

# **Social Risk Management through Transitional Labour Markets: Theory and Practice related to European Experiences**

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*Abstract: This essay takes the intrusion of the term 'risk management' into the social policy discourse as a 'moral opportunity' to reconsider the balance between solidarity and individual responsibility. The argument is developed in four steps: First, the psychology of intuitive beliefs and choices points to the bounded rationality of risky choices. The paper demonstrates how the institutionalisation of opportunity structures recommended by the concept of transitional labour markets (TLM) can overcome various kinds of asymmetries in risk perception. Second, imperfect or strategic information may also cause biased risk perception. Examples, therefore, are provided how the analysis of labour market transitions throughout the life course can considerably improve the methodology of risk management. Third, the consideration of risk asymmetries and the reduction of information deficits do not yet provide clues for acceptable institutions of risk sharing. Normative principles of justice therefore have to be reconsidered. I suggest to extend Rawls' theory of justice by Dworkin's ethical theory, enriched by Sen's capability approach. Fourth, conclusions for new directions in social and employment policies are drawn.*

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## Introduction

*'Once a word has entered the public domain, there it will remain for the next nine years.'* (Zen Master Huang Long)

Risk management has entered the public domain, whether we like it or not. 'Risk' apparently sounds less disturbing than poverty, sickness or unemployment. If taken under control by good 'management', social risks look just like the risks of a good financial investment. What has happened, many ask, to the 'social' element, to a responsibility that reflected concern and a community of interests? Have we really said farewell to the social by adopting the inflationary vocabulary of 'managing by this' or 'managing by that'? The answer is no. This essay takes the intrusion of risk management as a "moral opportunity" to reconsider where the new balance between solidarity and individual responsibility could lie.

The argument will be developed in four steps: *First*, it will be shown how risk perception changed through history from resigning to the fate to mastering the risk. The psychology of intuitive beliefs and choices, however, points to the bounded rationality of such choices. It will be demonstrated how the institutionalisation of *opportunity structures* recommended by the concept of transitional labour markets (TLM) can overcome various kinds of asymmetries in risk perception. *Second*, imperfect or strategic information may also be because of biased risk perception. Proper risk analysis, therefore, must itself be a central element of social risk management. It will be demonstrated, how the *analysis of labour market transitions* throughout the life course recommended by the concept of TLM can considerably improve the methodology of risk management. *Third*, the consideration of risk asymmetries and the reduction of information deficits do not yet provide clues for acceptable institutions of risk sharing. Normative principles of justice have therefore to be reconsidered. It is argued that John Rawls' theory of justice has to be extended by the ethical theory of Ronald Dworkin, enriched by the capability approach of Armatya Sen, since it responds directly to the hidden agenda of risk management – namely the question under which conditions individuals could take over more responsibility. One of the central conditions is *embedded employability*, which is also a core element in the theory of TLM. *Fourth*, conclusions for new directions in social and employment policies are drawn.

### 1. On the Meaning, Perception and "Framing" of Risks

If we look back in history, we can find substantive changes in the connotations of risk. In fact, as Peter Bernstein (1996) has shown in his remarkable story of risk, people's attitude moved from the resign to fate to the mastery of risk. On the other hand, recent social behavioural studies draw increasingly attention to the fact that people's attitude towards risk is often biased by asymmetrical risk perception leading to non-rational decisions. Thus, the entrance of the term risk management in the public domain requires a brief look back to the etymology and to the 'framing' of risks.

## 1.1 On the Changing Meaning of Risk

Etymology traces the word “risk” back to the maritime traders of the North Italian city-states in the 14<sup>th</sup> century.<sup>2</sup> These traders were the first to insure against the pecuniary risks of voyages (Sinn 1995). Sailing trades was always something of an adventure. Hidden cliffs in the water had to be circumnavigated, and this is what the Latin word “*risicare*” means. Winds had to be favourable, and this is what the French word “*aventure*” hints to, to sail “a vent” – before the wind. The wind not only propels ships but also brings news of worlds unheard of. Of new opportunities and challenges, which cosmopolitan people like knights, troubadours and sea captains were eager to capture. However, most of these people were not speculative hazarders but calculating adventurers. Modern behavioural research has proven that the readiness to accept risk is highly correlated with the behavioural trait of control, caution and planning. From this perspective the risk management discourse actually opens up the prospect of calculated risk behaviour. It is based on the perception that risk is not only related to danger but also brings with it opportunities and gains. Thus, to risk something is a conscious choice and not a fate.

According to the German social philosopher Niklas Luhmann (1990), modern societies are characterised by the conversion of danger into risk. Luhmann argues that we can speak of *danger* only if the environment, natural catastrophes or enmities cause the loss or damage. On the other hand, the word *risk* should always be used when the loss or damage can be attributed to an individual’s choice, including negligence. This shift in linguistic usage from danger to risk also gives the notion of modernisation a more precise meaning.

From this point of view, *modernisation* today means to characterise loss or damage presumably caused by external factors as – in part at least – self-induced phenomena. What is self-induced, calls for taking steps to prevent, reduce or pay compensation for such damages according to individual or collective accountability. Environmental damage is an intuitively plausible example of the shift from danger to risk. However, the same also applies to such apparently completely external risks as damage caused by earthquakes. The reason is that even damages of this kind can be mitigated, at least in part, by appropriate construction of buildings or just staying away from the areas of highest risk, or – as a Tsunami most recently and dramatically has shown – by establishing early warning systems. Similarly and with respect to labour market risks, dangers arising out of technological change or globalisation are increasingly being converted into risks. It is fair to say that much can be done by employers and employees to prevent or to mitigate these external risks.

It would, therefore, be mistaken to conclude that the change in linguistic usage reflects simply a process of *individualisation*. Redefining danger as a social risk means nothing more, but also nothing less, than challenging the (old) established division of labour in risk management between individuals, families, firms and the state. The

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2 Cf. the enjoyable and profound little essay by the literary scholar Elisabeth Keller on the linguistic and cultural history of the concept of risk (2004).

result of such a challenge may be that individuals bear, could bear or even should bear more risk. However, the outcome may also be that the emergence of new risks requires new forms of solidarity or collective insurance systems. For this reason, risk management should be regarded as a '*moral opportunity*' to reflect on and to extend our knowledge of what we owe other members of our community (Heimer 2003).

Such reflections, finally, lead to "*social risk management*", a terminology that has also the advantage to re-emphasize risk prevention and risk mitigation as alternatives to reactive risk coping (Holzmann and Jorgensen 2000):

- On the supply side of the labour market, lifelong learning is obviously an example for *preventing* the risk of dismissal due to skill obsolescence; an example on the demand side would be product innovations against the risk of wage competition through globalisation or the risk of changes in consumer preferences. A key element in prevention is also prudent forward-looking, that is risk assessment through professional forecasting models.
- As far as *risk mitigation* is concerned, the acquisition of multiple skills, or of general rather than firm-specific skills, or the establishment of flexibility buffers through working-time accounts would be examples on the supply side. Built-in income stabilisers in the form of generous wage replacement benefits (at least in the short term) or the regional redistribution of purchasing power by means of universal insurance systems are examples of risk mitigation on the demand side.
- *Risk coping*: on the supply side, for example, solidarity requires risk sharing through wage replacement benefits on the basis of unemployment insurance or active placement in a new employment relationship; on the demand side, state expenditure programmes or the reduction of prime rate in order to kick-start the economy.

The examples listed for the three risk management strategies make it clear that the change of terminology from labour market policy to the social management of labour market risks (the same would also apply to social policy) at least has the advantage that the entire range of possibilities for action are given consideration. This avoids the danger of considering the dynamic of risks from the blinkered point of view of established policy areas or policy strategies. The optimistic stance, however, that risk can be managed rationally if we only want to, is not justified. It is strongly influenced by the perceptions and the framing of risks.

## 1.2 *Asymmetries in risk perception*

Why do people perceive risks in a way that possibly leads to non-rational choices? The theory of intuitive judgements and choice (Kahnemann and Tversky, 2000, Kahnemann 2003) draws attention to two mechanisms that cause asymmetries in risks perception: prospect evaluation and framing. Prospect and framing theory contain four core ideas:

- First, the carriers of utility are events and not states. That means, that people assign utility to gains and losses relative to a reference point which is often the status quo. Critical transitions from one employment status to another during the life course are prominent events where people compare utility and disutility.
- Second, in assessing the prospects of events, losses usually loom intuitively larger than corresponding gains, and many experiments suggest that the loss aversion coefficient is about 2:1.
- Third, there is an endowment effect giving present or past experiences intuitively higher values than future prospects.<sup>3</sup> Thus, the transition from status quo to receiving something is therefore valued differently than the transition from status quo and giving up something. This endowment effect leads often to myopic decisions and violates thereby a substantive condition of rationality, namely utility maximisation.
- Fourth, framing leads to the violation of another assumption of rational choice theory: the consistency of decisions. Framing theory refers to the fact that alternative formulations of the same situation make different aspects accessible to actual perception thereby leading to different reactions. The same objective outcomes can be evaluated as gains or losses, depending on the framing of the reference state. In experimental situations, for example, the prisoner's dilemma was played out several times, once formulated as a Wall Street game and the other time as a community game. It turned out that people were more inclined to cooperate in the community game than in the Wall Street game (reported in Shiller 2003:93).<sup>4</sup> This rather robust inconsistency of choices contradicts especially the invariance principle of rational choice.

