

9. Conclusion: is there a Golden Triangle?

Paul de Beer and Trudie Schils

In the preceding chapters the particular combination of unemployment insurance, employment protection and active labour market policies in seven European countries was examined. In this final chapter we summarize the main results and draw some overall conclusions from this overview. In the introductory chapter we noted that the empirical literature on the effectiveness of these policy instruments is, at best, mixed, but in general not very positive. In addition, we showed that a statistical analysis of the labour market performance of OECD countries based on global indicators of these three policy fields only gives limited insight in the effectiveness of the policy instruments. As we explained, this is probably due to the fact that it is much more the actual implementation and administration of these policies that matter, than some formal characteristics or the budget spent on these policies. Consequently, the main part of this volume comprises an extensive discussion of unemployment insurance, employment protection and active labour market policies in seven European countries, namely Belgium, Denmark, France, Germany, the Netherlands, Sweden and the United Kingdom. In each of the chapters the actual policies in the three areas were described, along with the main reforms in the past ten years and the coherence between the three policy areas. From these chapters it has become clear that, despite some similarities, the policies of these countries differ widely. However, since the number of characteristics in which the countries differ exceeds the number of the countries covered in this volume by far, it is not easy to pin down which factors are responsible for the differences in policy outcomes. In this final chapter we nevertheless attempt to trace some patterns and regularities which may give a clue as to which elements of the social policy triangle matter most. Thus, we hope to contribute to both the academic and the political debate on the optimal social policy mix.

We first discuss the similarities and differences between the seven countries for each of the policy areas separately. Next, we compare the countries with respect to the administration and co-ordination of social policy. Then we examine whether the policy reforms since the 1990s point towards convergence or divergence of social policy in these seven countries. In the next two sections we compare the outcomes of social policy and its impact on flexicurity. Finally, we try to answer the question whether there is a Golden Triangle of social policy, after all.

Unemployment benefits

The unemployment insurance schemes of the seven countries differ in many respects, which are only very partially reflected by the replacement rates, as calculated by the OECD, which are often used to compare the generosity of unemployment benefits. Unemployment benefit schemes can differ in many more dimensions, namely:

- eligibility conditions, such as the required work record to qualify for a benefit, minimum working hours, or membership of an unemployment insurance fund;
- benefit level: flat rate or earnings-related (percentage of previous earnings), taking into account any income ceiling;
- benefit duration, depending on work record and/or age, and sometimes on the family situation;
- job search requirements, including the frequency of job applications required, the obligation to participate in activation programmes and the kind of job offer one has to accept;
- existence of a means test;
- application of sanctions in case of non-compliance with the eligibility conditions;
- supplementary benefits and subsidies on top of the legal unemployment benefit, including semi-public and private employee benefits;

- benefit available after expiration of the earnings-related benefit and for those who are not entitled to an earnings-related benefit;
- funding: through payroll contributions, state subsidies or general taxes.

Even if two countries score equally on the replacement rate indicator of the OECD, the unemployment benefit schemes of these countries may differ considerably. Table 9.1 gives an overview of the main characteristics of the unemployment benefit schemes in the seven countries.

Table 9.1 Main characteristics of unemployment benefits in seven countries

[Table 9.1 here]

Exact information on some of the characteristics of the unemployment insurance schemes, such as work requirements, application of sanctions and existence of supplementary benefits, is not available, so the differences between the schemes are even larger than can be read from Table 9.1. The conditions one has to fulfil to be eligible for an unemployment benefit vary strongly. In Denmark it is rather easy to claim a benefit, even with a brief or interrupted work career, while the English scheme requires an almost continuous work history. Most countries have a combination of flat-rate and earnings-related benefits, depending on one's work history and/or membership of an insurance fund. Even though the formal replacement rates of the unemployment benefit lie within a rather narrow range (from 60 per cent to 90 per cent), the actual benefit level may vary more strongly, due to the applicable income ceiling and/or supplemental benefits. This is illustrated by the wide dispersal of the maximum benefit level, which ranges from a little over €10,000 a year in France and the UK to over €30,000 in the Netherlands. There are also large differences in maximum duration of the unemployment benefit, which ranges from three months to 'infinity'.

