maintain the same degree of employment protection as in less exposed economies. Secondly, collective bargaining agendas have to be extended to include labour market policies, as employers' demands for more adjustment flexibility will increasingly be accompanied by worker representatives' demands for better security in change. In other words: reduced employment protection has to be compensated by labour market security if decent work is a target. Protected mobility by sound labour market policies might result in real "flexicurity" (adaptability for firms and security for workers) and become a common objective of both sides of industry while also reconfirming an enhanced role for the State.

**Introduction**

Globalisation creates new opportunities for growth and employment but also brings challenges and problems such as job displacement and job loss, as well as increased stresses and strains at the workplaces exposed to increasing global competition. On a general level there is evidence that in order to grasp the new opportunities of globalised markets, it is important to be part of the trade and investment flows of the global economy. If countries do not participate in these flows or are integrated in the world economy solely as primary commodity exporters they face bleak results in their economies and labour markets (Ghose 2003).

The dismal growth, employment and poverty record of the excluded countries account for much of the unfairness in globalisation found by the World Commission on the Social Dimension of Globalisation (WCSDG 2004). Yet, even in the countries in which globalisation has a generally positive impact, people are still affected, as globalisation tends to increase labour market adjustment problems. The pros and cons of globalisation are in fact unfairly distributed between winners and losers within countries even when a country as a whole is a winner in globalisation.

Labour markets in particular create winners and losers: while new jobs are created, other jobs are lost. Loss and creation do not occur in the same sectors, firms and regions of a country; and do not occur at the same time. Sometimes jobs are lost in one country and created in another. Jobs destroyed and created usually differ in terms of pay, skills, age, sex and so on. This structural heterogeneity between jobs created and lost is one of the reasons why, even in the presence of a hypothetical quantity match of supply and demand

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of labour, painful qualitative adjustments are the outcome for many. The pain increases with the level of inadequacies between demand and supply and the time needed to adjust. This is one of the main causes of structural unemployment, which observers usually attribute to the supply side (people not well adapted to demand from employers) when in reality it is caused by both shortage of or ill adapted supply **and** shortage of or ill-adapted demand. Long periods of high unemployment in many countries show this quite drastically.

Globalisation is also said to bring about more flexible labour markets. As adjustment to shocks (such as trade liberalization) becomes more frequent, the labour force has to adapt more quickly and the employment relationship is said to become more volatile and short-term. For the future of work in an era of globalisation, the future of the employment relationship is relevant: most observers see dramatic changes in the employment relationship and some even see the end of (salaried) work (Rifkin & Heilbroner 1995, Beck 2000) or at least a system that evolves “beyond employment” (Supiot 1999).

The long-term employment relationship (and the employment contract) is seen as being part of the defunct Fordist and industrial model, which is being replaced increasingly by a much more heterogeneous and volatile service sector economy. Given what one hears daily about the recession, downsizing, unemployment and precarious jobs, one could be forgiven for believing that holding a longer-term job is the exception rather than the rule and that (numerical) flexibility has finally had the upper hand in this phase of globalisation.

The present paper addresses some of the issues linked to the debate of the changes in the employment relationship in an age of flexibility and globalisation. The first part is devoted to the question whether or not the longer-term employment relationship has disappeared and the second part discusses the implications of employment stability and flexibility for workers’ security and decent work. The third briefly shows the relationship between different industrial relation systems and labour market flexibility, stability and security. In the conclusion the implications of these findings for a new framework of security in an era of globalisation are discussed.

### **The end of stable jobs?**

It is commonly assumed that globalisation and technological change will erode the long-term employment relationship. In order to find out if this is indeed happening we also looked into the stability aspect of the labour market. As a major indicator we used tenure, that is the period during which workers have stayed with their present employer or the period during which they have been self-employed in the same occupation at the time of the survey. This indicator is usually produced by Labour Force Surveys; for the European Union we used Eurostat data, complemented by national data for the US and Japan.

Measuring job stability is not only important because of the debates around the theme of the erosion of the “standard employment relationship” (narrowly defined as full-time jobs on legally enforceable contracts) but also because numerical labour market flexibility,<sup>2</sup> or in other words, deregulation of dismissal protection and the use of non-standard employment relationships, such as temporary jobs, are also linked to the standard jobs. Flexible jobs may be traded off as an alternative to standard jobs, but more often one finds

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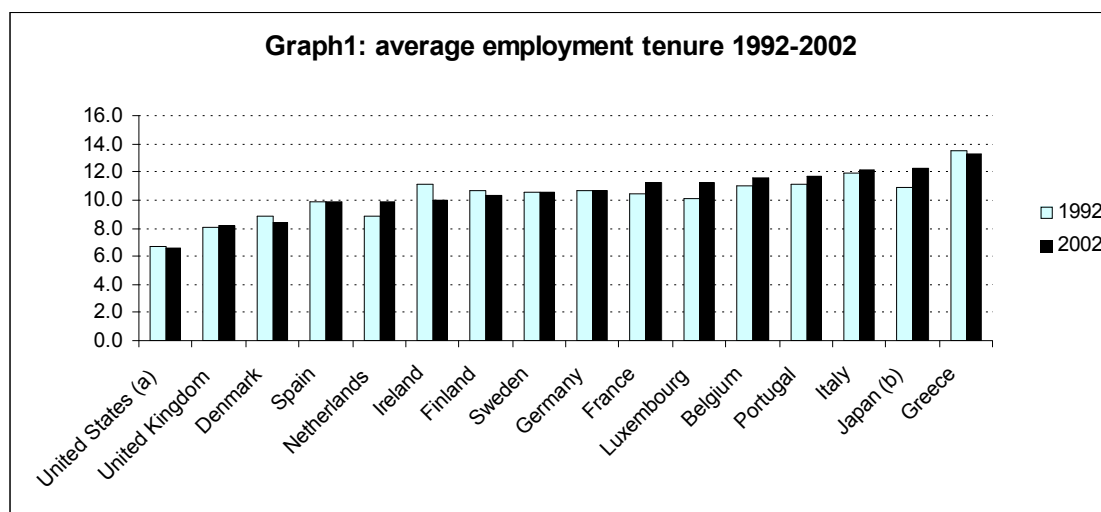
<sup>2</sup> Numerical labour market flexibility consists of hiring/firing and the use of temporary employment for workforce adjustment purposes. Numerical flexibility is defined in relation to functional flexibility which does not imply external workforce adjustment but concerns changes in tasks, working conditions and work assignments while the employment relationship is maintained.

