



## The Ideas and Politics of Labour Market Reform

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**The adaptation of labour market policies to a changing economic and demographic context is a challenge for many European countries. Why do some European countries fail in reforms where others succeed? Professor Robert Cox seeks the answer in the processes that underlie policy reform.**

### INTRODUCTION

The politics of reforming European labor markets is fundamentally a battle of ideas. Pressures from globalization are forcing actors in all European countries to confront a new reality and this means the political assumptions and behaviors that informed past policy developments need to be rethought and new approaches need to be developed. Ideas are crucial to this process.

The countries that have made the greatest advances in reforming and reinvigorating their labor markets have done so by developing new ideas to justify the reforms, and persuading enough actors that those reforms would help to address the concerns of competitiveness as well as social justice. As a result, these new ideas inform new notions of the welfare state and its labor market regulations. In countries such as The Netherlands and Denmark, an internal debate among national actors circulated new ideas about work and welfare and in turn fostered a new consensus to pursue reform.

But the battle of ideas is not being engaged everywhere. A second pattern can be seen in countries where labor market reform has been accompanied by only a modest, if any discussion of new ideas to justify the reforms. The reforms to be found in these countries follow a pattern known as “policy

drift” (Hacker 2004). In some countries policy drift can result in dramatic change, but most frequently policy drift is the result of reforms that are incremental and incomplete, taking place in ways that are not immediately apparent and involving changes whose effects only become evident after a number of years. In either case, what makes these countries good examples of policy drift is the failure of new ideas to provide a new direction for labor market policies. Sometimes this is because reforms are little more than administrative adjustments attended to by a rather small circle of actors, rather than legislative changes that involve a more public discussion (Pierson 1990). In such countries, public opinion proves unaware of the changes. In Sweden, for example, there continues to be a widespread sense that the “Swedish Model” remains intact, even while policy drift in labor market reforms represents a departure from the Swedish Model.

Most frequently, however, policy drift takes place in countries where new ideas fail to dislodge strongly entrenched supporters of the status quo. In Germany, for example, reforms have been attempted and have been accompanied by bold ideas about how labour markets need to change to meet the needs of the global economy. This description also fits Italy, where, as in



Germany, there has been no serious challenge to the “postwar settlement” responsible for the creation of labour market regimes in the 1950s and 1960s. Other countries that fit this pattern are France and Belgium, though they are not discussed. The result is persistent and high unemployment, (especially among the youth), low job creation, and deteriorating labour market performance. Once seen as superior examples of labour market governance, these countries now stand as the problem cases within Europe. Most remarkable among them is *Modell Deutschland*, whose labour market regime once was praised for its combination of industrial peace, high productivity and competitiveness, and ability to train a highly skilled workforce. These countries demonstrate that resistance to new ideas allows institutional “path dependencies” to stifle the adaptation of labour markets to the new global realities.

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My objective in this chapter is to outline how the politics of labour market reform is defined by the introduction of, or resistance to new ideas. The chapter begins with a discussion of the role of ideas and how they challenge the orthodoxy of the labour market regimes and especially of the actors that have dominated policy discussion in this area. Then, I discuss how these new ideas often are introduced and try to identify why they lead to successful labour market reform in some cases and not in others. Finally, I briefly examine the countries that represent these two patterns of labour market reform, highlighting where new

this chapter. In these countries, political parties cling to their postwar ideological foundations and new ideas wither. Policy drift happens in these countries because a few small remnants of the bold reforms do manage to take hold. Ideas succeeded and failed, and exploring why.

### WHY IDEAS MATTER

Most explanations for labour market regulations focus on the way they balance the interests of stakeholders who have influence in the policy process. Specifically, labour and business have certain interests that are potentially at odds with one another. Labour seeks better working conditions, job and income security, and improvements in compensation. Business leaders are interested in containing costs and

maintaining flexibility in their decisions over how large a work force to have and how to assign job duties. In most European countries, the “postwar settlement” (Kesselman 1987) that governed labour market policies balanced the interests of business and labour. Labour won job security, stable incomes and control over many workplace decisions. Business won wage restraint, less disruption in the form of fewer strikes, and enjoyed a profitable environment. All this was supervised and enforced by national governments.



In an age of globalization, these interests have not fundamentally changed. But, globalization has diminished the ability of labour, business, or even national governments to control their environments. This means that continued pursuit of their interests forces the “social partners” (management and labour) into more uncertain positions as they seek to minimize the threats posed by globalization. Sometimes this leads them into more antagonistic relationships, as each blames the other for its growing uncertainty. Labour blames managers for making their jobs more insecure, and managers blame labour for keeping labour costs high in a global environment more sensitive to price competition. If we assume that the interests of all parties are stable, then the preference of each is to return to the *status quo ante*. Globalization, as well as Europeanization, however, makes this impossible.