These behavioural attitudes of loss aversion and risk perception depending on framing lead to three hypotheses as crucial starting points for social risk management:

- First, if there is a choice between certain and uncertain *gains*, most people tend to be *risk-averse*. They choose the certain alternative, even if the objective value of the prospective gain is (possibly much) greater than the value of the certain gain. In other words, they prefer the bird in the hand to the two in the bush.
- Second, if people have to make a choice between certain and uncertain *losses*, however, they tend to be *risk-takers*. In this case again, their general loss aversion explains why they prefer the uncertain to the certain alternative, even if the objec-

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3 The German comic talent Karl Valentin expressed this insight once in the statement: "In the past, even the future was better."

4 Another standard example for the effect of framing is the "Asian disease" in which people are confronted with two different descriptions of the same problem. If the reference state is framed as "all die" affected by this disease, people respond risk averse: Asked to choose between a health programme A that saves one-third for sure (say 200 of 600) and a programme B that saves all by a probability of one-third (accepting thereby two-third probability that all die), the majority (72 percent) chooses the sure alternative A. If the reference state is framed as "no one dies", people respond in a risk seeking way: Asked to choose between a health programme C that leads to two-thirds to die for sure (say 400 of 600) and a programme D that promises nobody dying by one-third (leaving a two-third probability that all will die), the majority (78 percent) chooses the risky alternative D.

tive value of the prospective loss is (possibly much) higher than the immediate and certain loss. In other words, they tend to behave like a player in the roulette game who tries to recoup his loss again and again until he/she ends up with nothing in hand.

- Third, most people *overestimate minor risks* that are immediately in sight, such as the possibility of falling ill shortly before a planned journey. On the other hand, most people *underestimate major risks* that lie in the somewhat more distant future, such as becoming unable to work through disability or an enforced change of occupation. In consequence, many people tend to insure themselves against possible disruption of their travel plans but not against the possibility of long-term disability; they are also less willing to save for any education or training that may be necessary in the future. A recent study on European attitudes against the welfare state, for example, found that the majority of voters prefers under-insuring against unemployment.

These three insights derived from behavioural psychology can be used to design and gain acceptance for strategies of social risk management.

- First, the proper *strategy against exaggerated risk aversion* would be to provide a large opportunity set in critical events during the life course when *risky decisions of transitions from one employment status to the other* have to be made. Such an opportunity set would reduce the high subjective valuation of the smaller but more imminent loss against the greater but uncertain gain in the future. It would also increase the probability of the possible gain by extending *and securing* the available alternatives in case that the first risky choice might fail. The preference for 'one bird in the hand to the two in the bush' might change if more bushes were in sight, and self-confidence will increase with each successful risky choice. Establishing such a variable opportunity structure with 'stepping stones' or 'bridges' is exactly one of the main objectives of transitional labour markets. I will give you some examples later on.
- Second, the proper *strategy against cautious less risk-taking* would be to establish disincentives for gambling, for example through high taxation of speculative gains and large-scale inheritance, or of gains from winner-takes-all situations. Under this perspective, the rationale of employment protection regulation can be interpreted as avoiding speculative search behaviour on the supply side and irresponsible hire and fire policy on the demand side, both leading possibly to high fluctuation costs for the whole economy. Activation policies would avoid exploiting unemployment benefits through moral hazard.
- Third, the proper *strategy against overestimating short-term (small) risks and underestimating long-term (high) risks* would be to extend the expectation horizon for people engaging in risky employment relationships. One way to do this would be to establish social rights and entitlements, for instance the entitlement to continuous training opportunities. Another way would be to set up incentives or obligations for preventing, mitigating or coping risks with high and long-lasting damages, for instance incentives for preventative measures (such as training investment),

or the requirement to participate in universal private or public insurance schemes (such as invalidity insurance), or the requirement for the employers to take positive actions towards the disabled people, for instance through work-place adjustment or even a quota for the disabled.

Social risk management, thus, means appropriate framing of risks and overcoming risk aversion or speculative risk taking through social rights, incentives or obligations. Another solution is of course to eliminate as far as possible informational asymmetries that underlie non-rational risk perceptions. Thus, a discussion of proper risk analysis is at place.

## 2. On the Methodology of Risk Analysis

What are the old, and what are the new risks? Here, the theory of TLM draws attention to the increasing importance of internal or 'manufactured' risks compared to the dominance of external risks in former times (Beck 1992; Giddens 1998, 2003). How can risk assessment be improved to support especially preventative strategies in the triangle of preventing, mitigating and coping with risks? Here, the theory of TLM suggests to analyse risks in terms of transitions from one to the other employment status, or sequences of such transitions in order to assess the consequences of such mobility with respect to earnings, quality of job (including career prospects) and social security.

### 2.1 *Stylised Facts on New Risks of the Labour Market*

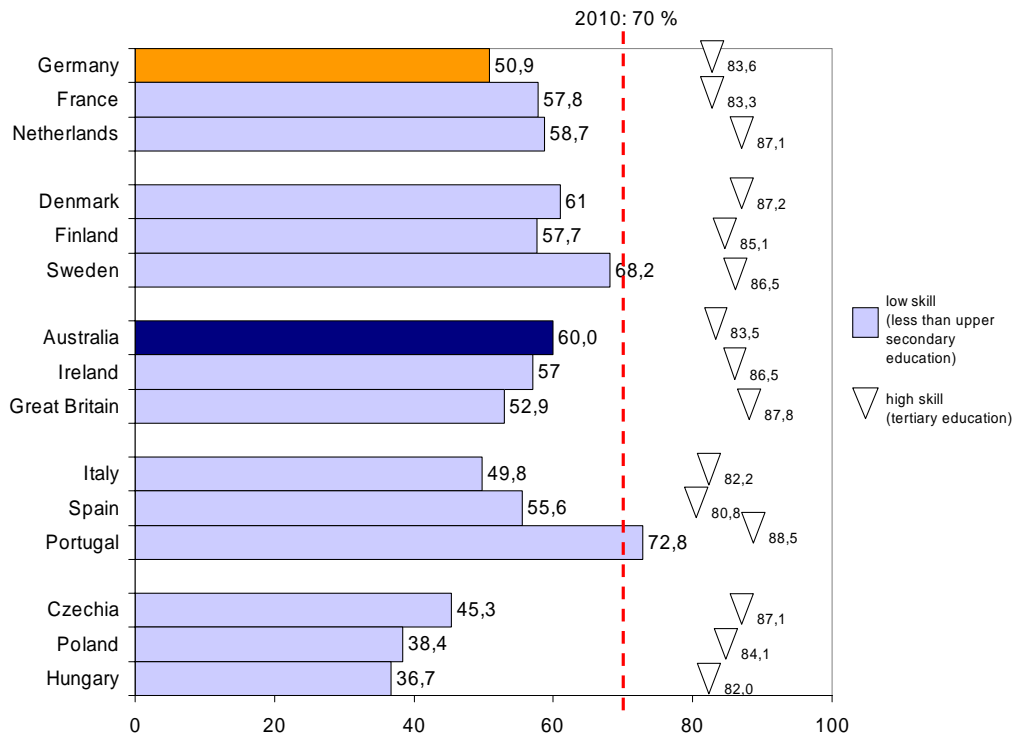
Three stylised new risks are relatively well documented in labour market research: (1) the increasing risks of social exclusion related to failures in education and training; (2) the increasing risks of precariousness related to temporary jobs and compressed work careers; (3) the increasing risks of long-term unemployment or forced inactivity related to the erosion of internal labour markets.

(1) If we take the main indicator for full employment of the European Employment Strategy, namely to reach an employment rate of 70 percent by 2010, then the breakdown by qualification immediately shows where the main problem lies (Figure 1): the employment rate of high skilled people surpasses the benchmark by about 15 percentage points, and this holds true independently of the employment or welfare regime.<sup>5</sup> It is the low skilled people whose opportunities of participating in the labour market are seriously damaged.

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<sup>5</sup> I have also included the country Australia since the paper addresses the Australian audience, although the European employment strategy, of course, does not affect Australia.

