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# Introduction: labour markets and social policy after the crisis

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### Summary

This introductory article to the special issue proposes that proponents of the European marketization project need to give serious consideration to the negative externalities that are created by virtually all moves to extend the scope of markets. The theme is applied particularly to the case of the labour market and its special characteristics. Attention is given to tensions between the idea of 'flexicurity' and policies designed to deal with the Eurocrisis. The former recognized that, if workers were to accept the potential job losses implied by labour market flexibility, they needed certain reassurances of security, such as generous unemployment pay and further training. The policies imposed on the debtor countries involved in the crisis have removed most such possibilities of security. The theme of coping with the negative consequences of intensifying markets is also used to introduce and integrate the remaining contributions to the special issue.

### Résumé

L'article liminaire de ce numéro spécial suggère que les partisans d'un projet européen axé sur toujours plus de marché devraient prendre sérieusement en considération les externalités négatives créées par quasiment toutes les initiatives visant à élargir le champ d'action du marché. Ce thème s'applique en particulier au cas du marché du travail avec ses caractéristiques particulières. L'article se focalise sur les tensions entre l'idée de « flexicurité » et les politiques destinées à affronter la crise européenne. La flexicurité suppose que, pour que les travailleurs acceptent les pertes d'emploi potentiellement impliquées par la flexibilité du marché du travail, ils doivent pouvoir bénéficier de certaines assurances en termes de sécurité, comme des allocations de chômage généreuses et une formation complémentaire. Les politiques imposées aux pays débiteurs victimes de la crise ont supprimé une grande partie de ces dispositifs de sécurité. La question des conséquences négatives de l'intensification du jeu du marché est également abordée pour introduire et intégrer les autres contributions de ce numéro spécial.

### Zusammenfassung

Der Beitrag führt in das Thema dieser Ausgabe von *Transfer* ein und argumentiert, dass die Befürworter des europäischen Vermarktlichungsprozesses sich ernsthaft mit den negativen

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externen Folgekosten auseinandersetzen sollten, die mit nahezu allen Schritten zur Ausweitung der Bedeutung der Märkte einhergehen. Dabei wird der Schwerpunkt auf den Arbeitsmarkt und seine besonderen Merkmale gelegt. Der Beitrag beschreibt ferner die Spannungen zwischen dem Konzept der „Flexicurity“ und den Maßnahmen zur Bewältigung der Euro-Krise. Im Rahmen des Flexicurity-Ansatzes wurde anerkannt, dass Arbeitnehmern im Gegenzug zur Flexibilität des Arbeitsmarktes und den damit einhergehenden potenziellen Arbeitsplatzverlusten bestimmte Sicherheiten gewährt werden müssen wie etwa großzügige Arbeitslosenunterstützung und Weiterbildungsangebote. Durch die Maßnahmen, die den Schuldnerländern im Rahmen der Krise auferlegt wurden, stehen die meisten dieser Sicherheitsangebote nicht mehr zur Verfügung. Die Bewältigung der negativen Folgen, die mit der Intensivierung der Märkte einhergehen, ist ein Thema, das auch in die folgenden Beiträge dieser Ausgabe von *Transfer* einführt und sie miteinander verbindet.

### Keywords

Marketization, flexicurity, labour market, negative externalities, Eurocrisis

## Introduction

The articles in this collection report the main findings of a research project funded by the European Commission's Seventh Framework Programme (FP7), on The Governance of Uncertainty and Sustainability: Tensions and Opportunities (GUSTO).<sup>1</sup> The project explored the challenges presented by the inevitable confrontation between the process of marketization, which is fundamental to the current stage of Europeanization, and the demand of working families for the reduction of uncertainty in their lives. This introductory article sets out the main lines of thinking that informed this work, and the place of the various contributions within it.

Marketization means simply the introduction or extension of markets in any area of life. It includes processes like deregulation and flexibilization, but is more extensive than any individual one of these. Marketization will normally be expected to have two consequences: gains in efficiency that flow from the rational cost-effectiveness of the market; and losses in the damage done by the negative externalities that marketization almost necessarily produces. Part of the process whereby the market makes things more efficient is by disregarding all consequences of marketization that do not enter into the actual cost calculations of the market itself. In other words, many externalities are not an unfortunate by-product of the introduction or strengthening of markets, but a logical consequence of marketization itself. While the market and those who benefit most from its operations can ignore these externalities, the groups hit by them and those (e.g. politicians) who represent social interests and concerns that extend beyond the market cannot afford to do so. They have to make a calculation. Are the gains being achieved by marketization so great in relation to the damage done by the negative externalities that the latter can be ignored? Or is the damage so great that marketization should be stopped? Or, most frequently, what can be done to offset the damage, so that marketization can proceed with greatly reduced externalities?

This abstract argument can be applied to many fields, the most obvious and most important being those that relate to pollution, environmental damage and man-made climate change.

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1 Grant No. 225301. The views expressed in this and the other contributions to this collection of article do not necessarily represent the position of the European Commission.

