

The London School of Economics and Political Science

**European Labour Market Flexibility Reforms:
a Longitudinal Study of Change and Continuity.**

By:
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Dedicated to:

María Cledia Cerda Valenzuela, Educator

&

Mara Ines Kongsmark Flanding, my daughter.

A thesis submitted to the Department of Government
of the London School of Economics and Political Science
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Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

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Janne Flanding and Sven Hilskov, and sisters Malene and Mie Flanding, without the Danish welfare state I would not be writing these acknowledgements.

At the same time, I found that the idea, common in Denmark, that hiring and firing would be flexible, was not a universal concept! That always puzzled me, as welfare doesn't work without wealth creation – less so in a global world than ever before? As such, the main impetus for this thesis sprung from that simple observation and an interest in the European integration project fostered through observing the European Union's achievements from the outside, as a visiting student at McGill University (1998).

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With this thesis now accepted for the degree of Doctor of Philosophy, I can say that I have done it María's honour as an educator. All mistakes and/or omissions are mine and mine alone.

ABSTRACT

Debate about European labour market flexibility enhancing reforms and lack thereof has a tendency to be dominated by economics arguments. This thesis advances the debate by going beyond the economics arguments to ask the political science question: what explains the political ability (or inability) to enact flexibility enhancing reforms in European countries from the early 1980s to the global recession of 2008? Answering the question, this thesis argues that the ability to enact reforms is best explained by a combination of traditional political-economy pressures for reforms and political-electoral motivations of party leaders in government.

The argument is supported by a longitudinal analysis of European and country specific reforms using mixed-methods – i.e. quantitative and qualitative research – and employment protection legislation (EPL) as a proxy for reforms, the latter being warranted because of EPLs political salience as a reform target prior to 2008. First, a quantitative cross-country reform-hazard analysis arrives at significant economic and political explanations for reforms, which include a country's social model, unemployment rate and economic growth. Then, a qualitative analysis of the trajectory of EPL and functionally linked labour market reforms combines the quantitative results with a broader political understanding of reforms for Germany, the UK and Denmark as country cases where reforms were enacted, and France as a case where only limited or contradictory EPL reforms were put in place during the period covered by this thesis.

The thesis adds robustness to the literature showing most pre-2008 global recession reforms were at the margin, targeting non-regular employment parts of European labour markets. However, overall, the thesis provides a political understanding of the European reform trajectory, suggesting that economic arguments rarely on their own stand up as determinants of reforms. The implications for future research are that the enactment of flexibility enhancing reforms should be treated more explicitly as the outcomes of political decisions and less as reactive steps to economic predictions or political economy pressures for reforms, even if the latter continues to play a role in bringing reforms onto the political agenda.

1. Introduction

1.1 Research question and theoretical background

Why, politically, have European politicians been able to reform European labour markets towards more flexibility in the thirty years leading up to the global recession that started in 2008? Answering that question by understanding the *determinants* of reforms - i.e. what explains the political ability to enact reforms – is important to political science because of the political salience and scale of reforms undertaken by European politicians from the early 1980s to 2008, who steadily implemented a range of liberalizing or flexibility enhancing labour market reforms. Across the 15 most integrated EU member states¹, ‘almost two reforms per year and country’ were implemented from 1980 to 2007 – primarily liberalizing reforms in the areas of employment protection, unemployment benefits and active labour market policies (Boeri, 2011:1185).

While many of those reforms were on their own marginal – defined as creating or widening the gap ‘between a reformed and an unreformed segment of the labour market’ – they were cumulatively part of an overall liberalization of European countries (Boeri, 2011:1174; Baccaro and Howell, 2011). From a political science perspective, this thesis posits that understanding the political *ability* to reform is as important as understanding the economic need for reforms or the empirical (often disputable) outcomes of such reforms – an area of study that has spurred a large and growing literature, e.g. on labour market dualization and the impact of reforms on unemployment (Palier and Thelen, 2010; Howell *et. al.*, 2010; Baccaro and Rei, 2007).

Indeed, focusing on the ability to reform – defined as political coalitions aligning to enact flexibility enhancing labour market reforms – is warranted precisely because of the unrelenting economics argument in favour of reforms during the thirty years to 2008. During that period, for example, the prevailing economics view was that increasing

¹ For the list of EU15 countries, please refer to Table 3 in Chapter 2.

flexibility, e.g. lowering employment protection – would be beneficial to European economies by driving down the rising unemployment and decreasing levels of growth they were experiencing (OECD, 1987; Siebert, 1997). Therefore, even if never entirely separate, this thesis focuses on the *ability* rather than the *need* for reforms.

The research question posed is: using the politically salient variable of employment protection (EPL) as a proxy – while also including other functionally linked labour market reform areas where relevant – what explains the political enactment of flexibility enhancing reforms in European countries in the 30 years to 2008’s great recession?

In answering the question, the thesis aligns with the emerging literature focused on ‘analysis of the political coalitions on which economic institutions rest’ (Thelen, 2012:139). First, the political-electoral perspective hypothesises that variables such as the political electoral impact of enacting reforms is the most likely determinant of whether European labour market flexibility enhancing reforms are enacted or not. This hypothesis is supported by looking at election or leadership prospects for politicians attempting to implement reforms, changes to party systems and other politically driven changes within a country’s political system. Conditions that would in turn help determine if and how political coalitions can enact reforms.

The literature on labour market flexibility reforms recognises such an explicitly political argument. Liberalizing reforms may deliver (economic) benefits over the long term, but may also be eschewed by politicians who are limited by four- or five- year terms of office at the end of which they wish to be, or for their party to be, re-elected. They are too well aware that the ‘pains of reform usually precede the gains, making it even harder to push through the needed reforms’ (Bean, 1998:355; Saint-Paul, 2000). Similarly, a review by European Central Bank economists of the literature dealing with the challenge of agreeing to and implementing structural reforms showed that European politicians ‘discount the future at a higher rate than is socially desirable, owing to the political uncertainty surrounding their eventual re-election’ (Leiner-Killinger, et. al., 2007:12).

