Managing Transitions: Lifelong Guidance in the European Space[1]

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> "The future of the life course rests on the changing linkages among state, market and familial institutions. These linkages will not disappear, but transform over the current transition to an ageing world. The discourse of change will be conducted in the language of risk in which individual and collective interests will be weighed in a new calculus (O'Rand, 2004, 700)

Introduction

This paper argues that the linkage among state, market and families addressed in the starting quotation is changing from a life cycle orientation to a life course perspective. This change has enormous consequences for risk sharing between the three key institutions of societies: the market, the family and the state. With increasing diversity of labour market participants – both at the supply and the demand side – the management of risks over the life course, especially of critical transitions from school to work, from one employment relationship to another, from unpaid family work to paid labour market work, from employment to unemployment and from work to retirement becomes more complex.

One way to reduce this complexity by maintaining or even encouraging lifestyle diversity is to consider lifelong guidance as task of social risk management that follows the logic of life course risks. It is the aim of this essay to provide an analytical framework to tackle this challenge based on empirical trends, normative principles, behavioural assumptions and good practices. The paper starts with some remarks on the difference between the life cycle and the life course perspective (1); it then briefly sketches the empirical backdrop (2), and the normative and behavioural assumptions of transitional labour markets as analytical framework (3), followed by general strategies and good practice illustrations for managing the five main critical transitions over the life course, with a special emphasis on the risk of insufficient or eroding human capital (4), and it ends with some reflections on 'flexicurity' as a potential unifying principle of the European Employment Strategy (5).

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1. From Life cycle to Life course: An Emerging New Paradigm

The concept of the life cycle emerged at the end of the 19th century. Influenced by the Darwinian theory of evolution and natural selection and by Spencer's socio-biological approach, human life was considered as sequence determined by biological stages of age, kinship relationships and sexual division of labour between unpaid female and paid male work. The labour market was regarded as a market of labour demand and supply, but implicitly also as a social institution with the underlying assumption that the wage of the male breadwinner should enable decent living standards of the private household.[3] Social anthropology added the idea of transmitting social and economic capital over generations, and psychology saw socialisation and personal identity building as a process of maturation with age.[4] As neo-classical economists spent little attention to the role of time in individual choices at the beginning, Modigliani eventually developed the theory of life cycle income in the first half of the 1960s, stating that risk averse and rational individuals endeavour to smooth their consumption over the life span by saving in the early years and spending their savings when retired.

Despite some modification during the recent decades, allowing – for instance – habits or peer groups playing a role in individual decisions, neoclassical economists maintained the assumption of the cyclical dimension of time in which the dominant representation of life trajectories keep the traditional tripartite sequencing of life, i.e. a period of education, followed by the periods of employment and retirement. A reflection of this assumption is the idea of optimal sequencing over the life cycle with investing as much as possible in education before entering the labour market and then collecting the returns of investment over the life course (Heckman 2000).

As it became clear that the life cycle concept was far from explaining all the transitions observed over the life span and the growing heterogeneity of life trajectories in modern societies, in the late 1960s and early 1970s, sociologists started to develop a broader framework that eventually was labelled the life course approach. Elder et al (2004) argue that while the life cycle entails some form of natural and normative reproductive and iterative cyclical process, the life course perspective involves an

[3] As a standard reference see Mortimer and Shanahan (2004), for the link between Transitional Labour Markets (TLM) and Life course analysis see Anxo and Erhel (2006).
[4] For social anthropology see O'Rand and Krecker (1990), for psychology see Erikson (1968).

evolutionary approach considering individuals' life trajectories as lifelong development embedded in a social structure.

According to this approach, individual life is not lived independently. Transitions in one person's life entail transitions for other people as well. If daughters, for instance, transit early to motherhood, they induce her own mothers' early transition to grandparenthood with respective repercussions for their roles, responsibilities and social identities; the new mothers, then, might still think of themselves as children and expect their mothers to help care for their children, whereas the early grandmothers are confronted with additional constraints of their decision to participate in the labour market. If daughters, however, transit late to motherhood – which, at least in the European space, seems to become the rule rather than the exception – their mothers might be already in an age in which they need themselves care rather then being able to provide unpaid care services, a situation which certainly increases the problems related to the so-called rush-hour of life. In addition, extended life expectation and repeated marriages may change the 'natural' three generation family to a contingent multiple generation family.

External events and shocks (like wars, baby booms, and political revolutions) also might have long-lasting repercussions on the sequence of transitions as caught by the important concept of age cohorts. Furthermore, societal norms related to age are structuring the life course as entitlements or strong normative expectations are linked to age. These norms, however, might differ between cultures, ethnic groups and educational systems, providing thereby a framework for explaining international differences in life course transition patterns.[5]

Recently, the life course perspective has shown that the usual dichotomy between agency and structure may be overcome by considering the temporal dimension of both individuals' behaviour and structural change. One of the most striking examples is the development of women's human capital through expanded educational opportunities. This change had a tremendous impact on the emergence of new preferences changing the allocation of unpaid and paid working time over the life course according to continuous negotiation within the family and changing institutional constraints through governments' social policy.

In a stylised way (Figure 1), the differences between life cycle and life course orientation, thus, can be classified according to time, social and

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[5] For youth transitions see, for instance, Mueller/Gangl (2003) and Brzinsky-Fay (2007).

market relations. In the life cycle model, time relations are thought as causally ordered sequences, social relations ascribe roles according to (often ‘socio-biologically’) determined norms, and labour market relations are characterized by the single (male) breadwinner. In the life course model, time relations are thought as random sequences determined by coincidence, social relations are governed by (institutionally) embedded contingency, and labour market relations are characterised by multiple (gender neutral) breadwinners.

Figure 1: Stylised characteristics of the life cycle and life course model

	Life cycle	Life course
Time relations	ordered sequences	random sequences
Social relations	role ascription	embedded contingency
Market relations	single breadwinner	multiple breadwinner

In reality, however, we find a mix of life cycle and life course orientation. Yet, the life course perspective draws attention to the fact that the post-industrial society increasingly puts emphasis upon personal decisions and responsibility in the shaping of the work-life course, and correspondingly de-emphasises normative age-markers for the timing and sequencing of labour market participation (Heinz 2004, 185). As country varieties of life course patterns make clear, however, institutional path dependency still plays a decisive role. Countries with a highly flexible labour market, like the United Kingdom and the United States, seem to compensate low job or career stability with considerable opportunity for re-employment after episodes of short-term joblessness. Yet the competitive process of repeated job-loss and re-employment might lead to sharp income differentials and to volatile income streams during the life course. In more regulated labour markets, like France and Germany, a high level of occupational training and career continuity is maintained, though with the tendency to socially exclude people with inadequate skills already at the beginning of the working life.

The question, then, arises whether there might be a third way between these two ideal-type models of life course that emerged during the last decades. The theory of transitional labour markets (TLMs) aims at providing an analytical framework for finding such a solution in the language of risk advocated by the starting quotation of this essay. What is the empirical backdrop of TLMs?

