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Social Dialogue, Employment Policy and the Principles of Equal Treatment

Employment revival in Europe (1) Small countries on the way to success

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Introduction

During the last twenty years the conventional wisdom has been that the European labour market is "sclerotic", in stark contrast to the dynamic US labour market. The USA has experienced much higher growth rates of employment and markedly lower unemployment than Europe. Despite GDP growth rates which were comparable with the US over the long term and at times even higher, economic growth contributed only very marginally to an expansion of employment. Unemployment also continued to grow in the European Union, reaching around 11% of the labour force in the middle of the nineties, and has only very recently started to fall below the 10% threshold.

The causes of US success were widely seen in its free market approach, flexible wages resulting in high income differentiation and low employment protection resulting in flexibly adjusting employment. The prescription of leading economists for Europe was to use the same ingredients as those which were believed to be at the core of American success. Deregulation and privatisation were to lead to a retreat of governments and the social partners from intervention in the markets. An entrepreneurial spirit, relieved from the straitjacket of rules and regulations, and a wage policy left to the needs of the market would finally result in an improvement of the economy and the labour market and (re)establish the positive dynamics of the market forces everywhere.

Core elements of the European model, such as corporatist and often centralised collective bargaining leading to high and downwardly rigid wages, ever expanding social and employment protection and the strong role of the state in the sociol-economy, were seen as the culprits in Europe's labour market problems. Unemployment was declared to be structural and voluntary, in the sense that rational actors on the labour markets would not take up work, if there were alternatives of "making unemployment pay" in the form of overgenerous benefits. In addition, high levels of public involvement and employment were denounced as displacing private initiatives, for example in the service sector. Clearly, in such an approach there was no place for government to regulate the economy. Aggregate demand was seen as the outcome of the interplay of the market forces and if supply was flexible enough "it would create its own demand", as J.B. Say had postulated back in the early 19th century. And according to the concept of the natural rate of unemployment (M. Friedman, 1968) government intervention would only result in higher inflation. In a nutshell the

visible hand of government and the social partners should give way to the invisible hand of market forces.

While there was opposition in many European countries to the adoption of these supply side policies, observers agree that during the last decade supply side considerations have dominated the debate and have also been policy driving in Europe. A reminder of the major recent policy debates in Europe shows this quite strikingly: In the forefront of the debate and policy making stood neither fiscal expansion, regulation, extension of public employment and nationalisation nor the expansion of the social security network, but rather supply side reforms, deregulation, privatisation and the curbing of public jobs. Countries like France which in the early eighties put the policies of the "old" demand side agenda into practice for a brief period, followed many of the prescriptions of the "new" supply side agenda after 1982.

Today a number of smaller European countries have seen such a major fall in unemployment that one can speak of labour market recovery and relative success at last. Consequently, one of the questions of the present study is whether the application of the above policies has contributed to the success of the four countries under review. To be frank from the outset: we do not believe that recent labour market success can be categorically explained by the retreat of the government and the social partners, by deregulation, privatisation, reduced public jobs or lean organisation. Although such policies might have made a contribution to labour market success, the main explanation lies elsewhere: it is not the countries which have reduced social spending most, have curbed government intervention drastically or minimised social partnership which are today leading success cases. It is rather those which have retained, while adapting, their institutions, which today see their economic success spilling over onto the labour market. It is therefore not the flexibility of the market, but the existence and adaptability of institutions and regulations, which explains success in the cases reviewed. Contrary to widespread assumptions, they were not in fact too rigid to survive in an environment demanding greater adaptability. The special European way of dealing with change, filtering it through its established labour market institutions, leads to positive results. In other words, in Europe the "baby was not thrown out with the bath water". The baby (institutions) was kept and the water (inefficiencies in the institutions) was at least partially thrown out and this accounts for a large part of European success.

Relative Labour Market Success

While the European Union as a total still has high unemployment rates which have only recently fallen below the 10 percent mark, some of the smaller European countries have in fact a much better labour market record. For the sake of this study four smaller European countries were chosen because of a variety of reasons: they all are experiencing recently a fall in unemployment and some of them have managed to have employment growth rates similar to those of the US job machine. But besides such criteria, there have also been other considerations, such as the consent of the governing body of the ILO and the willingness of countries to participate in the studies.