From a politicians' perspective, as aptly expressed by Jean-Claude Juncker, former Prime Minister of Luxembourg and current President of the European Commission the dilemma of implementing or failing to implement European labour market flexibility reforms in the period prior to 2008, when viewed from a political standpoint, can be summed up as one in which 'we all know what to do, we just don't know how to get re-elected after we've done it' (Economist, 2007). In this sense, the more formal political reasons for a lack of reforms were likely unfavourable short-term electoral prospects for politicians. Or, stated inversely to Juncker's statement, the hypothesis that a political leader may put forward an electoral approach that privileges a country's interests at the cost of re-election. Hence, researchers and political practitioners alike converge around the idea that labour market flexibility reforms or lack thereof are best explained by understanding how they affect politicians attempting to implement reforms.

A second way to explain political coalitions for reforms, hypothesises that political economic conditions, or in certain cases economics-based variables, may present the most likely determinants of the ability to reform labour markets e.g. a desire to reduce unemployment or increase growth through employment protection reforms. Or at the very least that political economy variables need to be controlled for when considering the politics of labour market reform enactments. In other words, can labour market flexibility reforms, or lack thereof, be best explained by a political focus on solving problems of government, e.g. high levels of unemployment, or maintaining institutional continuity and thereby potentially, a country's social model comparative advantage as the main driver of political coalitions forming to enact reforms?

While labour markets are only a subset of the political economy institutions on which European countries could or would depend to address challenges like unemployment, the hypothesis that both wider political economy and specific economic variables are the most likely determinants of labour market flexibility enhancing reforms can also be grounded in the existing literature. For example, enacted reforms have been theoretically linked to 'pressures to deliver policies that are congruent with production regimes', e.g. coordinated and uncoordinated market economies, or reforms of the same (Wood,

2001:248; Soskice, 1990). Further, as shown by Hassel, most European governments have experienced political economy ‘pressures for reform’ emanating from ‘labour market and social policy inefficiencies that burdened governments’, e.g. stagnant economic growth or persistent high unemployment levels (Hassel, 2007:254).

In addition to those domestic pressures for reforms, the pressures wrought by European and global economic integration should also be considered. So far, the literature on Europeanization has focused mainly on the impact of European economic and political integration on continuity and change in the politics and policy outcomes of EU Member States, including labour market reforms (Exadactylos and Radaelli, 2012; Graziano and Vink, 2006; Featherstone and Radaelli, 2003). Yet the EU only has limited jurisdictional capacity in the area of labour market policy – no supranational authority exists at the EU level in that domain. Hence, the impact of Europeanization or globalization on labour market flexibility reforms must necessarily be indirect. That holds even for European Union soft law like the Lisbon Agenda and the “Europe 2020” initiative that followed the Lisbon Agenda (Schmidt, 2006; Borras and Jacobsen, 2004; Mosher and Trubek 2003; De la Porte, 2002).

Of course, the argument could, and indeed has been made that labour market flexibility is not important regardless of political and economic considerations or pressures for reforms, including European integration and globalization. Simply put: ‘why deregulate labour markets’ at all when ‘no serious...politician believes that flexible labour markets resolve everything’? (Anderson and Regini, 2000:2). However, from a longitudinal perspective it is politically salient that, in particular, employment protection reforms were increasingly common during the period covered by this thesis. Indeed, Andersen and Regini who asked their question about labour market deregulation in 2000, admitted that flexibility had become necessary or would increasingly become so as part of the ability of European economies to ‘adjust quickly to change’ in a globalizing world economy (Regini, 2000:15).

In fact, the literature now broadly recognises that the political challenge in regulating the risks of European political economies has become not one of whether or not to reform, rather one of ‘[a]dapting unemployment protection to labour market change’ as a ‘major social and economic challenge to European welfare states’ (Clasen and Clegg, 2012:1). To the extent that a ‘liberalization of the world’s economies’, including for the European labour markets of the countries covered in this thesis, to varying degrees has already occurred (Hall and Thelen, 2009:8; Baccaro and Howell, 2011; Boeri, 2011). What is missing, however, is a clear picture of the determinants or explanations of the political decisions to enact those reforms – marginal or otherwise.

Explaining labour market reforms is important for two reasons. First, because rather than circumscribing the answer to a single hypothesis, it is likely to be the combination of economic challenges to governments and political-electoral (dis)advantages to reforming political parties and their leaders, changes to party systems or other politically driven changes within the political system of a country that offers the more precise understanding of conditions for European labour market flexibility enhancing reforms. Second, as the thesis will show, through a better understanding of the trajectory of reforms obtained via a longitudinal analysis of enacted reforms, the specific conditions for reforms can be made more explicit for the benefit of focusing policy makers wishing to meet the reform challenge of European labour market flexibility. Overall, the argument presented based on the trajectory of reforms is that the reform challenge was and ultimately remained a political challenge during the time period covered by the thesis.

Understanding the reform trajectory is important, because regardless of political economy pressures for reforms, there are certainly cases where, for example, even high increases in unemployment did not forestall significant labour market reforms, i.e. France (Milner, 2012; Malo *et. al.*, 2000). Therefore, the specification of a combined political and economic understanding of European reform trajectories for labour market flexibility is important as neither on its own are likely to offer a satisfactory answer. In other words, the thesis argues that the traditional approach of focusing only on economic

pressures or political-electoral arguments for or against labour market reforms will leave the reader short of understanding what determined the ability for reforms to go forward.

To recap, answering the posed research question is achieved using employment protection legislation (EPL) and functionally related reform enactment events as a proxy for the dependent variable of labour market flexibility reforms across European countries from the early 1980s, in some cases earlier if theoretically warranted, to the Great Recession in 2008. The reasoning behind the selection of changes to EPL as the main proxy for European labour market flexibility reform events is explained in the next Section 1.2. The section also analyses the availability of data to conduct a longitudinal analysis of reform events to answer the research question and test the posed hypotheses. Section 1.3 then provides an overview of actual observed variation on the dependent variable of EPL. Finally, details of the thesis research design and methods are set out in Section 1.4. Overall, the research design will allow for testing the two hypothesis outlined above using both quantitative and qualitative methods with the aim of answering the posed research question.