2. The Empirical Backdrop of Transitional Labour Markets

As an empirically oriented concept, TLMs emphasize the dynamics of labour markets. They focus on flows between different employment relationships rather than on stocks, and they focus on transitions over the life course rather than on one way job-to-job changes. They distinguish especially between integrative, maintenance and exclusionary transition sequences or job careers. They have stimulated a rich set of empirical research on life course mobility which cannot be presented here.[6]

TLMs, however, also emphasise transitions within employment relationships. The often quoted fact that international research finds no remarkable downward trend in job tenure and no remarkable increase in job-to-job transitions is completely in line with the concept of TLMs (Auer and Cazes 2003). The reason is that many transitions can be performed within stable employment relationships, for instance the shift from full-time to part-time work due to parental leave, or the combination of part-time work with off-the-job training, or internal job rotation.

Such flexibility within a continuing employment relationship explains for instance the fact that the nominal employment rate in Sweden is about 74 per cent, whereas the effective employment rate – which means the rate of employed people who actually work in a week – amounts to around 64 per cent. The good news related to this important difference is that many people are on productivity enhancing leave, for instance educational or parental leave; the bad news is that the difference might reflect a kind of hidden unemployment, for instance absenteeism or work related health problems.[7]

With some caution, the observation of an increasing difference between nominal and effective employment rate might even be turned into a normative statement: The more transitions within an employment

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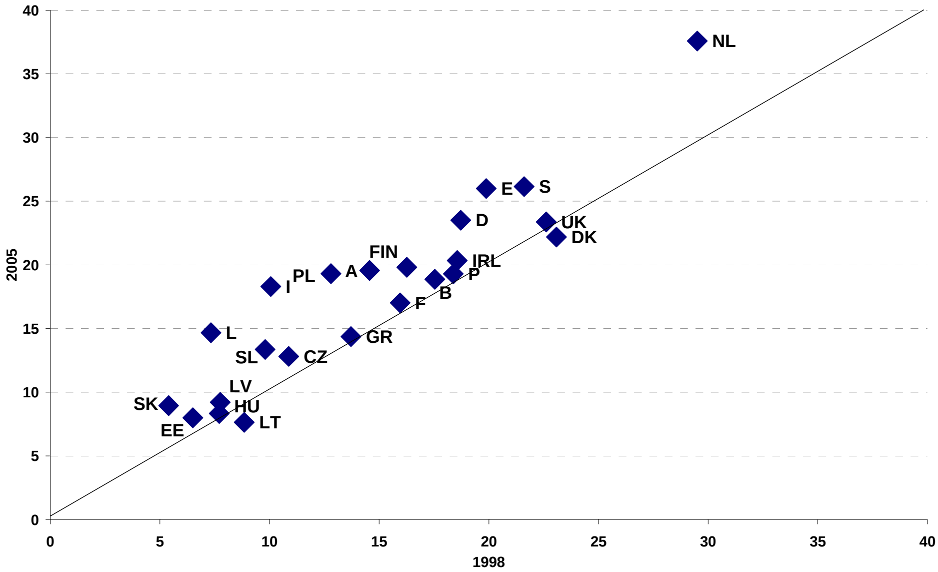
[6] See, among others, O'Reilly et al. (2000), Schömann/O'Connell (2002), Schmid/Gazier (2002), Gazier (2003), Gangl (2003), Román (2006), Schmid (2006, 2008), Howe (2007), and various contributions in four recently published rich volumes on flexicurity and transitional labour markets by Jørgensen/Madsen (2007), de Koning (2007), Lassnigg et al. (2007) and Muffels (2008).

[7] In fact, Sweden seems to be at the top of lost days per year (26) due to health problems; next come Norway (21), Belgium and France (16), Finland (15), The Netherlands (14), UK (13), Denmark (10), United States (9), Germany (8), Italy, Switzerland (7) and Ireland (6) (Rae 2005, p. 5). However, taking also into account the number of people in invalidity pensions or the number of people in prisons, the phenomenon of 'hidden unemployment' seems to be almost universal in one form or the other. It is also not clear to what extent the Swedish figures reflect just a lax regulation of health absenteeism or real work related health problems. Anecdotal evidence – Sweden has for instance one of the highest life expectations in the world – gives the first possible explanation more plausibility than the second (Rae 2005; Hesselius 2006).

relationship are allowed or demanded, the higher must be the employment rate to keep the 'machinery' of economic prosperity running. The Lisbon objective of 70 per cent employment rate, therefore, might be even too modest in the long-run.

The main challenge, however, is the imbalance between integrative, maintenance and exclusionary transitions. In fact, the current dynamics of transitions tends to lead to new forms of labour market segmentation. Many people get stuck in exclusionary transitions, especially in low skilled jobs or in precarious non-standard employment relationships.

Figure 2: Non-standard employment rates in 1998 and 2005



Source: EUROSTAT, Labour Force Survey; own calculations
Non-Standard Employment:
- Employees with a temporary contract
- Solo-self-employed working full-time outside agriculture
- Part-time workers with permanent contract (employees) and part-time working solo-self-employed persons who define themselves as part-time working

The figures on non-standard employment rates in the EU member states give only an impression of this challenge (Figure 2). Non-standard employment comprises here all jobs in part-time work, temporary work or self-employment. The comparison of the EU member states reveals three messages:

First, as the clustering above the steady-state diagonal demonstrates, non-standard employment increased in almost all EU-member states, especially in the Netherlands, Spain and Italy.

Second, as the clustering according to employment systems shows, the so-called social democratic systems (the Netherlands as a hybrid system included) as well as the liberal systems are on the top; the continental-conservative systems as well as the Mediterranean systems in the middle, and most of the new member states at the bottom. This pattern, which correlates strongly with economic prosperity in term of GDP per capita, allows the following tentative conclusion: the higher developed employment systems are, the higher the contractual variety of employment relationships.

Third, the fact that social democratic as well as liberal systems rank high in terms of non-standard employment can be taken as circumstantial evidence that non-standard jobs are related with very different regulatory frameworks. Furthermore, not all of these jobs are precarious or exclusionary. They can serve as stepping stones or as intermediary jobs within a meaningful work-life career. Non-standard jobs, however, often involve a higher risk of exclusion than standard jobs.

This increasing contractual variety of employment relationships is the empirical backdrop of the concept of transitional labour markets. Against this backdrop, the aim of TLMs is, metaphorically, to provide “social bridges” that compensate for the higher risks of this increasing contractual variety and to ensure that non-standard jobs become “stepping stones” to sustainable job-careers. However, before we enter the debate on possible strategies and good practices, we have to lay down explicitly the normative criteria according to which we want to assess the new institutional arrangements of a life course oriented employment policy.

3. Normative Principles and Behavioural Assumptions of Transitional Labour Markets

As a normative concept, TLMs envisage a new stage of active labour market policy which focuses on social risks over the life course. From a normative point of view, the core idea is empowering individuals to take over more risks over the life course not only through making work pay but also through making transitions pay. Four principles underlie this normative orientation.[8]

[8] For an elaboration of the argument see chapters 1 and 6 in Schmid (2008); the slogan “making transitions pay” has been coined by Gazier (2003).

The first principle is justice as fairness. Concerning the goals of policy intervention, the concept of TLMs is opposed to the utilitarian assumption of maximising the happiness for all. TLMs rather emphasise the difference principle by John Rawls (2001) according to which inequality is only justified if it improves the lot of the least advantaged. This principle suggests turning around Tolstoy's famous statement in his novel Anna Karenina: All the unhappy people are unhappy in a similar way. There are many ways to happiness, but pain is always the same. Reducing unhappiness, especially caused by long-term unemployment, is something that we can achieve. Maximizing happiness is a moving and often futile target as the booming happiness research shows (Layard 2005, Offer 2006).

