



Workers' Worries and Labour Market Policies

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I. Introduction: levels of activation spending and employment protection in the OECD

Keywords: activation paradigm, re-employment worries, dual labour markets, insiders and outsiders, employment protection legislation

Cutbacks in the size and generosity of social policies have largely dominated the 'new politics' of OECD welfare states since the 1980s.¹ But active labour market policies (ALMPs) have been in many respects an exception, largely due to the new 'activation paradigm' that has been central on policy-making agendas since at least the mid-1990s.² In the EU, for instance, great emphasis was given on ALMP programmes by the 1994 Essen Summit, the European Employment Strategy and the Luxemburg Employment Summit in 1997, and the 2000 Lisbon Treaty.

As Figure 1 shows, there has been a high degree of variance in activation spending in the past decade across the OECD. ALMP spending has ranged from 1.7 per cent of GDP in Denmark and between 0.9 and 1.3 per cent in Finland, France, Sweden, Belgium and the Netherlands to less than 0.3 per cent in countries such as Slovenia, Slovakia, the Czech Republic, Japan, Israel, the USA, South Korea, and Estonia. Underlying these period-average figures are strong increases even in the latter two countries. Estonia and South Korea, while starting from low levels, have also more than doubled their ALMP spending levels between 2004 and 2011.

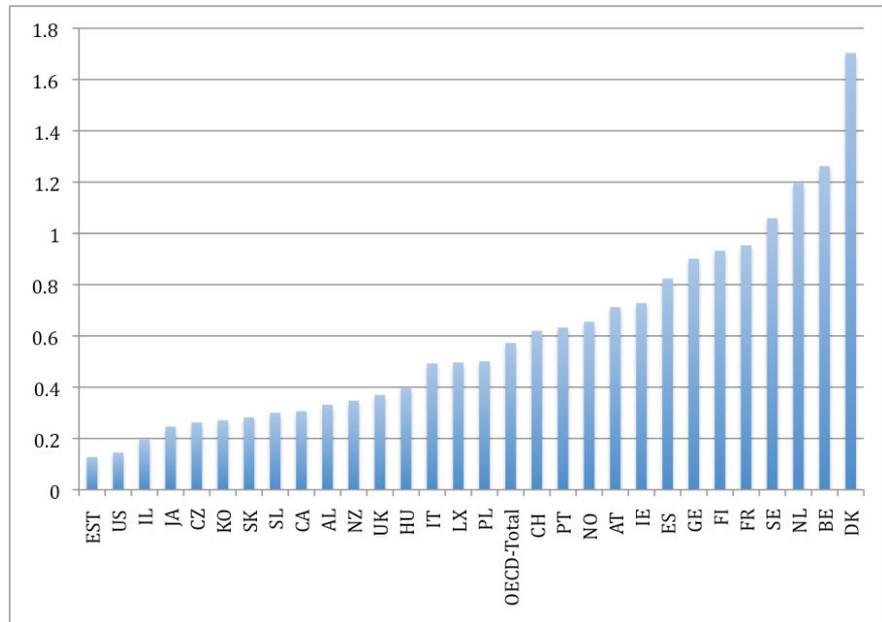
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1 On welfare state retrenchment, see e.g. Starke (2006), [Tepe & Vanhuysse \(2010\)](#), [Vanhuysse & Goerres \(2012\)](#).

2 On the activation paradigm, see e.g. Bonoli (2013). On activation of older workers specifically, see e.g. [Gasior et al. \(2011\)](#), [Marin \(2013\)](#).

Figure 1:
Average levels of active
labour market policy spending
(% of GDP), 2004-2011

Source:
Author's computations from OECD
Employment and Labour Market Statistics
(downloaded 15 May 2014)



Activation spending, which has traditionally been viewed as a labour market outsider programme, can be usefully compared and contrasted with efforts aimed at protecting current jobs, as captured by the OECD's Employment Protection Legislation (EPL) index, which gives a numerical measure on a 0-6 scale based on a list of laws and regulations regarding the protection of regular (permanent) workers against individual dismissal and of temporary forms of employment (standard fixed-term and temporary-work-agency contracts), and regarding additional, specific requirements for collective dismissals.³