1.2 Employment protection and labour market reforms

The long-standing argument for European hiring and firing flexibility reforms is largely anchored in the OECDs highly influential 1994 ‘Jobs Study’ (OECD, 1994). The study built on and referenced what Boeri and van Ours argue was a ‘large body of academic papers and policy reports...[that] examined the effects of labour market institutions on economic performance before the Great Recession’ (Boeri and van Ours, 2013:1). Its basic purpose was to try to explain the large discrepancy in labour market success between the highly flexible labour market of the United States of America (USA) and the less flexible European one(s).

The overall finding of the study was that Europe exhibited significant institutional ‘rigidities’, derived from much higher levels of EPL – also a standard measure of labour market flexibility used by the OECD (OECD, 1994). While of course there were other existing political rigidities like the strength of organized labour and institutional

constraints in some countries, the EPL focus was perhaps surprising perhaps but more so as it departed somewhat from the usual focus within political economy and economics research on the interaction effects of EPL, unemployment benefits, active labour market policies, and the total tax wedge on low wages that are usually components of labour market institutions and structural reforms of the same (cf. Boeri and Van Ours, 2013:23).

Yet the OECD Jobs Study did not stand alone. A range of economics and policy related literature emerging from the “Eurosclerosis” of the 1980s, to at least the 2008 Great Recession, focused on EPL as the main culprit of the purported European labour market *malaise* and as *the* economic and political challenge of European labour market flexibility reforms (Siebert, 1997; Tanzi and Schuknecht, 1996). Also evident in the Agenda for a Growing Europe, called The Sapir Report² for its lead author Andre Sapir, and in subsequent peer reviewed articles covering the work of the Report, EPL was emphasised over levels of unemployment benefits covering a typology of four European social models, namely Continental, Anglo-Saxon, Mediterranean, and Nordic social models (Sapir, 2006).

Not only did the OECD Job Study set the tone for the political salience of EPL for the period covered in this thesis, Sapir’s work also demonstrates the utility of understanding labour market reforms in terms of EPL (over other functionally linked areas) as his analysis showed how ‘protecting jobs with employment legislation is definitely detrimental to employment, whereas protecting workers with unemployment insurance is potentially useful for employment’ (Sapir, 2006:379). To illustrate, by extension, Sapir’s social model typology showed that while liberal Anglo-Saxon regimes were economically efficient through low EPL, they lacked a robust element of equity; that conservative Continental and Mediterranean regimes tended to be both inefficient (high EPL) and (increasingly) unequal; while the Nordic European regimes showed the ability to achieve both efficiency (low EPL) in global markets and a high degree of relative equity (Sapir, 2006).

² A report on the economy of the European Union edited by a panel of experts under the direction of André Sapir and published in July 2003 (Sapir, 2003).

That matters because at a political level, labour market flexibility understood through the EPL variable showed that there would not necessarily be an implicit conflict with the equity-focused assumption of the overall European social model (Sapir, 2006). Put differently, for using the EPL variable as a dependent variable, calls for reforms of EPL needed not necessarily be considered neo-liberal in intent and therefore potentially ideologically biased. That is because, as shown by the Nordic social model, EPL driven labour market flexibility and equity can, in principle and as evident in the Nordic countries, co-exist.

Hence with respect to social models as an analytical variable for understanding labour market flexibility reforms, because they explicitly deal with the advantages or disadvantages of flexible labour market, Sapir's typology is useful to help frame a European-focused analysis of the determinants of European labour market flexibility reforms and will be used throughout the thesis. Further, in a wider political economy context, Sapir's typology provides a structural reform perspective focused explicitly around labour markets that does not contradict the otherwise more prevalent varieties of capitalism and/or worlds of welfare capitalism social model typologies (Hall and Soskice, 2001; Esping Andersen, 1996).

The liberal, conservative, and social democratic models defined by Esping-Andersen were developed around how a welfare state regime could limit the overall market 'commoditisation' of labour (Esping-Andersen, 1990:144). For this reason, labour market institutions and reforms of the same – like wage-setting, legal job protection, and so forth, in this tradition were studied using a power-resource approach for the extent to which they offered social protection, omitting a direct link to EPL (Regini and Esping-Anderson, 2000; Esping-Andersen, 1990:144).

Similarly, Hall and Soskice's 'variety of capitalism' argues that countries had developed social models in accordance with their institutional, Ricardian comparative competitive advantages (Hall and Soskice, 2001; Soskice, 1990). Using Germany and the USA as core case countries, the varieties of capitalism approach argues that political economies

derived comparative competitive advantage mainly from their ability to establish and sustain specific labour market skills levels, e.g. low in the USA and high in Germany, through which a sustainable competitive advantage was created and perpetuated – rather than levels of EPL as in the case of Sapir’s typology (Iversen, 2005; Sapir, 2003; Hall and Soskice, 2001). Therefore, those social model constructs, i.e. varieties of capitalism and worlds of welfare capitalism theories are only drawn on where theoretically relevant with the analysis of EPL instead making reference to Sapir’s social model typology as described above.

Returning to employment protection and labour market reforms, it is important at the outset of the thesis to recognise that even if Sapir’s typology is contingent on a positive EPL reduction effect on European political economies, economics-research evidence has since emerged to challenge the mainstream EPL reform-benefits view prevalent before the Great Recession. Specifically, a host of studies have shown that EPL-driven structural reforms do not always empirically yield the intended economic results of, say, lower unemployment that was assumed in, for example, the above mentioned OECD Job Study report (Baccaro and Rei, 2007; Howell *et. al.*, 2007).

Even so, the way in which importance has been ascribed by politicians and economists alike to EPL shows a continued underlining of its special location in the politics of European political economies – certainly within the time frame covered by this thesis. For example, the relevant economics literature on labour market reforms holds that ‘the strict employment protection legislation in Europe...[was] the smoking gun responsible for the asymmetric responses to the global shock of the 2008-9 [Great Recession]’ (Boeri and van Ours, 2013:2). Equally, the labour market literature within ‘political economy puts heavy emphasis on employment legislation’ to understand country-level ‘trajectories of liberalization’ and how governments can ‘influence the operation of labour markets’ (Thelen, 2012:112).