The second principle is solidarity in risk sharing. TLMs follow the ethic of responsibility by Ronald Dworkin (2000). Rights and obligations have to be balanced. Demanding more individual responsibility requires endowing all individuals with equal opportunities. It also requires the periodic redistribution of resources over the life course since market forces regularly distort distributive justice.

The third principle is developing individual agency. TLMs assume great differences in the ability to utilise resources for a fulfilling personal life course (Sen 2001, Salais and Villeneuve 2004). This principle suggests, therefore, reorienting labour market policy from pure cash transfers towards the development of capabilities, which include individualised endowments of resources as well as a supportive social and political infrastructure.

The fourth principle is transnational social cohesion. TLMs assume an increasing interdependency of national states through globalisation and internationalisation. Europeanization of labour markets in particular requires a spatial expansion of the principle of social inclusion, in other words, an expansion of risk-sharing communities beyond ethnic, regional and national boundaries (Ferrera 2005).

The theory of TLMs also rests on new insights of behavioural economics related to social norm orientation and individual risk perception. Reciprocal fairness may overturn short-term utility maximisation (Frank 2004, Fehr/Falk 2002), and asymmetric risk perception may infringe consistent rational behaviour (Kahneman/Tversky 2000, Frank 2007). Loss aversion seems to be greater than risk taking for gains, and people tend to be myopic related to high risks with low probabilities, but far-sighted related to low risks with high probabilities. As a consequence, many people do insure themselves, for instance, against possible disruption of their travel plans but not against the possibility of long-term vocational disability; they are also less willing to save for any education or training that may be necessary in the future than to save for a new and maybe prestigious car. Social protection systems, therefore, follow often a too simple or a different logic than required by life course risks.

What strategies, now, follow from the new challenges of labour market dynamics, the normative principles of fairness in risk sharing and the new insights of behavioural economics for effectively managing transitions over the life course?

4. Employment Strategies and Good Practices of Life course Oriented Social Risk Management

TLMs concentrate on five critical events over the life course: transitions from education to employment, transitions from one job to another, transitions between private household activities and gainful work, transitions between employment and unemployment, and eventually transitions from employment to invalidity or retirement.

Each of these transitions is associated with specific risks: First, the risk of insufficient or eroding human capital or income capacity over the life course; second, the risk of income volatility due to fluctuating demand and job-to-job transitions or even the risk of working poverty due to low wages; third, the risk of restricted income capacities due to social obligations such as child care or elderly care; fourth, the risk of total wage income loss due to involuntary unemployment; fifth, the risk of reduced or zero income capacity due to disability, chronic illness or old age.

The theory of TLMs assumes that specific risks require specific securities. According to the principle of requisite variety in general systems theory (Ashby 1979), the higher the variety of risks, the higher should be the variety of social securities. Due to path dependency, however, labour market institutions often adjust not quickly or effectively enough to tackle the new risks stemming from the increasing diversity of labour markets. They also often follow a different logic than required by the new risks or do not recognise the normative or behavioural foundations of social risk management, creating thereby the well known phenomenon of institutional misfits.

In the following, some of these systematic misfits and possible remedies are presented and ordered according to the main five critical events over the life course. According to the core topic of this conference, special emphasis is given to managing transitions related to education and lifelong learning. Three general strategies of social risk management are thereby distinguished: prevention or mitigation of risks, and coping with risks. Prevention tackles directly the causes of risks and should therefore be given priority. However, uncertainty looms large making prevention impossible. Prevention can also be prohibitively expensive or restrict flexible adjustment. Mitigation and coping strategies, therefore, have to complement prevention.

(1) Managing the risk of insufficient or eroding human capital

From a life course perspective, it does not make sense to protect people against the risk of insufficient or eroding human capital through high and long-term unemployment benefits. On the contrary, such generous benefits would damage more than resolve the underlying problem. Equally, in-work-benefits for unemployed youth would not make sense since they would perpetuate the lack of human or social capital. Prevention is here the main solution. To prevent youth unemployment, social risk management must already start in the kindergarten, in preschools, primary and secondary schools. Not only equal opportunities in elementary and secondary education adapted to a knowledge society, but also elementary social skills for communication and learning abilities have to be ensured at an early stage of the life course.

As part of the European Employment Strategy (EES), the European Union already followed this insight in 2002 by setting precise targets through its "Education and Training 2010 Work Programme" embedded in the Open Method of Coordination.[9] This work programme clearly emphasises early intervention by advocating education policies aimed at enhancing young people's perspectives on labour markets. Five benchmarks guiding preventative measures to reduce the risk of insufficient education or the erosion of human capital over the life course (and to be reached by 2010) have been set:

- the percentage of low-achieving 15-year-olds in reading literacy should decrease by at least 20 per cent compared with 2000, setting

[9] Since the focus is on risk sharing between (national) states, firms, and families/individuals, this section excludes questions like Europeanization of education and training institutions (e.g. Europass or European Qualification Framework), the comparative advantage of vocational and higher education systems or the impact of the 'Bologna process' on lifelong learning in higher education; in this vein see, e.g., Powell and Solga (2008), Jakobi and Rusconi (2008).

by this way an overall benchmark of 15.5 per cent of the population below the ‘education poverty line’,

- an EU average of no more than 10 per cent early school leavers should be achieved,
- at least 85 per cent of 22-year-olds should have completed upper secondary education,
- the total number of graduates in mathematics, science and technology should increase by at least 15 per cent, and the level of gender imbalance should decrease,[10]
- increasing the participation of the adult working age population (25-64 year olds) in lifelong learning to at least 12.5 per cent.

Although some progress can be reported, Europe is still far away from a persuasive improvement in competences and education that would correspond to the rhetoric of ‘knowledge society’. As the recent PISA report shows, only a few countries (above all Finland with 4.8 per cent) have reached the benchmark of 15.5 per cent of students below proficiency level II in reading comprehension; in many countries, this share has even increased (OECD 2007).

As Table 1 suggests, the speed of progress related to preventing early school leaving seems far too small to reach the Lisbon goal by 2010. There is more hope related to the lifelong learning objective on the average, however the positive Scandinavian bias hides that most of the other European member states probably will not reach the target. The figures also hide the fact that low skilled people – those at highest risk of unemployment during their life course – often do not profit from continuous education and training measures.

As mitigation or coping strategy, the EES set rightly the target that EU member states should ensure for youth a training place or a job after six months unemployment at the latest, and for adult a training place or a job offer after 12 months of unemployment at the latest. However, as high long-term unemployment figures especially for low skilled people show, many European member states still are far away from these targets. Modest success in preventing strategies and great deficits in mitigating or coping strategies raise the question about the proper strategies to equipp

[10] The first part of this goal has already been achieved by most EU member states, whereas many countries still did not make substantial progress related to the second part, with low proportion of women especially in The Netherlands (20%), Germany (23%) and Austria (24%).

and support lifelong transitions.[11] How can and should the related risks be shared in a fair way between state, firms and the families?