However, it also applies to the labour market and other areas of social policy. Here the general problems of markets are reinforced by the fact that human labour is not just a commodity, but a capacity belonging to sentient beings who can react to their situation. For example, market forces can be strengthened by maximizing employers' ability to dispose of their workforce as they see fit, with no interference from legal regulation or trade union consultation. But that brings insecurity and uncertainty to employees' lives, who know that at any time they could lose their jobs with no ability to appeal or receive compensation. The anxiety that then troubles them is a negative externality consequent on the intensified marketization of the labour contract. Further, their anxiety about the future may lead them to reduce their consumption. This is also an externality to the labour market, as employees' consumption habits are of no concern to their employers' price calculations. It is not however an externality to the wider economy, as reduced consumption, if practised by enough people, could reduce aggregate demand in the economy. Different processes lead to similar outcomes in another field of social policy: retirement pensions. An intensification of market forces here requires the privatization of all pension schemes, which become private insurance contracts based on individuals' actuarial risks. The result would be considerably improved efficiency in the pension economy, with no funding crises. But the long-term nature of pension calculations would lead many people to fail to acquire pensions until too late in their lives to ensure an adequate income, particularly those on modest wages who find it difficult to save. This would create the externality of extreme poverty in old age for large numbers of people, and either their neglect or the imposition of a care burden on their families (if they have them).

In both these examples, and many others, the case for extreme, uncompensated marketization is difficult to sustain. But neither set of externalities makes an automatic case for the reversal of marketization projects. Labour markets that are unable to function as markets because it is very difficult to fire employees or make them redundant become weighed down with labour costs, and employers are unable to rid themselves of incompetent workers. In addition to the damage they do to the market, such situations produce their own externalities. Heavy labour costs lead to increased prices and loss of business; maintaining existing incompetent workers in employment denies better skilled potential workers a chance to have a job, producing barriers between 'insiders and outsiders'. Similarly, inadequately financed pension schemes are likely to create financial crises for the governments or employers who have maintained them, producing further externalities of economic damage.

In both these and similar fields public and private policy-makers have to make careful judgements if they are to balance the gains from marketization against the need to limit the impact of negative externalities, if possible by creative policy-making that favours both processes, rather than simple zero-sum, trade-off compromises. However, this will never be merely a technical task but a deeply political one. Different groups and classes have different interests in how these balances might be achieved; partisan governments necessarily represent some interests rather than others; and different groups usually have very unequal lobbying power. In general, the owners of capital favour intensification of markets. As employers they gain from the flexibility achieved by increased exposure of employees to market forces, while as consumers their high levels of income and wealth give them superior levels of purchasing power in the market for goods ranging from consumer products to pensions policies. As the behaviour of banks during the recent financial crisis showed, this preference for markets can change dramatically when the market starts to damage capital owners' own interests; they then demand protection of their interests by the state. They may also at times and in certain sectors see advantages in the protection of workers qua consumers from extremes of insecurity. There are also divisions and complexities of interests among employees. To concentrate on the two examples already used here, there can be important

differences between protected insiders and unprotected outsiders. Differences of interest may also exist among different generations on the issue of pensions, though this is offset more than commentators often realize by the interdependence of generations within families.

In a technocratic functionalist world, moves towards increased marketization would be accompanied by measures to erect defences against the consequences of its most important negative externalities. But any tendencies of this kind are offset by the reality of politics, in which dominant interests pursue their preferences at the expense of subordinate ones. This produces an uneven trajectory, whereby whole periods are characterized by uncompensated moves towards marketization and others by compensation for it. As Karl Polanyi (1944) so memorably described, the initial process of industrialization in England was accompanied by an extreme uprooting of the albeit inadequate securities of traditional rural society. It was only much later that social policy was developed to provide the modern securities associated with the welfare state and organized industrial relations. This happened as a result of organization by working people themselves, including major threats to social order, as well as movements of socially concerned persons from other walks of life. Reform movements had their first major successes in the late 19th century, starting with Bismarckian social policy, initially as defensive measures against possible disorder and revolutionary threat. It was however not until the mid-20th century that comprehensive sets of policies were in place in most European countries, often accompanied by Keynesian demand management. Now social policy was associated with something more than the avoidance of disorder and the alleviation of extreme distress. There was a concept of citizenship rights, which would entitle citizens to enjoy certain services and financial support that could not be provided by the market. There was also, particularly in Keynesian demand management, the idea that stabilizing workers' lives would also stabilize consumer demand. In several spheres of life the role of markets was ring-fenced by measures to cope with externalities.

Challenges from forces seeking more marketization at the expense of removing some of this ring-fencing never ceased, but began to enjoy substantial success, in the Anglophone world from the late 1970s onwards, and from the early 1990s in Continental Europe. In the latter case the marketization challenge was combined with the transformations taking place in central and eastern Europe (CEE) following the collapse of state socialism. The challenge has been directed at many areas of market regulation, from physical planning controls to shop opening hours, but we shall concentrate here on those that affect insecurity in working life.

Just as moves for intensified marketization did not subside completely during the high period of welfare state development, so pressures to remedy marketization's externalities have not ceased during the marketization period. For example, the OECD, whose *Jobs Study* (1994) signalled the start of the most important measures for deregulating the labour market, 12 years later issued a revised version of the study (OECD, 2006), which saw advantages in certain kinds of regulation that might favour economic strength more effectively than the straightforward deregulation that constituted its main approach to marketization. The report did not use the concept of uncertainty as a negative externality, but it could have done so, as this provides an integrating theoretical framework for what can otherwise seem like a series of disconnected points.