Overall then, while perhaps economics and political economy literature on the significance of EPL as a structural reform variable for the period covered here may be

somewhat simplistic, within a policy context it serves to highlight that for politicians one of the absolute key labour market rigidities focused on in Europe, from the early 1980s to at least the Great Recession, related to EPL. Hence, for the purposes of this thesis and in recognition of the need for a parsimonious analysis in the face of otherwise highly complex European labour markets, EPL can function as a useful proxy for analysing the ability of European politicians to enact labour market flexibility reforms at least up to the Great Recession. That is, EPL is a critical and important indicator of labour market policy (dis)continuities not least through its perceived economic impact in the pre-Great Recession period, but mainly also for its high political salience.

Beyond economics, the politics of increased labour market flexibility through lowering of EPL also link up to political leadership strategies and coalitions that may or may not support reforms in the short and long term (Thelen, 2012). In that context, the literature on structural or liberalizing reforms is much larger than can be covered in this thesis. However, to further define and put the focus on EPL in perspective, liberalizing or flexibility enhancing labour market reforms usually involve one of two main strands. The first strand covers de-regulation or the ‘elimination or relaxation of institutional barriers’ and the second covers more extensive systemic ‘transformation in the role played by formally unchanged institutions’ as they take on ‘different functions and generate different outcomes’ within political economies (Baccaro and Howell, 2011:527).

Situated within the first strand, a reduction in employment protection is one avenue of liberalizing reforms that can be directly traced by looking at its defining ‘removal of legal or contractual restrictions at the workplace level, in the broader market, and in society’ by analysing changes in European countries’ EPL (Baccaro and Howell, 2011:527). The caveat is that, ultimately, the explanatory power of the analysis in this thesis will also be restricted by the narrower focus on de-regulation rather than more broad systemic transformations. Importantly, however, EPL is as mentioned above readily available and a widely used variable in reform related research (Boeri and van Ours, 2013; Thelen, 2012:112). Critically, it covers the majority of the time period

relevant to the thesis research question, being available from the OECD from 1985 onwards (OECD, 2010).

That said, a number of additional data sources can help provide important, additional qualitative insights into the content and exact political nature of European labour market reforms. Pointing to the generally increased importance ascribed to labour market reforms across Europe, the European Commission has developed the LABREF database, which covers reforms in 20 EU member states from 2000 to 2013 (Turrini *et. al.*, 2014). Likewise, the private Rodolfo de Benedetti Foundation (FRDB) makes available a qualitative country-by-country overview of all structural and non-structural labour market reforms in European countries covering the years from 1980 to 2007, including one specifically for EPL (FRDB, 2015; Boeri, 2011).

However, LABREF only ‘collects information on measures adopted by EU Member States’ compared to EPL covering all of the OECD (Turrini *et. al.*, 2014). LABREF is therefore less useful than the OECDs EPL in terms of a longitudinal study and as an indicator of the area where politicians presumably focused their efforts in the period leading up to the Great Recession: a comparison focused on differences between a sclerotic EU and the presumably more dynamic USA, as well as the rest of the OECD. Differently, the FRDB database focuses on qualitative tracing of all legislated reforms in the 15 most integrated EU member states. Therefore, that does allow a complementary qualitative review of trends discerned through the use of the quantitative OECD-EPL variable, especially at a country level (Boeri, 2011).

Overall, while both the LABREF and the FRDB databases are important repository of information on labour reforms, the OECD’s EPL indicator remains the single most straightforward quantitative, if imperfect, longitudinal proxy-indicator for the thesis dependent variable of labour market flexibility reform events in Europe up to the Great Recession. Not least when what is sought is a measure for cross-country comparison of trends in labour market flexibility reforms with an emphasis on testing the politics oriented research hypotheses of this thesis, as outlined above. For those reasons the

FRDB data is used in lieu of LABREF's to provide qualitative information to the thesis' analysis of labour market flexibility reform events over and beyond the data available on EPL from the OECD, which is used for the thesis' quantitative analysis.

Finally, the definition of the OECD's EPL measure is straightforward and unambiguous i.e. EPL is defined as employment protection derived by labour market participants through legislation, judicial rulings, collective bargaining deals and national practices (OECD, 2014a). As such, technically EPL is a longitudinal data series presented by the OECD, covering 'the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers' (Venn, 2009; OECD, 2007).

In sum, for the purposes of this thesis, EPL is used for its political salience and longitudinal, comparative availability. Yet it is not used in isolation, drawing mainly on FRDB data where available to provide qualitative information on each reform event at country level. Also, critically, related reforms in the areas of unemployment benefits, active labour market policies, and the total tax wedge on low wages that are usually part and parcel of labour market institutions and structural reforms of the same will be taken into account to complement the analysis and enrich our understanding of what constitutes the "perfect storm" when it comes to labour market reforms.

Critically, EPL links the argument that 'relying on strict unemployment laws at a time of rapid change when old jobs and practices are no longer warranted, (...) discourages adaptation to change and preserves the status quo' to the analysis of this thesis by emphasizing that the overall and longitudinal timing of events is not trivial (Sapir, 2006:381). That this is so should not be surprising as reforms will always form part of an on-going political process. In other words, a longitudinal perspective also becomes critical to assess the politics of EPL reform decisions. To arrive at a longitudinal perspective with respect to EPL reform, the subsequent Section looks at the observable variation on the thesis dependent variable of EPL.

1.3 Variation on the dependent variable: marginal reforms

As we have seen so far, to study politically salient determinants of labour market flexibility reforms, the most important distinction to be made is that although inter-related, the political decision or ability to enact reforms is distinct from the impact of such reforms on economic outcomes. In the latter case, the economics-based socio-economic impact of labour market flexibility reforms is primarily an empirical question, whilst the enactment of such reforms – the topic of this thesis, remain an analytically separate question concerning the trajectory of political decisions to reform or not.

Now moving to an initial analysis of observed variation on the dependent variable of the thesis, reforms, it might *a priori* be considered cavalier to claim that a reform trend of any sort is to be expected across all European countries. However, the idea that European countries can be analytically assessed as a block with respect to regulation and de-regulation is quite practical and arguably of intrinsic analytical value. For example, in a recent assessment of EU member states, Hix argued that rather than different across the board, say along social model lines, the ‘basic socio-economic policies of the EU Member States are really quite similar compared to the rest of the world’ (Hix, 2008:21).