Table 1 Progress related to managing sustainable transitions from education to employment in the EU and selected member states

	Prevention of Early School Leaving[1]		Participation in Lifelong Learning[2]	
Benchmark 2010	10.0		12.5	
Year[3]	2000	2007	2000	2007
EU (27)	17.6	14.8	7.1	9.7
EU (15)	19.5	16.4	8.0	11.3
Germany	14.9	12.7	5.2	7.8
France	13.3	12.7	2.8	7.4
Netherlands	15.5	12.0	15.5	16.6
Denmark	11.6	12.4	19.4	29.2
Finland	10.3	7.9	17.5	23.4
Sweden	10.5	12.0	21.6	32.0
Italy	25.3	19.3	4.8	6.2
Spain	29.1	31.0	4.1	10.4
UK	17.7	13.0	20.5	26.6
Ireland	14.7	11.5	5.9	7.6
Czech Republic	5.5	5.5	5.6	5.7
Poland	7.9	5.5	4.3	5.1

1 Share of the population aged 18-24 not in education or training with only lower-secondary education (ISCED 0, 1, 2 or 3c)
2 Participation of adults in lifelong learning (percentage of population aged 25-64 participating in education and training in four weeks prior to the survey)
3 or next year before or after in cases where information for 2000 or 2007 was not available

Source: EUROSTAT Online Database (Access at 02 July 2008), own compilation

11 The following deliberations are based on chapter 8.2 in Schmid (2008).

Risk sharing of investing in human capital from an economic perspective

Life course – instead of life cycle – policy suggests applying principles of social insurance rather than individual accounts when it comes to sharing risks associated with investments in education and learning. There are a number of reasons why the state should become involved in sharing risks related to the deterioration of skills over the life course, to a lack of skills in a person who must change jobs, or to the uncertainty of returns on investments in human capital. There are also reasons why these matters should not be left solely to individual savings or precautionary measures taken by employers or employees.

The first reason why the state should become involved is limited savings. Most people, who lack sufficient earnings capacities already at the beginning of their life course, and particularly those with the most need for lifelong training measures, lack the necessary financial resources. Apart from the fact that participation in lifelong learning ranges on average from 1.3 (Bulgaria) 32 per cent (Sweden) across EU member states, the participation of highly skilled persons is far above this average. Multivariate studies using industry, educational attainment, gender and age to explain participation in continuous vocational education and training produce fairly stable results. In most countries, the only significant positive variables are the levels of educational attainment and the upper tier of the service industry. In a few countries the age group of 55-to-64-year-olds is significantly negative (OECD 2005, p. 314). Studies investigating the reasons for non-participation in training on the supply side emphasise financial bottlenecks as important determinants, especially among low-skilled people. On the demand side, vocational education and training costs decrease for the employers as employee skills improve through higher learning capacities and lower risks of failing at training courses.

The second reason why the state should help shoulder the risks related to education and lifelong learning is failure of the capital market. The market does not grant credit to those most in need of those measures.[12] High risks of default make banks reluctant to grant study loans to young or mature adults. Unlike a housing loan, an education or training loan has no collateral for the bank to sell if the loan recipient defaults on repayment. The implication is that banks will not be interested in underwriting human capital investments unless at least one of two

[12] The following reasoning is, among others, inspired by Barr (2004), Chapman/Ryan (2005) and Jacobs/van der Ploeg (2006).

conditions is met: (a) high interest rates with deterrent effects on would-be loaners or (b) types of security afforded by assets other than human capital, a demand many candidates for loans cannot meet. Prospective investors without sufficient financial resources or real estate will not be able to invest in education or lifelong learning. This foreclosure has four important implications: a loss of talent and, hence, a cost to the whole society; a loss of opportunity for individuals; a cementing of inequalities resulting from previous disadvantages related to family background and education; and the perpetuation of intergenerational inequality.

The third argument in favour of risk-sharing by the state is lack of equity. The people who most prefer investment in education or lifelong learning may have the weakest position in private-household bargaining, even where government-assisted bank loans are an option. Government assistance would be linked to means testing. This approach rests on the assumption that the individuals involved have equal access to household income, a supposition that might not hold for young dependent family members or women in a weak bargaining position. This condition would, in turn, restrict loan access for those family members who value human capital investments more than do the family members actually making the decision.

The greatest problem with having the state share risks attached to education and training over the life course, however, is default. The risk of inability to repay a loan is highest among people with a poor income background. Experience has shown that their default rates are very high.[13] If government guarantee is unlimited, investors will put little care into their choice of investment, and banks will put little effort into debt recovery. Problems with default and moral hazard can make government assistance very expensive for taxpayers. Thus, governments will assist only if quite restrictive guarantees are agreed to. In other words, bank loans must be repaid under normal circumstances. This condition has serious implications for would-be borrowers. For fear of not meeting future repayment obligations, or for fear to damage their credit reputation and, hence, their future borrowing ability (say, for a house), some eligible borrowers will not be prepared to take out bank loans. Risk aversion is

[13] Chapman and Ryan (2005, footnote 10) quote literature reporting default rates of 15 to 30 per cent average for student loans in Australia and 50 per cent in the United States.

intensified by the fact that returns on education and – in particular – lifelong learning investments are uncertain.[14]

What are the alternatives to government loans? Some countries have experimented with various forms of state subsidised individual training accounts, such as individual development accounts (IDA), individual learning accounts (ILA) and long-term time-saving accounts (TSA) especially earmarked for vocational education and training. It is too early to assess these experiments, but most of them have been failures. Moral hazard and even fraud terminated some of them (e.g. the British ILA) in the middle of their implementation. Sweden, originally determined to introduce a general ILA system, finally did so only warily in 2003 with a voluntary scheme for fear of favouring people who were already well off.[15]

Even a panel of experts in the United States was ambivalent about IDAs, ILAs and TSAs after studying the idea of having one or the other or some combination of them complement social insurance. The strongest arguments in favour of such accounts were that they counterbalance the political discretion of purely publicly administrated social insurance, encourage individual responsibility, allow individual ownership and individual choice, perhaps discourage tax evasion and increase incentives to participate in continuous education.

The strongest arguments against state subsidised individual training accounts were that they (a) escalate administrative costs, (b) expose workers to market risks and the risk of poor investment choices, (c) erode the benefit level provided to those with low earnings, (d) undercut the sense of community responsibility and shared concerns that is embodied in social security, (e) entail undesirably wide variation in benefits between members of different cohorts employing the same investment strategy, and (f) by diverting revenues and introducing new risks, individual accounts might not build confidence in either the remaining defined-benefit portion of social security or in the overall system.

[14] First, it is extremely difficult to disentangle the complex web of factors that influence the returns on education or lifelong learning. Second, returns can materialise quite late in a person's career, as shown by most of the recent evaluation research on this subject (see Heckman et al. 2002).

[15] Both employees and employers can make contributions. The state enters by allowing corresponding tax reductions and an additional lump-sum subsidy of €454 after people have made at least 12 monthly contributions.

In fact, the balance between the pros and cons reflected a fair degree of scepticism about individual accounts.[16] This finding raises the question as to whether combining social insurance principles and elements of individual savings would be more promising than state-subsidised individual training accounts. Income-contingent loans (ICL) are a promising candidate. In efficiency terms, they are designed explicitly to protect borrowers from excessive risks; in equity terms, they assist access because they have built-in insurance against inability to repay (Barr 2004). In the TLM language, ICL are both: capacity building as well as consumption smoothing over the life course.