them as complements in dual labour markets, with firms using stable and flexible forms of employment (Capelli & Neumark 2004). Many of them are subsequently transformed into standard jobs (see below and OECD 2003, EU Commission 2003).

A portion of non-standard jobs thus also ends in longer-term, stable and decent jobs. The decency of a job also depends on the rights that are derived from that job, such as a good salary, social security, representation rights (a voice) and so on (ILO 1999). But high up the decency ranking is the employment security that a job offers and this is also linked to contractual arrangements. For example, indefinite contracts yield higher job satisfaction (all other things being equal) than time-limited contracts (European Commission 2001).

If we consider transitions and mobility as a bridge into good employment, we have to acknowledge that not only the bridge is important, but even more the land to which the bridge should lead. And this “land” should preferably consist of more stable jobs, allowing a reasonable timeframe on which individuals can base their decisions to consume, invest and start families. In turn, job stability matters also for the macroeconomy via the shaping of household patterns of consumption and investments.

As shown in Graph 1, there is some reason for being more optimistic than the “end of work” prophets and those who think that globalisation will lead to the disappearance of all long-term employment relationships. Despite such claims, employment stability, measured by average tenure, has hardly changed over the Nineties, confirming former work of the OECD (1999) or authors like Neumark (2000). This has recently been confirmed by national and international comparative studies, working with various data sets (Erlinghagen & Knuth 2004, Doogan 2004, Souza-Poza 2004).



a)1998 b)2001

\* Ranked by year 2002.

Source: Based on Eurostat, European LFS

There is large country variation and, while the indicator is quite crude, it shows not only the stability part of employment relationships, but by definition, the mobility part as well. In fact the countries with lower average tenure are also those with higher numerical flexibility, as can be seen by the US and the UK, but also Denmark and the Netherlands. In contrast, most countries on the right side of the graph are those known for more “rigid”

labour markets with strict dismissal regulation, a fact confirmed by recent OECD analysis (OECD 2004).

However, while the average remains unchanged, the different elements that make it up have been subject to change. There are in fact changes relating to gender, age, sector composition of the economy, etc. For example, we observed in many countries an increase in shorter tenured jobs that is often compensated by an increase in longer tenured jobs, pointing to continuing and possibly increasing segmentation, especially between younger and older workers. We also observed a decline in men's tenure and an increase in women's, leading to a reduced gender gap.

Changes have occurred, and controlling for business cycle and age confirms this: younger workers face systematically shorter employment spells, and flexibility is very much concentrated on young people. In 2001, average tenure was only two years for the 15 to 24 age group, but more than eight years for the 25 to 44 years old group and it stood at 17 years for those older than 45. But, as Doogan (2002) has shown, long-term employment has increased more than short-term employment and all the evidence points to the conclusion that despite these changes the long-term employment relationship is still the dominating form of employment in many European countries and a long way from disappearing. Yet today it increasingly includes also part-time employment. In fact, the European Labour Force Survey reveals that about 85 per cent of full-time and part-time employment in Europe is of indefinite contractual duration.

Bosch (2002) shows that the most remarkable change that has occurred in the standard employment relationship is the increase in women's participation and the parallel rise in part-time work. But this is not to be understood as an erosion of the standard employment relationship that increasingly shows that many part-time jobs are in fact voluntary and become regular jobs. One sign of this is the growth of long-term part-time jobs. Doogan (2004) shows that overall the long-term jobs (those with more than 10 years of tenure) have grown more strongly than short-term jobs and this trend does not only encompass full-time jobs but part-time jobs as well. Indeed, Doogan shows that the remarkable growth of part-time employment in Europe (from 14 per cent of all jobs in the European Union in 1992 to 18 per cent in 2002) is accompanied by a rapid rise in the share of long-term part-time employment (+10 years).

### **Are stable jobs good jobs?**

The apparent "stability" of the longer-term employment relationship does not mean that there are not significant changes that are dramatic for individuals, families, regions, etc. When jobs are lost, the experience is dramatic for those affected. In addition, stable jobs are not always equivalent to good jobs: stable jobs can be involuntary, part-time jobs, undesirable jobs (e.g. people are locked into their jobs without being able to change) and (small) parts of so-called stable jobs are in fact recurrent temporary jobs. The OECD shows that about 10 per cent of temporary jobs (that is about 1.5 per cent of all jobs) are long-term temporary jobs with duration of up to five years.