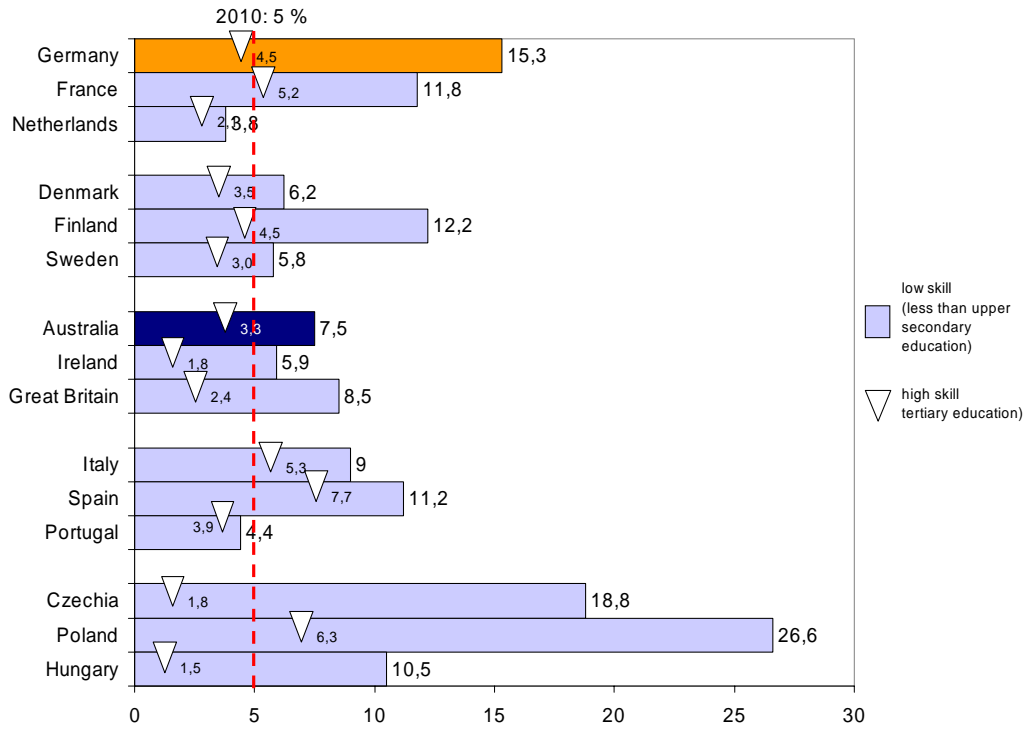
**Figure 1: Employment rate (ages 25 – 64) by qualification level, in percent, 2002**



Source: OECD Employment Outlook 2004, Table D

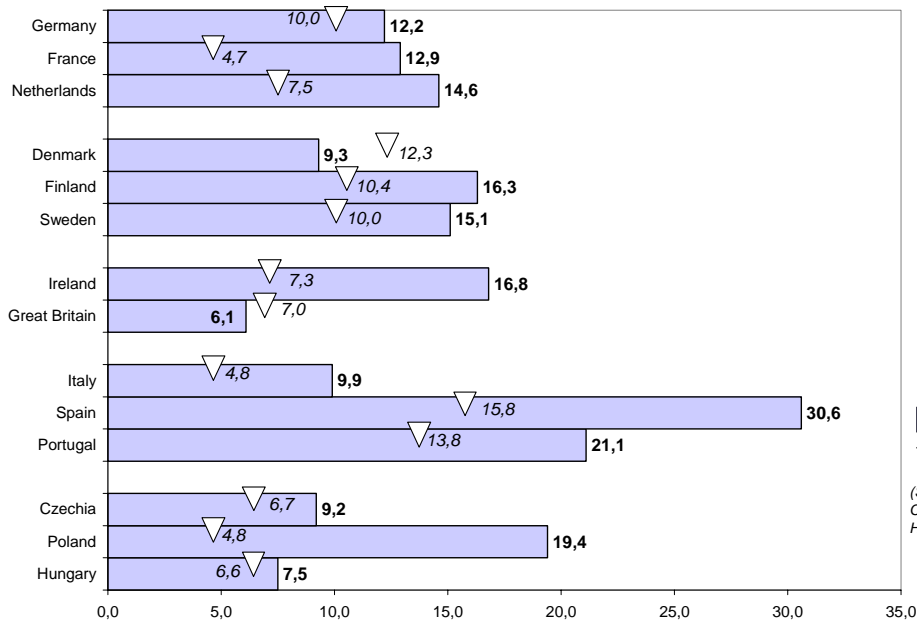
It is important to look also at the other side of the coin, unfortunately not well reflected in the European Employment Strategy, to the unemployment rates (Figure 2). If the Lisbon Strategy would have set the benchmark at halving the unemployment rate to the level of about five percent by 2010, again we can see that with a few exceptions, the high skilled people are already at this level or even below, whereas in many countries this benchmark of five percent is desperately out of reach for the low skilled.

**Figure 2: Unemployment rate (ages 25 – 64) by qualification level, in percent, 2002**



Source: OECD Employment Outlook 2004, Table D

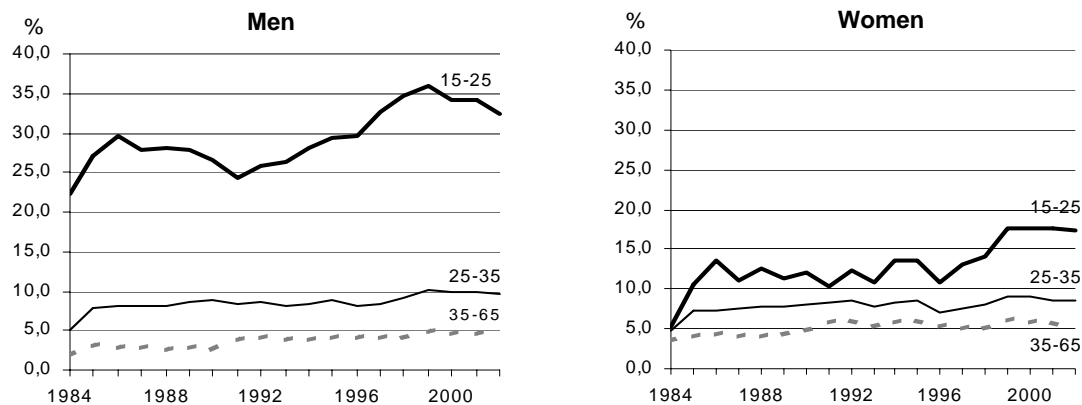
**Figure 3: Employees on fixed-term contracts as a share of all employees (15-64), 1985-2002**



Source: Eurostat New Cronos Databank

(2) The second concern is the increasing amount of temporary work either in the form of fixed-term contracts, temp-agency-work or contract-work often disguised in the form of self-employment. Figure 3 displays the level of fixed-term contracts in 1985 (delta characters) and 2002 (bars). With the exception of Denmark and United Kingdom, fixed-term contracts increased, in some countries drastically. The correlation of this increase with the OECD-Index of dismissal protection is quite strong ( $r = 0.44$ ) suggesting a reaction to institutional rigidities. This assumption corresponds well with the two exceptions Denmark and the United Kingdom where dismissal protection is almost unknown.

**Figure 4: Dependent employees by fixed-term contract and age 1984 to 2002 (excluding trainees)**



Source: German Federal Statistical Office, Technical series 1, Population and Employment. Series 4.1.1, State and evolution of employment (Microcensus results)

Not so well known, however, is the concentration of these precarious forms of work on the young. The case of Germany is especially striking. The burden of risks related to fixed-term contracts lies almost completely on the young in the age of 15 to 25, and on the young adults in the age of 25 to 35. We know from many studies meanwhile that fixed-term contracts are often useful bridges to regular work. But unfortunately for many young people (and in some countries even for the majority) fixed-term contracts are also traps into permanently disrupted job careers and often, finally, to social exclusion.<sup>6</sup>

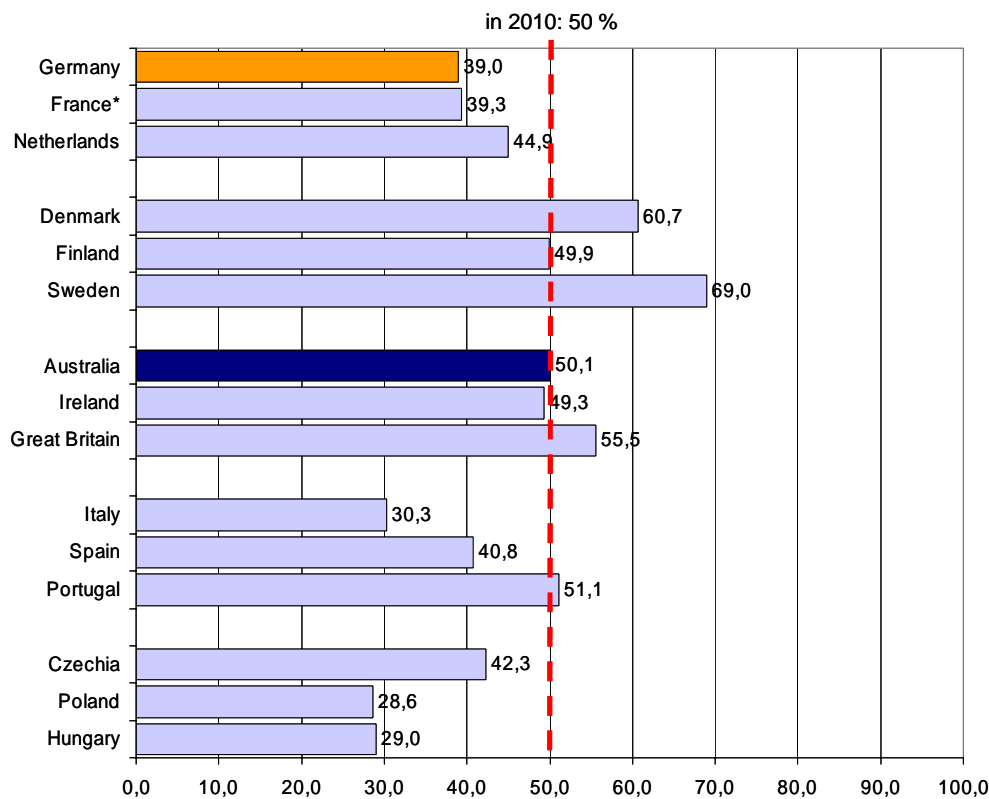
These risks are often aggravated by “*compressed work careers*”. This new risk denotes the phenomenon of having to fulfil several social roles simultaneously within a short period of the working life. It mainly affects young women aged between 20 and 35. Since labour market participation is becoming the norm for these women, they have to get to grips with at least five social roles at almost the same time: They have to acquire a good education, look for a suitable job, plan a sustainable career, select a suitable partner and set up a family at considerable expense for housing and furnishing. The way work, education and welfare (including the housing market) is organised today scarcely helps them to get to grips with these diverse roles. For this reason,