A worthy example is Australia's Higher Education Contribution Scheme (HECS). This ICL, introduced in 1989 and amended in 1997, goes beyond risk-pooling, which could be organised privately. It is a public–private risk-sharing device for financing higher education. All students are entitled to a loan regardless of family income. The debts must be repaid only if a stated income threshold is exceeded.[17] The issues of default and moral hazard are effectively resolved by a government guarantee if default occurs and by repayment through the governmental tax authorities. New Zealand (1991) and the United Kingdom (2005) have introduced this kind of scheme, and Thailand followed in 2006.

The Australian scheme seems to be accepted. It does have flaws, however. Although HECS was introduced explicitly to enlarge the share of university students from poor family backgrounds, it had no discernible effect on this target group. It may have helped expand overall university attendance, but it made only the middle class (and perhaps women) better off without making the poor worse off.[18] To improve access of students from disadvantaged socio-economic background, more than access to financial resources has to be provided (see below).

Another problem of the Australian scheme is the political discretion of fixing the earnings threshold beyond which the debts must be repaid.

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[16] See Diamond (1999, pp. 21–24). For a differentiated view dampening high expectations of private social insurance, see also Pearson and Martin (2005).

[17] For a description and evaluation of the HECS, see especially Chapman (2005) and Chapman and Ryan (2005).

[18] In economic terms the scheme thus met the Pareto efficiency criterion but not the Rawls criterion as an element of our four normative principles of risk sharing. Rawls' (2001) theory of justice advocates making the rich better off only under the condition that the lot of the poor improves even more. In Rawls' terms, HECS would be justifiable only if the remaining inequality lifts everyone's lot through greater efficiency, a change that in the present context means improved growth rates. It may be that HECS meets this criterion, provided that the increasing participation in higher education has been due to HECS and that it has contributed to growth.

After a relatively generous threshold set by the labour government in 1988, the conservative government lowered the threshold considerably, slashing the implicit subsidy of the loans. This discretion is probably the main reason for the mediocre success of the programme, for it has created uncertainties that still deter the most risk-averse students – those from poor backgrounds – from taking out these income-contingent loans.

In principle, ICL could also be used for continuous vocational education and training. Apart from the critical points already mentioned, however, practical problems exist. Most such education and training is piecemeal and ad hoc, a characteristic that makes it difficult to attribute rising income to these kinds of fuzzy investments. And unlike higher education, which generates overwhelmingly general and transferable skills, continuous vocational education and training produce skills that are more company-specific, less transferable and therefore riskier. Thus, one can expect employers and employees to share risk or the company to shoulder all of it. In fact, however, one is again confronted with the 'Matthew' principle that the people who profit most from company-specific training are those who already have a strong position within the company or who enjoy overall employability on the labour market. Moreover, recent literature shows that company-financed training has many more general traits than is usually assumed.[19]

What about other alternatives to state-subsidised individual training accounts? It should be clear by now that one-size-fits-all solutions are impossible in this complicated area of education and lifelong learning. The case for sharing risks through social insurance does not seem as strong. After all, the externalities related to continuous vocational education and training might not be as major as those related to primary, secondary and higher education. Market failures related to continuous vocational education and training might not be as strong. And risk-sharing between employers and employees should be assumed in many instances. Nonetheless, untapped qualification potential, looming shortages of skilled labour, and disadvantaged groups legitimate state involvement. The involvement of the state can take different forms, and second-best solutions are still available through other forms of collective insurance. Examples illustrating the range of possibilities conclude this section.

First, all reasoning and evidence on the causes of educational poverty as the backdrop of exclusionary transitions hint to the importance of the

[19] There is even evidence that companies use general training as an insurance device; see, for instance, Acemoglu and Pischke (1998) and Feuer et al. (1991).

educational level received in an early stage of the life course. Life course oriented policy must and can reverse the long-standing repercussions of such early disadvantage. It seems that the basic idea of "apprenticeship" – learning on the job complemented with generalized and eventually universally acknowledged forms of education – still is a promising solution. It is a strategy that can be implemented in variable forms depending on the institutional pathway of educational system, and in principle at all stages of the life course, thereby reversing the dead-end sequences of first-start failures.

If one looks at good practice cases, one can find this strategy realized in various forms. In addition to the 'dual' character of learning, common element of this strategy is that the state shares the risk not in form of cash transfers but in form of in-kind-transfers, i.e. educational services and provision of material and legal infrastructure.[20] To mention only two examples:

- In some German states (*'Bundeslaender'*), especially in Baden-Wuerttemberg, vocational academies (*'Berufsakademien', BA*) offer students with a (vocational) high school degree a dual education and training programme. Firms contract young students for three years and offer them a career perspective at the firm in order to raise the expectation horizon of risk adverse students. Students take alternatively courses for three months at the BA, and three months training courses in the firm. Firms pay training allowances between €400 and €1,600 that may be complemented by state subsidies. The state shares the costs by financing the BA. Between 80 and 90 per cent of BA-leavers are taken over by the firm or get quickly a job in the labour market.[21]
- In the United States, a new kind of high school programme known as 'career academy' has proliferated in the past quarter century. The programme concentrates on low-income districts, combines job placement, college preparation and classes beyond the vocational trades, from accounting to health care. Career academies offer students experience in the workplace and help them get paying jobs while they pursue standard academic coursework. A recent evaluation found that most participants, especially young men, had – eight years

[20] In-kind-transfers seem to be – according to recent research (Callan et al. 2008) – more efficient in equalizing income capacity than cash transfers, especially for the target group of disadvantaged.
[21] http://de.wikipedia.org/wiki/Berufsakademie, 06 July 2008. The reliance on vocational tracks, of course, has the disadvantage of narrowing the choice of available jobs – especially from a life course perspective. This disadvantage, however, can be mitigated by broadening the vocational profiles and by openings the access to higher education tracks.

> after high school – significantly higher earnings than a control group.[22]

Second, the state can use its redistributive capacity of taxation to ensure a second chance for people who have been unlucky on the education and training market. This option could be a way of financing periodically targeted programmes for lift ing the overall level of knowledge and competence of the disadvantaged.[23] An instructive example is the successful Swedish 'Knowledge Lift' ('*kunshaftsliftet'*) programme, which spent an annual sum of about €350 million on upgrading the knowledge and competence of low-skilled employees or unemployed persons from 1997 to 2002 (Albrecht et al. 2005). Corresponding proportions in Germany, for instance would amount to a yearly investment of about €3.5 billion and over 900,000 additional participants in continuous education and training.

Third, the entitlements to unemployment benefits can be 'activated' as 'social drawing rights' in the form of training vouchers or job subsidies. The concept of active labour market policy has already broadened the insurance principle to include those unemployed people who need vocational education or training in order to find a new job. Job subsidies for the unskilled can thereby be interpreted as employability measures. For that target group, learning on a matched job in a company is a functional equivalent of formal training.[24] The spiralling need for continuous vocational education and training indicates that the entitlement should be expanded to include vouchers also for low-skilled employees if they have accumulated unemployment benefit entitlements for a number of years. Denmark and Sweden have long practised this transformation of unemployment benefits into education-and-training benefits.[25]

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[22] The evaluation study was carried out by Manpower Demonstration Research Corporation (MDRC); see Kemple/Willner (2008). <u>This section may be added with other good practices from EU-member states.</u>

[23] This approach corresponds to Dworkin's (2000) theory of equality, in which he recommended periodic redistribution to correct for random inequalities in order to make access to resources equal. One way of doing so is to impose heavy taxes on non-invested inherited assets.