The only direction out of the dilemma is for interests to change, thereby setting up an opportunity for a new consensus around a new set of labour market policies. This is where ideas enter as important vehicles for change. As a theoretical issue, the most common assumption is that the interests of actors are stable. This does not mean the interests of an individual actor never change; certainly they do, but only as the situation changes and the individual is confronted with a new circumstance and new information. Rather, the assumption is that any person in a similar situation would have the same interests. Applied to the analysis of European labour markets, this leads many to assume that the social partners prefer policies that preserve the status quo. For the social partners, and especially labour, the postwar settlement is a comfortable status quo, whereas globalization only presents risks. Even

some actors in the business community, faced with a choice between an imperfect status quo and a risky and potentially worse future, often prefer what they know to what they do not. At the very least, the business community is divided between the large multinational firms that favor liberalization of everything, including labour markets, and the small- and medium-sized enterprises, which are suspicious of some aspects of liberalization.

Scholars who study the role of ideas in policy making, however, have observed that ideas often have the power to transform interests and thereby to realign policy preferences, and that this happens independent of a change in circumstance. As Colin Hay (2004) has observed, interests are not fixed and stable, but are “constructed” by people as they interpret their material circumstances. This means that two people in the same situation would not necessarily perceive their interests in the same way. How people interpret their environment is always influenced by what they hear others saying. In other words, the discourse that surrounds a policy decision will have a large influence on how people perceive their own interests (Schmidt 2002). Ideas are the currency in any policy discourse. Policy actors struggle to make their ideas the dominant ones, and to have the dominant ideas interpreted in ways convenient to them. Material interests are important to those who promote ideas, but the ideas are broader, also encapsulating people’s notions of social justice, or what is a legitimate course of action for public policy.

In addition to helping to transform individual interests, ideas are the coin of political debate. Political actors seek to persuade others that their particular



perspective on a problem, and the policy action it suggests, is the most reasonable. In this discursive process, ideas are important rhetorical devices that help to unseat opposition to a proposed course of action. The new ideas allow people to think of new ways to arrange their interpretations of the world so that their interests are still preserved (Béland 2005).

When new ideas gain currency, they open political space for new actors in the policy process. Often these new actors are the original advocates of new ideas, and use the ideas to insert themselves into the policy discussions. The arrival of these new actors and their ideas usually further accelerates the transformation of interests within the debate. But, the receptivity of the political system to new actors is not the same in all countries. Political institutions are known for being more or less open to the input of new actors. Some political systems allow for multiple veto points (Immergut and Jochem 2006) where new actors can exert pressure for change. Other political systems are notorious for being closed and immune to new pressures, thereby preserving the privileged access enjoyed by well entrenched interests. The countries in Europe where labour market changes are most profound are also the countries where new actors have established themselves in the discussion. By contrast, the countries with the least change are those where the social partners of the postwar settlement have effectively repelled any challenge to their policy role.

For example, a central idea in labour market policy is the “breadwinner” concept, at least for countries of continental Europe. This idea links together the values of income and family security by suggesting that men should earn enough to support their entire

household while women perform the domestic chores of the household. The result of this idea is a preference for policies that provide job tenure and high salaries for men while encouraging the exit of women from the work force. Upon its introduction by Christian Democrats in the 1950s, the breadwinner concept quickly was embraced as a positive development in many countries by workers who saw the reforms as a way to have a luxury previously enjoyed only by the middle class. Giving working class men enough income and security to allow their wives to stay home (like middle class women) was desired by workers who thought more leisure was in the interest of their families. Electoral competition quickly forced social democrats in these countries to embrace the breadwinner concept or risk losing votes to Christian Democratic parties (Cox 1993).

As an idea, the breadwinner concept is no more in the interest of workers than is the idea of working class solidarity, or of payment based on individual merit. In each case, workers can construct their interests based on their perception of what is available to them and their own values. In countries where workers readily see themselves as part of a class, they believe collective action is an important way to pursue their common interests. But, in countries where workers tend to view their society in liberal terms, i.e. as comprised of individuals rather than classes, solidarity has a weaker effect on the way workers perceive their interests. Workers tend to see their own interests as more intimately connected to their own effort, and might understand themselves to be in competition rather than solidarity with their fellow workers.



Labour market policies in countries where the breadwinner idea prevailed have looked different from countries where workers are seen as individuals or members of a class, rather than as heads of households. For example in countries with stronger degrees of class solidarity, working class parties have successfully pursued labour market regulations that promote equality in wages, benefits and labour regulations. The results are more wage compression and greater universality in social benefits (Wallerstein 1999). These policies promote solidarity by underscoring the link between collective action and collective benefits. In countries where more individualistic ideas define the worker, wider wage differences are accepted, female participation in the workforce is higher because households expect that their well-being demands that they have more than one person active in the work force, and childcare opportunities are more abundant (Esping-Andersen 1990).

For the past fifteen years, labour market reforms have challenged these ideas, and the reforms have been based on new ideas. For example, “flexicurity” is an idea from the Netherlands, that was widely discussed in Europe in the 1990s. “Flexicurity” was promoted as a way to link the value of job security to the notion of part-time employment. Unlike under the previous labour market regime, within which security was best attained by providing full-time employment to male breadwinners, flexicurity is a term used to describe reforms that allow part-time workers to also enjoy the same social security benefits normally associated with full-time work. Implementation of the idea facilitated a greater participation of women in the Dutch workforce, and changed the breadwinner to a “one-and-a-half jobs” model (Visser and Hemerijck 1997). The idea behind the one-

and-a-half jobs model was that both partners in a household could work part-time, allowing them to share household duties and still enjoy some leisure time. To make this attractive, however, the Dutch government had to adopt reforms that moved away from the breadwinner model. Following the Dutch example, Danes imported the idea of flexicurity and also used it to give a positive image to their own labour market reforms (Economist 2006).