Although most unemployment insurance schemes are contribution-based, most countries also know some kind of state support, either directly from taxes or as a subsidy to the insurance funds.

If one tries to arrange the unemployment insurance schemes in order of generosity, the Danish unemployment benefit appears to be the most generous (weak eligibility criteria, high replacement rate, long duration) and the British the least generous (strict eligibility criteria, flat rate benefit and short duration for the contribution based benefit). However, one should take into account that there are some supplementary benefits in the UK, such as housing benefits, which raise the effective replacement rate in case of unemployment. The other countries are more difficult to rank, since most of them are relatively generous in one respect (for example, replacement rate) and rather harsh in another (for example, maximum duration).

Employment protection legislation

The well-known OECD employment protection indicator is a summary measure for a large number of characteristics of the employment protection legislation of different countries. However, it does not include all elements of employment protection legislation and the weighing of the elements is rather arbitrary. Moreover, it is based purely on legal characteristics at the national level. This means, for example, that the weight attached to the maximum duration of temporary contracts is independent of the number of temporary workers in a country. Neither does the indicator take into account that, in most countries, the social partners are allowed to deviate from the legal rules by collective agreement, in some cases even to the detriment of the employees.

It can, thus, be rightfully questioned whether the OECD indicator really measures the strictness of employment legislation in various countries. Although some initiatives are taken to improve the

OECD-indicator, these will probably not neutralize all its drawbacks. It is even doubtful whether it makes sense at all to try to summarize the information on employment protection in one figure. Therefore, Table 9.2 gives an overview of the main characteristics of employment protection legislation– and the possibility of social partners to deviate from it – in the seven countries.

Table 9.2 Main characteristics of employment protection legislation in seven countries

[Table 9.2 here]

In all countries, notice periods depend on the seniority of the worker, but while the difference between workers with long tenure and with short tenure is very large in Belgium, Germany, Sweden and the UK, it is much smaller in Denmark, France and the Netherlands. Remarkably, in Belgium and Denmark the notice period also differs considerably between blue collar workers and white collar workers. The maximum notice period varies from three months in the Netherlands and the UK to 15 months in Belgium. Only in France and in the UK are employers legally obliged to pay severance pay. In the Netherlands this is only the case if employers dismiss employees via the Court route, while in Denmark severance pay is regulated by collective agreement. In four countries there is a legal trial period, while in the other three countries this is agreed upon in individual contracts or collective agreements. An important distinction between the countries concerns the existence of legal restrictions on the use of fixed-term contracts. In Belgium, France and Sweden, employers are allowed to hire temporary workers only in specific circumstances. The other four countries only have legal restrictions on the maximum duration or the maximum number of consecutive temporary contracts. Finally, an important but often overlooked point is whether social partners are allowed to deviate from the legal regulations regarding dismissals and fixed-term contracts by collective

agreement. In Belgium, Denmark, Germany, the Netherlands and Sweden this is indeed the case, which means that national law only partially defines the practice of dismissal regulation in these countries.

On the basis of Table 9.2 it is not easy to rank the seven countries with respect to the strictness of employment protection. Although the UK and Denmark are, according to the OECD employment protection indicator, considered to have relative weak employment protection, this is not immediately apparent from the other information in this table. And although Belgium, France, Germany and the Netherlands score relatively high on the OECD indicator, they do not differ that much from Denmark with respect to notice period, severance pay and trial period. It thus strongly depends on which elements of employment protection legislation one focuses on, whether the employment protection in a particular country is to be considered stricter or looser than in another country.

Active labour market policies

Active labour market policies include a broad range of activation measures, from registration and counselling to workfare and subsidized employment. Most countries employ a number of instruments. Usually, it is left to the professionals of the public employment service (PES) or the administrative body of the unemployment benefit to decide in which kind of programme an unemployed person – or someone else who seeks work – participates. The official labour market policy of the national government is, thus, often not very relevant in comparing the active labour market policies of different countries. That is why most often total expenditure on active labour market policy is used as a measure to compare the effort of different countries (see Table 9.3). However, this figure hardly informs us about the real effort, since the costs of activation

programmes may differ enormously. A country that focuses on costly measures, such as subsidized jobs, may spend more on active labour market policies and at the same time reach much less unemployed than another country that spends less on such policies but concentrates on cheaper measures, such as job counselling. Apart from the kind of activation programmes, it is also of interest which body administers and implements the programmes and whether benefit recipients are obliged to take part in these programmes.