Another important check on simple marketization was embodied in the European Union's (EU) adoption of the Danish and Dutch ideas of flexicurity. This discriminated among those elements of labour market security that were considered to hinder flexibility (broadly, those that stressed job security) and those that were compatible with it and might even enhance it (mainly employment security). Unfortunately, through the open method of coordination the content of flexicurity became watered down until it had lost its emphasis on the positive contribution to economic success that might be made by certain kinds of security (European Commission, 2007). Research for

GUSTO has shown that trust can be fundamental to the willingness of working people to give up protection in their existing jobs (Muffels, 2013a, 2013b). While active labour market policy and lifelong education are important to this, a vital role is also played by high levels of income retention during any episode of unemployment. This was an important feature of the original Danish flexicurity model that tended to become forgotten as the idea was popularized – to the extent that Danish governments have subsequently reduced the generosity of unemployment pay. Also fundamental to the maintenance of trust in the Danish and other Scandinavian cases is the strong role played by trade unions in personnel policy within firms, protecting employees against arbitrary or prejudicial action by managers. This is a real issue when protection of job rights is low, but it is an aspect hardly ever mentioned in official literature.

However, the flexicurity debate has been important in enabling policy-makers to discriminate between protections against labour insecurity that might be seen as purely restrictive, impeding marketization, and those that might actually assist marketization in its presumed objective of increasing flexibility in the labour market and economy. Similar arguments apply to the academic and policy-related literature around the ideas of the ‘social investment welfare state’ (SIWS) (Hemerijck, 2013; Morel et al., 2012). Here again, certain areas of social policy, such as child care and active labour market policy (ALMP), are seen as contributing to rather than impeding market efficiency. This concept overlaps with, but goes further than, flexicurity in looking beyond labour policy in the strict sense, though it has an important blind spot. In distinguishing between ‘active’ policies, that it sees as economically efficient, and ‘passive’ ones that it sees as purely restrictive, it again neglects the role played by the ‘passive’ policy of generous unemployment support in sustaining workers’ trust that they will not be harmed by intensified marketization.

The discrimination between social policy that is solely restrictive and that which can have positive economic implications, embedded in both flexicurity and SIWS, was not possible within the framework of the original marketization strategy. For example, the original 1994 OECD Jobs Study produced simple measures of the restrictiveness of labour regulation, seeing no other possibilities. In particular, Denmark was praised simply for having a low level of job protection. Nothing was noted about the compensatory role of its high levels of unemployment compensation, extensive ALMP or powerful trade unions.

There has therefore been contestation over the impact of marketization on the protections against uncertainty of the post-war welfare state. Important carriers of the marketization project are global corporations and international finance. They lack the sensitivity to labour market externalities that might be experienced by purely national or local enterprises. Firms are organizations existing within a political and social context. This means that they are not as immune from sensitivity to negative externalities as they might seem to be if we model them as nothing more than the sum of their markets. Firms with poor records of labour relations might find it difficult to attract the best workers, and a bad reputation in this field might spill over into other areas, possibly affecting consumers’ view of them. Firms that are both large within a particular local or national market and dependent on that market for much of their business will also be aware that their labour market overlaps heavily with their consumer market, such that an increase in insecurity among their workers might have a negative effect on consumer demand. These considerations become weaker as a corporation’s context becomes transnational, and it becomes less dependent on a particular locality or national environment, such that it does not experience the links between the externalities produced in different markets. For instance, firms producing their goods in Far Eastern developing economies for export to the advanced economies do not need to consider potential negative implications for consumer demand of low wages and high levels of insecurity among their Far Eastern workers. Similarly, they do not immediately need to take account of potential spillover from a

negative reputation as employers to negative brand reputation among consumers. The recent strong growth of campaigns by international trade unions and various civil society groups to try to make these links clear for global firms does not refute this point but demonstrates it. If the context within which global firms operate led their negative externalities to impact on them as organizations, there would be little need for campaigns to try to make the links (Crouch, 2006). Financial corporations are in a particularly privileged position here, as they do not engage in the economy of producing goods and services, but invest in firms that do so. They are therefore a further step removed from any interface between labour markets, corporate reputation and consumer markets. The fact that, for the past 20 years or so, their most profitable business has been in trading with each other in purely financial markets reinforces that protection further.

The national compromises of the 20th century between markets and protection against them in the interests of worker security depended in part on locally and nationally embedded firms sharing some of these interests in avoiding certain labour market externalities. Growing domination of the world economy by global firms reduces the scope for compromises of this kind. Further, as multi-nationals derive market advantages from their freedom from constraints around externalities, local and national firms experience intensified competitive pressure and join moves for marketization, even if this might eventually cause damage of the kind discussed. For this reason, although there have certainly been challenges to the marketization drive, they have not enjoyed many successes.

Few things demonstrate this more clearly than the outcome of the financial crisis of banks in the Anglophone world in 2007–2008 and consequent public finance crisis in the euro area. The immediate cause of the crisis was mismanagement by global financial institutions of the secondary and derivatives markets that they had been developing since the deregulation of British and US financial markets from the 1990s onwards. This had been another aspect of the general marketization drive, and it might have been expected that the collapse of this model would produce a more general crisis of the marketization project. This has been the case in a very limited sense, in that there have been demands for some re-reregulation of financial markets themselves. But the implications for labour markets and social policy have been far more complex. In some countries (the USA, the UK, Ireland, even Denmark) it seems that workers might have been protected from the negative implications for their consumption of static wages and labour market deregulation by borrowing – mainly mortgages on their homes in order to finance consumption, partly also credit-card debt (Crouch, 2009). The financial sector could accept this debt because of the risk-sharing that it had developed in secondary and derivatives markets. This seemed to constitute a market solution to some of the externalities generated by labour insecurity. It was however erected on a very insecure base, as the crisis demonstrated. But this solution to the problem of how to sustain consumption while deregulating the labour market had become so useful that governments in several countries are concerned to re-establish it. Also, governments were concerned at the wider economic implications of a banking collapse. They were therefore desperate to rescue the banking sector and set it back on its earlier path. This required a highly expensive public rescue exercise for the banks. This has given conservative and neoliberal politicians an opportunity to declare a need to make major cuts in the welfare state to fund the bank rescue. They have also used the excuse of the crisis to engage in intensified marketization drives in labour policy in order to try to squeeze more efficiency gains from an economy that had started to under-perform badly. Heavily indebted countries not only had to fund a bank rescue but also found newly risk-averse banks charging higher interest rates to fund the debts. This involved further public spending cuts. Far from leading to questioning of the marketization agenda, therefore, the banking crisis reinforced it.