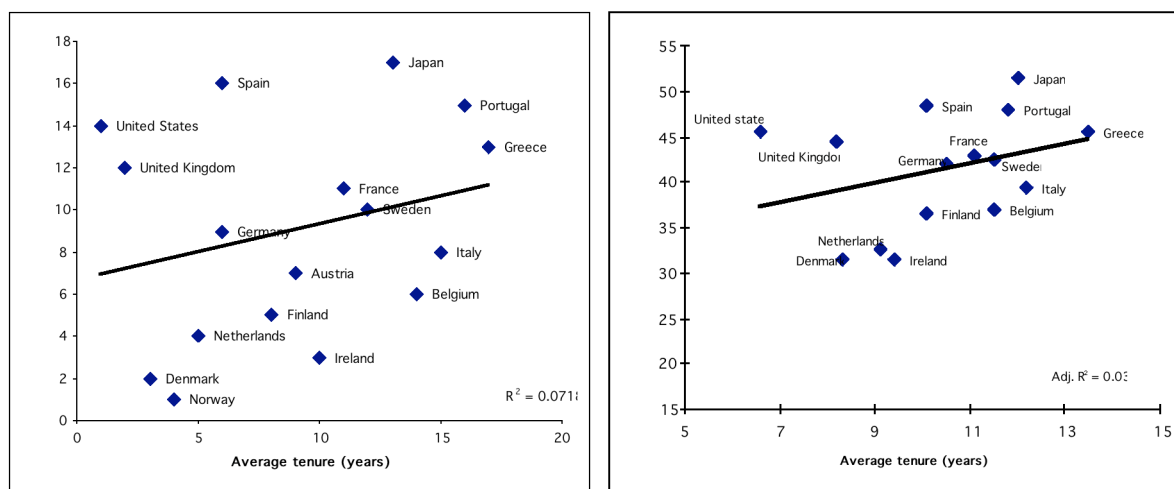
But the resilience of average tenure also means that there is no general "race to the bottom" of the employment relationship with all becoming sooner or later precarious or self-employed workers. Both on the demand and the supply side there are sufficient economic and social reasons for believing that the longer-term employment relationship, while changing towards more flexibility, will be maintained. There is no general demand driven erosion of the employment relationship, because employers also value longer-term attachment of their workers and no general supply side driven erosion because workers and their unions place a high value on longer-term employment relationships. However, there

is certainly a mismatch between jobs offered by employers (labour demand) and jobs sought by workers (labour supply) in terms of job tenure expected, and it seems reasonable to believe that the forces of globalisation and technological and organizational change will eventually widen this gap between expectations in supply and demand. However, what is to be expected is not a race towards the extremes but to some new “equilibrium” between flexible and stable jobs with the former gaining some percentage points at the expense of the latter.

**Employment stability does not result in employment security: a paradox**

Having observed a certain stability in the employment system the question remains, whether such stability also conveys employment security. Many would agree with the statement that stable jobs convey more security than unstable, short-term jobs. However, the correlation between average tenure and the perception of employment security shown below does not support such a view. The relationship found is weak and not statistically significant, and even pointed in the wrong direction (suggesting at the very least that it is not sufficient to have a long tenured job to feel secure, see Graph 2). One could argue that the share of part-time jobs in an economy increases the perception of insecurity but it does in fact correlate positively and not negatively with perceived employment security. It seems that the subjective feeling of employment security is not only determined by the elapsed length of tenure but is also influenced by the general state of the labour market and the economy. For example, security perception correlates quite significantly with the unemployment rate and it seems also that the general state of the economy (in recession or not) has a great impact on subjective feelings. This is the case of Japan, for example, where the perception of employment insecurity is strong, probably because of the long recession, while average tenure is among the longest of all countries surveyed.

**Graph 2: Employment insecurity and tenure 1996 (left) and 2000 (right)**



Note: Coefficients are not significant (in left graph: rank of countries according to the share of people feeling insecure: see table 1; right graph: percentage of people feeling insecure)

Source: Data supplied by International Survey Research, OECD, Eurostat and national sources.

These results are somewhat puzzling but show that past tenure does not apparently systematically influence future expectations of employment security. A similar finding is reported in the latest OECD employment outlook: the overall strictness of employment protection regulation that correlates strongly with tenure does not convey the feeling of security that it is supposed to convey (OECD 2004, p.92).

While job security plays a quite substantial role in the perception of job satisfaction (see European Commission, 2001), if we rank countries according to the three criteria of job quality, employment security and average tenure, no apparent clear-cut pattern emerge. (See Table 1). We see countries with comparatively low tenure, but high-perceived employment security and a high share of good quality jobs and countries with high tenure but low quality and low perceived security.

**Table 1: Job quality, average tenure and employment security**

Ranks in:	Quality	Tenure	Security
	1=highest	1=lowest	1=highest
Norway	n.a.	4*	1
Denmark	1	3	2
Ireland	8	10	3
Netherlands	3	5	4
Finland	2	8	5
Belgium	6	14	6
Austria	5	9	7
Italy	10	15	8
Germany	4	6	9
Sweden	n.a.	12	10
France	n.a.	11	11
United Kingdom	7	2	12
Greece	12	17	13
United States	n.a.	1	14
Portugal	11	16	15
Spain	9	6	16
Japan	n.a.	13	17

**Quality** : Ranking of share of good jobs in a country : good jobs are defined as paying good wages, giving job security, good access to training and good career prospects (EU Commission, *Employment in Europe 2001*)

**Tenure**: Ranking of average tenure in years (ILO 2003, see above)

**Security**: Ranking of combined indicators of people worried or unsure about their job (*International Survey research*, OECD)

n.a. = not available.