It is not possible to summarize this qualitative information in the form of a table. However, from the description of active labour market policy in the country chapters it is warranted to conclude that Denmark and Sweden have the most extensive activation programmes, including counselling, training and employment subsidies. The United Kingdom is generally thought to rely more on an unfettered market mechanism than on state intervention. Nevertheless, in the past ten years the British government has implemented a rather ambitious activation programme. So it is questionable whether the UK should still be considered a laggard with respect to active labour market policy. For a long time, the conservative welfare states of Belgium, France, Germany and the Netherlands focused much more on passive, income protection measures than on active labour market policies. However, this has changed largely since the 1990s. So, arguably, there is not a large gap anymore between the activation efforts of the Scandinavian countries and of the continental welfare states.

Administration and co-ordination of the policy instruments

Although, in theory, unemployment insurance, employment protection legislation and active labour market policies can be considered as the angles of a social policy triangle, in practice they usually do not form a well-designed and logically consistent policy mix. With respect to the implementation and administration of unemployment insurance and active labour market policies there is some co-

ordination in most countries. Indeed, in five of our seven countries one public body at the local (mostly municipal) level is responsible for the administration of both instruments. Still, the funding of the benefits and of the activation measures is often separate. The administration of employment protection legislation is usually assigned to separate bodies (such as labour courts). Political debates about reforms of the social security system and active labour market programmes are seldom connected to reforms of employment protection legislation. Even in Denmark, whose particular combination of policy instruments is lauded as a Golden Triangle, the three policy areas have a very different history and cannot be considered to be a consciously designed policy mix.

In most countries there is also a rather sharp dividing line between the administration of unemployment insurance and the administration of the means-tested benefit (social assistance or otherwise) for the unemployed who do not comply with the eligibility criteria for the unemployment insurance or whose earnings-related benefit has expired. As a consequence, there is often a lack of co-ordination between the administration of policy instruments for short-term unemployed on the one hand and for long-term unemployed and unemployed with limited work history on the other hand.

In three of the seven countries considered, namely Belgium, Denmark and Sweden, the trade unions play a role in the administration of unemployment insurance. This involvement of trade unions is often referred to as the so-called Ghent-system. However, as the description of the unemployment insurance in the country chapters shows, the role of the trade unions in the administration of unemployment benefits is actually very limited. They act primarily as a kind of broker between the insured employees and unemployed and the insurance system, but they do not have the authority to decide on either the insurance policies or the actual granting of benefits.

Perhaps more important, but often overlooked in the literature, is the competence of the social partners in six of our countries (Belgium, Denmark, France, Germany, Netherlands and Sweden) to overrule the national legislation with respect to employment protection by collective labour agreement. This means that the legal characteristics of employment protection legislation, as measured in the OECD employment protection indicator, may be of limited relevance in practice.

Policy reforms since the 1990s

All seven countries covered in this book have revised their social policies considerably in the past ten or twenty years. Although it was impossible to give a complete overview of the policy reforms since the 1990s, each country chapter enumerates the main policy changes. From these overviews we can conclude that there are some common elements in the policy reforms of the past two decades.

The most general statement one can make about these reforms is, that they embody a general shift from passive to active measures. By this we do not so much refer to the ratio of expenditures on active versus passive measures, which has risen in only four of the seven countries (Table 9.3). We mainly point to the stronger emphasis on the obligations of benefit claimants. Many countries have tightened eligibility conditions, either by making it harder to claim a benefit or by strengthening the requirements on benefit recipients with respect to search effort, participation in training and/or accepting job offers. In some cases recipients are even required to perform unpaid work (workfare) in exchange for their benefit.

Although only four of the seven countries have actually increased their spending on active labour market policy, relative to unemployment benefits, the linkage between participation in such policies

and benefit eligibility has become stronger in most countries. Thus, the motivation effect of active labour market policy has become more important in comparison to the qualification effect.