This can be seen particularly clearly in the case of Greece, which had to apply to the EU, the European Central Bank (ECB) and the IMF (the so-called ‘troika’) for massive support. The terms

on which help was offered were set down clearly in a formal document, giving a rare opportunity to see the emphasis of policy in major international institutions at a moment of real pressure (Government of Greece, 2012). The country was to dismantle most labour market regulation and protection, and reduce the role of collective bargaining (and therefore of trade unions) in setting minimum wages. The main aims of the labour market sections of the conditions were to expose workers to the full force of global labour market competition, requiring that country to compete on low prices alone; forget about up-skilling and improving the quality of the labour force. The only interest shown by the troika in infrastructural issues such as transport and energy were to ensure privatization and therefore profit-making opportunities for other European corporations, as though that was all that would be needed to ensure an upgrading of facilities. The document showed no substantive interest in upgrading either human or physical infrastructure as such. The same approach was also applied, though less roughly, to other countries in difficulties: Ireland, Italy, Portugal and Spain. Outside the euro area, the British applied it to themselves. Come the crisis, the EU, ECB and IMF and many national policy-makers have treated all sophisticated discussion of how to achieve competitiveness through balancing market flexibility with new forms of security as so much baggage, and have turned back to crude, unreconstructed marketization, with neglect of any associated externalities.

The position of the EU in this context is particularly problematic. From its origins as the European Common Market onwards the main focus of European policy has been the construction of markets and breaking down barriers to trade. The Competition Directorate-General is the most powerful component of the Commission, able to initiate action without the approval of the Council. The Court of Justice of the EU also deals mainly with competition cases, and is of course also independent of political influence. Achievement of the European Single Market was a major achievement of the Union's history, and more recently some of its most significant actions have been to open up public services to privatization and contracting out. The European project is primarily a marketization project (Scharpf, 1996, 1999). It has always been limited in any attempt to balance that with measures to offset the negative externalities of marketization by its minimal competence in social policy. This originated in national governments' desire to use the construction of welfare states as a citizenship-bonding process, which would have been diluted by any attempt at building a European citizenship based on Europe-level social policy. There has been an asymmetrical division of labour, with both the EU and nation states pursuing marketization but only the latter being able to do much about protection against externalities – if they so chose.

There have been exceptions to this. The initial common agricultural policy and steel and coal community that were fundamental to the origins of the Union were in part forms of protection of workers in certain sectors from the disruptive impact of markets. There was a more general wave of social and labour policy-making alongside the single market programme. This was in line with the underlying assumption of this article that marketization requires compensation. This was the period of the Social Chapter of the Treaty of Maastricht and of intensified structural funds policy. It ran alongside more general attempts of the Delors Commission to build a kind of European citizenship identity. However, the movement stalled. Concern for social policy did not die out altogether, as the Commission's enthusiasm for flexicurity showed, but the number of new initiatives coming out of Brussels was reduced to a trickle, while marketization was achieving a new intensity. The Court began to play a major role in subjecting national industrial relations systems and associated workers' rights to international competition. The ideological redefinition of services previously defined as 'public' as only 'services of general interest', and their inclusion in new drives for the extension of the single market in services, began further to remove much national social policy from protection – not in favour of the construction of a European level of social

policy, but in order to prevent national social policy from interfering with marketization (Barbier et al., 2014). The previous European asymmetry between marketization and measures to safeguard against its externalities has therefore become more extreme, as EU policy increasingly becomes a barrier preventing such measures from being taken at any level. The terms of the Greek memorandum constitute a kind of apotheosis of this direction of travel.

By the end of 2012 therefore – and because of rather than despite – the banking crisis, Europe and much of the rest of the world was again embarked on a strategy of uncompensated marketization, with the market-balancing institutions of the second half of the 20th century again being the main target of the strategy. Nevertheless, it remains the case that, while uncertainty is necessary to dynamic market economies, the process of intensifying working people's exposure to this uncertainty creates shocks that can damage their economic confidence and their wider lives. They may respond by unwillingness to consume, by engaging in irresponsible debt behaviour, or by disruptive social protest. This damage and its consequences constitute externalities to which governments in democracies will be pressed to respond. If they do not do so they risk challenges to their legitimacy. For the European Union itself, whose internal democracy is young and undeveloped, there are particular risks of widespread disillusion if it is seen, not only as a source of insecurity, but also as a block to any policy attempts to protect people from the damage of insecurity. This is what is already happening in southern Europe, where the EU has become a means for removing labour and social policy from the reach of national democracies while doing nothing to reinforce them itself. This development in itself makes it more difficult to achieve Europe-wide solidarity at a time when it is particularly needed. For the advocates of pure marketization this is highly convenient: given global competition, nation states are too weak to erect their own new, constructive forms of externality compensation in many policy areas, while the European level, which might perform some such functions, is immobilized. But for those concerned about either negative externalities or the democratic capacity of social policy the situation is worrying, even dangerous.