<sup>6</sup> See, for instance, Schoemann, Rogowski and Kruppe (1998) and Mangan (2000).

their transition into a sustainable employment career is seriously endangered. Even if success in this respect does materialise, the associated pressures can lead to physical or psychological disturbances. A study carried out in the Netherlands by Jeanne de Bruijn and others (2003) has revealed a dramatic increase in the incapacity to work among young women, while an Australian research team even speaks of the 'excluded generation' (Macdonald and Holm 2001). The relative neglect of this problem for the young adults compared to the attention given to the elderly is, in my view, a serious defect in the European Employment Strategy.

(3) This does not mean, of course, to discontinue the efforts to deal with the increasing risks for the elderly, reflected both in employment rates below the full employment benchmark for most of the EU-Member States (Figure 5) and in the high risk of long-term unemployment. These risks have to be considered against the background of the 'erosion of internal labour markets' or the 'crisis of the open-ended employment relationship' recently so well explained by Gautié (2002), Marsden (2003), Supiot (2001) and others. From the perspective of risk management, the backbone of internal labour markets is an *implicit insurance contract*: the employer offers to the risk-averse male breadwinner job security and earnings stability over the life-course in exchange for the acceptance of wages below the productivity level in the height of the work career. This implicit insurance contract is breaking down without yet clear alternatives in sight. What could these alternatives be?

Figure 5: Employment Rate of Older Workers (aged 55 - 64), in percent, 2003



\* France: 2002

Source: OECD Employment Outlook 2004, Table C

This question leads to the second point on the methodology of risk analysis: How can risk assessment help designing proper responses to the new risks on the labour market?

## 2.2 *On Measuring and Presenting Risk on the Labour Market*

In his readable book *'Reckoning with Risk, Learning to live with Uncertainty'*, Gerd Gigerenzer (2002) recommends that frequencies should be used in presenting risks whenever possible, rather than probabilities. Frequencies are intuitively better understood, whereas probabilities are often disturbing. Gigerenzer cites the nice example of the weather forecast: *'There is a 30 percent probability that it will rain tomorrow'* is a probability statement about a single event. Confronted with this statement, people draw quite different conclusions. Some think it will rain 30 percent of the time, others that it will rain in 30 percent of the area, and a third group believes it will rain in 30 percent of the days that are like tomorrow. On the other hand, *'It will rain on 10 days in May'* is a statement about frequency. This may be true or false, and is thus not open to ambiguity. A probable single event, however, can never be true or false unless the probability is 1 or 0. For the decision to invest in an umbrella, the frequency statement is – given the level of risk aversion – more helpful than the probability statement.

It is reasonable to think that the same holds true for investment decisions in unemployment insurance or labour market policies. In labour market research, however, we find often probability statements, which tend to be very opaque. Good practice of how risk assessment could be improved by the use of frequency statements will therefore be presented. The example is taken from the third chapter of the Employment in Europe Report 2002 which has explicitly taken up the transitional labour market framework.

I start with some stylised facts on frequencies of labour market transitions: Almost 50 percent of the workers who became unemployed in 1997 had found new employment in 1998. However, less than one quarter of those who were unemployed in 1996 and 1997 had found new jobs in 1998. Less than one fifth of the long-term unemployed in 1996 had found new jobs in 1998.

Information of this kind is sufficiently alarming to move policy in the right direction: everything needs to be done to prevent long-term unemployment from the outset. In order to find the proper design for policy intervention, however, such frequencies have to be combined with policies. For instance, in 1997/98, 4.6 percent of all employees in jobs without training opportunities became unemployed; the risk of low-skill workers in such jobs was significantly greater (5.5 percent) than that of high-skill workers (3 percent). On the other hand, in the same years 1.6 percent of all employees in jobs with training opportunities became unemployed; the risk of low-skill workers in such jobs was no greater (1.86 percent) than that of high-skill workers (1.93 percent).

From these figures it follows that even poorly qualified workers should be given opportunities to receive training in the workplace in order to reduce their risk of unem-

ployment. Additional information on the outcome of such policy interventions enriches the policy relevant risk assessment further. For instance: (1) The annual productivity increase (1995-2001) correlates strongly with the rate of participation in firm-based further training; (2) a one percent increase in participation in further training in Germany lead to a 0.3 percent increase in productivity, and (3) the objective job quality correlates strongly with self-reported job satisfaction which triggers further productivity increases.

The combination of all these pieces of information together lead to an important strategic conclusion: The reintegration of the long-term unemployed into the labour market on the basis of a series of stepping stones can be effective. In other words: Work first plus various options of accumulating work experiences and training is a sensible employment strategy.

Finally, the effects of such strategies can then be simulated by means of transition matrices. The following transition matrix (Table 1) displays realized transitions between 1997 and 1998 in 14 EU Member States. It can be used as a baseline for estimating the impact of employment strategies directed the speed up 'good' transitions and to prevent or reduce 'bad' transitions.

What does the matrix tell us? In 1997, 87.5 percent of the population fit for work who were economically inactive were also inactive in 1998; 5 percent of the inactive population moved into unemployment, 5 percent into poor-quality jobs and 2.5 percent into good jobs. Of the unemployed population, 17.5 percent moved into activity, more than half remained unemployed, only 20 percent went into poor-quality jobs and 10 percent into good jobs. Of the low-skilled people, 7.5 percent became inactive, 12.5 percent unemployed, 50 percent remained in unskilled jobs, and at least 30 percent moved up. The finding that 90 percent of workers in good jobs are also in good jobs in the following year is also plausible, although the high frequency is perhaps unexpected.

Some of these transitions are very disappointing, but may be explained to a large extent by the poor economic situation of the base year 1997. In order to be able to make predictions over a longer period, it would certainly be more sensible to take as a starting scenario the average values from several years, possibly even of an entire business cycle. For a thought experiment, however, we can use this matrix to assess the employment impact of strategies explicitly directed to improve transition patterns.

**Table 1: Transition Matrix for Employment Policy Targets (EU14)**

		Status at time t (1998)			
		<i>Inactive</i>	<i>Unemployed</i>	<i>Low-skill job</i>	<i>High-skill job</i>
Status at time t (t-1)	<i>Inactive</i>	87.5	5.0	5.0	2.5
	<i>Unemployed</i>	17.5	52.5	20.0	10.0
	<i>Low-skill job</i>	7.5	12.5	50.0	30.0
	<i>High-skill job</i>	2.5	2.5	5.0	90.0

Source: Employment in Europe 2004

A simulation of these effects carried out by the European Commission revealed the following results: (1) The increase in the transition from bad to good jobs from 30 to 40 percent would increase the employment rate over ten years by one percentage point; (2) the reduction in the transition from bad jobs into unemployment from 12.5 to 7.5 percent with a simultaneous provision of training opportunities, would increase the employment rate by further 1.5 percentage points; (3) the increase in the transition from unemployment into bad jobs from 20 to 25 percent again combined with training opportunities would increase the employment rate by a further percentage point; (4) if all the measures were combined, then the employment rate would increase by almost four percentage points, while the unemployment rate would be reduced by two percentage points.

In recent years, considerable progress has been made in collecting information on risks related to transitions. Especially the recent Employment in Europe Report 2004 (chapter four) contains a rich set of this type of information, both in descriptive as well as in econometric terms. Two additional transition matrixes from this analysis may give a taste of this advancement:

From multi-year transitions by main economic activity for EU15, one can for instance see that only 0.5 percent of permanent employees moved in the six years period (1995-2001) into education or training. This low figure might be a concern given the need of greater adaptability of the low skilled adult workforce. Of the temporary employees, 55 percent move into permanent employment, however, also every fifth moved into inactivity or unemployment. The self-employed display almost the same stability as the permanently employed, and almost one eighth even moves into permanent employment.

From the multi-year transition matrix by pay level we learn for instance that 44 percent (39.2 plus 4.8) moved from low pay to medium or high pay; on the other side of the coin, however, almost 30 percent moved to no pay, which means they got unemployed, inactive or disappeared in the informal or even illegal sector.