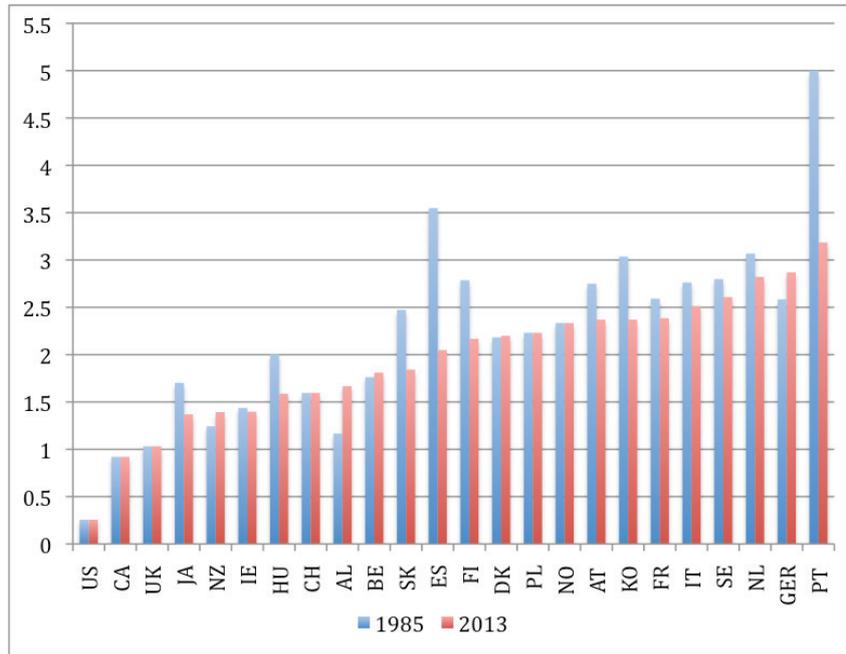
The decades of labour market liberalization, globalization and the rise of the activation paradigm have witnessed a remarkable status quo in EPL levels for workers with regular contracts.

Figure 2 shows EPL levels in OECD countries for the first type of employees – those on *regular* contracts, i.e. labour market insiders. With the sole exception of Spain and Portugal (which anyhow remains the highest EPL-country nevertheless), this type of employees has enjoyed a remarkable status quo in EPL levels throughout the OECD between the mid-1980s and 2013; the very decades of alleged labour market liberalization and globalization – and the activation paradigm. On average, EPL levels for these regular contracts have only marginally gone down in this period, from 2.2 in 1985 to 2.0 in 2013.

³ For more methodological information, see:
<http://www.oecd.org/els/emp/EPL-Methodology.pdf>

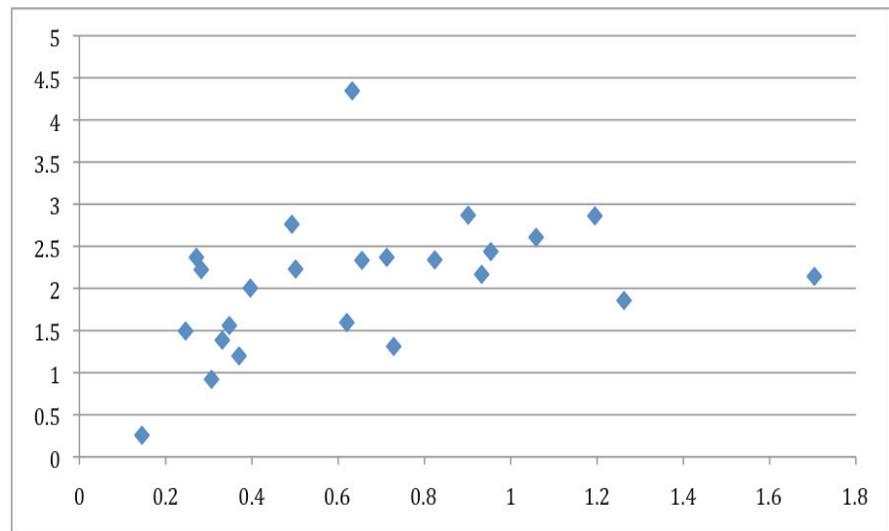
Figure 2:
Employment Protection
Legislation against individual
and collective dismissals:
regular contracts

Source:
Author's computations from OECD
Indicators of Employment Protection
(downloaded 28 May 2014).
Note:
First data point for South Korea,
New Zealand and the Central and
Eastern European countries
refers to the early 1990s.



But how to explain ALMP spending levels today? Are they connected to EPL levels, and if so, in what way? To start answering the latter question, Figure 3 plots average levels of ALMP spending and average EPL levels for regular contracts for the same years (2004-2011). At first sight, the link between these variables seems to be weak: there is only a moderate positive correlation between ALMP spending and EPL levels (Pearson correlation coefficient 0.39).