Chart 1 in the annex and table 1 below show that the four countries under review have succeeded in curbing unemployment. In addition some of the countries have recently seen a rapid increase in employment and in the employment intensity of economic growth, which shows that fears of jobless growth are -at least for the employment generating service sector- unfounded. (see table 2). Also employment rates (the share of the employed in the population of working age) have increased in all four countries. The differences between male and female employment rates have generally been reduced, but remain large, especially if employment rates in full-time equivalents are considered, because of many women working part-time. Youth unemployment has also continued to decline, as did long-term unemployment.

Table 1: Unemployment change February 1998/February 2000, seasonally adjusted (%)

total				male			female		gender gap**	
	February 1998	February 2000	change (%)	February 1998	February 2000	change (%)	February 1998	February 2000	change (%)	February 2000
Austria	4,6	3,5	-23%	3,9	3,1	-20%	5,6	4,2	-25%	1,1
Denmark	5,3	4,9	-7%	4,1	4,2	+2%	6,8	5,6	-18%	1,4
Ireland	8,4	5,1	-40%	8,6	5,1	-41%	8,1	5,1	- 37%	0,0
Netherlands	4,6	2,7*	-41%	3,5	2,1*	-40%	6,1*	3,6	-41%	1,5
EU	10,2	8,8	-13%	8,8	7,5	-15%	12,1	10,4	-14%	1,6
Source: Eurostat press release March 2000, Internet version.										
* January 2000										
** Difference male female unemployment rate										

Table 2: GDP growth and employment growth 1985 -1998 and 1994-1997/ annual average growth rates

	GDP		employment		employment intensity*	
	(1)	(2)	(1)	(2)	(1)	(2)
Austria	2,50	2,10	0,56	-0,20	0,224	0,00
Denmark	2,04	2,70	0,46	1,70	0,225	0,70
Ireland	5,84	9,90	1,26	4,40	0,215	0,62
Netherlands	2,80	3,00	1,87	2,20	0,668	0,73
EU 15	2,13	1,70	0,44	0,50	0,207	0,20
USA	2,55	3,30	1,47	1,90	0,576	0,60

*Employment/GDP = percentage points of employment created for 1% of economic growth

(1) 1985-1998 (2) 1994-1997

Source: ILO CEPR comparative report on the basis of OECD, Employment Outlook 1998, figures for 1998 are estimates; European Commission, Employment in Europe 1998

This success is particularly visible, when the four countries are compared to some of the bigger countries in Europe [\(2\)](#), which still suffer from depressed labour markets with sometimes very high levels of unemployment, youth and long-term unemployment. While unemployment in Ireland has declined rapidly, it is still high compared with the three other countries. However, it has now fallen significantly below the EU average. Ireland is also experiencing a fast decline in youth and long-term unemployment, however from a high level.

Austria, which has maintained low levels of unemployment over a long period, had lately seen a small increase, but has most recently succeeded in a decrease. In addition it has both low youth and long-term unemployment.

Even if Dutch unemployment levels are now below the threshold of the traditional definition of full employment (3%), none of the countries has yet reached full employment if qualitative criteria are also included. In addition, the official unemployment rate, based on the ILO definition [\(3\)](#) does not show the real extent of joblessness, as some unemployment is hidden. [\(4\)](#) There is some way to go before we can speak of absolute and not relative success. However, while this employment success has been accompanied by a change in the structure of employment from permanent full-time jobs to a more heterogeneous pattern of jobs (such as part-time and temporary jobs), it seems that the labour markets have not (yet) changed dramatically. In fact, permanent full-time and part-time jobs are still the dominant form of employment in European labour markets and flexible jobs rather marginal (at least measured in stock terms). Also job tenure is only slightly declining and it seems that declining tenure for men is to a certain extent offset by rising tenure of women. An ILO study (Auer, Cazes, forthcoming) will deal in detail with this question.