“Activation” has been another important idea prodding countries to reverse some of the key features of the breadwinner model, especially to reform benefit assistance (Clasen 2002). At its introduction, activation was the idea that existing systems of transfer payments were too passive because they simply provided money to people who left the workforce, rather than inducing them to return to work. According to the activation critique, not only were such high levels of benefits expensive, but they also led to a depreciation of skills and high levels of social isolation among people who stayed on benefits for a long period of time. Instead, activation proponents argued, benefit systems needed to move people back into the work force. The idea of activation served to reframe the situation in a way that allowed stakeholders to be more receptive to policy reform. Active labour market policies do not have to be a sign of an uncaring society that commodifies labour. Rather, they allow people to re-enter the work force and to maintain the social attachments they acquired through their jobs.

Ideas, therefore, help people to conceive of their interests, suggest what types of public policies will best help them realize their interests, and are the discursive vehicles for people to communicate their understandings





and build support for their positions. Labour market reform occurs under any situation, but truly dramatic policy reform requires new ideas and a re-orientation of people's preferences to support new policies. Today in Europe, the war of ideas pits the adherents to the breadwinner model against the advocates of flexicurity and activation.

### **IDEAS AND POLITICAL PARTIES**

Political parties are the most important merchants of policy ideas. Most of Europe's large political parties can still be identified with a particular ideology. But today, the pressures of globalization are forcing political parties to fundamentally reconsider their ideological foundations. This confrontation has been most severe for Social Democratic parties, who see the postwar settlement as a Social Democratic victory, representing the triumph of the working class for social justice. In the words of Gøsta Esping-Andersen (1990), social welfare and labour market regulations led to the "decommodification" of labour, freeing the working class from the choice between work and lifestyle.

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Today, the social democratic parties that have a positive impact on labour market reforms are those that have reexamined their ideological foundation, often only to rediscover a positive vision of work at the heart of their ideology. To put it in simple terms, social democrats take pride in having put into practice Karl Marx's dictum "to each according to his need," but they overlooked the first part of the dictum,

"from each according to his ability." Today, the most innovative social democratic parties are augmenting their well-developed theories of distribution with equally well-considered theories of production. The new idea in social democratic circles is to enact "social investment" policies that place a premium on training, upgrading of skills and re-integrating labour market "outsiders" who have been discriminated against by existing regulations of the labour market. For example, in Great Britain, Tony Blair's transformation of the Labour Party from a traditional social democratic to a "new left" political party has basically followed this route, as have social democrats in the Netherlands and Denmark (O'Brien 2000).

The ironic paradox in this shift is that social democratic reformers employ instruments that are indistinguishable from those advocated by their opponents on the right side of the political spectrum. Upgrading skills requires not only that people enroll in retraining programmes, but that these programmes also lead to jobs within a specified period of time. Such notions have been the hallmark of neo-liberal labour market reforms. When U.S. President Bill

Clinton advocated a five-year limit for benefits, European social democrats derided this as a punitive reform only imaginable in America. Now, such time limits are increasingly common in Europe and receive the endorsement of social democratic parties. Also, social democrats are advocating tighter conditions for the award of benefits (Taylor-Gooby 2004).



To highlight the theoretical statement in this chapter, the material condition of the social democratic constituency has not changed. Rather, new ideas have allowed social democrats to reconcile labour market reforms with their ideologies. Social democrats make a special effort to distinguish their form of labour market activation from what is proposed by their neo-liberal opponents. The basic distinction, as articulated by many social democratic parties, is that they are trying to use the power of the state to allow people to return to and thrive within the labour market. Mobilizing the capacity of the state, rather than allowing market forces to make adjustments is a hallmark of social democracy, and social investment policies are the idea that links the ideology to the realities of globalization. The irony is that the mechanisms advocated by social democrats are often those that also have the support of parties to the right on the political spectrum.

Though the ideological challenge has been strongest for social democratic parties, parties on the right have also been affected by the new realities. The challenge on the right, at least among the neo-liberal parties, is to accept that unregulated markets, especially labour markets, do not operate ideally. Rather, markets need some sort of regulation to prevent them from realizing suboptimal outcomes. For example, the deregulation of labour markets is often seen to remove a major obstacle to female participation in the labour force. But, the actual participation of women in the work force is dependent upon the availability of child care options for those who chose to work. Curiously, the Scandinavian countries enjoy the highest participation of women in the work force, largely because the state underwrites a myriad of child care

options. Indeed, publicly-subsidized child care itself is a major source of female employment. Countries with more liberal labour market regulation, on the other hand, find that women are best able to enter the work force if they can do so at a high income, or if they have a spouse who also works. Lone mothers, especially those who have marginal labour skills, often find that the child care options available in the market place make it difficult, if not impossible for them to balance work and family duties (Lewis 2006). Consequently, liberal parties are learning to accept some ideas from the left that require more state intervention in the labour market, such as subsidized child care or retraining programmes.