## Plan of the issue

A number of themes were chosen for special attention within the GUSTO research programme, as reflected in the following articles. First, given the Europe-wide brief of the project, there was a clear need to focus on policies at the European level. Secondly, given the importance of collective bargaining for labour market issues, we studied its activities in governance of the security/flexibility puzzle. From among the range of substantive policy areas, we selected three for special attention: two because of their controversial and difficult nature – immigration and pensions – and one – the role of local government and other local territorial institutions – because (like collective bargaining) it enabled us to look at governance and policy-making at levels other than the nation state or the EU. All these aspects of our work concerned policy-making and strategic activity, whether by governments or others. Finally therefore we turned our attention to what was happening 'on the ground', at the level of individuals' experiences, taking advantage of the wealth of relatively comparable data available from national labour market surveys.

### *The European policy-making level*

It was argued above that the current organizational form and mission definition of the EU is making it a source of major asymmetry in any balance between marketization and protection against its negative consequences. This issue is discussed in detail in the following article. This reaches the

conclusion that the EU legal system is 'Janus-faced', particularly in the social domain. On the one hand it has introduced new individual rights (including for firms, regarded in law as individuals) and new legal accesses to rights. Fundamental human rights have been extremely important here, and are too often overlooked when analyses focus only on social protection and solidarity programmes. On the other hand, however, specific social protection rights seem not to be fully considered in EU law, which increasingly jeopardizes collective rights (such as corporatist arrangements), and has sometimes destabilized existing systems of social protection, even contributing to their demise, without providing alternative solutions at the EU level. Even fundamental rights are envisaged at the EU level with a double face. There is an attractive defence of fundamental rights, such as equality between men and women. But there is also the economic dimension of these rights, which tend to be de-contextualized and implemented via case-law without heeding the existing solidaristic systems that took so much time to build over the two last centuries in Europe. Because of an asymmetrical dominance of the right to freedom of movement, potentially all other rights are in jeopardy, and the principle of subsidiarity seems to be relegated to a token role, seldom used in the Court's case-law. Citizens who are on the move enjoy additional rights by comparison with the majority of European citizens who do not move, more often than not because of their lack of resources and linguistic skills. Because of this asymmetry, essential functions of law in the social domain are merely seen as exceptions to the main question of a production of goods and services that is deemed to be inevitably best when it happens on the market in the context of free competition. The record of EU law on social protection and social rights emerges from this account as very mixed. It has brought uncertainty to national social models, and further uncertainties are clearly likely if one considers the way EU law is made.

There is however continuing struggle over these developments. Despite the detachment of EU institutions from strong social contexts, the dominant actors who today draft EU law are not isolated from the rest of European societies. Judges are part of cross-national networks including national lawyers, and courts are bound to register direct reactions in their national legal orders. The various lobbies that have dominated policy-making in Brussels over the years have probably done so because much of the process of creating and implementing EU law happened by stealth. This has changed. Recent actions by the Commission and the Court, especially most recently in response to the crisis, have created greater public awareness and criticism. But far-reaching legal uncertainty seems likely to remain for a long time.

This article signals an important paradox for policy-makers that emerges also in later articles: the rapidly changing environment presses them to make frequent policy changes and adjustments in their attempts to manage uncertainty; but frequent policy change is itself a cause of uncertainty. The same conclusion applies to the role of the EU. Legal and regulative uncertainty is itself a form of substantive uncertainty, and the EU has created much of this, especially in the area of labour law and social services of general interest.

The article also presents further evidence for the hypothesis that, as Europeanization increasingly means marketization, it turns against social policy in general. Examples are given from the European Employment Strategy (EES) since 2003, changes in policy towards the elderly under the open method of coordination during the same period, and the application by the Court of policy on services of general interest.

### *Collective bargaining*

The next article examines developments in collective bargaining, an institution that played an important role in moderating the initial impact on employment of the 2008 crisis. More generally,

collective bargaining helped sustain trust and reduce uncertainties in corporate rules and procedures that can exacerbate substantive uncertainties. By providing a measure of certainty, sector-level negotiating arrangements, which mapped out the possibilities for further company-level negotiation on crisis-response measures, served to increase the incidence of the latter and to protect against outcomes at company level that were mainly distributive (workforce concession with no compensating measures from the employer). Multi-employer bargaining provides the most likely framework in which firms can take on the risk of offering both longer-term trade-offs and procedural certainties. However, these substantive and procedural certainties are being qualified by further movement in the process of 'organized decentralization' under which – as part of a marketization process – bargaining competence is progressively devolved towards the company within the framework of sector agreements. As a result, the universal standards which prevailed hitherto are being qualified by growing perforation through ever more opening, opt-out and similar clauses in sector agreements and by erosion of their coverage, notably in Germany. The effect of the financial crisis has been to accelerate this direction of travel in some countries, and to trigger break points in others. In this way, the positive role that bargaining can play in mitigating the externality of uncertainty is being undermined by the more insistent marketization implied by the decline of multi-employer agreements.