The overall conclusion concerning rising wage inequalities, which are often seen as a corollary to rising employment, is that at least three of the countries, which belong to the Northern and Central European socio-economic model, produce less inequalities than those which are based on a free market approach. [\(5\)](#) In fact, the countries analysed here, show a better efficiency/equity balance as for example the USA.

Social dialogue

This results from collective bargaining between the social partners within systems of "corporatist governance" [\(6\)](#) but is also due to the efficiency of the social transfer system in poverty reduction which itself can be considered as an outcome of the social dialogue. While the social transfer system has been much criticised for inefficiently allocating public money, such criticism has certainly been blunted by the recent changes introduced in the system, especially the "activating" elements in labour market policies. This will make it increasingly more difficult to draw "passive" unemployment benefits (e.g. those not traded off for participation in intensive job search training or job creation schemes) for long periods.

Historically, an insufficiently developed social dialogue had contributed to the employment crisis in the seventies and early eighties, triggered by the two oil crisis. At that time the social dialogue experienced problems and the approach was often more adversarial and ideologically charged. However, when the social dialogue became more pragmatic and oriented towards problem solving, it contributed importantly to employment success. A new concerted effort by social partners and governments to tackle the pending problems that had afflicted Europe in the 1980s and early 1990s, as weak competitiveness and a worsening employment situation, has finally permitted some countries to emerge from crisis.

In three of the countries under review, such a concerted effort is witnessed by the conclusion of social pacts of a national dimension: the first was concluded in 1982 in the Netherlands (the Wassenaar Agreement), followed by the "Declaration of Intent" in Denmark and the "Programme for National Recovery" in Ireland, both signed in 1987. The pacts expressed the desire of the partners to cooperate in order to solve the problems facing the economy through a concerted approach based on wage moderation and a boost in competitiveness, while maintaining but reforming the welfare state. Typical trade-offs for moderate wage increases were tax cuts, working time reductions and labour market policy measures (e.g. measures to cushion employment adjustment). Concerted action between the social partners and the government has been the traditional way of governance in Austria, and no new pact has been concluded. However, there, too, the system was confronted with new challenges, such as the privatisation of the nationalised industries or the reform of social security.

While in other countries, such as the UK and New Zealand, the crisis ended in the dismantling of much of the existing social dialogue and its institutions, in the countries under review, the song of the "sirens of deregulation" (Alan, 1997) actually had the effect of reinvigorating the social dialogue. The governments in these countries usually took a leading role in bringing the partners together to the bargaining table, designing and/or endorsing reform plans and in financing parts of the trade-offs for wage moderation. The state was therefore a very proactive agent of change.

Macroeconomic policy

Not only the social dialogue and the reforms it has made possible, also the macroeconomic environment and macroeconomic policy have been important factors to explain the success of these countries. The macroeconomic environment in Europe in general is today much healthier than in the seventies and eighties: low inflation, low interest rates, moderate wage growth and consolidated government budgets have restored confidence in the economies. It seems to be accepted that fairly tight monetary policies have helped to create this environment, as has moderate wage growth as an essential result of the social dialogue. Economic growth has been driven by foreign and domestic demand, the share of the former tending to increase over the nineties, but the latter seems to have staged a temporary comeback as foreign demand weakened in the wake of the Asian crisis. Also domestic and foreign investments have boosted growth and employment. Last but not least, government consumption are also part of this favourable situation. Despite claims that government expenses tend to crowd out private demand and investments, it rather seems that the expenditure elements of GDP are mutually supportive (Schettkat, forthcoming). While structural elements of the budget have become more important, in some countries (e.g. Denmark) government expenditure has been used in a targeted and short-term manner and has supported upswings without creating inflationary pressures. At least two of the countries experienced a de facto devaluation (by moderate wage policies) against some of their major (European) trade partners and this has also spurred their economies (Hartog, 1999). However, claims that "beggar-thy-neighbour" policies are the major factors behind superior economic performance, seem exaggerated.