[24] For unskilled people, Dustmann and Meghir (2005) found substantial positive returns related only to the length of time the person has been with the company. They concluded that programmes designed to improve the employability of unskilled persons by means of general work experience are likely to be less successful, at least in Germany, than programmes attempting to match a worker with a company, say, during an initial job subsidy.

[25] For arguments in favour of drawing-right systems, see Supiot (2001). Supiot defines such drawing rights as rights built on the notion of people's civil status. However, these rights relate to the exercise of liberty, so their use simultaneously implies individual responsibility, including the acknowledgement of quantitative (financial) and qualitative (social) limits. The quantitative limit

Fourth, collective agreements can include individual training or time-saving accounts, with the state guaranteeing transferability and liquidity of such entitlements and funds. Yet another possibility is an agreement on working-time reductions in the form of investment in which employees agree to use reduced working time for education and training and thereby share the costs with the employers. The state can enter the game – as is often the case, for instance, in The Netherlands – and enlarge the risk community by mandatory extension of such collective agreements to all workers in order to prevent cutthroat price competition between companies.[26]

Risk sharing of investing in human capital from a behavioural perspective

It would be a mistake, however, to consider risk aversion only in economic terms. Prospect theory, or the psychological theory of intuitive beliefs and choices, teaches us that risk aversion is not only a matter of rational choice that can be resolved with the right economic incentives. The way that people perceive risks greatly determines their daily choices, and utility is not only a matter of income maximisation but also of cognitive and emotional relationships. The question, therefore, arises: How can risk aversion be overcome in order to induce people to accept more risks and the increased responsibility that goes with them?

As already stated in section 3, prospect theory provides interesting insights to this question. Most people tend toward myopic risk perceptions and underestimate, for instance, the risk of unemployment or large income loss due to the erosion or lack of skills over the life course. Another new behavioural insight is that losses loom larger than gains in risk perception. Most people prefer small certain gains over large uncertain gains. That is, they prefer a bird in the hand to two in the bush. Yet most people are extremely averse to loss. They do not like to give things away even if the prospect of gain is bright. Psychologists have found that the loss-gain ratio is about two to one. It thus makes a difference in perception whether one frames a risk in terms of loss alternatives or gain alternatives.

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in extended risk communities of this sort implies the acceptance of fair co-financing. The qualitative limit implies the acceptance of coordination in using the drawing rights, usually by way of negotiation and mutual agreements, that is, through soft forms of governance.

[26] A further example illustrating the extension of collective-bargaining agreements (related to continuous vocational education and training) can be found in the German construction industry.

Important conclusions for the design of risk-sharing policy can be drawn from these insights. Daniel Bernoulli (1700-1792), one of the founders of probability theory and risk management, gives a clue. As he pointed out, a beggar will not give up begging for a workfare job, for he would lose his ability to beg. He has to be offered something more.[27] This "more"—what could it be? TLM-theory suggests a specific solution to this psychological problem: the extension of the expectation horizon through a set of opportunity structures available in the most critical events during the life course.

- The first pillar in an extension of the expectation horizon would be the establishment of new social rights that go beyond employment (Supiot 2001). These social rights are new in content, scope and nature. They are new in that they cover subjects unfamiliar to industrial wage-earners: rights to education and training, to appropriate working hours, to a family life and to occupational redeployment, retraining or vocational rehabilitation. Their scope is also new since they would cover not only "regular" wage-earners but also the self-employed; the semi-self-employed; and temp-agency, contract and marginal workers. They are new in nature because they often take the form of vouchers or social drawing rights, which allow workers to rely on solidarity within defined and perhaps collectively bargained limits when exercising their new freedoms. These new securities can no longer be seen as being given in exchange for subordination (as in the old employment contract), but as the foundations of a new freedom to act. They can be considered as active social securities, which go hand-in-hand with worker's initiatives to shoulder the risks of flexible employment relationships instead of restricting them.
- The second pillar in an extension of the expectation horizon would actually consist of stepping stones and bridges for overcoming critical events during the life course. The tendency to overestimate immediate small risks and underestimating distant large risks leads people to perceive the risk of being stuck in the low-wage sector to be greater than the risk of long-term unemployment resulting, say, 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, especially in form of lifelong learning opportunities, are required for transforming sheer workfare measures into stepping stones to a sustainable job career.

[27] Quoted in Bernstein (1996, p. 119f).

- The third pillar in any extension of the expectation horizon would be psychological bridges for overcoming asymmetric risk perception. Acceptance of a risky new job often requires abandonment of familiar certainties, such as confidence in one's own productive capacities or the reliability of social assistance benefits possibly supplemented by a small amount of clandestine employment. Among people from a relatively poor background, the psychological dimension of risk aversion is compounded by the financial dimension, with the former paradoxically sometimes being even more important than the latter, as Bernoulli's beggar has already suggested. Motivation studies have shown that poor people are especially dependent on the sociability of their peer groups. But training and education often imply a change of peer group, particularly when job mobility is required. Hence, it might be advisable to arrange group measures instead of individualised measures in such cases.

  Another implication for programme design is to ensure that fall-back positions are always plainly available. It is therefore important for people from financially insecure backgrounds to have the opportunity to try out several jobs without benefits being withdrawn immediately if one option does not immediately lead to success. Trust in such sets of opportunities rules out workfare strategies that rigidly preclude trial and error as a productive job search strategy. For the same reason, the implementation of training measures for these target groups should also avoid the creation of exaggerated expectations, which can be nurtured, say, when a job candidate is required to pass formal examinations.

  With respect to tertiary education, the Bologna reform of 1999 (introducing the Bachelor/Master differentiation in the European space) will – among others – reduce the risk of choosing the wrong course of study and encourage students to take more demanding courses of study. The flexibility and variety of the new system allow students to wait in the presence of uncertainty with regard to their capacities, interests and job market circumstances (Jacobs/van der Ploeg 2006, 555/6).

- The fourth pillar in an extension of the expectation horizon would be the establishment and reinforcement of learning communities. Coping with the risks of education and training have demonstrated the importance of uncertainty, including that of family timing, of the needs to care for children, of the skills required by the future training market and of one's position in the wage distribution after investment. These kinds of uncertainty defy precise advance calculation of financial contributions and benefits, for the risks occur only in the process of doing. It is therefore necessary to design forms of social contracts that make constant revisions possible in order to recalibrate the balance of costs and benefits. Social insurance against new risks thus requires soft forms of governance that allow learning in the process of implementation.

In reality, we already know many forms of such learning communities based on soft law governance. Collective bargaining agreements are relatively traditional examples. But looking more closely, we discover that they tend to develop into framework agreements that open ways to negotiate flexibilities into their implementation. The social dialogue and the open method of co-ordination at the European level are modern forms of such learning communities. Covenants, as suggested by Korver and Oeij (2005), seem to be particular promising form of learning communities and shall therefore briefly be explained.

As previously noted, great uncertainties surround the decision about investing in education and especially in lifelong learning. At the micro- and macro-levels alike there is the uncertainty about the skills required by the future training market, and the players of the game – employers, employees and the state as the representative of externalities – do not know beforehand where gains are going to accrue and where losses must be incurred. The veil of ignorance –the insurance situation – is a given.