The premise therefore, as corroborated by the economics literature on European labour market flexibility reforms, is that European labour markets have been reformed towards more flexibility, at least at the margin (Boeri, 2011). To illustrate, consider the trend in EPL reforms in Table 1 showing the variation on the proxy dependent variable of the thesis, EPL. For ease of reference given the focus of this thesis, in Table 1 EPL reforms are further differentiated by European social models using Sapir’s typology; with the time period covered being from 1985 to 2008.

Table 1: Employment Protection Legislation EU15 by Social Models

EU15 by Social Model	EPL 1985 Employment Protection Legislation			EPL 2008 Employment Protection Legislation			Change 1985-2008		
	Overall	Regular	Temporary	Overall	Regular	Temporary	Overall	Regular	Temporary
Continental	11	10	13	9	10	9	-2	0	-4
Nordic	11	10	11	7	9	5	-4	-1	-6
Mediterranean	15	13	17	10	10	11	-5	-3	-7
Anglo-Saxon	2	3	1	2	3	1	0	0	1
EU15 Total	39	36	42	29	32	26	-10	-4	-16

Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD's employment protection website (www.oecd.org/employment/protection). Extracted in 2010 and rounded to zero decimal places – see full details in Table 2, Chapter 2. All tabulations and calculations completed as part of research for this thesis. Social Model categories as developed by Sapir (Sapir, 2006). For the list of EU15 countries, please refer to Table 3 in Chapter 2.

Table 1 indicates that for the group of 15 most integrated European Union member states between 1985-2008, there was a reform trajectory showing a change towards labour market flexibility of about 25% for the overall EPL measure: the summary overall EPL score for EU15 countries decreased from 39 in 1985 to 29 in 2008. However, the two-tiered nature of the reforms showing a gap ‘emerging between a reformed and an unreformed segment of the labour market’ can also be discerned from Table 1: the difference for temporary EPL was a large -16 versus that of regular EPL, which was more subdued at only -4 in difference between 1985 and 2008 (Boeri, 2011:1185).

Further, in analysing EPL reforms from an economics perspective, Boeri and Garibaldi argued that the observed two-tier reforms led to a so-called ‘honeymoon effect’ (Boeri and Garibaldi, 2007). The effect appears when temporary contract flexibility increases and ‘firms exploit’ this new hiring flexibility; yet, since regular employment conditions have not changed, ultimately all workers are replaced by workers with temporary contracts and ‘employment returns to its level before the reform’ (Boeri and Garibaldi, 2011:1204). While arising strictly from an economics perspective, the honeymoon effect type of argument – driven off observed policies that are similar with respect to the enactment of marginal labour market reforms, has also spurred a politics-focused literature for understanding one of the possible outcomes of marginal reforms around what has been termed labour market ‘dualization’ (Palier and Thelen, 2010).

Dualization is defined as marginal labour market reforms leading to a two-way segmentation of the labour market. Insiders – those who are able to politically hold out against or lessen the impact of labour market liberalising reforms, and outsiders – those who suffer the brunt of flexibility enhancing labour market reforms are segmented when dualization occurs (Rueda, 2007). Insiders work within unreformed regular employment terms and non-regular or temporary employment terms – those that are at the margin, are created or further liberalized for labour market outsiders. The result is a dualized labour market or a posited European ‘age’ of dualized labour markets (Davidsson and Emmenegger, 2012; Palier and Thelen, 2010).

To illustrate, if translated into social model terminology, dualization means that an increasing number of outsiders experience a higher level of commodification and presumably also a more competitive labour market. However, for the purpose of this thesis the outcome aspect of dualization as a result of marginal reforms is not the main interest. What the dualization literature adds to the analysis here is related to the political aspects of reforming coalitions opting for two-tier labour market regimes. As such, dualization may be analytically useful for understanding political reform choices and where present – in the same vein to that of social model belonging, can qualitatively point to analytically useful information with respect to labour market reforms that both occurred or might not have occurred, i.e. the observance of persistently unreformed labour market segments (Boeri, 2011:1175).

Linking to existing answers for how policy or reforms enactment coalitions might form, Saint-Paul has seminaly used the median voter theorem to argue that politically significant labour market reforms would most likely arrive in two parts; in effect supporting both the idea of an economic honeymoon effect and a political preference for the reform outcome associated with labour market dualization (Saint-Paul, 2000). According to Saint-Paul’s theory, first politicians need to buy the ‘support of incumbent employees by granting that the new arrangements...will only apply to new contracts’ (Saint-Paul, 2000:227). Reforms would therefore not affect the status quo for voters under regular employment arrangements – insiders or regular contract holders most

likely also being the median voter majority, the votes of which are necessary for political parties aiming to win the power to form a government. Then, as a second step, with the increased flexibility in place, over time this could lead to further systemic change through labour market reforms for other (regular) parts of the labour market (Saint-Paul, 2000).

Dualization is perhaps then a political expression of the first step in Saint-Paul's labour market flexibility reform theory. Yet one area where dualization varies is in terms of the argument that what is causing dualization – and hence by implication also labour market flexibility reforms, is the changing nature of existing political economy 'linkages' between industrial relations, labour market policy and welfare state reforms (Palier and Thelen, 2012:121). Those are valid arguments, but this thesis attempts a slightly different approach to explaining labour market flexibility reforms by distinguishing mainly between political and economic explanatory variables and their combined effect over time, where discernible, to help determine what best explains the ability of politicians to enact flexibility enhancing reforms.

Having looked at this thesis' research question, hypotheses and described the dependent variable of labour market flexibility reforms in the context of the existing literature, the rest of this Chapter examines the design and methods applied to answer the thesis question so that both political and economic or wider political economy explanatory variables can then be further developed in the subsequent Chapters.

1.4 Design and methods

1.4.1 Mixed-methods and case selection

Labour markets are complex institutions and therefore, for ease of analysis and because of its political salience as discussed above, this thesis relies largely on the widely used OECD EPL measure of reform events as a proxy for the dependent variable of European labour market flexibility change and continuity. EPL is available for EU and non-EU

members of the OECD and measures longitudinally traceable reform events, events in the direction of more flexibility being the main variable of interest.