Tax policies have been changed, resulting lately in a reduction of social contributions for the low wage sector and (in some countries) a decrease

in the highest rates in the tax progression. Corporate taxes have also been lowered and might have stimulated investments. Tax revenues have risen in absolute figures but declined as a share of GDP in Ireland and the Netherlands. But in Denmark and Austria, increased revenue has also been used to create additional public jobs and has not hindered Denmark in triggering off a general improvement of its economy and the labour market. However, there are still many differences in tax structures and they might distort competition in Europe. The realisation of the EMU will in future increase pressure for a harmonisation not only of monetary, fiscal and wage policies, but also of tax policies.

Labour Market Policy

Both active and passive labour market policy are important policy tools to regulate employment and unemployment. The study has found some evidence, that unemployment benefit systems and other passive labour market policy instruments such as early retirements are not only mechanisms to protect workers but allow also flexible employment adjustment for companies. Especially unemployment systems, which are used de jure or de facto as lay-off systems provide an important flexibility buffer, in particular for smaller firms. The percentage of those unemployed returning to their employer after a short duration unemployment spell shows this convincingly.

Early retirement has provided exit flexibility for firms and allowed workers to enjoy a better status than being unemployed at the end of their working lives. Invalidity pension systems have also been used for labour market purposes. While this supply reduction policies explain some of the successes of the past, the continuation of these policies might pose a challenge for the future. The ageing of the workforce and the high costs of the "easy exit" solution, which can also go together with a loss of experienced "human capital", require new solutions. Cuts in the systems, with the aim of reducing costs, might lead to an increase in unemployment for older workers. Therefore, such necessary cuts should be implemented carefully and preferably if other alternatives (namely new jobs for older workers) exist, or if firms are willing to maintain employment relationships with their older workforce. In any case income security at the end of working life, before regular retirement is an important element of the European system of social protection.

Many smaller (administrative) reforms have been undertaken in the unemployment protection systems in almost all of the countries under review, some of which have also produced the intended effect. In Denmark, for example, restriction on the access of poorly educated youth to benefits by linking benefit payment to an obligatory participation in education had a tangible effect on youth unemployment. However, this is much more a policy of activation (as it compensates restrictions on the passive side with offers on the active side) and the study found that in general policies of activation are more promising than administrative changes alone.

In all countries, but to very different degrees, active labour market policy, a second best solution after regular employment, have played an important role in the recovery. Especially in Denmark such measures have been used quite substantially. There are however considerable differences between countries as to the distribution between active and passive policies. As evaluation research has shown, the impact of active labour market policy might also be reduced through deadweight or substitution effects. However, the weight of active labour market measures is bound to increase because of the effects of the European Employment Strategy with its goal to increase employment, employability and the employment rate.

In addition, as the employment systems are bound to change towards more flexibility, a large number of people will transit between jobs, between

jobs and unemployment, between jobs and training, and between jobs and (parental) leave schemes etc. These transitions will also need to be accompanied by labour market policies, ensuring a bridge between work and non-work. (Schmid, G. (1995); Gazier, G. (1999)).

Country specific factors

While the three policies (macroeconomic, social dialogue and labour market policies) in their specific combination explain a large part of the success of the countries in their labour markets, there are also specific reasons in each of the countries. For example, Ireland has attracted a large part of foreign direct investment in a strategic growth sector -information technology- which has resulted in high growth rates. European structural funds money has also contributed to GDP growth. The Netherlands have been world champions in the creation of part-time jobs, often in conjunction with an increase in the activities of temporary work agencies. Austria has benefited from the opening of the Eastern markets and Denmark has enacted a policy of job rotation and training leaves fitting well with its other institutional features such as a lay-off system and comprehensive adult training. All countries have also developed specific clusters of production (e.g. transport in the Netherlands, IT in Ireland, car parts in Austria) which have been growth intensive.

Combination effects

More than from isolated policy actions, labour market success seems to result from an efficient combination of factors. Our study offers some indications on how such interactions might work. At the macroeconomic level, tight monetary policy, fiscal consolidation and wage moderation policies seem to have accommodated each other and the Austria is a good example of how to introduce long term stability by such a coordination of policies.