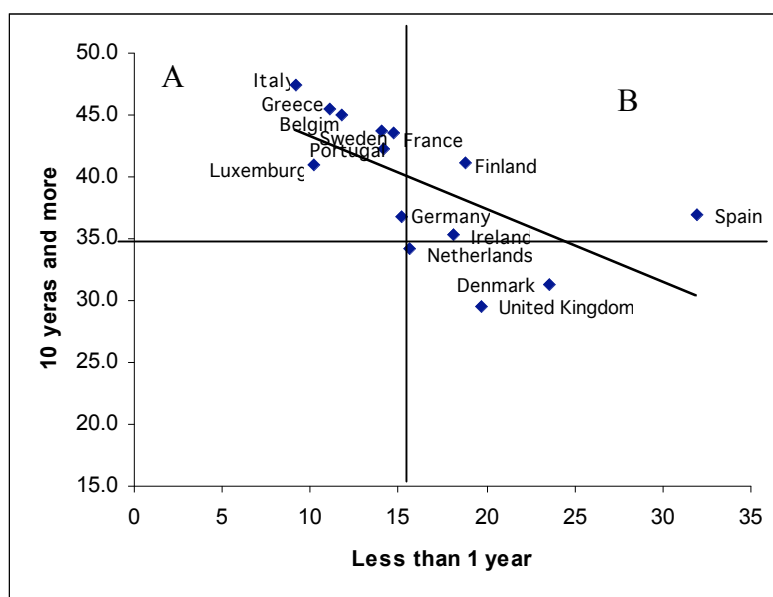
At first sight this seems to indicate that employment tenure is not a good predictor of perceived employment security and that maximizing tenure and dismissal protection seems not to lead to the expected results in terms of workers' employment security, which is an important part of decent work and influences job satisfaction positively, and has also positive effects on the macro-economy, for example, through a stabilizing effect on household consumption.

## Upward mobility

It could be that part of the puzzle of long tenure not conveying the expected feeling of security that it also needs some (upward) mobility in order to feel more secure. Being locked in a bad quality job with no alternative of change may indeed be one reason for low job satisfaction.

In order to question this possibility we have clustered our sample of countries according to the country specific distribution by class of tenure of different length. Graph 3 clusters countries according to the extremes in the distribution, those with less than a year of tenure and those with more than 10 years of tenure. This can also be taken as a proxy for stability and flexibility on the labour markets: in general the countries with a high share of short tenured jobs are also those with the lowest average tenure and countries known as having rather flexible labour markets. Besides the special case of the segmented labour market in Spain (with both a relatively high share of short-term and long-term jobs) countries like Ireland, the Netherlands, Denmark and the UK have a high share of short-tenured jobs and a relatively low share of long-tenured jobs. In Italy, Greece, Belgium and France, the contrary holds true: a low share of short-term jobs goes hand in hand with a high share of long-term jobs. Of course, not only labour market regulation plays a role here, but also the demographic situation of a country: a large share of young population also results in a higher share of shorter-term jobs. Labour force ageing should therefore have an adverse effect on this distribution.

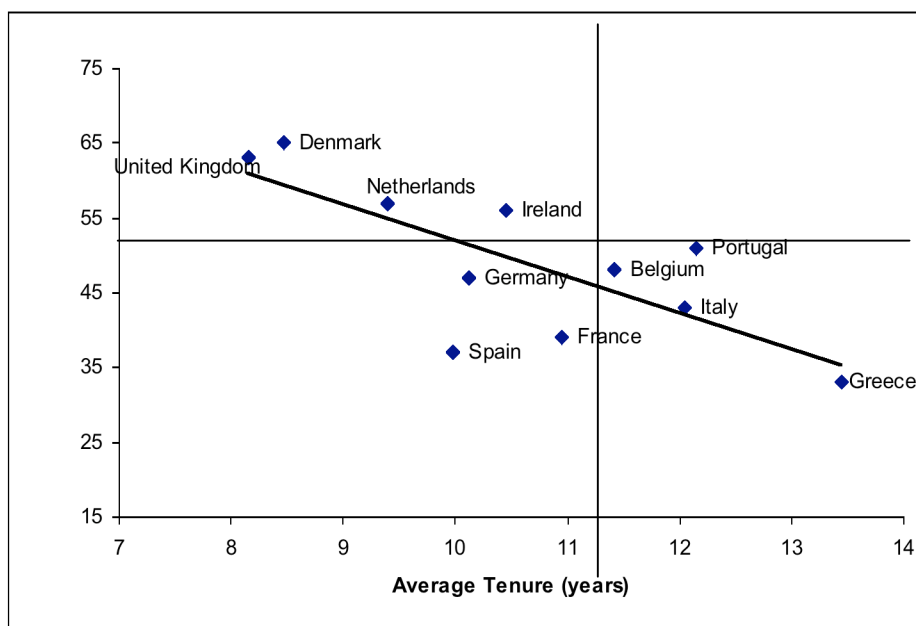
**Graph 3: Distribution of employment by class of tenure, percentage share, 1995-1998**



Source: Based on data from LFS provided by Eurostat

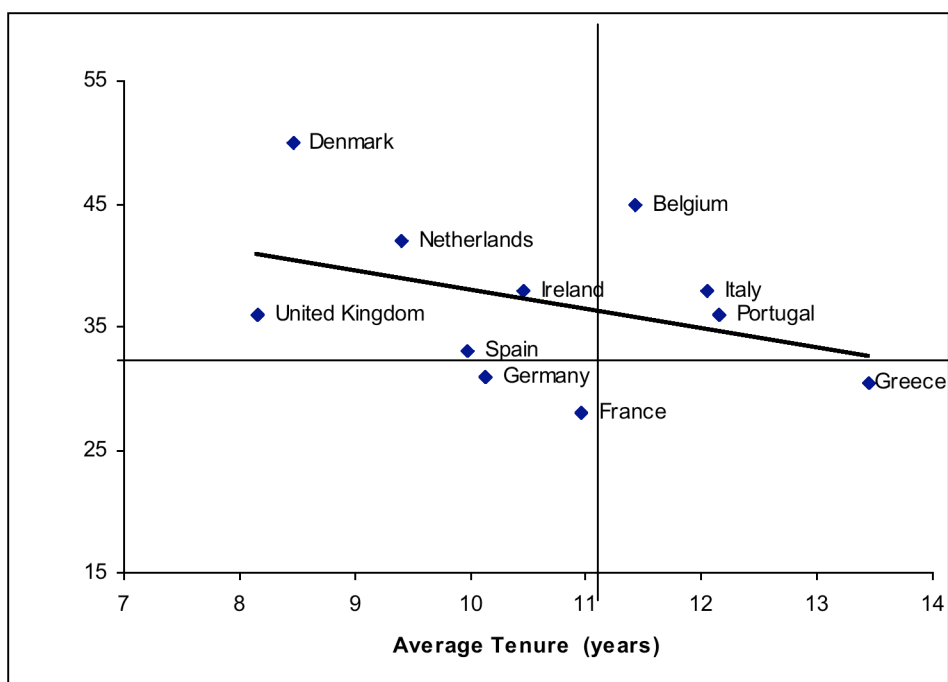
A next step is to analyse whether the more flexible countries have higher or lower transition rates both from temporary to permanent jobs and from low to higher quality jobs. Graphs 4 and 5 show that countries that have lower average tenure and more short-term jobs are also those with higher transition rates out of temporary into permanent jobs and to some lesser degree also out of low quality jobs into higher quality jobs.