Parties on the right which have a more *dirigiste* tradition also are facing challenges to adapt. Christian Democratic parties and the French Rally for the Republic have long supported heavily regulated labour markets. Indeed, they were the architects of the present forms of labour market regulation, taking credit for such ideas as the breadwinner concept (Kersbergen 1995). For them the challenge is to move away from the idea of corporatist economic management. The cozy relationship between the state and the social partners has proven to be the single largest obstacle to labour market reform in countries where Christian Democrats or *dirigiste* parties were responsible for creating the present labour market regimes. Corporatism allows labour unions to protect existing jobs, with the adverse result that employers are reluctant to take on new workers. Widely known as the “insider-outsider problem” (Lindbeck and Snower 2001), this cozy relationship is responsible for high levels of youth unemployment and a degradation of skills in the workforce. The entry of



women into the workforce, too challenges these parties to consider that women could have multiple roles in society and not just be mothers and home makers. *Dirigiste* parties have proven to be the most reluctant to adjust their ideological foundations and embrace the new ideas.

All parties of the right have proven supportive of activation programmes, but their ideologies impose some limits to how much activation they believe is desirable. Neo-liberal parties are hesitant about expecting public officials to be proactive in finding jobs for beneficiaries, preferring instead that individuals assume the responsibility to find their own jobs. For *dirigiste* parties, the cosy system of corporatism allowed for a quick removal of unproductive workers from their jobs. Real levels of unemployment were hidden by extensive utilization of disability and early retirement programmes to remove less productive workers. These programmes required little state activity beyond the disbursement of benefits, especially in countries where enforcement of disability requirements was lax. These parties are now learning to accept that programmes of labour market activation demand that employment services be more engaged in finding jobs and that social service case workers exercise more discretion to move people back into the work force.

Thus for all political parties, the current trends in labour market reform have demanded adjustment of their ideological principles, as well as an effort to conceive of an arrangement different from their inherited policy legacies. As we shall see, some have embraced the idea of activation because they have come to see it as an idea that addresses the current reality in a legitimate way.

## **PATTERN ONE: THE NEW CONSENSUS ON LABOUR MARKET POLICY**

The countries that have booked the most dramatic changes in labour market policies have done so because new ideas about what the labour market should achieve have been widely discussed, these new ideas have been embraced, and they have created a legitimate basis for the new reforms. For many years, Denmark and the Netherlands were considered the best examples of successful labour market reform, and here is where the most innovative policy activity has taken place. The specific details of labour market changes in Denmark are carefully spelled out by Irene Dingeldey's contribution to this volume, so I will not recount them here. Instead, I would like to highlight the ideas that gave justification to these remarkable reforms and devote more attention to the Dutch case.

In the Netherlands, the reform of labour markets began in the 1980s and reflected a slow adjustment to a problem created by the most generous breadwinner model in Europe (Cox, 1993). A very generous system of benefits developed by the middle of the 1970s. By the late 1970s, an economic downturn set in and this same system became a form of hidden unemployment. To avoid layoffs, many workers were encouraged to visit their doctors and apply for disability assistance. The result was that by the middle of the 1980s, the Netherlands had the highest percentage of disabled workers in all of Europe. This high level of inactivity was especially pronounced among older and low-skilled workers. At the same time, more young women began to pursue careers and were frustrated to encounter formal regulations and informal discrimination that





discouraged them from taking jobs. When the European Commission began a campaign to reduce gender discrimination in the workplace, the Netherlands was singled out for its extremely low level of female participation in the work force (Commissie van de Europese Gemeenschappen, 1992).

Organizations representing women pushed for reforms that would allow all workers, including women with part time jobs, to enroll in the social insurance system. Their criticisms focused on the regulatory obstacles that discouraged women from taking jobs if they also had young children to care for. This was the origin of the idea of the “one-and-a-half –job” model, mentioned earlier in this chapter. Many men who were changing their own ideas of how to balance work with family found the prospects of part-time work attractive and the idea was embraced by a wider sector of the population.

The one-and-a-half-job model was an idea quickly embraced by the three major political parties. Christian democrats and liberals, who dominated coalition governments during the first half of the 1990s, both saw this as a way to encourage

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higher levels of labour market participation and thereby relieve pressure from the unemployment and disability programmes. When Social Democrats joined the government in the latter half of the decade, they saw this as one means to promote their broader agenda of gender equality.

A more dramatic change in ideas prompted a reconceptualization of active labour market policies. The basic idea, known as

activation (*activering*) both in Denmark and in the Netherlands, was that the entire system of cash transfers created too many disincentives to work. The critique was somewhat controversial, but the reforms received fairly broad support. Governments in both countries sought to reduce the take-up rates in benefit programmes by reducing the amount of the payments, reducing the duration of benefits, and otherwise providing incentives for people to move back into paid employment. These changes were encapsulated in a phrase coined by the Rotterdam Social Service Office, which argued that the new programme represented a shift “from the safety-net to the trampoline.” (Gemeentelijke Sociale Dienst Rotterdam, 1985). Like in Denmark, the major mechanism for this was a budget-based decentralization of authority to municipal governments and to works councils to better supervise the implementation of their programmes.