More specifically, on the labour markets in Denmark and Austria, weak dismissal protection (on the regulation side in Denmark and "de-facto" in Austria) seems to go together with relatively strong (income) protection at the societal level (whereby unemployment benefits are higher in Denmark than in Austria). In these countries, where small and medium-sized firms prevail, such systems seem to support the economy and the labour market and add to flexibility, resulting in low shares of long-term unemployment. These countries have also high employment rates. For small firms and the seasonal sector and its workforce, this arrangement seems to be a stabilising factor, although it involves some cross-subsidisation. As can be seen by the case of Austria, this does not preclude the extension of flexible working time to cope with some of the strong seasonal fluctuation.

Other such efficient combinations include the temporary demand injection in the economy combined with a training-based job rotation scheme in Denmark; or the combination of part-time work, a basic pension scheme and placement activities of temporary work agencies in the Netherlands.

In general, systemic elements working in the same direction are more efficient than elements working in opposite directions. If systemic elements in employment systems are congruent, employment performance is better. The Danish employment system might be taken as an example of how such elements interact: high labour turnover is supported not only by the lay-off system, but also by labour market training, which itself is congruent with training leave schemes. Denmark also has both parental leave schemes and child care provisions which result in more possibilities for women to participate in working life.

Combination of policies, which result in both flexibility for firms and security for workers might be the most appropriate institutional arrangements in European labour markets. To varying degrees at least three of the four countries have managed to have such arrangements.

However, given the complexity of these systems thorough research is needed to determine the precise effect of such combinations. Timing is also important: temporary leave schemes might be efficient bridges to the regular labour market in the upswing, but possibly not in a downturn, as most of the leavers will probably once again be unemployed after their leave. In an unpredictable and complex world, such combinations and the right timing also need some luck in order to add up to successful policies.

Do small countries have specific advantages?

The countries under review are small, only the Netherlands can be considered middle sized. The four countries account for around 10% of European Union GDP and around 9% of its total labour force.

Table 3: GDP and labour force (LF) in % of total EU, 1996

Austria		Denmark		Ireland		Netherlands	
GDP	LF	GDP	LF	GDP	LF	GDP	LF
2,44	2,28	2,00	1,67	0,90	0,88	4,43	4,44
Source: ILO CEPR data bank							

While the three factors of a sound macroeconomic environment and policy, the social dialogue and labour market policy might produce their effects also in bigger countries, the mere smallness of the countries under review might be an additional factor of success. Katzenstein (1985) has outlined some of the factors, which distinguish small from larger industrialized countries: the first of such factors is the economic openness, which is in part due to the small size of domestic markets. "Dependence on imports and the necessity to export make the economies of the small European states both more open and more specialized than those of larger countries" (Katzenstein, 1985, p. 87). Secondly, democratic corporatism based on an ideology of social partnership, a system of centralized and concentrated interest groups and voluntary and informal coordination of conflicting objectives. However, while there might be some other advantage in being small, such as a more homogeneous labour force and better governability (and thus better cooperation between actors), this alone cannot be an important factor as most of the countries went through a major crisis before their present recovery. It could be however, that once a successful system of "corporatist governance" is established or reinvigorated, smallness becomes again a distinct advantage, because of the smaller "power elite" circles. This in turn leads to more informality and closer personal relationships which is an important condition for successful bargaining and consensus. This is certainly one of the reasons for the success of the Austrian system of social partnership. The system was run in the seventies by powerful leaders on both sides, which have since given way to a somewhat more depersonalised style of governance. Not least because of the danger of such systems becoming top heavy, there must be a continuous connection with their constituents, in order to ensure adequate interest representation. The skill of governance in corporatist governance systems is to represent group interests and match them with the interests of the larger economy. This is not always easy.

For example, the latest bargaining round in Denmark was ended by government intervention because the union bargainers were not followed by their rank and file.

What can other countries learn from small countries?