**Table 2: Multi-year Transitions by Main Economic Activity (EU15 total, Row Percentages)**

t + 6

	<i>Permanent</i>	<i>Temporary</i>	<i>Self employed</i>	<i>Not employed</i>	<i>Education/training</i>
t = 1995 <i>Permanent</i>	76.7	4.0	3.1	15.8	0.5
<i>Temporary</i>	55.0	16.4	6.4	20.7	1.5
<i>Self employed</i>	12.5	2.9	68.3	15.8	0.5
<i>Not employed</i>	18.7	6.1	4.8	69.0	1.3
<i>Education/training</i>	41.6	13.4	4.8	16.1	24.1

Source: Employment in Europe 2004, Table 50

**Table 3: Multi-year Transitions by Pay Level (EU15, Row Percentages)**

t + 7

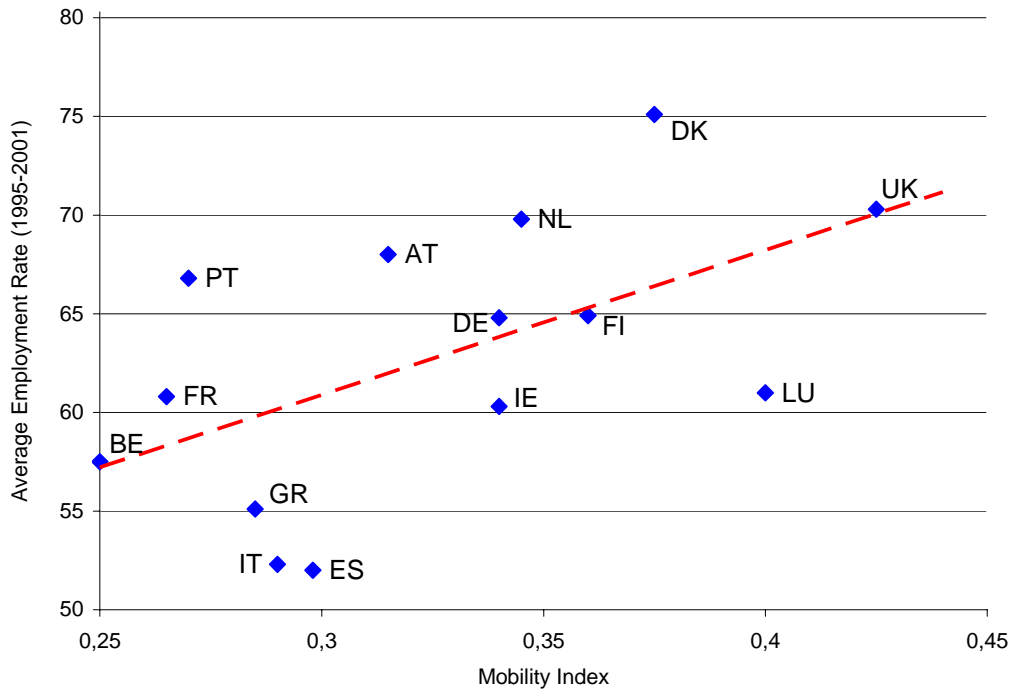
	<i>No pay</i>	<i>Low pay</i>	<i>Medium pay</i>	<i>High pay</i>
t = 1995 <i>No pay</i>	62.4	9.1	22.7	5.8
<i>Low pay</i>	29.8	26.2	39.2	4.8
<i>Medium pay</i>	17.4	5.2	61.3	16.1
<i>High pay</i>	17.0	0.9	17.0	65.1

Source: Employment in Europe 2004, Table 54

The Commission developed an interesting mobility index based on the aggregation of several transitions between employment statuses in the period of 1994 to 2002 (see Figure 6). Interestingly, this index correlates strongly with the employment rate. The causal direction, of course, is unclear, but it seems to be a plausible hypothesis that a sustainable increase of the employment rate requires higher mobility rates.

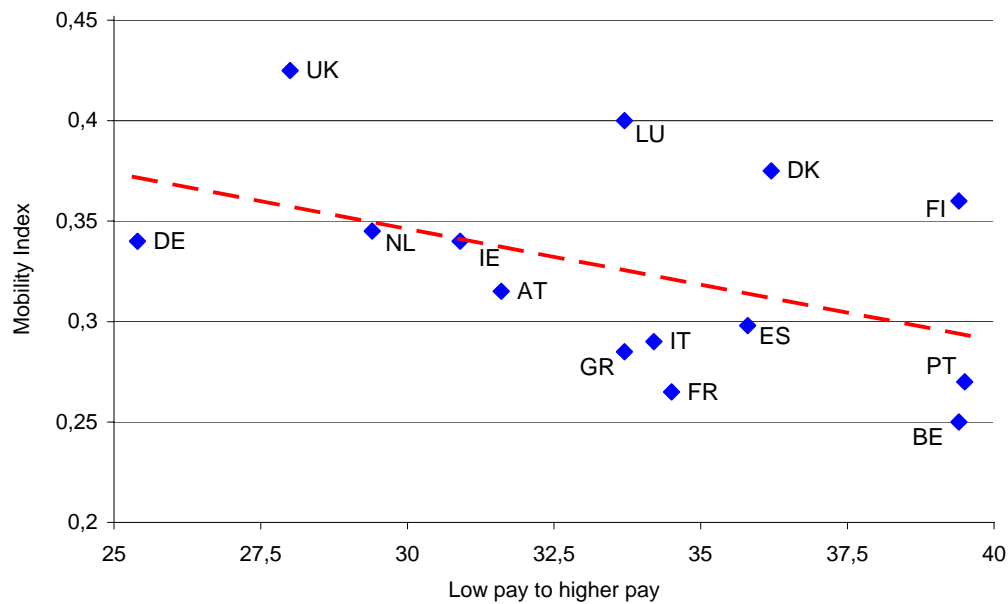
However, as Figure 7 shows, higher mobility seems to be related with fewer transitions from low pay to higher pay. Again, the causal relationship is unclear, but it is reasonable to be concerned about the possible negative impact of employment status mobility.

**Figure 6: Mobility Index and Employment Rate**



Source: Employment in Europe 2004; own calculations

**Figure 7: Mobility Index and Transitions from Low Pay to Higher Pay**



Source: Employment in Europe 2004; own calculations

Of course, more sophisticated analysis is needed.<sup>7</sup> However, from the fact that ‘manufactured’ risks are increasing and that preferences with respect to the employ-

7 The Employment in Europe Report 2004 contains already some interesting Logit-Models for transitions from “non-working” to “working, and for transitions from “lower pay” to “higher pay”. For good practice of risk analysis in the vein of TLM see O’Reilly et al. (2000), de Koning and Mosely (2002), Schömann and O’Connell (2002), Muffels et al. (2002), Neugart and Schömann (2002), Meager and Bates (2002), Gangl (2003); with special emphasis on the gender dimension cf. Mosley et al. (2002).

ment status<sup>8</sup> are changing during the life-course, it is reasonable to conclude that the matter of risk sharing between individuals and the society becomes more complicated than ever. Even the best risk assessment does not yet answer the nagging question of who shall be responsible for preventing, mitigating or coping with the new risks in the labour market. It is therefore time to tackle also the '*moral opportunity*' related to the shifting terminology from social policy to risk management, which means the opportunity to reflect explicitly the share of individual and public responsibilities in managing social risks. What might be the criteria for a new balance of public-private risk sharing?

### 3. Normative Principles of Risk Sharing

The two main schools reflecting on such criteria are welfare theory and justice theory. Put simply, *welfare theory* is based on the principle of utility maximisation. Apart from the guarantee of a minimum level of subsistence for all, a society is regarded as just if it maximises utility for all or, as the highly influential philosopher Jeremy Bentham put it, if it produces the greatest happiness of the greatest number. Any income distribution is fair, provided it increases average utility and leaves no one individual any worse off. *Justice theory*, on the other hand, which can be traced back to Kant, holds that individual utility cannot be compared and that it is therefore nonsensical to talk of maximising average utility. Furthermore, an unequal income distribution can be justified only on the basis of the generally applicable and mutually agreed criteria. Since the naïve utility maximisation argument can no longer be sustained in the wake of Kenneth Arrow's (1974) proof of the impossibility of the consistent aggregation of individual utilities, the following discussion focuses on justice theory. Currently, the two main schools are those of John Rawls and Ronald Dworkin.

#### 3.1 Contractarian or ethical justice theory? John Rawls vs. Ronald Dworkin

John Rawls (1990, 2001) arrives at the generally agreed criteria for justice from his starting point of the familiar theory of the social contract. Behind what he terms the '*veil of ignorance*', most people would decide in favour of the so-called difference principle: inequality is justified, provided it improves the position of the economically most disadvantaged group. Put simply, Rawls argues for the maximisation of the minimum (the maximin principle), according to which alternatives are ranked by their worst possible outcome. The alternative is being adopted whose worst outcome is superior to the worst outcomes of the others. Welfare theorists or utilitarians, on the other hand, argue for the maximisation of the average.