Public policies played an important role in prompting sector and company agreements during the crisis, keeping uncertainty at bay. At the same time, however, public policies have increasingly turned into a factor of uncertainty, which makes it harder for employers and employees to calculate their odds, and develop adequate strategies, let alone coordinate them. Several developments bear evidence to this. First, public policies have changed frequently with the main aim of making labour market and other social policies conform more closely to market norms. This tendency has been reinforced by the current fiscal crisis of the state and the ongoing austerity drive. Secondly, as the crisis unfolds, political controversy around issues of austerity, inequality, and the virtues of market norms has started to emerge, producing political uncertainty. Thirdly, and particularly in central eastern and southern Europe, the very legal foundations on which collective bargaining is built are being rendered uncertain.

Similar misunderstandings of how industrial relations institutions work can be seen in conventional economic approaches to the insider/outsider cleavage, which take it for granted that trade unions will protect their members, who almost by definition are those with relatively secure jobs, at the expense of those unable to access the labour market or at least to gain secure jobs. However, extensive bargaining coordination and coverage have actually reduced the scope for the emergence of outsiders. To the extent that there exist mechanisms that extend the reach of an agreement to all concerned in a particular sector, and nearly all sectors are covered by collective bargaining, the range of outsiders is restricted to persons who are prevented from gaining access to any employment at all because the terms of agreements raise the cost of employment so that labour markets do not clear. Persistent levels of long-term unemployment are often seen as indicators that such processes are in operation, unemployment being the most extreme form of labour market outsider status. Where bargaining arrangements are encompassing, we find union bargainers capable of coordination having an interest in reducing the number of unemployed, since unemployment weakens labour's general bargaining power. They therefore try to ensure that they do not seek agreements that force up labour costs to the point where labour markets do not clear. They similarly avoid giving employers incentives to create contract forms beyond the reach of their activities (i.e. the creation of outsider categories within the employed population). Research also confirms that countries with limited bargaining coverage and coordination, and which lack extension mechanisms, are also the ones that seem to have the most labour market outsiders.

Overall our findings show that the capacity for collective action to address different kinds of uncertainty is strongly shaped by institutional context. It is greatest where there is comprehensive workforce coverage of multi-employer arrangements for collective bargaining, and where multi-sector and/or sector agreements establish binding frameworks for subsequent negotiations at company level. Such capacity is highlighted in the agreements establishing and/or implementing short-time working, with financial compensation for workers, concluded in metalworking in northern Continental European countries and Italy; also in the comparatively lower incidence of outsiders amongst the workforce amongst these countries. It is noticeably less in a second group of countries with multi-employer bargaining arrangements, but where these do not establish frameworks that are binding at the company level. It is least in those countries with single-employer bargaining arrangements. The financial and economic crisis, by exacerbating existing and creating new problems of uncertainty, points to the need to augment the capacity for collective action. Instead, the neoliberal agenda framing policy towards institutions that govern the labour market, such as collective bargaining, is pushing towards weakening the multi-employer arrangements on which effective capacity for collective action rests. This is most sharply apparent in the countries experiencing enforced changes as a result of intervention by European and international financial institutions.

### *Immigration*

Immigrant workers, especially those with low skills, are the main bearers of the burdens of flexibility in the labour market. This issue is examined in the following article. Female immigrants are particularly flexible, remaining in the labour force more consistently than native women, and also producing more 'cheaply', as their wages are lower; they tend to work in the very poorly paid and also highly flexible sectors of care services, cleaning and agriculture. The large amount of horizontal mobility that exists among immigrants makes possible adjustment in the labour market and reduces uncertainty for the economy as a whole. If immigrants did not play this role, the native population would be more exposed to the negative externalities of intensified marketization. Public policy-makers and employers alike might find this very useful as a means of protecting both the majority population and the marketization process itself. But how sustainable is this, especially if it depends on political marginalization? Ironically, workers who find their own income situation to be 'difficult' are less likely to have liberal attitudes to immigrants. Feelings, and the reality, of economic insecurity are the most important sources of hostility to immigrants. Given the dependence of modern labour markets on immigrant workers, circumstances that increase uncertainty in workers' lives are likely to be associated with growing social conflict. This article therefore highlights a paradox of globalization: on the one hand it encourages an international mobility of labour; on the other, it produces employment uncertainties that can be used to encourage hostility to migrant workers.

The research reported here also found, from a survey of 16 countries, that the populations of European societies with a strong welfare state and few social inequalities tend, with some exceptions, to have more positive attitudes towards immigration than those in societies with strong social labour market segmentation and weak welfare (such as the UK and Mediterranean countries). The welfare state is relevant for immigration policy and integration. The integration policies of immigration are associated with the correction of social inequalities, with the policy of employment, pensions and unemployment benefits. There has been a kind of 'egalitarian compromise' in certain European political cultures, whereby various market-driven disturbances to security – including large-scale immigration – have been accepted because of the cushion of a strong welfare state.

But the sustainability of the welfare state is in turn dependent on the integration of immigrants. The economic crisis has forced many of them to seek social assistance from local institutions,

competing with native workers for benefits and resources. They rapidly lose any social rights they possess, because they have precarious jobs, temporary and part-time employment. It is not possible to implement the flexicurity paradigm in a labour market with strong segmentation, where immigrant workers form a separate labour force.

## **Pensions**

A major development in the marketization of social policy in recent years has been the establishment of funded pensions to supplement or replace pensions being reduced as a result of reforms. This process has been encouraged by the European Commission. However, the financial crisis has revealed the limitations of pension fund capitalism: falling pension fund returns raise levels of uncertainty while in the aftermath of the crisis public debt has increased, limiting welfare state capacity, leading to more curbs on public systems. In some cases governments have raided pension funds to shore up public account balances. In others, public occupational pension funds are subject to fiscal repression. In some countries, distinctions between public and private systems are dissolving, and public uncertainty grows as responsibility diffuses. As with the crisis in general, this is a problem of governance as much as of finance.