It is not only smallness which is important here, but the traditions and cultures which are the background of different institutions, and which might make it more difficult to understand and transfer experience from one country to the other. In particular, it might be very difficult to adapt "democratic corporatism" in countries with a liberal, pluralist tradition of policy formulation.

However, smaller countries can teach at least two lessons to bigger European countries. Firstly while "democratic corporatism" per se is not the answer to all labour market problems, it seems that once a real dialogue is established within the overall framework of corporatism, solutions to the problems can be found. This also shows that problems are never purely economical but have always a political dimension, which relates to the forms of governance. And corporatism seems to be a form of governance which is of equal efficiency in running the economy as liberal pluralist (market-led) forms of governance. Especially if equity issues are taken into account, corporatist governance has clearly superior performance. The problem of corporatist governance countries was up to know their failing employment performance. With this problem solved, the countries seem to have developed into successful socio-economic models. And although the bigger countries like France, Germany, Italy and Spain have also their form of social dialogue, they have experienced many problems in the recent past. We can remind here of the difficulties to set up a social concertation (Bündnis für Arbeit) in Germany -which by the way is at the present more successful and has very recently helped to trigger reforms and a better economic climate in Germany, which can be seen as a prove of the fact, that the social dialogue helps to carry through necessary reforms. Also France has experienced many problems in its dialogue (this is due also to the divisions within the labour movement) but the 35 hours law has certainly renewed at least company bargaining and the state has often acted as "functional equivalent" to what in other countries has been done by the social partners. But both countries have not yet solved their unemployment problem and should use the dialogue to do so.

The second lesson is that economic openness pays off and that there seem to be no longer-term negative effects of globalization on the labour markets of industrialized countries, or at least no such problems which remain unsolved. Besides this two major elements (form of governance and degree of economic openness) there are many other examples of policy elements from the four success cases, which might help some of the bigger European countries to overcome their labour market problems. For example, there is no reason why bigger countries should not be able to introduce job-rotation schemes along the Danish lines or part-time regulations like the Dutch. A job rotation system (adapted from the Danish model) was, for example, recently introduced in Austria, which has rather similar institutions to Germany. Especially concerning part-time work, equal treatment with full-time work is important. There could also be advantages in having a three-pillar financing system for retirement (a basic pension, a contribution based system and a private top-up) like in Denmark or in the Netherlands, in other countries as well. And the Austrian (and German) apprenticeship system may well still serve as a model for the introduction of alternate training in other countries. These are only some examples out of many which show that it is not impossible to transfer elements of one system to another. It is almost certain that such convergence of policies and regulations will be stimulated by the European Monetary Union, which will inevitably lead to more adjustment in various policy fields.

Another of these "convergence drivers" is the European Employment Strategy. The common guidelines and the associated monitoring process must be expected to lead to more convergence in employment and labour market policies.

We will refrain from a discussion of the transferability of elements of the small European cases to countries outside the realm of the core industrialized countries. This problem cannot be addressed without a thorough analysis of the institutional and economic conditions in these other countries (e.g. the transition countries or the developing countries). Concerning the form of governance, "democratic corporatism" could serve as a model for governance, but the political prerequisites (e.g. strong and equal partners) are usually not met. However, even grass-root corporatism at local level could be later on developed in a more centralised form of democratic corporatism. In any case, there seems to be no real alternative to a dialogue between social actors in order to have some governability in the economy and this basic principle could apply world-wide.

However, concerning the form of governance, "democratic corporatism" could serve as a model for governance, if the political prerequisites (e.g. strong and equal partners, an openness and a will to discuss problems and to let the social partners participate in decision making, as well as institutions of the dialogue) are at least partially met. And even grass-root corporatism at local level could be later on developed in a more encompassing form of democratic corporatism. In any case, there seems to be no real alternative to a dialogue between social actors in order to have some governability in the economy and this basic principle could apply world-wide.