To justify strict enforcement of active labour market policies, officials in both Denmark and the Netherlands articulated a notion of reciprocity between rights and responsibilities. The basic idea was that a worker who had a right to unemployment and other benefits also had a responsibility

to be actively seeking work, and to take any available job. In the Netherlands, activation policies were supported by a legislative change that required people receiving unemployment benefits to seek jobs of comparable worth. This was a large departure from the old system which allowed a person to continue to receive benefits if he could not return to the job for which he had been trained. In Denmark, controversy over the strictness of the



activation measures led the Social Democrats, who controlled the government, to temper the activation responsibilities with more worker rights. These took in the form of a job-rotation programme that allowed workers to take leave for family care, retraining, or for sabbatical. Except for the family care provisions the programme was disliked by employers, and was sharply curtailed shortly after its adoption (Martin 2005).

It is important to note that activation programmes received strong support not only from the political right, but also from the left in both countries. In 1996, commenting on his vision of active labour market policies, the Dutch Minister for Social Affairs, Ad Melkert, was quoted as saying “I have always believed that those who don’t work, shouldn’t eat.” A less provocative comment was offered by the leader of the Labour Party, who suggested that in order to do more for those in need, benefits had to be targeted more directly on those who truly need them (Versteegh 1996: 4).

Flexicurity was another idea that had a strong impact on policy reform. The term originated in Dutch academic circles but was quickly embraced by policy reformers in the Netherlands and Denmark. In both countries, the appeal was twofold: on the one hand, it provided a positive frame for viewing the historical form of labour market regulation in the two countries. Both countries historically had combined relatively low job protection with generous benefits (Benner and Vad 2000). Social democrats embraced the idea as a positive way to maintain employment and high benefits in an environment of increasing global competition. Flexicurity was also attractive because it framed reforms of the

labour market in a way that facilitated consensus between labour and business interests.

In short, the pattern in both Denmark and the Netherlands was one of creative problem solving, thinking up new ideas to reconceptualise the balance between work and welfare, and the balance between job and home. The creative ideas helped to reorient the positions of political actors. Social Democrats as well as the political right supported many forms of activation, as well as the cutbacks in cash transfers. The language of rights also resonated across the political spectrum. These ideas encourage active labour market policy, combining flexibility in the labour market with an assurance that those who take part time jobs will still enjoy social security benefits. Ideas such as ‘flexicurity,’ ‘activation’ and the ‘one-and-one-half-jobs model’ encourage people to think of labour market provisions in a new way, one that reflects the contemporary reality of working women and a work force that requires periodic upgrading of skills. As such, these ideas mark a departure from the postwar settlement on labour market policy and build a foundation for a more globally competitive labour market. It should be noted that these ideas were not so much new ideas that led reform as much as they were important new ways to frame reforms that already were taking place.

## **PATTERN TWO: POLICY DRIFT IN LABOUR MARKET POLICY**

The battle of ideas has not been successful everywhere in Europe. Sadly, the more pervasive pattern is one we can call policy drift: a set of small, incremental reforms



that are enacted by policy leaders who fail to engage a large scale overhaul of their labour market regimes, or whose bold ideas for reform are struck down by advocates of the status quo.

Sweden provides a good example of a country where a number of labour market reforms were enacted in the 1990s, but without a broader engagement of new ideas to justify the changes. During the “golden age” of the welfare state, a system of centralized wage bargaining maintained equality in wages and benefits. Strict job tenure rules limited the capacity of employers to reduce their work force. Generous job training programmes allowed the skills in the work force to respond to pressures for structural adjustments in the economy, and the Swedish welfare state became a significant employer providing retraining and child care programmes to the unemployed and working mothers, respectively. These were not activation programmes in the contemporary sense. There was little effort to place people in jobs at the end of their retraining period, and it was not unusual for people to cycle through a number of retraining programmes. The official level of unemployment in Sweden would be about four percent higher if those enrolled in retraining schemes were actually counted as unemployed.

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Since the 2000 Lisbon summit of the European Union declared them a desired direction for future reforms, active labour market measures have had growing significance in Sweden. There have been efforts to enforce the work requirements

that have always been on the books in the unemployment scheme. The strictness of the work requirements does serve to “recommodify” labour and establish a more punitive environment for the long-term unemployed (Larsen 2002). But, like in The Netherlands and Denmark, this is more of a supportive than punitive form of activation. While there has been much debate on the desirability of labour market activation in Sweden, some of the more significant labour market reforms have taken place without a great deal of public discussion.

Decentralization of wage bargaining, and deregulation of the labour market are two reforms that are having a substantial impact on the character of the Swedish labour market, but have received far too little public attention for the potential size of their impact. Decentralization of wage bargaining has been an issue in a number of countries, but especially in Sweden (Iversen 1996). Centralized wage bargaining was once praised for producing wage restraint and wage solidarity (Huber and Stephens, 2002). This is because the bargaining power of the strongest unions benefit the entire work force. But, with decentralization, those sectors of the work force that have a stronger bargaining power are able to negotiate their own agreements.