Although eligibility conditions for unemployment benefits may have become stricter, the income protection offered to those unemployed who are eligible does not seem to have changed much in most countries. This is shown by the replacement rates as calculated by the OECD, which only changed little since the early 1990s. Two notable exceptions are the Netherlands and Germany. In the Netherlands, the main change was a considerable reduction of the maximum duration of the earnings-related unemployment benefit. This reform primarily affects older workers. In the early 1990s an employee aged 57.5 years or older could apply for an earnings-related benefit until the official retirement age of 65, nowadays the maximum duration of the earnings-related benefit is 38 months, after which he or she has to apply for social assistance. In Germany, the so-called Hartz reforms included a radical change of the unemployment benefit system (Hartz IV). Overall, this change meant a reduction of the generosity of the benefits for long-term unemployed. In the other countries, there were only minor changes in benefit generosity. In Sweden, for example, compensation rates were reduced during the 1990s, but this is hardly visible in the OECD replacement rates.

Perhaps the most controversial element of the policy triangle is employment protection legislation. Most economists and employers consider employment protection legislation to be a formidable obstacle to a flexible labour market and are thus in favour of loosening employment protection as much as possible. Most trade unionists and even a majority of the population usually consider employment protection to offer essential protection against the vicissitudes of the free market and therefore strongly resist any attempt to reduce employment protection, at least for regular workers. It is thus not surprising that governments that wanted to relax employment protection have focussed

on the regulation of temporary employment. Employment protection legislation for temporary work has thus been deregulated in all countries considered, with the exception of France and of the UK, in which temporary work already hardly was regulated at all in the early 1990s. As far as governments tried to reform employment protection legislation for permanent workers in the past decades, they were not very successful in doing so. Best-known are the riots in the *banlieus* of Paris after the announcement by the government of the introduction of a new flexible contract for youngsters. But also the Dutch government met with fierce resistance from the trade unions and the left-wing parties in parliament when it announced a reform of EPL in 2007. In 2008, it finally reconciled itself with a marginal change of the legal system.

A final common trend in social policy is the attempt of various countries to increase the co-ordination between the administration of unemployment benefits and active labour market policy. In Germany, the Federal Employment Office (BA) has been responsible for both the payment of unemployment benefits (ALG I) and the implementation of labour market programmes for short-term unemployed for a long time. In Belgium, the local employment offices perform the administration of unemployment benefits and part of the activation instruments. In 2006, the administration of unemployment benefits (by Benefit Agencies) and labour market policies (by Employment Services) at the local level in the United Kingdom was merged into so-called Jobcentres Plus. Very recently, in January 2009, the public bodies responsible for administration of the unemployment benefits and for activation measures in France and the Netherlands have been merged. Although the other countries still have separate bodies for these two parts of social policy, co-operation between these bodies has been strengthened.

At the same time the responsibility of the social partners for the administration and supervision of social insurance and labour market policies was restricted in a number of countries. In the

Netherlands, the social partners were completely banned from the administration, in Germany and Sweden their role was considerably limited.

The output of social policy

In this section we give an overview of what might be called the direct output of social policy. By this we refer to some variables which are directly related to the policy, although we readily concede that they are also affected by other factors.

The output of unemployment benefit systems can best be measured by total expenditures on unemployment benefits and by the number of benefit claimants. The first two lines of Table 9.3 give figures for these two indicators for our seven countries, both for the early 1990s and the early 2000s. The expenditures and the number of beneficiaries vary widely between these countries. Belgium and Denmark lead the pack both with respect to expenditures and benefit claimants, while the UK lags behind. This is not unexpected in view of the characteristics of the benefit systems as described in the country chapters. Denmark and Belgium have quite generous unemployment benefits systems, although in Belgium this refers primarily to the unlimited duration of the benefit and in Denmark to the replacement rate. The very large number of benefit claimants in Denmark is probably due to the loose employment protection and flexible labour market, which causes a large inflow into (but also a large outflow from) unemployment (see next section). Germany, France, the Netherlands and Sweden take an intermediate position. The rather low expenditure on unemployment benefits in Sweden is remarkable, since Sweden used to be one of the most generous welfare states in the world. Since the relative number of benefit claimants in Sweden is larger than in Germany, while expenditure is lower, this suggests that the Swedish unemployment insurance is rather austere. However, one should take into account that in Sweden many unemployed receive supplementary benefits, often agreed upon in collective labour agreements or paid out by voluntary trade union insurance schemes, which are not included in the OECD figures for unemployment compensation in Table 9.3. Hence, expenditure on unemployment benefits in Sweden might be substantially higher if these supplementary benefits are included.