**Graph 4: Transition rates (temporary to permanent jobs) and tenure, 1995-1998**



Temporary jobs in 1995 that have been transformed into permanent jobs in 1998  
Source: Based on Eurostat and Employment in Europe 2001

**Graph 5: Transition rates (low to higher quality) and tenure, 1995-1998**



Low quality jobs in 1995 that have been transformed into jobs of higher quality in 1998. Same source

Denmark and the Netherlands in particular have good records on both counts and also Ireland and the UK transform many temporary jobs into permanent jobs and lower quality jobs into higher quality jobs. However, the UK does not much better in transforming bad into good jobs than, for example, Portugal.

In a further step of our analysis we looked at some of the main labour market indicators for our country sample, clustered by tenure distribution (see Graph 3) and we saw that all countries in case C, those with a high share of shorter tenured jobs and a lower share of long tenured jobs, have – taken together – by far the highest employment rates of all the countries (this is explained largely by their higher share in employment rates for women, older workers and youth) and are also the group of countries that have the lowest unemployment rates in general and for selected groups.

In fact, it is a rather arbitrary clustering and there are some exceptions (e.g. Sweden, Portugal and Finland –highlighted in Table 2) also have high employment rates, and employment rates for women are comparatively low in Ireland and are very low for older workers in the Netherlands) but in general this simple analysis tells us that with a certain distribution of tenure, suggesting more mobility, one might arrive at good results in some of the labour market indicators that are used by the European employment strategy to assess a country's success. Again, at this point no causal relationship is suggested: it might well be that, for example, the higher employment rates for youth, which are paralleled by low unemployment rates for youth explains tenure distribution rather than tenure distribution explaining employment rates. At this level only concurrence between these variables can be established.

**Table 2: Different employment systems (data for 2001)**

	Employment rate (%)				Temp job (%)	Part- time Job (%)	Unemployment rate (%)			Tenure distribution (%)	
	Total	Young	Older	Female			Total	Youth	Long-term	under 1 year	10 years +
<b>Group A</b>											
Greece	55.4	26.0	38.0	40.9	12.6	4.0	10.2	28.1	5.4	6.6	53.2
Luxemburg	62.9	32.4	24.4	50.9	5.8	10.4	2.0	7.5	0.5	11.1	43.9
Italy	54.8	26.3	28.0	41.1	9.8	8.4	9.4	28.1	5.9	11.1	49.9
Belgium	59.9	32.7	24.1	50.5	9.0	18.5	6.6	17.6	3.0	13.3	47.3
Portugal	68.9	43.8	50.3	61.1	20.6	11.0	4.1	9.3	1.5	12.9	44.0
Sweden	71.7	36.6	66.5	70.4	13.5	21.1	5.1	11.1	1.2	12.4	42.2
<b>Average</b>	<b>62.3</b>	<b>33.0</b>	<b>38.6</b>	<b>52.5</b>	<b>11.9</b>	<b>12.2</b>	<b>6.2</b>	<b>17.0</b>	<b>2.9</b>	<b>11.2</b>	<b>46.7</b>
<b>Group B</b>											
France	63.1	29.5	31.0	56.1	14.9	16.3	8.6	19.5	2.9	16.4	44.0
Germany	65.8	46.5	37.7	58.8	12.4	20.9	7.9	9.4	3.9	15.2	40.8
Finland	68.1	41.7	45.7	65.4	16.4	12.2	9.1	19.7	2.5	21.7	40.8
Spain	56.3	33.1	38.9	41.9	31.7	7.9	10.6	21.5	5.1	20.5	38.5
<b>Average</b>	<b>63.3</b>	<b>37.7</b>	<b>38.3</b>	<b>55.6</b>	<b>18.9</b>	<b>14.3</b>	<b>9.1</b>	<b>17.5</b>	<b>3.6</b>	<b>18.5</b>	<b>41.0</b>
<b>Group C</b>											
Denmark	76.2	62.3	58.0	72.0	9.2	20.2	4.3	8.5	0.9	21.5	30.9
Netherlands	74.1	70.4	39.6	65.2	14.3	42.2	2.4	5.5	0.8	21.6	35.9
Ireland	65.7	49.6	46.8	55.0	3.7	16.4	3.8	6.6	1.3	19.7	34.4
United Kingdom	71.7	56.9	52.3	65.1	6.8	24.6	5.0	11.9	1.3	19.9	32.7
<b>Average</b>	<b>71.9</b>	<b>59.8</b>	<b>49.2</b>	<b>64.3</b>	<b>8.5</b>	<b>25.9</b>	<b>3.9</b>	<b>8.1</b>	<b>1.1</b>	<b>20.7</b>	<b>33.5</b>

Source: Based on Employment in Europe 2002/2003

However, if we go back to our initial ranking of three indicators on job quality, employment security and tenure (Table 1) we see that some of the countries in Group C

have a higher ranking on the quality and perceived security indicator than others. Denmark, for example, comes in first in the share of good jobs and second in terms of perceived employment security with the third lowest tenure among the 17 countries ranked. The Netherlands is placed third for the quality share and fourth for perceived employment security. However, the UK arrives only in seventh place on the quality ranking and in twelfth place on the perceived security ranking, while it has the second lowest tenure. The US arrives in fourteenth place (high perceived employment insecurity) with the lowest tenure of all countries.