Another lesson is, that you need both a good mix of passive and active labour market policies in order to have both a functioning and sustainable economy and labour market. This can be seen for example in Asia. Up to the recent crisis existing active labour market policies were usually designed to cope with labour shortages and human resource development (Inagami, 1998). During the crisis, however, the lack of other adjustment policies, and in particular an unemployment insurance, had an impact both on poverty and the maintenance of the employability of the workers. Lee (1999) noticing the lack of an unemployment insurance, puts forward some of the reasons why such protection systems have not been installed. Among these reasons were the uninterrupted path of development up to the crisis with only short term problems and a belief in the absorption capacities of the informal sector (and the families) as a safety net. He advances also that the adepts of the so called "Asian values" rejected the assistance image linked to the generous western welfare system. In addition the idea of the employment destroying effects of high non wage labour costs going together with contribution based unemployment benefit systems, might also have acted as a barrier.

One could add, that the interpretation of an unemployment system as a device whose only function is to protect workers might also have contributed to the "institutional passivity" of these governments. In fact, and our study shows this clearly, unemployment systems and active labour market policies have two functions not only in a time of crisis: they allow for basic income and social protection, but also for adjustment flexibility of companies. They are effective buffers around firms and relief them from some of their social responsibility (which many of the larger and smaller "paternalistically" governed firms in fact have) in socialising some of the risks of economic life. This is certainly one of the lessons of the four country study which could be of relevance for the developing world in general.

Conclusion

In conclusion the relative labour market success of the three countries is due partly to country specific factors and partly to the social dialogue, macroeconomic policy and labour market policy and specific combination of these and other policies. The social dialogue achieved a climate of

confidence among the major social actors. Wage moderation contributed to the new climate of confidence and considerable reforms in the social protection systems were enacted, mostly within a climate of negotiation and consensus.

Wage moderation was also the corollary of a stabilisation oriented macroeconomic policy which led to low inflation and low interest rates. Labour market policy (and social protection in general) created the necessary flexibility for adjustment on the labour markets. Labour market policies and social protection schemes should therefore not only be seen as a device to secure income to those without work, but also a sort of "buffer" zone around regular labour markets enabling firms to shed labour without paying all the economic and social costs. Early retirement schemes, which have contributed to success, are -with lay-off and training systems such as in Denmark, good examples for this. However, in face of workforce ageing, first signs of labour shortages and high costs the social protection system has recently been reformed in all of the countries. Early retirement possibilities have been restricted and labour market policy activated.

This might only mean that the welfare state -which we see part and parcel of the success of these countries in achieving an efficiency/equity balance- shifts from a society which distributes wealth partly through social transfers to a society which aims at the participation of a maximum of people in primary revenue resulting from work. However, there must also be a role of passive labour market policies in the future, precisely because of its buffer role. Such an "embedded" labour market, for which the right portion of active and passive labour market policies are used, is an alternative to a labour market subject overwhelmingly to the law of supply and demand in which workers would shoulder the brunt of adjustment hardship.

In any case, while the four countries differ in many respects and have by no means achieved "the best of all worlds" they have made progress towards the goal of full employment. Much remains to be done, but these countries have shown that employment success is also feasible in Europe's welfare states that maintain a balance between economic and social issues.