In politically explaining EPL change events, the determinants of labour market de-regulation need to capture both political and economic variables. As such, empirically, explanatory political variables like the impact of political leadership or shifting coalitions that enact reforms over time are difficult to capture quantitatively, with some exceptions like the ideological leaning of the party in government. Conversely, economic explanatory variables like unemployment, economic growth and so forth are more easily captured quantitatively. Further, a cross-country quantitative approach is well suited to capturing economic and some political economy variables, like social models, while a country-by-country set of qualitative case studies are better suited to examining political explanatory variables.

Therefore, the thesis applies a mixed-methods research design covering both quantitative and qualitative research methods: using a mixed-methods approach allows the thesis to systematically explore both economic or wider political economy and political determinants of European labour market flexibility reforms, as follows; (1) Quantitatively through a cross-country quantitative reform-hazard statistical model, and (2) qualitatively through country-by-country tracing of reform events, and the political coalitions supporting them.

Additionally, a key reason for using a mixed-methods research design is Gualmini and Hopkin's finding that, when surveying two decades of political economy literature to discern patterns of 'distinctive institutions of welfare capitalism', the research methodology itself had often led to unintended bias (Gualmini and Hopkin, 2012:65). In their analysis, quantitative or statistical analysis tended to show findings supporting similarities in the direction of change with respect to how countries had reformed on the back of domestic, European or globalization pressures. Inversely, a continuation of differences between countries was often associated with 'detailed qualitative empirical

analysis of single [country] cases' showing the 'persistence of national differences, stressing a lack of significant change over time' (Gualmini and Hopkin, 2012:65).

In practice, mixed-methods require incorporation of quantitative statistical modelling and qualitative cross-national case-studies (cf. Tashakkori and Teddlie, 2010). That said, political scientists often call for mixed methods in comparative analysis yet fail to develop appropriate 'guides for carrying out such work' (Lieberman, 2005:435). Derived from Lieberman, a standard guide for using mixed-methods in political science would be for the quantitative analysis to help explain both variation in the dependent variable of labour market flexibility reforms *and* help specify the selection of countries for subsequent qualitative case studies. The reason being that 'a unified approach which joins intensive case-study analysis with statistical analysis' supports the ability of arriving at 'more focused case studies and comparisons' (Lieberman, 2005:435).

This thesis follows this guide with respect to understanding variation on the dependent variable of EPL more fully. As such, country-case studies will be used in Chapters 3 to 6 as a follow-on to a statistical investigation of reform events in Chapter 2, allowing for examination of '*within*-case processes and/or variation' derived from the quantitative analysis (Lieberman, 2005:440). However, the selected cases also need to 'theory test' the posed hypotheses and therefore case selection cannot wholly be relied on from the quantitative analysis (George and Bennett, 2005:75).

For answering the research question that means the cases also need to follow the criteria: (1) help test the specified research hypotheses or hypothesis and (2) provide a better understanding of the determinants of the observed variation on the dependent variable of EPL reform events. As such, the qualitative case studies are intended to allow for a better understanding of the change and continuity process or, somewhat more ambitiously, the identification of causal pathways between political factors and EPL reforms.

The implication of these two criteria for case selection is that the quantitative analysis cannot be fully relied on to select cases because they also need to be theoretically valid with respect to testing the thesis research question. Thankfully, the available literature on European country level labour market reforms support a case selection of countries where reforms, marginal or otherwise, have not appeared to take hold regardless of pressures to reform from an economic perspective. In the case of France, *a priori* limited reforms to employment protection (limited variation on the dependent variable) is evident from the existing literature while nonetheless France also experienced persistently high economic pressures for reform through having consistently high levels of unemployment and sluggish growth across the time period covered by the thesis (Marx, 2012; Malo, 2000). Therefore, France is used as a case study of a European country within the 15 most integrated EU member states that have not overall reformed its labour markets despite political economy pressures to do so, at Chapter 6.

Similarly, the theoretical background analysis in this Chapter showed that in terms of the politics of how labour market reforms might *a priori* be a neo-liberal proposition that might be unpalatable for some political parties, the case of the Nordic social model challenged such a view because they showed that low EPL could be coupled with an outcome that generated lower comparative levels of inequality (Sapir, 2006). Specifically, as an example of a Nordic social model country, Denmark is a suitable case study, one that satisfies the selection criteria because it follows the so-called flexicurity labour market model quite closely. While further discussed in Chapter 5, flexicurity is the underlying labour market approach that sets the Nordic countries apart in Sapir's typology; an approach which supports high levels of labour market flexibility (the "flexi" part) by compensating workers with high levels of socio-economic support in the form of high replacement rates and high investments in active labour market policies (the "curity" part) (Madsen, 2006).

This matters to testing the posed research hypotheses because with flexicurity in place, the political aspects of liberalization through labour market reforms in Denmark would *a priori* be expected to be politically less salient – which is in fact confirmed by the

analysis in Chapter 5. Instead, it would be expected that economic or at least a combination of political and economic variables would be more important to explaining any variation on the dependent variable of EPL reform events. Importantly, Denmark – while having had historically high levels of labour market flexibility, also satisfies the selection criteria of exhibiting variation on the dependent variable. Specifically, as will be shown in Chapter 5, Denmark in the period covered by the thesis experienced significant marginal reforms of temporary EPL not traditionally a part of the Danish labour market (Goul Andersen, 2011).

Finally, the two main strands of social models in Europe within Sapir's typology for continental and liberal countries to a large extent match the *varieties of capitalism* typologies of coordinated market economies, for which Germany is the classic case, and liberal market economies, for which in Europe, the UK is the classic case, respectively. Hence, selecting the cases of Germany and the UK, at Chapters 3 and 4, means that the extensive literature of those two models can be drawn on for the thesis analysis. Importantly, in terms of the theoretical criteria both Germany and the UK have a well documented history of completing labour market reforms in a liberalizing direction.

In the case of the UK, Margaret Thatcher completed significant labour market flexibility enhancing reforms during the period covered by the thesis (Wood, 2001). Similarly, in the case of Germany the so-called Hartz reforms mean that Germany can also be used as a case which exhibits variation on the dependent variable of EPL (Neugart, 2005). Both countries, however, would not *a priori* be expected to have particular institutional features that would make either political economy or political variables more or less salient with respect to determining enacted reforms. Hence, they are both appropriate cases for the thesis research question.