There are countries that have flexible labour markets with good labour market performance but high levels of perceived insecurity and rather bad ranking in terms of job quality while others are flexible without the negative effects of flexibility for workers' security and job quality. This seems to be the case of Denmark and the Netherlands, for example. However, in general, countries with relatively "rigid" labour markets as measured by average tenure and tenure distribution (such as Greece, Italy, Japan and Portugal) rank even more badly.

It seems then, based on this rather summary evidence, that for achieving such high rankings in the quantity and the quality indicators more is required than just stable employment relationships. It is probable that a fair degree of longer-term jobs, combined with labour market institutions and policies that provide income, social and employability protection yields more job security than stable jobs alone in an uncertain environment. This may also partially explain that here too job quality is higher, as empowerment on the labour supply side (workers being able to quit jobs and still have protection in the transition to other jobs) triggers better evaluation of the job held as the worker is not locked into it and has had more choice between jobs he/she is interested in.

These results are summarized in Table 3 showing very schematically the interaction between tenure (or better its proxy which here is a ranking of employment security legislation for the Nineties compiled by the OECD) and labour market security (proxied by expenditure data for labour market policy). In some countries, there is a trade-off between the two: looser employment protection goes together with relatively high spending on labour market policy. The institutional setting of Denmark exemplifies this case while the reverse is shown by Japan: high employment protection goes together with low spending on labour market policy.

**Table 3: Employment security or labour market security?**

	High LMP spending	Low LMP spending
High Employment Protection	<b>France</b> <b>(EPL21 / LMS08)</b> (AT11.1 / S16)  Germany	<b>Japan</b> <b>(EPL25* / LMS24)</b> (AT12 / S25)  Portugal, Greece, Italy, Spain
Low Employment Protection	<b>Denmark</b> <b>(EPL08 / LMS01)</b> (AT8.3 / S02)  Belgium, (Netherlands), Finland, (Ireland)	<b>United States</b> <b>(EPL01 / LMS25)</b> (AT6.6 / S21)  United Kingdom

Rank 1: EPL=Employment Protection Legislation strictness, 1 = less strict, 26 = most strict (\*Estimation for Japan)

Rank 2: LMS=Labour Market Security, Expenditures for labour market policy, 1 = highest, 25 = lowest;

Rang 3: S=Perceived Employment Security = 1 = most secure, 26 = least secure.

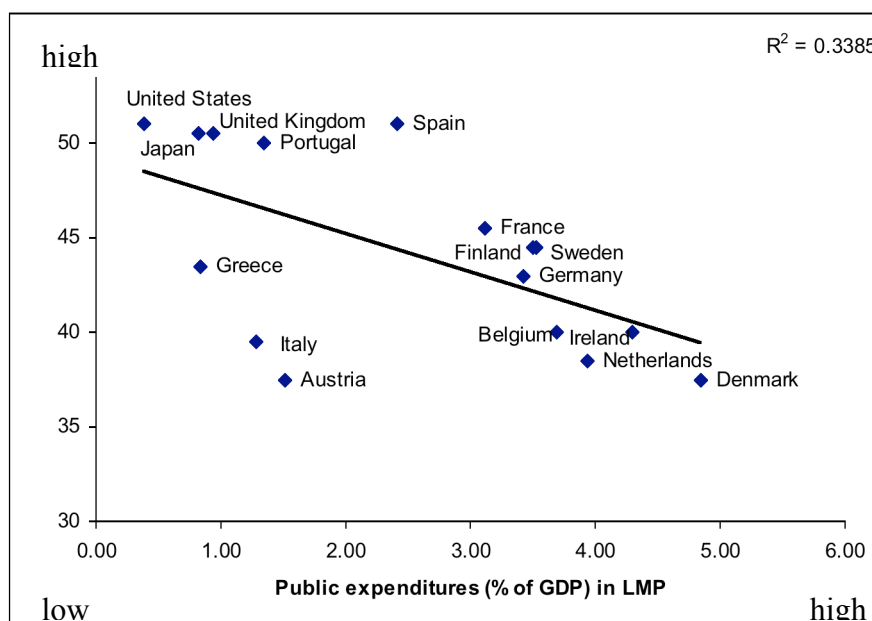
AT= Average employment tenure (years)

Ranks among 26(25 if data missing) OECD countries      Source: OECD, Eurostat.

The fact that most of the European countries that have higher mobility are in the loose employment protection/high social protection group suggests that in these countries, transitions and mobility are institutionally backed. This is not true to the same extent for all, but at least applies to Denmark and the Netherlands, and to some degree also Ireland (and Finland). This leads us back to the comments made above: in these systems something like “protected mobility” seems to emerge: while employment is less stable and secure at the company level than in some other high employment protection cases, this lesser security seems to be compensated by better labour market security through participation in LMP programmes. Both together seem not only to yield good labour market performance, but also a higher perceived employment/employability security and this institutional setting has also positive effects on job quality.