Figure 3:
Average levels of ALMP
spending (X axis) and Employ-
ment Protection Legislation
for employees with regular
contracts (Y axis), 2004-2011



2. Explaining active labour market policy spending: Three hypotheses

This Policy Brief summarizes theoretical findings from a study I did with Markus Tepe (University of Oldenburg) that adds a new thesis on the political mechanisms behind ALMP spending (Tepe & Vanhuysse 2013). An influential theory by Rueda (2007) argues that left-wing political parties have relatively little interest in promoting ALMPs, as they increasingly see their electoral core as labour market insiders, not the outsiders that allegedly most benefit from ALMP programmes. Like economic insider-outsider theories (e.g. Lindbeck & Snower 2001, Saint-Paul 2000), Rueda points out that labour is not a homogeneous block, but he also posits that left-wing parties view only traditional 'insiders' as their core voting base, which they want to favour with job protection (EPL). By contrast, left-wing parties see increasingly less need to spend on ALMPs that allegedly favour labour market 'outsiders' – primarily the unemployed and atypical workers such as part-time, flexi-time and temporary workers.

The success of left-wing parties increasingly depends on their ability to win votes from women and the middle class. But the success of trade unions still depends primarily on their ability to protect their membership core – predominantly industrial workers. Unions therefore are likely to promote ALMPs as a second-best goal.

We point out that as deindustrialization has rapidly eroded left parties' traditional electoral base in recent decades, and as women increasingly expect state support for combining employment with motherhood, these parties have had to shift their policies towards more centrist positions and to social programmes such as human capital investment, family policies and childcare that were attractive to middle-class female voters. Such strategies have become increasingly viable electorally as the widening of higher education and the expansion of service sector employment have created simultaneously a wider and more heterogeneous base of middle class voters (Hausermann & Schwander 2009, Emmenegger et al. 2012, Esping-Andersen 2009). We thus posit a 'left party disinvestment thesis'

HI: *Left-wing party power in government has no effect (weak version) or a negative effect (strong version) on ALMP spending.*

But in addition, we theoretically introduce a new actor in ALMP politics – contemporary trade unions. Unions today need to be responsive towards the increasing *re-employability worries* of their members. In the past, unions, too, viewed ALMPs as benefiting non-unionized labour market outsiders. But today unions are likely to promote ALMPs as a *second-best* priority programme. In contexts where high EPL levels have not been achieved (the *first-best* goal), more powerful unions will today push for ALMP spending as an alternative way to offer their members some measure of desired labour market security (Tepe & Vanhuysse 2013). As noted, the success of left-wing parties today depends increasingly on their ability to win office by votes from women and the middle class. But the success of

trade unions still depends primarily on their ability to protect and promote their membership core – predominantly industrial workers (Palier & Thelen 2010, Jensen 2012). But how do unions approach ALMPs, which have been commonly viewed as benefiting *outsiders*? Standard political economy accounts assume that unions pursue the interests of insiders exclusively (Lindbeck & Snower 2001, Saint-Paul 2000). Such views would posit that greater power will lead unions to push exclusively for insider programmes such as EPL, even at the expense of alleged outsider programmes such as ALMPs.

We disagree with this standard view of ALMPs as outsider programmes. In the wake of liberalizing labour markets, growing international competition, industrial decline, new flexicurity and workfare policies (sometimes masquerading behind the activation paradigm) and increasingly punctuated working careers, the interests of union members today are not the same as during the golden era of industrialism. Union members are as likely as ever to demand continued job security (EPL) from their leadership (Nelson 2009). But in addition, union leaderships today also need to ensure workers' re-employability chances. In the 1990s, union members tended to simultaneously have a higher sense of job security (thanks in large part to EPL) and a higher sense of re-employability *insecurity* (Anderson & Pontusson 2007). In Tepe & Vanhuysse (2013) we use evidence from the ISSP 2005/2006 wave to show that also in recent years union members tend to be on the whole less worried about the security of their current job than non-members. But when it comes to worries about re-employability in the event of job loss, union members are more worried than non-members in all OECD countries but one. These re-employability worries are likely to feed back to union leaderships, leading them to use their political clout to push for higher ALMP spending.⁴ We therefore expect union leaderships to actively promote ALMP spending today, particularly on those programmes that are most likely to help their own members, such as employment assistance and labour market training. This leads us to posit a *'self-interested advocacy thesis'* **H2**: *Larger and more strike-prone trade unions have a positive effect on ALMP spending.*

Union members are less worried about the security of their current job than non-members, but they are more worried than non-members about their re-employability in the event of job loss.