The differing consequences of these two strategies (maximising the minimum and maximising the average) can be demonstrated by means of a simple calculation. Let the initial average distribution be 1000 value units and let the lowest quintile be 200 and the highest quintile 2000, giving a ratio of 1:10. Let us assume that welfare and

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8 For example with respect to full-time or part-time work, dependent employment or self-employment, combining work and education, work and family, work and part-time retirement.

distribution rise on average to 1500 value units, with the lowest quintile again being 200 and the highest quintile 3000, which gives a ratio of 1:15. This distribution would be acceptable to welfare theorists but not to Rawls. If, on the other hand, we assume that the average rises to only 1200, with the lowest quintile being 300 and the highest 2000, which gives a ratio of 1:7, this distribution would be acceptable to Rawls but not to welfare theorists.

Ronald Dworkin (2000) joins Rawls in his criticism against the utilitarian theory of justice. However, he sees severe problems in applying Rawls social criteria of redistribution. First, the difference principle offers no advice where the ceiling defining the worst-off class should be drawn. Second, it legitimises any inequality as long as the situation of the worst-off improves only at a tiny margin.<sup>9</sup> Third, it does not appeal to the majority of people. It draws attention only to the position of those who have the fewest primary goods. Those who are better off but nevertheless have to struggle to secure a decent living for their families are neglected. The difference principle, therefore, seems to be most appropriate in times of rising general expectations. But in times of dramatic social and economic change, the likelihood is great that the middle class will also be much affected. It is not of a surprise that these losers (or people in danger) feel great resentment when part of their hard-earned wage is taken in taxes and paid over to those who do not work at all.

Dworkin's main objection, therefore, is that Rawls' difference principle is ethically insensitive. It does not build on the basic distinction between the causal effects of (external) circumstances and individual choices. It neglects individual responsibility for outcomes under given circumstances such as differences in talent or differences in the exposure of economic change. To be responsible for the consequences of individual choice, however, is a crucial and widely accepted ethical principle. It underlies also the notion of risk management, which assumes an active participation of individuals in responding to external challenges. What is required, therefore, is an ethically acceptable *balance of individual rights and obligations*. A fair distribution is one that takes account of both the circumstances that produce inequalities in living standards or quality of life, and of the individual choices that affect these standards.

From this point of view, individuals cannot be held responsible for distributions caused by external factors. Factors, which individuals cannot influence, include natural talents, handicaps and susceptibility to certain diseases, external phenomena such as weather and natural environment and, finally, bad luck or good fortune ensuing from the random conjunction of events. But individuals must be made responsible for distributions resulting from their own choices, such as a personal decision to

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9 This objection might be contested depending on how Rawls' first principle of justice, equality in primary goods, is interpreted. If 'having a decent job' were subsumed under primary goods, then the requirement of redistribution would be much higher than in case of not including labour market participation under 'primary goods'. In his restatement, Rawls seems to appropriate, for instance, equal opportunity for education the status of "basic liberty"; he also acknowledges that the state has to ensure that "excessive concentration of property and wealth" has to be prevented (Rawls 2001: 43 f). For an illuminating discussion of the theory of justice related to welfare state reforms see also Standing (1999), Esping-Andersen et al. (2002) and Vandenberg (2001).

work less, have certain (exotic) preferences or choosing a particular occupation. Individuals can be made responsible for their decisions, however, only as long as they are endowed with the same resources. Dworkin means this very literally. Since income distributions are determined by chance and external circumstances, there must be periodic redistributions within and between generations, for example through high inheritance and progressive income taxes.<sup>10</sup>

### 3.2 Ideal types of social risk management

Dworkin’s ethical principle of justice can well serve as a basis for the normative foundation of social risk management. Depending on whether the risks are triggered or caused by individual choice or external circumstances and whether the consequences of the risks are borne individually or can (or should) be managed collectively, four ideal types of social risk management can be identified and applied to the labour market; in reality, of course, the boundaries between these ideal types are blurred (Figure 8).

**Figure 8: Ideal types of social risk management**

		Actors responsible for risk management			
		Individuals		Society	
Risks resulting from	Individual choice	(I)	Individual responsibility	(II)	Solidarity
	External circumstances	(III)	Individual solidarity	(IV)	Collective solidarity

Source: G. Schmid

Type 1 – ‘*Individual responsibility*’ – applies to cases in which the risks are predominantly the result of personal decisions and can largely be covered by private or collective insurance schemes. This type includes private savings policies and collective income maintenance schemes (in Germany, for example, collective agreements that provide for top-up payments for short-time working benefits), implicit insurance agreements in the form of seniority pay and agreements on protection against rationalisation, for example, and company pacts providing, for example, employment guarantees in exchange for wage concessions. The notion of individual responsibility can also be extended to include *the employment contract as a form of insurance policy*: in exchange for guaranteed wage payments and a greater or lesser degree of employment protection provided by the employer (the principal), the employee (agent) undertakes to carry out in future as yet unspecified work tasks, the content of which is to be determined by ad hoc instructions or by the worker’s own flexible reactions to unforeseen changes in the external environment or in requirements. Seen from this

<sup>10</sup> The Yale economist Robert Shiller (2003) was thinking along the same lines when he recently proposed a general insurance scheme against inequality. He suggested that the tax system should be reorganised in such a way as to ensure that tax rates were geared to a democratically decided and politically determined distribution structure. A certain level of the Gini coefficient, for example, could be used as a benchmark.

standpoint, intelligent workers who contribute to decision-making and accept joint responsibility are a key element in an effective system of employability insurance.

Type II – *'Solidarity'* – concerns cases in which the risks are indeed triggered by individual decisions or predispositions but the ability to make individual provision (cf. the risk prevention and reduction strategies) is low or the loss or damage incurred by the individual affected is so great that immediate collective or public assistance is required. To cite one drastic example: in a road traffic accident causing serious injuries, the doctors in A&E do not ask who was to blame. When human life and dignity are at stake, the cause of whatever is threatening them is irrelevant to the decision to offer solidary assistance. There is a human right to solidarity. A labour market example would be an individual who chooses a risky occupation, such as singer or dancer, and then suddenly loses his or her voice or the ability to jump because of an accident. In such a situation, we expect the guarantee of a basic income and the restoration of equality of opportunity through the provision of rehabilitation measures.

Type III – *'Individual solidarity'* – concerns cases in which the risks are externally caused, that is they lie outside the sphere of influence of those affected, but their effects can be mitigated or even eliminated by individual efforts. Natural catastrophes seldom occur in labour markets, but company failures caused by spectacular mismanagement could be included under this heading. Otherwise, structural change, adverse economic situations as well as political decisions, such as the expansion of the EU, can all trigger external labour market risks. Nevertheless, by adopting *'activation strategies'*, individuals, households, firms and associations can do much to prevent or alleviate external risks or deal with them once they have materialised. There is no need to list in detail such individual contributions to risk reduction. Besides intensive involvement in the search for a new job or participation in any training programmes that may be necessary, they also include, where necessary, the willingness to relocate. Individual learning and working-time accounts are relatively new measures that can help to protect against such risks through individual efforts of solidarity.

Type IV – *'Collective solidarity'* – encompasses cases in which the risks have an external cause and their consequences cannot be dealt with by individuals acting alone or even in private collective associations. Since unemployment, for example, is *'catching'*, that is it gives rise to further unemployment through chain effects (a shortfall in demand triggers other shortfalls) or even imitation (if company A breaks the social taboo on mass redundancies, then company B will follow suit), external effects can be adduced in further justification of public intervention and/or attempts to deal with the consequences. The established system of unemployment insurance and the public employment service are examples of collective responsibility. However, developments during the 1980s and 90s, such as the spectacular cases of privatisation, the opportunities opened up by contract management or the new insurance technologies, and the current debate<sup>11</sup> are good reasons to call into question not the entire notion of

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11 Cf., for example, the latest proposal for the abolition of the Federal Employment Agency and the introduction of private unemployment insurance in Breyer et al. (2004).

state responsibility but the ways in which collective solidarity is currently organised. As the notion of 'governance', the 'ensuring' or 'enterprising state' reminds, the extent to which individual solidarity or even individual responsibility might represent functionally more efficient alternatives to the state as guarantor has repeatedly to be assessed.<sup>12</sup>

As just demonstrated, these four ideal types already suggest some general rules for choosing among these four alternative models of allocating individual and collective responsibilities. The most general rule relevant to social risk management is that – apart from pure private responsibility – individuals can take over more responsibility only if they are empowered to do so. As far as the risk of unemployment is concerned, Dworkin proposes himself a mental game. If people in the '*hypothetical insurance system*' were to be asked what insurance they would be prepared to purchase – provided resources and risks were equally distributed – then the majority would not argue in favour either of a generous or of a meagre unemployment insurance scheme. Presumably, most people would vote for a 'compulsory contribution system' that is relatively generous, but only on the condition that the insurers actively encourage the unemployed to take up new jobs (particularly by providing training) and the unemployed themselves accept reasonable jobs and training programmes. The result, thus, is some mix of public and private responsibilities and obligations.

Dworkin's argument sounds plausible, but it needs obviously precision. Otherwise, it reminds a bit plain old-fashioned common sense or, in the language of welfare regimes, to the Panglossian assertion that a combination of the liberal, social-democratic and conservative welfare regimes could produce the 'best of all possible worlds'.<sup>13</sup> It remains unclear what the endowment with the 'same resources' or the acceptance of 'reasonable jobs and training programmes' means.