Graph 6 shows the relationship between perceived employment security and the expenditure for LMP measures. There is indeed a significant positive relationship between these two variables, which tends to confirm the security enhancing role of labour market policies.

**Graph 6: Job insecurity and Labour Market Policies, 2000**



Coefficients are significant at 5% level  
 worried = percentage worried about the future of their company,  
 unsure = percentage unsure of a job with their company even if they perform well  
 Note: job insecurity is the average percentage among worried and unsure people.  
 (Irish date for expenditure 1997, new OECD series shows lower values, especially for passive policies)  
 Source: Data supplied by International Survey research, cited from OECD

In its recent employment outlook, with different data, the OECD comes to similar conclusions: there is a positive relationship between expenditure on (passive) labour market policy per unemployed person and perceived employment security that holds for both permanent and temporary workers perception of employment security (OECD 2004).

There seem then to be strong arguments in favour of “protected flexibility” or flexicurity arrangements for labour market transitions<sup>3</sup> that combine a fair degree of stable

<sup>3</sup> There is today a whole school of labour market researchers that claim that insured transitions are the basis of an insurance against labour market risks. They oppose the “security of wings to the security of the shell”

employment with flexible jobs that are embedded in a system of social protection. Flexibility, stability and security can be imagined dynamically as distributed over the life cycle of individuals with flexible jobs at younger ages and stable jobs once family formation starts and intermittent times of protected transitions (e.g. parental leave, training periods in a positive sense, and unemployment in a negative sense) and job changes.

With regard to existing Industrial Relation (IR) regimes, the only country that has something of a fully-fledged labour market security system that combines looser employment protection with passive and active labour market policies is Denmark. Visser (2001) classifies this country among the “Northern corporatist regimes”. The IR regime indeed contributes to shaping the employment system of a country because the set-up of such systems requires many bargaining rounds between the tripartite constituents of business, labour and government. The feasibility of the setting up of such “protected mobility” systems will therefore also depend on the prevailing IR regime. Among OECD countries, but also within the 15 European Union countries, there are striking differences in the types of IR regimes.<sup>4</sup> Visser (2001) identifies four models in Europe: (1) Northern corporatism, (2) Central Social partnership, (3) Anglo-Saxon pluralism and (4) Latin confrontation; and highlights their differences regarding the degree of coordination versus confrontation, the role of the State as well as the relationship among the social partners. For example, collective bargaining in the Northern corporatism and Central Social partnership models is carried out at the sectoral level with the State acting as a facilitator, while in the Anglo-Saxon pluralism model collective bargaining is decentralized to the company level and the State abstains from the process.

The relationship between the different industrial relations models and average length of employment tenure is not straightforward, though a generalized grouping gives the impression of longest tenure in the Latin confrontation countries followed by Central Social partnership countries, Northern corporatism countries and lastly, Anglo-Saxon pluralism countries.<sup>5</sup> In terms of labour market spending the leaders would be the Northern corporatist countries (average spending of 2.8 per cent of GDP on LMP and 1.20 per cent on ALMP) while Anglo-Saxon countries are usually low spenders (1.3 per cent on LMP and 0.75 per cent on ALMP) with the other two in the middle (CSP 2.5/1.00 per cent and LC 1.75/0.76 per cent).

While such Industrial Relations typologies are difficult to establish given the changes in the systems (e.g. Ireland has shifted from the Anglo-Saxon pluralistic and more adversarial regime towards a more social partnership type and the same holds true for France which has shifted from confrontation to more social partnership, yet not fundamentally altering the state’s strong role), the possibility remains that the antagonisms in the Industrial Relation system have made it necessary for the governments to legislate in the more confrontational systems, very often to enshrine bargaining gains in terms of security of employment by unions. A further and complementary hypothesis is that less commitment on the part of the State to provide labour market policy measures and “generous”

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and acknowledge the need to protect transitions between different labour market statuses (between jobs, jobs and unemployment, jobs and training, etc.). Such supply side empowered flexibility that is protected by regulations and policies has been coined as “transitional labour markets”. See Gazier (2003), Schmid (2002).

<sup>4</sup> The “Eurosclerosis debate” has tended to generalize labour market institutions within Europe as one rigid model opposed to a more flexible, American model, neglecting the many differences in regulatory framework, social spending and social dialogue that exist on the continent. See Howell (2002) for a critique of this perspective.

<sup>5</sup> The average tenure for the countries in 2001 was 11.7 in Latin confrontation countries, 10.5 in Central Social partnership countries, 9.7 in Northern corporatism countries, and 9.0 in Anglo-Saxon pluralism countries.

unemployment benefits for quitting or laid-off workers has encouraged unions to advocate for more employment protection. Alternatively, an active commitment by the State to act as provider to displaced workers may – as seen above – increase workers’ feelings of job security, encourage worker mobility and result in medium or low tenure. In the latter case, employment protection stringency is ‘traded’ against access and coverage of social protection. And as the above analysis has shown Northern corporatism seems to be the nearest to the model of a trade-off between employment protection and labour market security.

### **Conclusion: better security for the globalised economy**

In the introduction we have seen that globalisation tends to affect labour markets and to increase the perception of employment insecurity. Although globalisation overall has not destroyed longer-term employment relationships, it increases the fear of job loss, leading workers to accept less favourable working conditions. This may explain why some of the high-tenure countries have a higher share of bad quality jobs than some of the countries with more flexible labour markets.

But it seems that while being flexible yields some gains in terms of employment rates, job quality requires more than just flexibility- it requires a sound institutional environment with labour market policies that provide a security-in-transition framework. A security-in-transition framework seems to yield both good results in terms of labour market performance and decent work. For triggering flexibility and security it is essential that looser employment protection is accompanied by sound labour market policies. The trade-off between employment protection by firms and labour market protection by the state and the social partners requires bargaining on an enlarged agenda that includes both adjustment concerns of firms and security concerns of workers. In any case, globalisation will increase, rather than decrease, the need for an insurance against labour market risks and for protected transitions (Agell 1999, Auer *et al.* 2004).