Table 9.3 Output of social policy in seven EU countries

[Table 9.3 here]

The only indicator for the output of employment protection for which we have international comparable data is average job tenure. (Unfortunately, no figures on the numbers of dismissals are available.) Average job tenure of the seven countries lies within a rather narrow band from about eight to eleven years. Nevertheless, there is a clear dividing line between Denmark and the United Kingdom, with average tenure around eight years, and the other five countries with tenure around eleven years. Since Denmark and the UK have the least strict employment protection legislation of the seven countries, this is exactly what could be expected.

Similarly as with unemployment benefits, the output of active labour market policies can be measured by expenditures (in percentage of GDP) and by the number of participants (expressed as percentage of the labour force). Denmark spends by far the most on ALMPs, namely 1.9 per cent of GDP, while the UK spends the least, namely .5 percent. Again, this is what could be expected from the description of ALMPs in the country chapters. Although Belgium, Germany, the Netherlands and Sweden spend considerably less on ALMP than Denmark, the numbers of participants do not differ much from the Danish number. This suggests that Denmark exerts more effort (in terms of expenditure) per ALMP participant than the other four countries. The same appears to apply to French ALMP. In all countries, with the exception of France and the UK, the number of unemployment benefit claimants and the number of participants in activation programmes are of similar size. In Sweden, even more people participate in ALMP than claim unemployment benefits. In France and the UK the relative number of participants in activation measures is much smaller, which suggests that many unemployed are not reached by ALMP.

Overall, the output of the three policy areas is consistent with what one would expect on the basis of the qualitative description of these policies in the country chapters. Generous unemployment benefit systems result in high expenditures and a large number of benefit claimants, strict employment protection legislation translates into long job tenure, and intensive ALMPs result in high expenditures and many participants.

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The impact of social policy on labour market performance and income security

The output indicators discussed in the preceding section do not really inform us about the effectiveness of social policy with respect to its ultimate goals: a well-functioning, flexible labour market and sufficient protection of workers against the income and employment risks of a market economy. In chapter 1 we introduced a number of indicators for flexibility and security. In this section we show the outcomes of these indicators for the seven countries this study focuses on in more detail.

As we noted above, the large number of characteristics in which the policy triangles of the seven countries differ, make it almost impossible to determine which elements are crucial in explaining the differences in outcomes of social policy in these countries. Indeed, it is very well possible that other policies, outside the social policy triangle, such as general economic policy, tax policies,

education policies, wage formation and industrial relations, and exogenous factors, such as demographic developments and economic structure, also influence the outcomes. Thus, our attempt to connect characteristics of the social policy triangle to some socio-economic indicators serves only an illustrative purpose. We certainly do not claim to explain the differences in outcomes from particular elements of the social policy triangle. Nevertheless, it is certainly informative to examine to what extent the socio-economic performance of the seven countries differ. In this way we want to illustrate to what extent the variation and similarities in the policy mix of the seven countries are reflected in their labour market performance. This gives us at least an indication of the extent to which social policy matters, but also to what extent other factors have to be brought into the picture to understand the differences in performance between the countries.

Table 9.4 gives an overview of some indicators for employment security, labour market flexibility and income security, respectively, for the seven countries. We calculated average figures for the early 1990s (1991-1995) and for the most recent five year period (2003-2007) in order to minimize the effect of the business cycle on the outcomes. We first focus on the outcomes for the most recent years and then discuss the changes that have taken place since the 1990s.

Table 9.4 Indicators for employment security, labour market flexibility and income security for seven EU countries, (averages for 1991-1995 and 2003-2007)

[Table 9.4 here]

If we take the employment rate (measured as the number of employed as a share of the population aged 15-64) and the unemployment rate (the number of unemployed as percentage of the labour force) to be the best available indicators for employment security, then Table 9.4 shows that there are considerable differences between the seven countries. Overall, Denmark, the Netherlands, Sweden and the UK score best on these indicators and Belgium, Germany and France the worst. In the first three countries the employment rate is on average about ten percentage points higher than in the other four countries, while the unemployment rates in the latter group are about one and a half time the figures for the first group.