Covenants are written agreements between two or more parties or partners and signed by each of them with the understanding that they are committed to cooperation for an overarching common goal. In many cases the state is involved as an initiating and co-signing partner. Unlike private or public contracts, covenants are voluntary and require no legal framework. Partners thus retain an exit option if the risk-taking appears excessive. On the other hand, the agreements also contain voice options regulating procedures to solve problems step by step as they arise. Because the balance between costs and benefits for the partners involved might change at each step, there must be trust that corrective measures are taken in pursuit of the common goal. Such induced decision-making through learning-by-doing, muddling through step by step and learning-by-monitoring are the essence of covenants to establish such trust relationships.

Covenants as public–private partnerships have become rather popular as a policy instrument, particularly in The Netherlands. This development stems from two motivations: (a) to overcome state failures in regulating complex issues and (b) to close the gaps left by inadequate laws that are either improperly followed or even circumvented. Several hundred such covenants reportedly exist in The Netherlands. These agreements pertain to environmental issues, energy-saving, educational matters, health care, traffic and transport, housing, and especially working conditions. Best practice in continuous vocational education and training is not common knowledge yet, but it probably already exists and may be the secret of successful local or regional labour markets. Public-private partnerships, sometimes involving also trade unions, are also found in other countries ranking high in lifelong learning, for instance Denmark, Sweden and the UK. Where they do not yet exist, they are likely to evolve, for the urgency of this overarching common goal at all levels of governance is pressing, not least in relation to the Lisbon goal of the European Employment Strategy.

(2) Managing the risk of income volatility or working poverty over the life course

Income volatility over the life course is often caused by externally induced job changes or externally enforced short-time work. Income volatility, however, can also more and more be caused by endogenous changes such as changing job preferences, family relocation or even the wish to take a sabbatical. Working poverty results if wages are so low that wage income falls below a decent minimum income despite full-time work. A basic income guarantee, especially in old age, is a powerful preventative strategy to ensure income security for people with discontinuous life courses and related income volatility. The Netherlands and the Nordic countries deliver good practices in this respect. Minimum wages also prevent to some extent working poverty through three channels: first, by protecting a ground level of decent wages, second by avoiding cut-throat competition and third by stimulating continuous investment in competitive work-places.

Long-term saving or lifelong learning accounts are proper strategies to mitigate and cope with volatile income risks. Since the resulting flexibility or mobility through such saving schemes creates positive external effects, the state could step in as co-financing institution by providing tax incentives.

The Dutch life course saving plan (den Dulk and von Doorne-Huiskes 2008) and the Belgian career break system (Román 2006) are good practices that could be adopted by other EU member states. However, care has to be taken with respect to some flaws in the present design of these schemes. Young adults, especially, are usually in a life course phase in which they are not able to build up enough savings. Education and care credits might be arranged to cope with the risk of low earning and saving capabilities.

(3) Managing the risk of restricted income capacity

If people's income capacity is restricted for instance due to family obligations, this risk has to be compensated by income supplements or in-kind-benefits. The best and most powerful preventative measures are public provision or at least public financing of day care facilities. In-work-benefits, including tax credits, are a proper instrument of risk mitigation, especially for low income earners. As a coping strategy, full-time or part-time leaves from work due to social obligations should be compensated like wage replacements in case of involuntary unemployment.

Concerning good practice, some EU member states already dispose of such schemes, for example Sweden and Denmark. The Grand Coalition in Germany recently introduced wage related parental benefits compensating about 58 per cent of wages up to 14 months, two of which have to be taken up by men. Due to the high individual costs of child care, but also due to high benefits of child care for the whole society, and last but not least for reasons of gender mainstreaming, the wage replacement could even be more generous for low and medium income earners. Since children and frail grandparents often need care that cannot be planned in advance, wage replacement for some days per year should be available. Sweden, for instance, acknowledges this need through a contingent of up to 60 days per year at a wage replacement of 80 per cent.

(4) Managing the risk of total wage income loss

The proper response to the risk of total wage income loss (caused by unemployment for instance through cyclical demand variations or through redundancy dismissals) is to provide for generous income security. It is of utmost importance to consider income protection in this case not as a passive measure but as an active security.

First of all, however, preventative measures through job creation and continuous vocational education and training have first priority. Without a thriving job dynamics and without employability fitting the requirements of the knowledge economy (Rodrigues 2002), income protection would indeed turn into a passive measure. The best income security measure for involuntary unemployed is the creation of new competitive jobs through a sound macroeconomic policy.

If the risk, however, has occurred, the proper mitigating strategy is to compensate the income loss through generous unemployment benefits. A generous wage replacement allows the unemployed to search for a new job corresponding to their capabilities without fear to get trapped into a poverty career. Generous wage replacement helps maintaining worker’s qualification and competence. It also improves the efficiency of job matching. High matching efficiency through unemployment insurance is for instance reflected in longer job tenures after the rematch of insured unemployed compared to uninsured unemployed. In her recent Employment Outlook, even the OECD found out by econometric work that reducing generosity of unemployment benefits may induce some unemployed to leave unemployment more quickly, but it also reduces significantly productivity.

Appropriate coping measures are intensive job search and case oriented job placement services. Again, such services are an investment and not a wasteful consumption. Many EU-member states still underinvest in such services during the first months of unemployment. However, long-term or even unlimited wage related unemployment benefits do not make sense for this risk category. Apart from inducing moral hazard, they would not help the long-term unemployed, on the contrary.

Good practice in combining mitigation and coping measures in the management of redundancies are the Austrian work foundations (‘Arbeitsstiftungen’) and the new Finnish measure “Change Security” (‘Muutosturva’). The Austrian practice is to set up a work foundation which functions as a kind of transition agency. These transition agencies ensure an integrated approach in terms of organizing and financing. The funding comes from four sources: First, the foundation’s capital is given by the firm, thus granting its independency as long as it is needed. Second, the redundant workers themselves make a contribution by depositing 50 per cent of their redundancy payments into the foundation. Third, workers remaining on their posts pay a small proportion of their monthly wages as a solidarity contribution to the foundation. Fourth, the public employment service guarantees the payment of unemployment benefits up to four years, which covers the majority of the costs. The foundation ensures an early start of reintegration and organizes a wide range of individualised services helpful for seeking new jobs in the regional labour market. These characteristics lead to a very important consequence: firms causing redundancies take over responsibility in a limited sense and workers engaging into retraining and placement activities are volunteers and get a strong start instead of suffering from the stigma of being redundant. Evaluations report reintegration success of up to 95 per cent.

The Finnish “Change Security” programme has been put in place in 2005 to address especially large-scale redundancies. It aims at an early start of active measures in situations of mass dismissals and company closure through cooperation between different regional stakeholders. It includes a right of the employees to individual programmes or re-employment or re-education, free time for job-search and counselling while still on the job and higher levels of benefits in the transition period. It includes an obligation to employers to inform the employees and officials in time, and to make plans of re-employment together with the employees and the local public employment office. First-hand experiences with this new programme report positive results and emphasise especially the new levels of cooperation in labour market affairs between the key stakeholders.