Having selected the country-cases, the following sections specify the quantitative and qualitative methods that will be applied in Chapter 2 (quantitative analysis) and Chapters 3 (German case), 4 (UK case), 5 (Danish case), and 6 (French case).

1.4.2 Quantitative analysis of reforms: event-history analysis

For the quantitative analysis of reforms, a statistical event history analysis (EHA) is used in Chapter 2. The main reason for the selection of EHA is that it has emerged as a valuable tool for researchers interested in comparative political change, which focuses on a longitudinal political process like the implementation of labour market flexibility reforms (Barriga, 2004). For example, relevant to labour market reforms, by definition a product of political coalitions, Barriga applied EHA to a study of political reforms because as a methodology it is explicitly ‘capable of modelling common political phenomena’ (Barriga, 2004:80). As such, ‘[g]iven its strength in the study of political change, event history should be an important option for researchers studying political change’ (Barriga, 2004:80).

Further, EHA has in recent years developed into a convenient tool for longitudinal identification of the underlying dynamics of observed policy changes – like changes in EPL (Box-Steffensmeier and Jones, 2004; Jones and Branton, 2005; Berry and Berry, 1990). One such development is the ability of advanced EHA models to explicitly attempt to resolve the ‘snapshot’ problem of more commonly used pooled cross-sectional regression analysis (Blossfeld, Golsch, and Rohwer, 2003). The snapshot problem with cross-sectional analysis is that the analytical value of the cross-sectional statistics underlying – for example, most social model typologies, are ‘not determined by hypothesis about the dynamics of the substantive [underlying] process itself’ (Blossfeld *et. al.* 2003:5).

However, it is also important to dispel a common misunderstanding about event history models in classic political science research: previously the notion of time-dependency or the basic ‘timing’ of an event was the primary focus of EHA application, i.e. the specific timing of a ministerial resignation (King *et. al.* 1990; Bennett, 1996). In part, the specific event-timing focus of early political science was due to the use of parametric event history models (Box-Steffensmeier, 2004:21). However, today, as shown by Box-Steffensmeier and as will be applied in the quantitative analysis in Chapter 2, the most appropriate EHA model for political scientists is the Cox proportional hazard model.

The Cox model is useful to political scientists, the topic of this thesis included, because it allows analyses of ‘the relationship between some outcome (the dependent variable) and covariates of theoretical interest’ *over time*, rather than the simpler, classic, time dependency application (Box-Steffensmeier, 2004:47). Importantly, that also means that EHA now, compared with time-series analysis that works with an average effect, can produce a hazard rate of reform that takes into account the overall *trajectory* of reforms.

Therefore, EHA drives a better understanding of the political trajectory of reform events, rather than average effects, and this is becoming clearer as the use of the methodology has increased in recent years. For example, similar to the approach informing this thesis, Martin and Steiner used EHA to analyse globalization driven liberalization by measuring changes in globalization as ‘a dichotomous measure of major liberalization events constructed from the KOF restriction index’ (the KOF index being a standard index of globalization that is also used in Chapter 2) (Martin and Steiner, 2013:15; Dreher, 2006).

In a very similar form, for the purposes of this thesis, labour market flexibility increases measured through changes in EPL (events) represent a dichotomous measure of politically enacted reforms. Therefore, using EHA rather than standard time series statistical analysis is appropriate for answering the research question from a quantitative perspective, in the sense that EHA is ‘an appropriate estimation technique where [reform] events are the outcome of interest’ (Martin and Steiner, 2013:15).

To summarize, for the quantitative part of the mixed-methods application, EHA overall and specifically with the calibration in recent years of the multiple-event Cox models, no longer needs to be compressed into time-series averages, snapshots in time, or discrete events (Jones and Branton, 2005; Guy Peters, 1998:187). Therefore, EHA is applied in Chapter 2 to test the duration of the time a unit, i.e. an existing level of EPL, remains in a particular political state, i.e. reformed or not towards more flexibility. Doing so allows the reform testing process to be repeated, mimicking the political process of continuously forming coalitions that may or may not form to reform a country’s labour

markets towards more flexibility. Further details of the EHA statistical model specification is outlined in Chapter 2.

1.4.3 Qualitative analysis of reforms: case-study method

For the qualitative part of the mixed-methods approach, the case studies are structured in such a way as to help ‘describe politically important events systematically’ (King *et. al.*, 1994:43). At the same time, the purpose of the case studies is to explore what reforms have resulted from longitudinally changing political coalitions willing (or not) to liberalize and/or de-regulate labour markets (Thelen, 2012). As such, qualitatively researched reform events risk being spuriously analysed unless they are accompanied by a ‘good description’ across country case studies (King *et. al.*, 1994:45). To avoid this result, the qualitative case-study methodology for Chapters 3-6 incorporates ‘a procedure of systematic data compilation’ focusing on providing information on political dynamics, which are not covered by the quantitative Chapter 2 (George and McKeown, 1985:43).

Specifically, the procedure used in this thesis builds on a systematic and repeatable approach to data collection and presentation of each of the four case studies. Each case study has an introduction that historically traces the trajectory of EPL reform events, the events that generate a change in the OECD EPL indicator to be specific. Each case reconstructs and explains those reform events and any clear attempts at reforms that failed, as well as reforms to functionally-linked areas like unemployment benefits that may contribute to a better overall understanding of reform determinants with the aim of politically explaining European labour market reforms.

Further, overall, each thesis Chapter is intended to address and answer a specific part of the thesis research question (Dunleavy, 2003), avoiding the often seen pitfall of mixed-methods with regards to maintaining ‘integrity of the single study, compared to inadvertently permitting the study to decompose into two or more parallel [quantitative and qualitative] studies’ (Yin, 2006:41). To ensure that this thesis remains a single study,

but also more than the sum of its parts, both the qualitative and quantitative studies are structured around a longitudinal approach to understanding developments in labour market flexibility reforms.