With respect to labour market flexibility again two groups can be distinguished, but this time the Netherlands falls into the group of Belgium, Germany and France, with rather small inflows into both employment and unemployment and, consequently, a rather large share of long-term unemployed and long average unemployment duration. The inflow into employment and into unemployment in the other three countries, Denmark, Sweden and the UK is much larger. There is however no systematic difference in the share of temporary employment between the two groups. The relatively small labour market flows in Belgium, France, Germany and the Netherlands are consistent with the rather strict employment protection legislation in these countries. Likewise, the large flows in Denmark and the UK can be explained by the very loose employment protection. However, the high labour market flexibility of Sweden is surprising in view of the fact that the level of employment protection legislation in Sweden is, according to the OECD employment protection indicator, the second highest of the seven countries.

When it comes to income security, the dividing line runs between Belgium, Denmark and the Netherlands, on the one hand, and the other countries, on the other hand. In Denmark and the Netherlands both the average income loss in case of unemployment and the expected income loss due to unemployment (which takes the probability of unemployment into account) are by far the lowest of the seven countries considered. This is explained by the combination of a high replacement rate and a high coverage rate of unemployment insurance and a relatively low unemployment rate. To be sure, the unemployment risk in Belgium is much higher, but thanks to the generous unemployment benefit system, the high coverage rate in particular, the expected income loss due to unemployment is quite small.

In the other four countries, the average income loss in case of unemployment is much larger, either due to low replacement rates or low coverage rates of the unemployment benefit schemes. Since Germany and France also have a relatively high unemployment rate, the expected income loss due to unemployment is even higher than in the UK, where the unemployment risk is considerably smaller. It should be noted, however, that the figures in Table 9.4 exclude supplementary benefits, such as housing benefits, which can make up a substantial part of total compensation of the unemployed, especially in Germany and the UK.

If we take all flexicurity indicators in Table 9.4 into consideration, we can conclude that Belgium, Germany and France show the worst overall performance of the seven countries considered. Denmark scores best, overall. Sweden and the UK follow closely behind, but perform not very well with respect to income security. The Netherlands, too, lags only a little behind Denmark with respect to the security indicators, but it stays far behind with respect to the flexibility indicators. The distinction between Belgium, Germany and France on the one hand and Denmark, Sweden and the UK on the other is not surprising, in view of our analysis of the social policy mix. The former

countries are typical examples of the conservative continental welfare regime (see Esping-Andersen 1990 and 1999) which focus primarily on securing the position of the insiders on the labour market (male breadwinners in particular) and not on promoting labour participation of 'marginal' groups (women, youth, older persons) or stimulating flows between employment and unemployment. Thus, strict employment protection results in long job tenure and small inflows into unemployment, but also into unemployment. However, for workers who lose their job all the same and for those who are not able to find a job, income protection is rather austere. Belgium is an exception in this respect, since the unlimited duration of unemployment benefits provides more income protection than the unemployment benefits of the two other conservative welfare states.

Denmark and Sweden are the exemplary social-democratic welfare states, which stress the importance of labour participation for all. This is expressed in the high employment rate and relatively low unemployment rate in these two countries. More remarkable is the high labour market flexibility of both countries, as shown by large inflows into employment and unemployment. In the case of Denmark this is understandable on account of the rather loose employment protection legislation. The large flows between employment and unemployment in Sweden are harder to explain, since employment protection is rather strict in this country. Perhaps the large share of temporary work might be the explanation, but then it is surprising that the Netherlands, which has the same share of temporary work, have the smallest inflows into employment and unemployment of all seven countries. A remarkable finding is that income security in Sweden is rather low. In the past Sweden used to be the most generous welfare state which provided extensive income protection to all who lost their job. However, in the 1990s, after Sweden went through a deep recession, benefit eligibility and benefit levels have been considerably curtailed, resulting in much less income protection than before. Thus, average income loss in case of unemployment increased from 50 per cent in the early 1990s to 70 per cent at present. However,

one should take into account that in Sweden many unemployed receive supplementary benefits, often agreed upon in collective labour agreements or paid out by voluntary trade union insurance schemes, which are not included in the OECD figures for unemployment compensation in Table 9.4. Hence, income security in Sweden might be substantially higher if these supplementary benefits were included.