### 3.3 *Equality of resources or equality of capabilities? From freedom from want to freedom to act*

Amartya Sen's (2001) notion of *capability* can assist here. For Sen, *material equality* is at best a necessary but not sufficient condition for a fair distribution of life chances. What is more decisive is individuals' ability to convert the resources available to them into the states they themselves aspire to, that is a flexible endowment with resources that may be quite unevenly distributed but which enables all individuals to realise the plans they have for their own lives. In Sen's views, *material freedoms* play an important role in such a functional capability. As far as the labour market is concerned, this would mean the freedom of choice among different occupations and employment forms, the possibility of reconciling work and private life and opportunities to regenerate or extend capabilities throughout the life course.

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12 Cf. on this subject, among others, Considine (2001), Daly (2003), Giddens (2003), Heimer (2003), Williamson (1996); in Germany among others Hoffmann-Riem (2001) and Schuppert (2003).

13 In his novel '*Candide ou l'optimisme*', Voltaire lampoons the notion, attributed to Gottfried Wilhelm Leibniz, that the existing world is also the 'best of all worlds', putting it into the mouth of Dr Pangloss, Candide's tutor.

Sen's capability approach remains rather abstract. However, with some imagination and modification, it could breathe new life into the notion of '*employability*'. Gazier (1999) persuasively described the evolution of this concept as a story of continuous enrichment, distinguishing seven stages: Dichotomised employability, socio-medical employability, manpower policy employability, flow employability, labour market performance employability, initiative employability and interactive employability. Sen's capability concept applies to the last three notions: It suggests expanding the concept of employability by three dimensions: sustainability, autonomy, and embeddedness.

First *sustainability*: To be of working age (currently 15 to 64), healthy and to have a basic education is no longer sufficient to enter working life successfully. Not only is the required basic stock of education increasing all the time; there is also a growing need constantly to renew or expand this stock over the life-course.

Second *autonomy*: Sen's approach reminds to the possible restrictions of the capability to work during the life course. These can be physical restrictions, but also restrictions due to social obligations, especially care for children, for the chronically ill and for other dependent people. These restrictions of work autonomy have to be compensated for. The gender dimension received insufficient attention in Sen's analysis. In a special issue of the journal "Feminist Economics", Martha Nussbaum (2000, 2003) and others have corrected this neglect. In addition, Susy Guillari and Jane Lewis (2003) argued recently in favour of a list of basic capabilities to be evenly distributed. These capabilities go beyond material resources and include, for example, the capability to undertake caring and parenting activities. So long as men do not make an equal contribution to such activities, women's material freedom to choose an occupation will remain restricted.

Third *embeddedness*: Since individual choice and external circumstances as well as individual and collective capacities to act are more and more intermingled, functioning networks are required to constantly revive social capital. It is not sufficient – as advocates of the 'third way', the 'shareholder capitalism', or the 'social investment state' suggest<sup>14</sup> – to endow everybody with the necessary resources and then abandoning them to market forces. Competition is a fantastic vehicle for increasing efficiency where markets are functioning. However, the conditions for properly functioning markets are seldom met. Even markets need formal regulatory infrastructures; even markets have to be embedded into trust relationships; and even markets are unfair in being often a lottery game and not a competitive game, resulting in outcomes for which individuals cannot be made responsible.<sup>15</sup>

Thus, enhancing the individual capacity to take over more responsibility requires extending the concept of '*employability*' by including further dimensions of job quality:

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14 See for example Giddens (1998), Le Grand (2003).

15 See, among others, Solow (2000) and Schmid (1993).

- *Sustainable employability*, which enables preventing, mitigating or coping with revolving door effects and repeated disruption of employment careers. This would imply complementing workfare policies with additional career measures.
- *Functioning employability* can be defined as the capability to realize in the labour market one's own life-plans, having the opportunity to change this plans and to make transitions between various kinds of employment, for instance between part-time and full-time work, between dependent work and self-employment or a combination of both. The *capability to act*, to be a relatively *independent agent of one's own fate*, requires also communicative abilities, and the ability to tolerate ambiguities in job descriptions as well as risks of sunken investments related to highly specialised jobs. "*Freedom from want*" is still a central aim of European social policy; however, "*freedom to act*" is nowadays an equally highly esteemed value requiring an enriched concept of employability.<sup>16</sup>
- *Embedded employability*<sup>17</sup> goes even further and addresses the need to establish functioning opportunity structures to guarantee meaningful and decent employment over the life-course. A functioning opportunity structure could be defined as the effective interplay between private, social and public partners mediated by proper institutions and laws. The idea of meaningful and decent employment introduces both a social norm of minimum earnings, minimum security and health conditions at the work place, as well as options for individual self-development and participation. Following Albert Hirschman's 'Shifting Involvement' (1982), embedded employability relates to functioning employability by reminding the public aspect of work in terms of recognition, reward, self-respect and mutual respect, in other words, all the non-instrumental elements of work.

Before coming to the conclusions, the main argument developed so far can be summarized in three points: *First*, the theory of intuitive beliefs and choice has corrected naïve assumptions of rationality that underlie often the cheap talk about risk management. It has led to the conclusion that publicly ensured and equity sensitive opportunity sets can help to overcome myopic choice as well as excessive risk aversion of individuals in employment decisions. *Second*, the positive risk analysis presented evidence that – apart from the remaining old risks such as ageing, illness, disability, classical unemployment – new risks arise, especially the risk of social exclusion related to failures in education and training, and the risk of precarious employment relations related to the erosion of internal labour markets and the rise of network labour markets. Empirical evidence pointed to the direction of a kind of job-to-job security or stepping stone strategy to integrate or re-integrate people into the labour market. *Third*, the reflections of risk sharing from a normative point of view has led to the conclusion that empowerment of individuals' capability to act is a prerequisite of shifting the balance between individual and social responsibility towards greater individual responsibility. The new concept of solidarity related to the labour market pointed into the direction of embedded employability.

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16 In this vein see also Begg and Berghman (2002), Salais (2003).

17 I owe this term from a discussion with Anton Hemerijck.

#### 4. Conclusion: New Directions in Social and Employment Policy

Now, to which directions in social and employment policy – and this was the question of this conference – do these reflections lead? In other words: How can employability over the life-course be ensured? I have six directions to suggest:

(1) First, prospect and framing theory suggests to *direct employment policy away from single interventions towards a strategy of institutionalising a rich set of opportunity structures*. The notion of “opportunity structures” stands for reliable and expectable options to individuals to overcome myopic choices or excessive risk aversion. Opportunity structures are intended to maintain or improve continuously people’s capability to work over the life-course. For example, from the tendency of overestimating short-term small risks and underestimating long-term high risks, it can reasonably be assumed, that individuals perceive the risk of being stuck in the low-wage sector to be greater than the risk of long-term unemployment resulting possibly from being too choosy about the jobs they will accept. Active labour market policies, therefore, should not be confined solely to offering jobs and placing individuals in work. Follow-up measures are required for *transforming sheer workfare measures into stepping-stones* for a sustainable job-career.

Conversely, the barriers to acceptance of a risky job should not be underestimated either. Such barriers may arise out of the fact that acceptance of risky jobs means abandoning familiar certainties, even though they may have a lower value than the new employment prospects. These ‘familiar certainties’ may be of various kinds. For instance the reliability of social assistance benefits possibly supplemented by a small amount of clandestine employment may be one example; or the confidence in one’s own *productive capacities* another. Taking on a risky new job, however, brings with it the fear of losing these capacities. Daniel Bernoulli, one of the founders of probability theory and thus of risk management provides a nice example: even a beggar will not give up begging for a workfare job since he would lose his capability of begging. You have to offer him a bit more.<sup>18</sup>

This “more” – what could that be? The concept of TLM suggests a whole set of possibilities that are already good practice in some countries, including Australia, or can be added to existing policy mixes, for instance:

- the opportunity to try out several jobs without withdrawing benefits immediately if one option does not lead to success at once, a rule that excludes rigid workfare strategies that do not allow trial and error as a productive job search strategy;
- the opportunity of maintaining entitlement to unemployment benefits if an individual takes over, for instance, the risk of self-employment; on the other hand, precautions have to be taken to avoid cautious less risk taking that leads only to

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<sup>18</sup> In a study about the integration of hard-to-place people in the Australian labour market, Zigus, Dufty and Considine (2003) find that the failure in this policy relates, among others, to the fact that people did not get enough reward for taking up a job.

'churning' the unemployed, for instance through the condition of a business plan and follow-up counselling;

- the opportunity of building up flexible entitlements, for instance the possibility to transform entitlements of unemployment benefits into entitlements to co-finance continuous training or education; the possibility of building up tax-free life-course saving accounts targeted to employability measures or covering partial income loss due to parental leave, sabbaticals, temporary reduction of working time;
- the opportunity of building up entitlement to benefits again under carefully selected circumstances; this entitlement effect of insurance is to some extent also effective against illegal work;
- the opportunity of tax credits or social security credits on acceptance of a risky new regular job;
- the opportunity of in-work-benefits under certain circumstances, for example in the case of family or other care obligations.