Interestingly, the marketization and privatization of pensions have brought with them an increase, not a reduction, in state regulation. Several characteristics of pensions make them inappropriate for turning into a marketable good, except for wealthy persons. A long period elapses between the acquisition of pension rights or the purchase of a product and its final receipt. In the space of these 40+ years, situations alter, in terms of interest rates, returns on investments and annuity prices on the one hand, in rights to state benefits, taxation regimes and social service charges for the elderly and infirm on the other. The conceit that the individual, however financially literate (or her employer, or the state), can make a rational choice between different pension products to safeguard an adequate income in 40+ years' time is a fiction. Unforeseen events, like the 2008 crisis, exert their own impact. Governments have therefore always been implicated in the running of private pensions: in the creation of rules, regulations and systems of pension governance designed to mediate adverse effects and to win public trust. This is therefore a policy field where it is difficult for marketization to proceed without counter-measures, but the attempt to convert commercial providers to social purposes is proving to be a messy business and the crisis has pointed up significant weaknesses. Commercial providers offer individual choice, the chance to tailor provision to personal preference and protection of contracts by law. However, they also incur higher costs (e.g. marketing and servicing), and stand accused of mis-selling, default, inflexibility in the face of changing circumstances and prioritizing fund sustainability and shareholder value over better pensions. In consequence, growing stress is placed on state regulation as a solution, to make private providers meet social expectation. The result is arguably less a privatization of pensions than a reconstruction of private provision to serve public purposes. However, the more the state directs private provider operations, the more likely it will be held responsible for future failures. Further, the pressure on fund managers for secure returns (passed on to traders as targets and benchmarks against which performance is assessed) feeds financial market instability, speeds up market trading ('the fidgeting fingers of the hidden hand'), fostering speculation, instability and possibly the next financial crash.

## **Territorial governance**

Local policies for tackling economic uncertainty, discussed in a further article, face similar paradoxes to these other policy fields. On the one hand, social policy is being called upon to play its

familiar role of protecting against the negative externalities of markets; on the other, it is being required to do this in a context of still intensifying marketization that undermines the policy attempts from within. A twofold shift has been in process for some time: from a central to a decentralized level of regulation and from public to private mechanisms of regulation and redistribution. Some aspects of this have been very positive. A notable process of devolution has certainly enlarged the political space for local actors across a series of relevant topics, such as training, tangible and intangible infrastructures, aids for entrepreneurship and other local collective competition goods, though central government remains important. In each case the experiments gave notable attention to the private sector, promoting forms of involvements of local private stakeholders, such as large firms or private associations in the making of local plans and strategies; and to new actors, such as environmental organizations and the voluntary sector. There also seems to be a shift from policies giving financial incentives to single firms or economic transfers to individual workers towards growing attention to place and giving local collective actors resources to create local collective competition goods. Naturally, individual policies continue to play a role, especially for the above-mentioned passive instruments but regions and cities are more and more specific units of intervention for policies addressed to reduce uncertainty.

The financial crisis has however threatened important aspects of this emerging model. First, it has weakened the possibility of implementing 'proactive' policies and indirectly favours passive ones, while at the same time reinforcing some of the pillars of the model of competitive regionalism. Private actors – such as large firms or quangos – are gaining increasing importance and the mechanism of public-private partnership becomes one of the dominant tools of local governance. The risks of this path of development are partly related to the difficulties of local actors to promote an integrated development of cities and not just a redistribution of the uncertainty that favours some sectors/workers/areas of the city and the lack of support of national policies that on the one hand increase the competencies for local actors and on the other decrease financial support. Again, as with collective bargaining, coordinated and integrated approaches reduce tendencies towards exclusion, but a combination of neoliberal stances and the panic induced by crisis lead actors to move in the opposite direction. In particular, unions are being marginalized in these processes, not sharing in the extension of participation to a wide range of new local actors. One reason for this seems to be the tendency in recent decades for unions in some countries to base their local organizations on large plants rather than on the town or district; they therefore do not appear as a 'local' interest. This seems to explain why, among the countries studied here, the union role in territorial governance is stronger in Italy (where unions retain a territorial base) than in France or the UK.

### *The fate of national social models*

To set policies for combating externalities against the process of marketization does not necessarily mean that all such policies should be defended; some cures might be worse than the disease. This issue can be tackled from many perspectives, including of course detailed observation of the effects of policies. The data collected here do not permit us to do detailed work of this kind, but they do enable us to try a different approach. Literature on varieties of capitalism and of welfare states have given us the hypothesis that broad groupings of countries with varying institutional characteristics might be associated with different degrees of economic 'success'. For the purposes of this project, we can interpret institutional differences as different approaches to dealing with externalities. Nearly all the foregoing articles make use of familiar groupings, and it is possible

to examine how countries within them fare across the different policy fields. This is attempted in the final article.