Because their greater usefulness to the firm affords skilled unions stronger bargaining positions than unskilled unions, they are able to negotiate better packages of



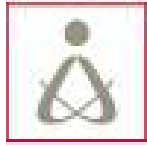
compensation through sectoral rather than centralized bargaining.

In many countries, decentralizing in the bargaining system brings a growing spread in wages. In Sweden, this pressure has been moderated by the strong social norms in bargaining that enforce compliance with wage solidarity, however, there is growing pressure to provide other forms of compensation outside of wages, for example, by developing more flexible labour contracts (Iversen 1996; Pontusson and Swenson 1996). Such individualized forms of non-wage compensation seriously undermine the Swedish Model. Not only are they contrary to the ideals of labour solidarity, but flexible labour contracts are difficult to track and monitor. Thus, as a consequence of decentralization of wage bargaining, new forms of compensation and job flexibility have entered the Swedish labour force.

This presents a dilemma for those who assess the continuing viability of the Swedish model, and especially the Social Democrats, the political party most closely associated with the Swedish Model. If one takes a standard view of the model and simply looks at traditional outputs of centralized bargaining, such as wage inequality, one is likely to find confirmation that the model is intact. But if one takes a broader view of the model and searches for evidence of growing disparities in non-wage compensation, one might find evidence that the model is being undermined. What makes this a good example of policy drift is the fact that these changes are taking place at the same time the public discourse declares that the Swedish model is still intact.

For the Social Democrats, their legacy as the architects of the Swedish Model explains their difficulty in admitting that the system is changing. The model has become part of their identity. As the most fully developed welfare system in the world, any direction in which it would reform would be a reversal of the party's prized achievement. This has led the Social Democrats to adopt rather awkward positions, arguing that the model is intact while accepting the decentralization of labour markets, cutting back on collective benefits, and targeting assistance. This is unfortunate, because as the Dutch and Danish cases show, the parties that are able to find positive ideas to describe the new reality will benefit more than those that do not. The election of September 2006 transferred power from the Social Democrats to center-right coalition, and arguably one of the major issues in the election campaign was the persistent high unemployment in the Swedish Model.

Italy is another case where labour market reforms have been few and have occurred without a comprehensive strategy. In the 1980s, the idea of deregulation entered the policy discourse in Italy and inspired a number of labour market reforms. A law passed in 1984 allowed for more flexibility in the labour market by permitting work sharing agreements, work and training contracts for young workers (aged 15-29) and part-time work. Like in Denmark, these reforms had differential success. The most successful was the training programme for young workers because it provided financial incentives to employers who hired young workers. Work-sharing and flexible labour provisions were not well utilized (Ferrera and Gualmini 2004: 89-91). In the 1990s, a "new deal" for the labour market promoted the decentralization and privatization of employment services, new policies for local



development, and a stronger promotion of flexible labour contracts. The main inspiration behind these changes was external to the country. For example, the liberalization of employment services and temporary employment contracts followed two European Court of Justice rulings against the country for failing to comply with EU directives (Ferrera and Gualmini 2004: 100). Italy, therefore, is a good case of policy drift. The reforms have been modest, have had very little effect on the country's high level of unemployment, especially among the youth, and to this day Italy has one of the most heavily regulated labour markets in Europe. The few reforms the country has enacted were forced on the country from outside, particularly from the European Commission.

Among Italian political parties, old ideological lines have not changed much and help to explain the policy drift. Initially, it was the moderate left who enacted the new provisions on temporary work. But, when the Silvio Berlusconi's right-wing government came to power, it lowered the wages paid to the temporary workers below that of permanent workers. This change was designed to encourage employers to actually make use of the provision. Controversy over this decision was an issue in the 2006 election campaign. The left, which won the election, has promised to reform the law to prevent it from eroding job security of permanent workers. Thus, in Italy there has been change, but not much, and serious departures from the postwar consensus are not successful.

Germany presents another case of labour market drift. For the past twenty years, many proposals have been floated to reform the German labour market, yet none has had

a substantial impact. To some extent the challenges faced by Germany are unique, owing to the huge impact of the reunification of East and West Germany after the end of the Cold War. Workers in the former East Germany had poor skills and suffered from a dearth of employers willing to locate in the eastern provinces. Integrating this group of workers into the new unified economy occupied attention during the 1990s.

Labour market problems persisted in Germany, however, and in 1998 a serious effort was made to bring the social partners together to devise new policies. Dubbed the *Bündis für Arbeit*, this initiative was launched with considerable ambition but quickly bogged down as the social partners set themselves in opposition to almost every issue placed on the agenda. By the time the initiative was abandoned in 2002, its only accomplishments were a few minor improvements in job-placement services (Blancke and Schmid 2003).