The Netherlands is unique among the seven countries in combining high levels of both employment security and income security with a very low labour market flexibility, at least with respect to regular work. Apparently, the rather large number of temporary workers absorbs most of the flexibility of the Dutch labour market. Probably, this also explains why the inflow into employment fluctuates strongly over the business cycle. In the years 2000 and 2001 the inflow into employment in the Netherlands was comparable to that in Denmark and the UK. So, the fluctuation of employment over the business cycle seems to be largely cushioned by temporary work in the Netherlands. This might be caused by the fact that, while employment protection for regular contracts in the Netherlands is the second strictest of the seven countries considered, the protection of temporary workers is the most lenient after the UK. Although this large gap in employment protection between permanent and temporary workers has met with a lot of criticism in the Netherlands, lately, it does not seem to be a real barrier to a good performance with respect to overall employment and income security. Apart from temporary work, the large and increasing share of part-time work in the Netherlands might also contribute to a smooth adjustment of employment to the needs of companies.

If we now focus on the outcomes for the early 1990s the overall picture does not change much. Denmark was already the best performing country with respect to employment security, labour market flexibility and income security in the beginning of the 1990s, while Belgium, Germany and

France were already lagging behind in most respects. The only exception regards the unemployment rate, which was the second highest in Denmark in the first half of the 1990s. Since the unemployment rate is often taken as the most obvious indicator for the functioning of the labour market, it is understandable why Denmark was not recognized as an example for other countries in the 1990s, yet. The Netherlands was most successful in raising the employment rate since the early 1990s, followed by Belgium and the UK. It is not easy to connect this improvement to the policy reforms in these countries, since they were quite dissimilar. The rise of the employment rate in the Netherlands is explained primarily by the strong growth of female labour participation, which was not directly related to the social policy triangle. It is remarkable that the flows between employment and unemployment in the Netherlands have dwindled at the same time, although the share of temporary work increased quite strongly. In the other countries, labour market flows and temporary work did not change significantly since the early 1990s. With respect to income security, the changes diverge. In Belgium, Denmark, France and the Netherlands both the average income loss and the expected income loss due to unemployment diminished, while they rose in Germany and Sweden. In the latter countries this was caused by both a reduction of the generosity of unemployment insurance and an increase of the unemployment risk.

Overall, it is quite difficult to explain the changes of the flexicurity indicators in our seven countries from the policy reforms that were implemented since the 1990s. This suggests that the evolution of labour market performance is also strongly influenced by factors that lie outside the social policy triangle.

A Golden Triangle after all?

In the past decades a number of countries have been bestowed the (dubious) honour of being named the paragon country of effective labour market policies. In the 1980s Sweden represented the most successful labour market policy, then attention shifted to Japan, in the 1990s New-Zealand and Finland were in the focus of attention and, most recently, Denmark is adulated as the exemplary welfare state that best succeeds in combining security and a flexible labour market in a harmonious way. However, depending on one's political inclination either the loose employment protection legislation or the generous unemployment benefits and intensive active labour market policies are lauded by the admirers of the Danish model.

The figures in the preceding section showed that of our seven countries Denmark indeed scores best on the indicators for flexibility and security. There are large flows between employment and unemployment, there is a high labour participation and workers enjoy large income security, while unemployment is limited and the share of long-term unemployment is small. It is, thus, not surprising that the combination of loose employment protection, generous benefits and intensive labour market programmes, that constitute the Danish policy triangle has been labelled a Golden Triangle.

However, it remains rather difficult to establish the importance of the various elements of the policy triangle and their combination for the performance of our countries. This becomes particularly clear if we compare Sweden and the United Kingdom. These two countries are generally considered to be prototypical examples of the social-democratic welfare state and of the liberal welfare state, respectively (at least in Europe; the USA may be even more 'prototypical' liberal). Nevertheless, if we look at the outcomes of their social policies in Table 9.4, they are remarkably similar. Both countries have a high employment rate, moderate unemployment rate, flexible labour market and offer at most moderate income security. These comparable results are, however, the outcome of a

completely different policy mix. Sweden is well-known for the active involvement of the state in promoting labour participation and reducing (long-term) unemployment, in combination with an earnings-related unemployment benefit system. The United Kingdom, in contrast, focuses strongly on stimulating a flexible labour market. The high employment rate, moderate unemployment rate and large flows between employment and unemployment are, thus, primarily the result of the absence of state interference with the labour market. It, thus, appears that two completely different social policy models can result in remarkably similar results.