These ALMP strategies of unions are likely to be context-dependent. Given the remaining importance of job security for their members, EPL is likely to remain key. As we have seen, labour market insiders have enjoyed a remarkable status quo in EPL levels since the mid-1980s.

⁴ Admittedly, union movements are not unitary actors. Environments with many smaller unions potentially produce different strategies than those with few large unions (Calmfors and Driffill 1988). Moreover, the leaders and members of unions are subject to similar principal-agent problems as those that characterize the relationship between employers and employees (Vanhuysse and Sulitzeanu-Kenan 2009; on Central Europe, see Vanhuysse (2007)). But it is plausible that union leaders in hard times have strong incentives to promote the clear interests of their core membership. On employment security wishes of Europeans, see also Chung and Van Oorschot, 2011.

The need for union leaders to push for ALMP spending and alleviate their members' re-employability worries is likely to be especially salient in the low-EPL labour markets on the left side of Figure 2, such as the Anglo-Saxon and Eastern European countries. This leads us to posit a 'context-dependent advocacy' thesis **H3**: *Lower levels of EPL will be associated with a stronger positive effect of union density and of strike rates on ALMP spending.* In other words, in countries where high EPL has already been achieved (the first-order goal), unions are expected to focus their political clout mainly on defending these past successes. But when and where high EPL levels have historically not been achieved, we suggest that more powerful unions will tend to promote ALMP spending (the second-best, or first-best feasible goal), as an alternative way to offer their members some (market-conform and activation paradigm-conform) state help towards their potential re-employability.

3. Findings in brief

Interestingly, left-wing party power in government is associated with lower levels of ALMP spending, but larger and more strike-prone unions with significantly higher levels of ALMP spending.

Our regression models in [Tepe & Vanhuysse \(2013\)](#) show that left-wing party power in government in recent decades has actually led to *lower*, not higher, levels of ALMP spending. This lends support to the left party disinvestment hypothesis (H1). But interestingly, union power as measured by larger memberships and higher strike-proneness today is systematically associated with significantly *higher* levels of ALMP spending. This corroborates the self-interested union advocacy hypothesis (H2). When we focus on particular sub-dimensions of ALMP spending, unions are found to use their clout to push for higher spending on those particular programmes that most directly help their own members: *employment assistance* and, especially, *training*. This provides more specific support for H2. Unions with a larger political clout may act as ALMP promoters, but at the same time they make sure to benefit their own rank-and-file first and foremost.

There is a scissor-shaped pattern: in high-EPL labour markets, greater union power does not increase ALMP spending, whereas in low-EPL labour markets it does.

The third hypothesis held that union strategies towards ALMP spending depend on whether or not labour market insiders are *already* highly protected in their jobs (H3). To explore this we stepwise introduced three multiplicative interaction terms into our regression models. When we look at the effect of union density on ALMP spending, a scissor-shaped pattern emerges. In contexts with very high levels of EPL, as in contemporary Continental and Southern Europe, higher union density has a negative effect on ALMP spending. But where EPL is very low, as in Anglo-Saxon liberal market economies, growing union density leads to large increases in ALMP spending. A similar scissor-shaped pattern is evident also when investigating how EPL mediates the effect of union strike rates:

more assertive unions have a positive effect on ALMP spending in low-EPL labour markets. This corroborates the context-dependent advocacy thesis (H3). Stronger unions appear to more strongly push for ALMP spending mainly when and where regular workers are not yet well protected. This may be because in contexts where high EPL levels have never become a key part of the larger macro-political economy model, ALMPs have become the first-best feasible union priority, as they offer workers support for re-skilling and retraining and can simultaneously be presented as a clearly market-strengthening policy. In other words, unions today appear to consider ALMPs as a *second-best* goal, EPL being their first priority.

4. Conclusions

Where high EPL levels have not been achieved, unions may use their clout to promote activation spending as a second-best priority, as this offers workers re-employability security and can be presented as a market-strengthening policy.

This Policy Brief has made three arguments. First, left-wing party power today is no longer associated with higher ALMP spending. Second, in line with the idea that unions' ALMP strategies increasingly need to take into account the growing re-employability worries of their members, larger and more strike-prone unions tend to increase ALMP spending – specifically those programmes that help union members, such as employment assistance and, especially, training. Third, EPL levels mediate: more powerful unions push up ALMP spending especially in those labour markets where jobs are not well protected. Union leaderships, aware of the worries of their membership in case of job loss, today are more likely to use their clout to push for policies that boost workers' reemployment chances in low-EPL labour markets, where job turnover is high and dismissal is easier. In liberal and liberalizing market economies, ALMPs may simply turn into the first-best feasible union goal, as they are valued by their members as a form of re-employability security, yet can be framed as a market-strengthening and activation-conform policy tool. This finding simultaneously casts doubt on the widespread view of ALMPs as being a labour market outsider programme (Saint-Paul 2000, Rueda 2007, Lindbeck & Snower 2001).