Instead, in 2002, the Gerhard Schroeder's government undertook a bold initiative to break the labour unions' stranglehold on labour market reforms. He established the Hartz Commission, named for its chairman, Peter Hartz, and which included major industry leaders, but almost no representation from labour or small business. The Hartz Commission issued a number of bold recommendations that Chancellor Schroeder promised to implement after the election of 2002. Indeed, he followed through on most of this, as reforms were passed that tightened the rules for unemployment assistance, and to make it possible for people to take part-time and temporary jobs. More controversial provisions were passed in 2003 that shortened the period for receiving





unemployment assistance to 12 months, and which integrated public assistance with unemployment assistance (Streeck and Trampusch 2005; see also the chapter by Irene Dingledey in this volume). Policy drift is seen in the slight movement to remove the social partners from their historical role as administrators of labour market programmes, and to curtail many benefits. But these changes are being enacted without a larger vision that provides a legitimate foundation for their broader acceptance.

At each step in the process, efforts to reform the German labour market have lacked a sufficiently engaging set of ideas to make the reforms compelling. At various points in the debate, ideas were borrowed from other countries that were not seriously promoted in Germany, or ideas that originated within Germany tended to galvanize opposition more than they paved a path for reform. For example, the debates that preceded the establishment of the *Bündis für Arbeit* focused on the problems of competitiveness in the German economy. Known as the *Standortdebatte*, high wage costs and rigid labour market policies were seen to be the obstacle to maintaining Germany's strong position in the global economy. At least, this was the position of those who advocated reform. Labour unions and others opposed to reform, by contrast, argued that it was exactly the existing policies that had made Germany competitive in the first place. Unlike the debates in Denmark and the Netherlands, where new ideas like flexicurity created new coalitions in support of welfare reform, the *Standortdebatte* fueled the tensions between global industry on the one hand, and labour and small enterprise, on the other (Lamping and Rüb 2004). The ideas proved

to polarize political actors rather than create a coalition in support of reform.

Nor were German reformers very effective when they imported ideas from neighboring countries. Especially in the 1990s when Denmark and the Netherlands became the models for positive labour market reform, German officials spoke of active labour market reforms, flexicurity and equating rights with responsibilities. And, in 1999, Chancellor Schroeder borrowed Tony Blair's ideas for a "new deal" for labour. However, those who imported ideas frequently lost the courage to propose bold change. Instead, they suggested that the reforms would strengthen, rather than alter the German "Social Market Economy." Germany simply lacked leadership for a new vision of the labour market and social reform that would build a broad coalition of support.

In short, the more common pattern of labour market reform in Europe is one of policy drift. Usually policy drift takes the form of small changes that are adopted without a larger discussion of their significance for the overall character of the country's labour market profile. Sometimes these changes are the small bits of bold reforms that were scuttled by fierce opposition, usually from organized labour. For these countries a special problem persists. The labour market regimes still are characterized by the ideas of the breadwinner concept and the postwar settlement that created corporatism. In an era of globalization, these countries are failing to articulate a new vision for the labour market that recognizes the global realities. Some policy reforms push towards a more globalized work force, but more could be accomplished if these reforms were more broadly accepted and if



they were promoted with ideas that built support.

## CONCLUSION

The objective of this chapter is to outline the politics of labour market reform in Europe. My argument is that labour market reform has been more successful in countries where reforms were accompanied by the articulation and promotion of new ideas about how these reforms will bring about positive change. It is no coincidence that the countries that have been the most successful at reforming their labour markets have also developed the most innovative ideas for understanding the new purpose of labour market regulation. And, these new ideas have received broad support and form the foundation for some far reaching reforms.

Political parties are important to this process. In the countries that have had successful labour market reforms, parties have revisited their ideological foundations and discovered ways that they can support the new ideas. Perhaps most important is for parties of the moderate left, i.e. social democrats, to embrace labour market reform.

*The countries that have been less successful at reforming labour markets have failed to win the battle of ideas.*

It is telling that in countries where the reforms were successful, social democratic parties have been the champions of the new ideas, and have used those ideas to make their appeal to voters more in tune with the realities of globalization.

The countries that have been less successful at reforming labour markets, by contrast,

have failed to win the battle of ideas. In many cases, the ideas that underpin the existing labour market systems continue to resonate with the public and manage to create strong coalitions to oppose reform. Ideas like the Swedish Model, or the German Social Market Economy have a strong foundation in the public mind, are deeply identified with the current system of labour market regulation, and therefore make it easy to view all attempts to reform the system as serious threats to an aspect of national identity.

Again, political parties, especially the role of social democrats have made a difference in these countries. Parties on the right have advocated, and even implemented labour market reforms in Sweden, Italy and Germany (as well as France). But when social democrats are unable or unwilling to be the champions of new ideas, or when they become vigorous defenders of the *ancient regime*, they prove to be powerful at mobilizing opposition to reform.

Yet, labour market regulations are being changed in every country. For the countries where this is done in the absence of new ideas, the reforms are a type of policy drift. The reforms move in the direction of making labour markets more effective in the

global economy. Yet, they are not clearly understood by a public (and many political parties) who believe the old labour market regimes are still intact. For these countries, policy drift will continue to be a source of distress and consternation in the coming years. Policy drift is likely to continue, and it is likely to move further away from the ideas that are now under attack. An



adjustment in the public understanding is inevitable. But, it will take place after policy drift has created a labour market regime that no one ever discussed or clearly

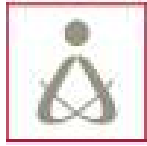
understood. The result will be that the inevitable adjustment to new ideas will cause even more public discord.