Standard debate usually distinguishes among:

- an Anglophone group associated with neoliberal policies (represented within Europe by Ireland and the UK, but more prominently and outside Europe by the USA);
- a Nordic group associated with social democratic policies of strong universal welfare states and strong trade unions;
- a ‘Continental’ group with Bismarckian welfare states, often sub-divided into a north-western group (Germany, France, Netherlands, Belgium, Austria);
- a ‘southern’ group with more minimal familistic welfare states (Italy, Spain, Portugal, Greece); and
- a rather undifferentiated CEE group, seen as more or less following the neoliberal pattern, but at an early stage. (Recent work by Bohle and Greskovits (2012) is enabling us to get beyond this, and perceive differences between a highly neoliberal group (the Baltic States), some more mixed cases with slightly stronger social policy (Czech Republic, Hungary, Poland, Slovakia), and the single stronger social policy and social partnership case of Slovenia.)

Some elements of this simple model are confirmed by our research, in particular the strong contrast between the quality of social policy and its role in the labour market in the Nordic and southern countries. This emerged, for example, in studies as varied as those of migration and of individual labour market transitions. Other aspects of the research however suggest major changes within cases, such as the impact of pension reform on both the ‘social democratic’ and ‘Continental’ models. Further work brings together quantitative data on European countries on several of the variables most relevant to social policy in areas of labour market uncertainty: the character of industrial relations institutions, the flexicurity balance between employment protection and unemployment replacement pay, and overall levels of social protection. Position on these variables is related to success as measured by employment levels and indicators of innovation. Overall the basic usefulness of the common-sense classification is confirmed, but only as a very rough guide. The division between the Nordic and ‘Continental’ group is more important when considering chances of mobility between jobs than levels of employment alone. There are strong similarities between the south and CEE groups, though with important differences. In general, southern countries tend to expose workers to the market through self-employment, CEE countries through weak protective institutions. The Anglophone group, which has only two members in Europe (Ireland and the UK) tends to disappear as a genuine group, because of important divergences within it.

Some individual countries do not fit so easily into their usual stereotypical places: Austria, the Netherlands and Slovenia have more in common with the Nordic countries than the stereotypes lead us to expect – though the analysis of Bohle and Greskovits (2012) anticipates the Slovenian case. Belgium, France, and Ireland are the three most difficult countries to classify. The first shares characteristics with a combined Nordic and Continental group, but without their association with indicators of success. Ireland has a mix of characteristics from a number of models. France is a case all on its own, requiring separate analysis.

The success of the Nordic economies is often acknowledged. These countries in no way lack institutions that check market externalities, but they check them in ways that are compatible with strong economic performances. In contrast, economies in which there is a strong dependence on

the institution of the family to supplement weak welfare states (a characteristic shared for different reasons by many south and CEE countries) do not seem to be associated with success.

But to use research on comparative national performance as some sort of guide to ‘best practice’ assumes that individual examples of capitalist economies are all instances of units of a similar kind, with internal institutional mixes that are variations of similar ingredients. However, in reality national economies are not a series of separate units of the same kind of thing, but are bound together in a system of relationships with each other in which they occupy distinctly different positions. Within Europe as within the world at large, there are core economies in which energy and innovation are concentrated, there are those further from the core but working with it, and there is a periphery of marginal economics. In general, those nearer the core are on a ‘high road’ to development based on high skills and strong social and material infrastructure; those at the periphery are on a ‘low road’ of seeking competitiveness through low costs, and therefore low wages and low levels of social costs.

The coming together of a north-western core of countries, whether of the Nordic, ‘Continental’ or Anglophone type, and an increasing gulf between that core on the one hand and southern Europe and the CEE countries on the other strongly suggests the emergence of a core-periphery pattern. So much research in comparative capitalism in recent years has been devoted to seeking major policy lessons from whether the USA slightly out-performs Germany or vice versa that we have been in danger of ignoring the far bigger gaps that exist between either of these and, say, Spain or Poland. To a considerable extent different positions in the centre-periphery polarity can be seen as different institutional configurations. First, the network externalities enjoyed by central countries in general and the USA in particular constitute extra-market institutional advantages in global economic competition. Secondly, it is likely that different institutions are likely to gather around different positions on the polarity – as hinted above with reference to the role of family in periphery countries. This suggests major and probably irresolvable difficulties for attempts to distinguish cause, effect, and association; but it may contribute to better understanding, and discourage all simplistic attempts at relating different institutional formations to different levels of economic success.

Most EU debate and policy-making assumes that all Member States are embarked on a march towards competing in high-value-added markets, towards a Europe based on quality products and high living standards. But there are growing signs of divergence, of evidence that the countries of southern Europe are falling away from achieving those goals, while those in the east are finding it difficult to start on them. The shocks imparted by the 2008 crisis, and in particular by the explicit terms being imposed by the Union and the ECB on the high-debt economies in the south, are making it even harder for firms in these countries to compete on anything other than the cost advantages of societies with low wages, low skills, and poor quality welfare states and infrastructure.

Some conclusions with strong policy implications emerge from this work, at least for policy-makers committed to ‘high road’ strategies. At several points we have seen possibilities for positive-sum and constructive solutions similar to those of the original Danish and Dutch flexicurity achievements. However, the scope for these is frequently undermined by its reduction to some very minimal policies in order to satisfy the requirements of the open method of coordination, which strips away much of the richness of the full model. It is even more undermined by the central thrust of the neoliberal policy frame, and in particular of European marketization policies. It is essential that public policy-makers and business interests recognize that the negative externalities of uncertainty, insecurity, anxiety and declining trust that markets can create cannot be resolved through markets themselves unaided by public policy. Therefore marketization increases rather than reduces the need for public policy and public resources that offset these negative

consequences without reducing the gains from improved markets. Possibilities for doing this are undermined by the insistence of EU policy that social policy is just another area in which markets must operate, rather than one in which they should be counter-balanced.

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