Unions today use ALMPs to cater for their membership – labour market insiders. This may consolidate the tendency towards dual labour markets

In other words, unions still cater mainly for their membership, but in different ways than in the past. This may actually consolidate the strong tendency towards dual labour markets (Emmenegger et al. 2012, Obinger et al. 2012). Long-term trends of EPL for regular contracts, which largely correspond with insider jobs, and for temporary contracts (outsider jobs) show very different pathways of development over the past thirty years. As we have seen, regular contracts have seen a status quo in EPL (Figure 2). In stark contrast to this, Figure 4 shows that temporary job contracts have suffered very substantially from reductions of protection levels. These labour market outsider contracts have gone down from

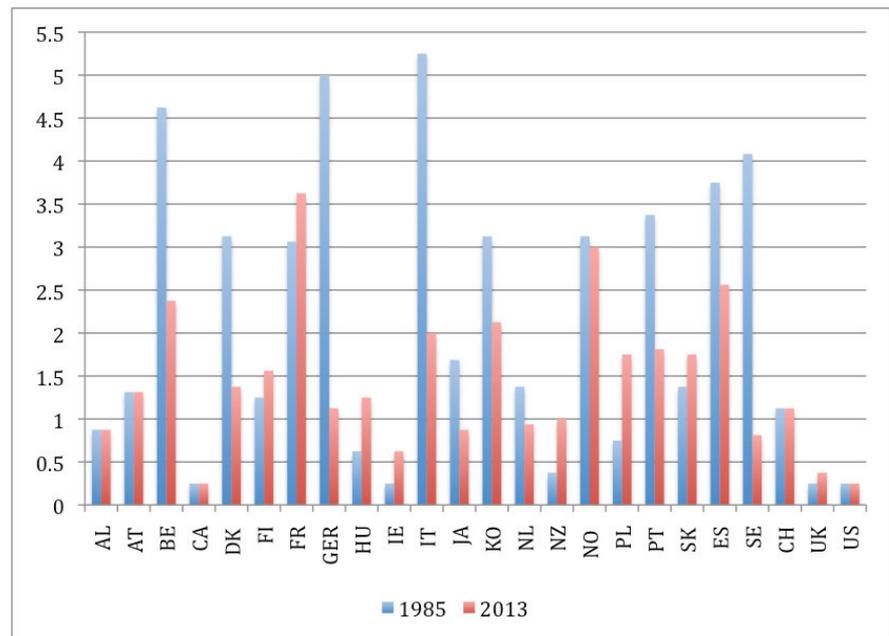
While workers with regular contracts have seen a status quo in EPL in recent decades, workers on temporary job contracts have suffered very substantial reductions of protection levels.

2.1 to 1.4 on average for the OECD. For instance, temporary-contract employees have seen reductions in their EPL levels of over 40 per cent in Belgium, Japan, and Portugal in this period, and of around 60 per cent or more in Denmark, Italy and Sweden. By contrast, these latter three countries have left EPL levels for employees with regular contracts essentially unchanged in this same period. And in Germany, which actually implemented 78 per cent cutbacks for temporary employees, regular employees have even seen EPL increases.

Figure 4:
Employment Protection
Legislation against dismissals:
temporary contracts

Source:
Author's computations from OECD
Indicators of Employment Protection
(downloaded 28 May 2014).

Note:
First data point for South Korea,
New Zealand and the Central and
Eastern European countries
refers to the early 1990s.



These findings are in line with the observation that unions in globalized times are increasingly willing to support social spending cutbacks *if* this is likely to safeguard the status quo in terms of their labour market policy interests (Clayton and Pontusson 1998). Similarly, Davidsson and Emmenegger (2012) show that when it comes to job security legislation, unions tend to protect permanent contracts while simultaneously consenting in sometimes far-reaching further deregulation of temporary employment (see also Palier & Thelen 2010, Iversen 2005, Emmenegger et al. 2012, Jensen 2012). In sum, unions today can be viewed as still primarily concerned with protecting labour market insider interests: through EPL when they can; through ALMP spending when they must.

Further Reading

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