**Robert H. Cox**

Visiting Fellow Itinera Institute

Professor at the University of Oklahoma

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## **SAMENVATTING**

### **The Ideas and Politics of Labour Market Reform**

De aanpassing van het arbeidsmarktbeleid aan de veranderde economische en demografische context is een uitdaging voor vele Europese landen. Waarom falen sommige Europese landen in hervormingen die in andere landen wel lukken? Professor Robert Cox zoekt het antwoord in de processen die beleidshervorming sturen.

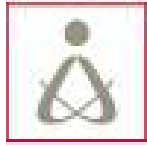
In landen zoals België, Frankrijk, Duitsland en Italië is de politieke consensus zoals die na Wereldoorlog II bestond niet wezenlijk veranderd. Als gevolg daarvan vonden weliswaar enkele hervormingen plaats die onvermijdelijk zijn om het sociaal-economisch weefsel te redden, maar bleven niettemin een aantal hardnekkige overblijfselen uit het verleden standhouden. Onder meer een gevolg van deze blijvende hypotheek op de toekomst is een structureel hoge graad van werkloosheid.

Cox beschrijft hoe ideeën een invloed hebben op hoe mensen hun belangen definiëren. Daarom zijn ideeën ook de hoeksteen van het politieke debat. Ze

verklaren ook het verschil met landen zoals Nederland en Denemarken, waar fundamentele hervormingen gebeurden in de jaren '90, en landen zoals Zweden, Italië of Duitsland, waar enkel oppervlakkige hervormingen plaatsvonden. In het ene geval kregen de ideeën die hervormingen ondersteunen brede maatschappelijke steun. In het andere geval werden ze hoogstens door een bestuurlijke elite onderschreven.

Hervormingen van de arbeidsmarkt hebben dus nood aan een bredere onderbouw van ideeën. Bij gebrek daaraan zullen zij onvolmaakt zijn, en ook niet duurzaam. Er bestaat geen binnenweg om hervormingen te doen. Ook al slaagt men erin om enkele "decision makers" te overtuigen, hervormingen op basis daarvan zullen nooit fundamenteel of duurzaam zijn. Het overtuigen van het brede publiek is de enige garantie voor succes. Voorbeeldlanden kunnen op dat vlak inspirerend zijn voor de landen waar hervormingen achterop hinken.

**Robert H. Cox**, Visiting Fellow



## **SOMMAIRE**

### **The Ideas and Politics of Labour Market Reform**

L'adaptation de la politique (du marché) de l'emploi au contexte économique et démographique modifié est un défi pour nombre de pays européens. Comment se fait-il que certains pays européens échouent à faire des réformes qui réussissent bien dans d'autres pays? Le Professeur Robert Cox cherche la réponse dans les processus qui guident la réforme politique.

Dans des pays comme la Belgique, la France, l'Allemagne et l'Italie, le consensus politique tel qu'il existait à la fin de la deuxième guerre mondiale est resté substantiellement inchangé. Par conséquent, bien que certaines réformes indispensables pour sauver le tissu socio-économique ont été adoptées, celles-ci maintiennent néanmoins un certain nombre de reliquats du passé. Une des conséquences de cette hypothèque rémanente sur le futur est un taux élevé de chômage structurel.

Cox décrit comment les idées ont une influence sur la manière dont les gens définissent leurs intérêts. C'est pourquoi les idées constituent aussi la pierre d'angle du débat politique. Elles témoignent aussi de la

différence entre des Etats comme les Pays-Bas ou le Danemark, où des réformes fondamentales ont eu lieu dans les années '90, et des pays comme la Suède, l'Italie, ou l'Allemagne, où seules certaines réformes superficielles ont trouvé place. Dans le premier cas, les idées qui soutenaient les réformes trouvèrent un large soutien sociétal. Dans l'autre cas, elles reçurent tout au plus l'adhésion d'une élite dirigeante.

Les réformes du marché du travail ont donc besoin d'un plus large fondement idéologique. Sans cela, elles resteront inachevées, et également peu durables. Il n'y a pas de voie médiane pour faire des réformes. Même si l'on parvient à convaincre certains "preneurs de décision", les transformations faites sur cette base ne seront jamais fondamentales ou durables. Convaincre le grand public est la seule garantie de succès. Les pays modèles peuvent dans ce domaine constituer une source d'inspiration pour les pays où les réformes sont à la traîne.

**Robert H. Cox**, Visiting Fellow





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## **Itinera Institute** VZW-ASBL

**Boulevard Leopold II Laan 184d - B-1080 Brussel - Bruxelles**

**T +32 2 412 02 62 - F +32 2 412 02 69**

**[info@itinerainstitute.org](mailto:info@itinerainstitute.org) [www.itinerainstitute.org](http://www.itinerainstitute.org)**



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