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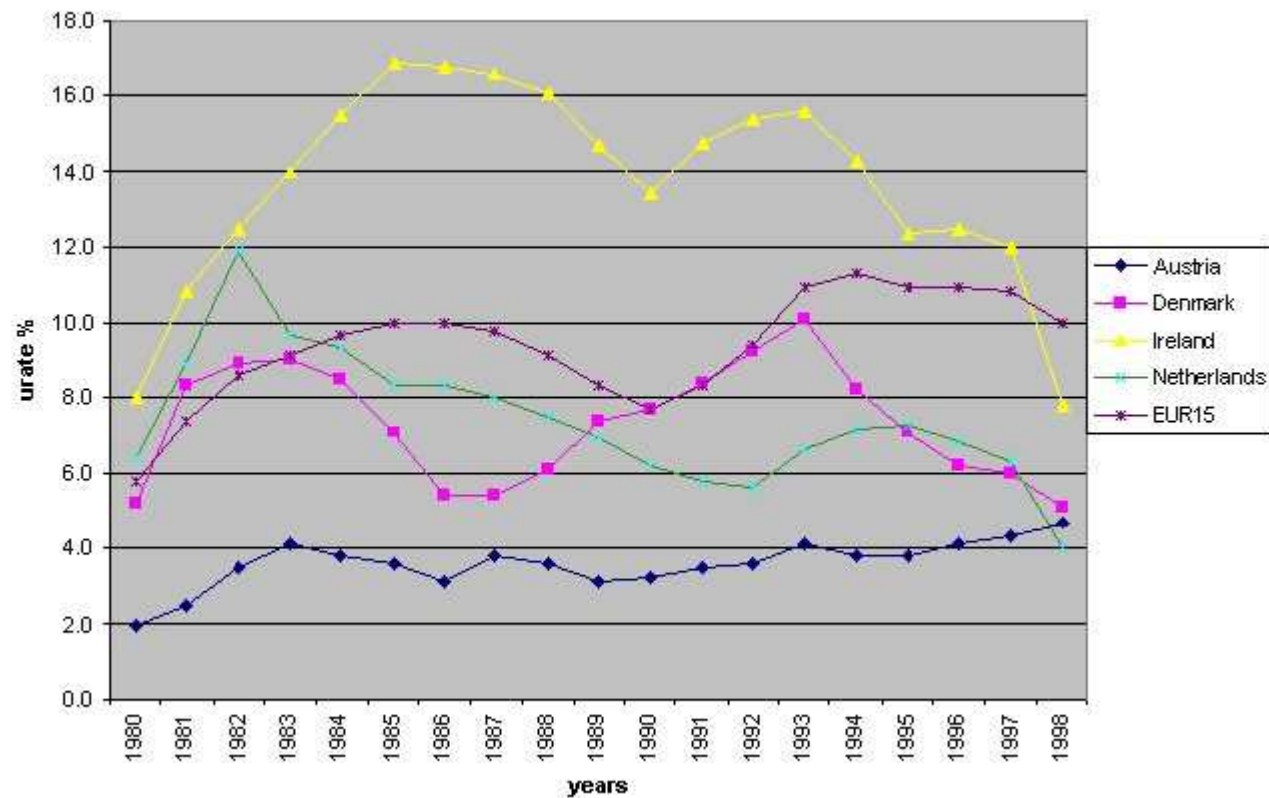
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Annex 1

Unemployment rates (ILO-definition) 1980-1999



Footnotes:

(1) The present comparative study is part of the ILO's follow up activities to Commitment Three of the Declaration and Programme of Action of the World Summit on Social Development in Copenhagen in 1995. Commitment Three reiterates the importance of full, productive and freely chosen employment, as a basic condition for social progress. The study reviews labour market progress in Austria, Denmark, Ireland and the Netherlands as part of the overall framework of Country Employment Policy Reviews, which are also undertaken in other, less developed regions of the world. This paper is a summary of a recent ILO book: Peter Auer, *Employment Revival in Europe: Labour Market Success in Austria, Denmark, Ireland and the Netherlands*. ILO, Geneva, 2000. A slightly modified version of this paper will be presented at the 12th IIRA World Congress in Tokyo.

- (2) (Especially the four accounting for most of the high European unemployment rate: Italy, Germany, France and Spain, although they have also recently managed to reduce unemployment) .
- (3) To be classified as unemployed, the respondent to the survey has to be without work, has to be available for work and has to actively have searched for work in the reference period.
- (4) For a discussion of the concept see page 25 ff. In Auer, P.,2000.
- (5) Although there seem to be considerable differences between the four countries (e.g. there is evidence that income inequalities have risen more in Ireland and also in the Netherlands than in Denmark and Austria. O'Connell, 1999; Hartog, 1999).
- (6) "Corporatist governance" or "democratic corporatism" is a system of governance, in which the three main social and economic actors (the government, employers and workers representatives) shape and even implement policies through the social dialogue, which manifests itself through national, regional and local pacts, traditional collective bargaining and the administration of parts of the employment and social protection schemes.

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