(5) Managing the risk of reduced or zero income capacity

It would be misplaced to protect the risk of reduced or zero income capacity due to disability or old age through long-term unemployment benefits. The use of unemployment insurance for early retirement was one of the greatest mistakes of several EU-member states during the 1990s. This risk needs to be managed by other measures.

Active labour market policy – if it deserves its name – should concentrate on prevention since the causes of diminishing income capacities are well known. Income capacity, therefore, should and could be re-established through regular individual work assessments and corresponding training measures. Much can also be done through workplace adjustment. In other words: Not only workers have to be made fit for the market, but also the market has to be made fit for the workers – a slogan aptly coined by Bernard Gazier (2007).

The risk of reduced income capacity can also be mitigated through the partial compensation of the related income loss. Such wage insurance would be an essential and innovative element of transforming conventional unemployment insurance into employment insurance. Especially mature-adult workers need such insurance since they are facing large income losses in case of unemployment and subsequent re-employment. This need is also nourished by the fact that internal labour markets providing implicit wage insurance are eroding. Furthermore the escape to early retirement as an income insurance device is not any longer an option. Wage insurance would increase the acceptance to take over lower paid jobs, especially when it is combined with training vouchers to make the new jobs sustainable and to improve the chances to climb up again in the career ladder.

Last but not least, individualised rehabilitation is still a much underutilised measure to cope with the risk of diminishing income capacity. Another possibility is the creation of transitional jobs as it is the case in most Scandinavian countries, especially in form of the Danish 'flexjobs', or jobs created by various forms of social enterprises, as it is the case for instance in Sweden and the Netherlands.[28] Good practice is especially to be found in the comprehensive approach of active ageing in Finland which succeeded to increase the employment rate of elderly by 18 percentage points within 8 years (Hartlapp/Schmid 2008).

5. 'Flexicurity' as Lifelong Guidance through Critical Transitions over the Life course in the European Space

To sum up, modern labour markets, first of all, are characterised by an increasing variety of employment relationships. This variety reflects new modes of production due to new technologies, new forms of work organisation due to increasing competition and international labour division, and new work-life risks related to social and demographic changes. Taken all these features together, modern labour markets seem to need both more flexibility and new securities. The European employment strategy adopted the slogan of 'flexicurity' as answer to these new challenges.[29]

[28] The target group of the Danish 'flexjobs' consists of persons with a permanently reduced work-ability who are not entitled to pre-pensions. The employer receives a wage subsidy amounting to one third, one half or two thirds of the minimum wage depending on the extent to which the work-ability of the person is reduced. The person in a 'flexjob' receives wage according to collective agreement. The number of persons in such jobs rocketed recently to a level of 40,000, which would correspond in Germany to a level of 600,000, 1.5 per cent of the active labour force. As of January 2006, the Swedish 'plusjob' is an enhanced form of employment subsidy made available for 20,000 long-term unemployed men and women, targeted at quality-improving work in the public sector in order to minimize displacement effects. The employer receives a subsidy of 100 per cent of the wage cost up to a specific ceiling.

[29] On the concept of ‚flexicurity' see Kok et al. (2004), European Commission (2006 and 2007), Wilthagen and Tros (2004), and the contributions in Jørgensen and Madsen (2007).

Second, as the theory of TLMs makes clear, ‘flexicurity’ is not and cannot be a unitary concept. The eight common principles of ‘flexicurity’ for EU member states, now formulated by the European Council, are helpful in preventing an arbitrary usage or even political instrumentalization of the term. They rightly emphasise that EU member states have to find their own deliberate combination of flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies, and sustainable social protection systems.

Third, there is a lack of criteria for assessing equitable *and* efficient combinations of ‘flexicurity’ arrangements. The call for a balance of flexibility and security is empty without such criteria. The theory of TLMs aims at providing an analytical framework based on empirical work on the dynamics of labour markets as well as on explicit normative principles and behavioural assumptions to develop such criteria. Taken these approaches together, TLMs suggest the change from a life cycle to a life course orientation. Under such a perspective, one has to ask: Why should income security only be related to income risks of jobless people? Why should security not be provided for income risks related to critical transitions over the life course? Why should insurance not cover the income risks related to transitions between family work and gainful employment, between dependent work and self-employment, from high-paid to low-paid jobs, between full-time and part-time work, from work to gradual retirement?

Under such a perspective, managing the balance of flexibility and security over the life course requires a wider set of opportunities than just “making work pay”. It requires institutional arrangements that also are “making transitions pay”. Such arrangements contain at least three new institutional ingredients: First, new social rights that go beyond employment, for instance the right to training leaves, care leaves, intermediate working time reduction or even long-term sabbaticals; second, new forms of governance, especially arrangements that break with the traditional division between labour market, social and educational policy. This requires intelligent network models of cooperation and cofinancing beyond labour market agents; third, an extension of the social insurance principle to income risks beyond unemployment, which means to income risks also related to critical transitions over the life course.

Fourth, a way to extend the social insurance principle to a broader set of life course risks than unemployment would be to establish a system of work-life insurance. Such a system would build on three pillars: First, a universal minimum income guarantee that ensures a life without persistent poverty; second, the extension of unemployment insurance to an employment insurance; third, private or collectively negotiated insurance accounts targeted especially to life course risks such as lifelong learning accounts, time-saving accounts or care-leave systems. Governments could join such ventures at various levels through tax subsidies, standard setting and co-financing partners.

Fifth, the system of employment insurance would serve three functions: generous income protection for a restricted period of time in involuntary unemployment; employment security through active labour market policy that is not only confined to offering jobs and placing individuals in work but that supports also follow-up measures to transform mere workfare measures into stepping stones to sustainable work; and finally better inclusion of non-standard workers in labour law and social security systems. One innovative element of employment insurance is the concept of wage insurance. Such insurance would cover to some extend the loss of wage income when changes of employment become necessary due to structural change, for instance trade adjustment, or due to the loss of individual productivity, for instance through attrition of work and income capacities. Acceptance of intermediate downward mobility should be rewarded by active labour market policy aimed to re-establish upward mobility.

Sixth, it must be kept in mind, that stakeholders often have conflicting interests that cannot be defined away. The problem of divergent interests can only be solved through negotiation as a device of information gathering, communication and building compromises. The revitalisation of the social dialogue, in other words, ‘negotiated flexicurity’ at all levels – firm, branch, nation and Europe – is therefore of utmost importance for giving the European employment strategy more flesh to the bones. ‘Negotiated flexicurity’, however, may lead to new insider-outsider cleavages since organized interests may set compromises on the costs of less well organized interests. Care, therefore, has to be taken to avoid externalisation of social costs by setting minimum standards and fair rules of negotiation. The government at various levels may also jump in as co-financing partner to overcome the prisoner’s dilemma in which rational actors choose a suboptimal equilibrium.

Seventh, as the successful European member states demonstrate, ‘flexicurity’ has to be embedded in sound macro-economic and macro social policy. Without a sustainable job creation dynamics, all employability and stepping-stone strategies are in danger to end in a cul-de-sac or to displace other categories of workers. Because Europeanization, in particular the Eurozone increases interdependencies, coordinated efforts to stimulate sustainable economic growth are required, especially through investments into a better European economic and social infrastructure. The extension of the European Social Fund to a European Employment Insurance Fund, or at least a complementation of the European Social Fund by a focused European Knowledge Lift Fund would make the European Social Model more visible and tangible.

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