(2) Unemployment insurance so far provides inadequate security in particular for the new risks mentioned in the second part of the paper. The present system does not provide adequate incentive structures to prevent or mitigate potential unemployment through voluntary mobility. "*Making transitions pay*" has not entered yet the world of work to its full extent. However, new securities are a precondition for encouraging riskier decisions such as to move from dependent employment to self-employment or even to embark on the venture of changing occupation once or maybe twice in the life-course. Such 'internal' or 'self-generated' risks are increasing anyhow as shown in the risk analysis. What is more, they are also increasingly desired in order to improve firms' adaptability to changing conditions, or even to realize changes in life circumstances or preferences. Since society gains from such mobility through positive externalities, risk sharing arrangements between individuals and society are justified even in the case of 'internal risks'.

The old insurance systems are still loaded with elements of the traditional gender division. Internal labour markets as insurance device erode. Functionally equivalent insurance systems against earnings risks over the life-course, however, are not yet in place or only just beginning to emerge. For this reason, some form of employability insurance should supplement or replace the time-honoured system of unemployment insurance. This should cover income risks not only in the worst case, that is unemployment, but also during risky transitions into new employment relationships.

Various elements of such an *employability insurance* have been described elsewhere.<sup>19</sup> Mentioning some key words – such as wage insurance, time accounts, training or learning accounts, the transformation of benefit entitlements into vouchers, entitle-

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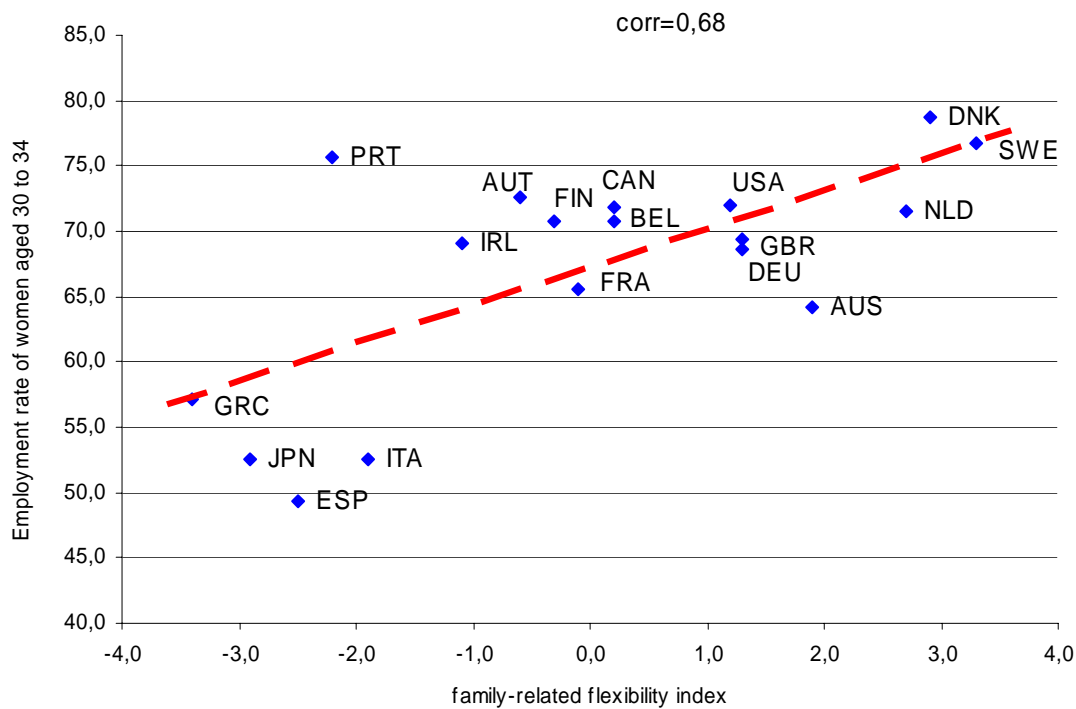
<sup>19</sup> See, among others, Schmid / Gazier (2002), O'Reilly et al. (2000), de Koning and Mosely (2002), Schömann and O'Connell (2002).

ments to training or education leaves or sabbaticals – must suffice here. Social partners could play a more active role in the formation and control of such additional insurance elements.

(3) Even in its extended version, however, the employability approach is biased towards the supply side. It has, therefore, to be complemented by a demand approach. Opportunity structures should not only be directed to employees. The enriched notion of “employability” suggests to complement ‘*sustained capability to work*’ on the supply side by ‘*sustained capability to employ*’ on the demand side. Not only employees but also firms have to be capable to pursue a human-resource-management approach. This would include, for example, the ability to make flexible capacity adjustments (including skills improvement) rather than relying solely on a ‘hire and fire’ policy. Especially flexible work and special work-life-balance arrangements for young parents would help to combine family work and labour market work.

Do such employability measures work? A first proof that they do, is provided by the following Figure (9): It displays the relationship between the employment rate of women in the age of 30 to 34, and an index combining some elements of an opportunity set related to the compatibility of child care and work: the supply of care facilities for children under three years of age, the entitlement to transfers for parental leave, the availability of flexible work arrangements, and voluntary part-time work. As the quite strong positive correlation shows, a rich opportunity set seems to support or stimulate the employment of women in the age of family formation.

Figure 9: Employment rate of women (30-34) and flexible work arrangements



Family-related flexibility index: summary index of standardized variables - children under 3; entitlement to child care leave (calculated as the product of the duration of child care leave and the earnings replacement rate), flexible working-time models, voluntary part-time working, voluntary family leave in firms (half weighting).

Source: OECD (2001) und Bovenberg (2004).

(4) Fourth, the emphasis of the capability approach on embedded employability implies putting proper governance structures into the forefront of future employment strategies. For instance, national action plans required by the European employment strategy have to be legitimized by national parliaments. Regional and local agents have to be involved by setting own targets and trying own experiments, financial incentives of the European Structural Funds have to be directed more to support social networks, public-private partnerships, and local initiatives.

(5) Fifth, effective implementation requires also monitoring and benchmarking local, regional, national and transnational employment strategies. The enriched concept of employability suggests that success or good practice figures have also to be enriched with indicators on transitions and life-course prospects. The present “open method of coordination” of the European Employment Strategy, for instance, relies almost completely on highly aggregated quantified targets such as employment and unemployment rates. Qualitative job characteristics such as productivity, working conditions, training and promotion opportunities, and frequencies of transitions from low-paid to high paid jobs, from temporary to permanent jobs are neglected.<sup>20</sup>

(6) Sixth, and finally, coordination of macro-economic policy has to be improved. It is clear that *employability can be more than a job* if there are plenty of job opportunities. In such a case, employability would indeed reflect the near utopia of ‘freedom to act’, which means the personal capability to adapt to future jobs by realizing one’s own life plans at the same time. However, if there are regional spots of mass unemployment, *employability may be much less than a job*; in such a case it may be a mere promise and the small satisfaction of being a good candidate among many others with no job prospects. Without a sound macro-economic environment, which means the coordination of money, fiscal and wages policy to foster innovation, investment and new job creation, the supply side concept of employability remains a one-sided and ineffective approach.

Our considerations on the asymmetries of risk perception provide an important lesson in this respect. Amos Tversky cites surveys that show that the trade-off between unemployment and inflation is assessed quite differently depending on how the alternatives are formulated. If presented with a choice between reducing unemployment (say from 10% to 5%) or more inflation, the vast majority of people risks higher inflation. On the other hand, if the objective is framed as a choice between inflation and an increase in labour force utilisation from 90% to 95% (which objectively is the same as reducing the unemployment rate from 10 to 5%), then price stability is judged to be much the greater good. From this point of view, the accusation gains some plausibility that the European Commission, in its guideline on the European employment strategy, places too much emphasis on the objective of increasing the employment level rather on fighting unemployment. Putting the employment rate at

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<sup>20</sup> The present short-list of 14 indicators used in the Joint Employment Report does really not suffice to reflect quality dimension of jobs, although parsimony of indicators for the sake of practicability has to be acknowledged.

the forefront signals clearly a priority of price stability over the concern of unemployment.

To sum up, finally: Extending the idea of insurance to income volatility over the life course would increase overall flexibility and security. This kind of protected mobility would open up not only the doors for the long-term unemployed but would also reduce the inflow into unemployment through a lot more risk prevention or risk mitigation both of the employers and the employed insiders. More flexibility at reasonable levels of security, this is indeed the aim of transitional labour markets. However, it would be mistaken to see flexibility and security only as a trade-off, and to speak solely of a “balance between flexibility and security”. The aim of transitional labour markets is more ambitious. It is the idea of a complementary relationship between flexibility and security. TLM are or are intended to ensure transitional employment relations in a way that they are building bridges and not traps in critical events over the life-course. Or, in other words and instead of a summary: “The essential feature of a bridge – that it is a fixed device that lets you transit a discontinuity without getting knurled“ (Cohen and Stewart 2000:405). If the intrusion of the word “risk management” is understood in this direction, it probably will remain in the public domain for more than nine years.

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