A different image arises if we compare the Netherlands with Germany. The social policy triangles of these two countries have a lot in common (see Table 9.3). They spend a similar share of GDP on unemployment benefits and active labour market programmes and both have rather strict employment protection legislation. Nevertheless, the outcomes are much more favourable for the Netherlands than for Germany. The Dutch employment rate is much higher and the unemployment rate much lower than in Germany, while the Dutch benefit system offers considerably more income security. Only with respect to the lack of labour market flexibility are both countries similar. Thus, apparently, this lack of labour market flexibility does not explain the weak performance of Germany with respect to employment and income security. It is not completely clear what, then, explains the difference in outcomes between Germany and the Netherlands. Probably, some other factors, outside the realm of the policy triangle, play a role. For example, quite typical for the Netherlands has been the very strong increase of female labour participation in tandem with the strong growth of part-time employment since the 1980s, which cannot be explained by the reforms of either unemployment insurance, employment protection legislation or active labour market policies.

If, however, we compare Germany with Belgium and France, then both the policy mix and the outcomes in terms of security and flexibility are comparable. Thus, the combination of rather generous and lax unemployment insurance, strict unemployment protection legislation and moderate active labour market policies appears to be not very successful in achieving employment and income security and a flexible labour market.

Our study has also shown that it is not possible to characterize the social policy mix of a country with a few quantitative indicators, such as, for example, the OECD indicators for the replacement rate, the employment protection legislation and spending on active labour market policies. These indicators neglect the numerous qualitative differences between policy instruments which cannot be simply summarized in one figure. Indeed, we found it quite hard to understand the changes in the scores on the OECD indicators from the description of policy reforms in our country chapters. Moreover, the implementation and administration of the social policy instruments might be just as important as the formal characteristics. For instance, it can make a lot of difference whether the qualifying conditions for unemployment benefits are applied very strictly or rather loosely. What's more, in many countries the legal conditions for unemployment benefits and employment protection are supplemented or even surpassed by collective agreements between the social partners. As a consequence, the actual income and employment protection for many workers may differ considerably from the legal regulations at the national level. This might also result in substantial differences between sectors, so that it does not make sense to assume that the same conditions apply to all employees in a country. Finally, all these qualitative features and sub-national variations might interact and might determine the final outcome in terms of employment and income security and labour market flexibility. Thus, it makes little sense to ask which element of the social policy mix is crucial in explaining the differences in performance between countries. Eventually, it is the complete policy triangle, including the administration, the distribution of responsibilities and

additional clauses in collective agreements, that explains the successes and failures of social policy in the various countries.

To conclude, on the basis of our comparison of seven European countries we assess that the combination of unemployment benefits, employment protection legislation and active labour market policies does indeed matter as it comes to labour market performance. However, we are somewhat sceptical about the claim that there is an optimal combination of policy instruments which will yield the best results under all circumstances. The good performance of Denmark with respect to both employment and income security and labour market flexibility might justify the epithet Golden Triangle. But the comparison of Sweden and the UK shows that widely different policies can result in similar outcomes, while the comparison of the Netherlands and Germany shows that similar policies can result in strongly diverging outcomes. So, apparently, there is no direct link between the policy mix and the labour market outcomes. This raises the question whether copying the Danish policy mix by another country would produce just as favourable outcomes as in Denmark. Probably, it is not only the particular policy mix, but also the specific conditions that apply in Denmark (e.g. the large share of small companies which makes external labour mobility more important than in other countries), that explains the Danish success. Although the governments and social partners of other countries can surely learn from the Danish experience – but also from less successful countries, for that matter – they will also have to take the particular circumstances in their own country into account in designing the optimal policy mix, not only in terms of instruments, but also with respect to co-ordination and administration. There are no simple recipes to improve socio-economic performance. And one day the successful Danish model, too, will probably have to give way to another, even more successful paragon.