To sustain a flexibility cum security system, however, high employment rates are required and security should be work-and not welfare based for those able to work. Therefore, the goal of increasing the employment rates of the population as stated by the European Union is indeed of utmost importance for the survival of European welfare states. In light of the analysis above, social partners who should be involved in designing such labour market security could agree on the following: a certain level of labour market flexibility can be accepted by unions, when it does not equate to the loss of the standard employment relationship and is embedded in labour market security allowing protected transitions, because this enhances rather than destroys workers’ welfare. Secondly a certain level of employment stability (external numerical stability) of the workforce is “good” for firms, as it is needed for productivity, human capital investment and worker motivation (see box below). Thirdly, governments should provide for an efficient labour market security system based on labour market policies. There should therefore be more tripartite bargaining on optimal combinations of flexibility, stability and security in the labour markets and a common acceptance that all three elements are needed for a productive economy and a well-functioning labour market for decent work.

In a time of depleted public resources that asks for more individual responsibility, the claim for such a system might seem utopian; however, it works in some countries; it does not come not without costs, as can be seen by high taxation in Denmark; it is not without individual responsibility as there is an obligation to participate in “activation” measures that are slowly becoming a European norm. But it appears that if the public goods created

through such a system of protected flexibility are widely shared among people, the costs seem to be accepted.

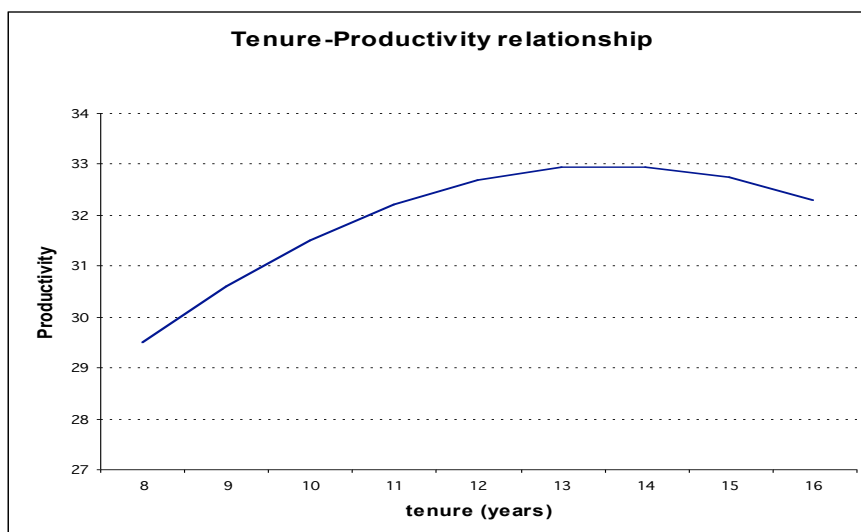
### Tenure and productivity

Human capital literature usually asserts that it needs some tenure for recouping the costs of investment in capital. In fact, much of the microeconomic literature assigns a positive role to tenure for wages, investment in physical and human capital which in turn has a positive impact on productivity. Other studies deal directly with the contribution of tenure to productivity. For example, Blakemore and Hoffman (1999), in merging output data from the US manufacturing sector at the two-digit SIC level with aggregate tenure data from the Current Population Survey, find that for every one per cent increase in the median year of job tenure in manufacturing, labour productivity increases by 0.39 per cent. They believe that this supports the hypothesis that seniority rules are established to increase productivity as predicted in firm-specific capital models.

These results suggest a very different picture from those painted by economists that see both labour market efficiency and productive efficiency effects from flexible labour markets (e.g. IMF, 2003).

Our own model based on Eurostat data for all sectors in 13 European countries suggests that tenure and productivity are positively related .... **but only up to a point**. However, it suggests that stability is required for productivity.

#### Aggregate European tenure-productivity relationship



Source: Econometric model based on data from Eurostat on productivity per hour for all sectors in 13 EU countries on a two digit level and on average employment tenure. (Auer *et al.* 2004)

This relationship would suggest that short and long average tenure is less positive for productivity growth than medium tenure. For the European Union and the 1992-2002 time span this would mean that average tenure of around 14 years is the point at which tenure is optimal for productivity. Such an optimum tenure would concord with some views in the microeconomic literature that also see short and long tenure as being associated with less productivity than medium range tenure.

For example, a study by Kramarz and Roux (1999) on French companies also supports the hypothesis that some degree of stability in employment is good for productivity. Using an employer-employee data set that covers private sector employees in France for most of the years between 1976 and 1995 the authors find that employing workers with 4-10 years of tenure has the most beneficial effect on productivity, a one per cent increase in the share of this group increases a firm's productivity by 0.36 percent. On the other hand, a one per cent increase in the proportion of workers with less than one year of tenure has a negative effect on productivity, lowering productivity by 0.02 percent.

While this research has to be continued and completed with more microeconomic studies (our data is on an aggregated European average level and we do not suggest that the above curve applies to individual workers) the results so far suggest that some substantial length of tenure is required for productivity but not maximum tenure. We have also analysed the contribution of tenure distribution to productivity and found confirmation that short and very long tenure are less associated with high productivity than medium tenure (Auer *et al.* 2004). Although we do not know what the optimal level of tenure in individual countries and sectors would be, on the aggregate level average tenure in the EU (around 10,5 years) is still far below the turning point of productivity and as such the level of tenure reached is of no concern for the European economy. However, this tells us little about the different tenure-productivity requirements of countries, sectors and individual firms.

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