Finally, over and beyond the political salience of EPL up to the Great Recession, another reason for time bounding the thesis is the availability of data. For the qualitative country case studies, secondary literature on European political economy developments is limited to after the Second World War – with detailed reform analysis possible from the 1970s onwards. For the quantitative analysis, the existence of longitudinal data sets is a limiting factor. However, in addition to the data sources already mentioned, good quality data is available for cross-country analysis from reliable sources like the OECD, World Bank, etc. from the mid-1980s onwards. With respect to time limits, the specified theoretically relevant time limit of the 2008 Great Recession avoids having to interpret any significantly (skewing) impact of the Great Recession, the impact of the Great Recession itself not being within the scope of this thesis.

Having outlined the research question and its theoretical background, established the key tenets of the dependent variable and variation on the same up to the Great Recession, the following Chapters will discuss and provide evidence for the argument that the reform challenge is ultimately a political challenge. As a preview, the main finding of the thesis is that factoring in political variables like electoral-political incentives and/or intra-party leadership dynamics are key determinants of reforms, without which reforms are unlikely to be observed. As such, the thesis does not provide evidence to reject the hypothesis that labour market flexibility reforms are best explained by a political focus on solving economic problems like low growth and high unemployment. Rather, the thesis underlines that the political conditions for reforms need to be present together with economic problems for politicians to have the ability to enact reforms successfully.

2. Explaining European labour market flexibility reforms

Following the mixed-methods approach outlined in Chapter 1, this Chapter quantitatively operationalizes the thesis research question by using EPL as a proxy for labour market reform events to do an initial review of what determines labour market flexibility enhancing reforms in European countries, or lack thereof, in the period from the early 1980s to the Great Recession in 2008. As also discussed in Chapter 1, EPL is considered an appropriate measure for labour market reform trends available for sufficient years to make a longitudinal analysis possible. Further, EPL allows for a disaggregated analysis of overall, regular and temporary employment protection measures to give an indication of flexibility across different segments of the labour market.

In practical terms, explaining European labour market flexibility reforms is operationalized by deploying an event history analysis (EHA) to determine the nature of the trend towards marginal labour market flexibility enhancing reforms across core EU member states that was briefly outlined in Chapter 1. With the methodological choice of an event history analysis (EHA) discussed in Chapter 1, suffice to mention here that similar to the EU, EHA is a common method used to model State-level policy responses to politically significant events at the Federal level in the United States of America (Jones and Branton, 2005; Berry and Berry 1990).

For example, covering European integration, EHA has been used to research changes in specific policy areas, e.g. tracking European legislation implementation by EU member states and EU voting patterns (Schulz, 2000; Golub, 1999). Here EHA is used primarily for its estimation technique that, in difference from say time series statistical analysis, can be used to focus explicitly on explaining policy discontinuities or labour market reform events, as the dependent variable, and the hazard rate or political risk of reforms happening or not, and what explains them (Martin and Steiner, 2013:15).

The Chapter begins with a descriptive overview of labour market flexibility trends in the EU and OECD from 1985 to 2008; doing so helps better gauge, at the outset, the level of observable reforms towards more flexible European labour markets. A level which as generally argued in the economics literature has been at the margin (Boeri, 2011). The second part of the Chapter illustrates and tests the distinctiveness of labour market flexibility reforms for EU member states against an OECD control group and across European social models.

Third, the Chapter specifies a multiple event history analysis to model the hazard rate or probability of labour market flexibility reforms for identified explanatory political economy variables at three distinct analytical levels: domestic, European, and global. The main function of the Chapter is to look at institutional continuity and change with respect to the enactment of reforms, including what variables are significant for explaining reforms so that they can be narrowed down and focused on in more detail in the following qualitative case-study Chapters.

2.1 European labour market flexibility reforms 1985-2008

As discussed in Chapter 1, the OECDs ‘Employment Protection Legislation’ (EPL) index represents a sufficiently long running data series covering ‘the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers’ to be of meaningful use as a longitudinal measure of labour market flexibility reforms across EU member states (OECD, 2014a; Venn, 2009; OECD, 2007). Specifically, EPL is defined using an analysis of legislation, judicial rulings, collective bargaining deals and national practices (Venn, 2009:13)³.

³ Other indices exist in the literature, e.g. Estevez-Abe, Iversen, and Soskice’s composite index of employment protection includes collective dismissals and company based protection, yet would not justify identification of discrete events for EHA (Estevez-Abe, Iversen, and Soskice, 2001). More recently the European Commission has created the LABREF database and the private Fondazione Rodolfo de Benedetti has created a qualitative index of labour market reforms in the EU from 1980 to 2007 (Boeri, 2011). The reason for primarily using the OECDs EPL measure is discussed in Chapter 1.

Qualitatively, the importance of employment protection derives from the notion by economists up until at least the Great Recession, that high or ‘strict EPL inhibits labo[u]r market flexibility by reducing firms’ ability to adjust the workforce during changing economic conditions’ (Zhou, 2006:9; Siebert, 1997). At the same time, observed marginal EPL reforms also drive a better understanding of what the OECD labels the ‘incidence of non-regular employment’, in the sense that EPL provides a distinction between regular and non-regular employment types (OECD, 2014a:141).

As argued in Chapter 1, that incidence clearly mattered to policy makers in terms of why or why not they should or would support reforming coalitions, again at least up until the Great Recession. Further, the precise impact of flexibility enhancing changes to various areas of the labour market, including EPL, is a continuing debate within political economy (cf. Howell *et.al*, 2007). Yet, for the purposes of this thesis – as outlined in Chapter 1, reforms towards more flexibility are considered the result of political decisions to reform labour markets – what explains the political ability to take the decision to reform being the topic of this thesis.

Technically, OECD defines EPL as a summary indicator ‘made up of three sub-indicators quantifying different aspects of employment protection’: the strictness of regulation for regular contracts, temporary contracts and collective dismissals measured on a scale from zero (high flexibility) to six (low flexibility) (Venn, 2009:6)⁴. Changes in both directions for overall EPL and the corresponding trend for 25 OECD countries from 1985 to 2008 are shown in Table 2 using data extracted from the OECD website and then computed for the purposes of this and subsequent Chapters⁵.

Table 2 divides countries into core EU states (labelled EU15) and non-EU member states (labelled Rest of OECD), even if by 2008 some of the Rest of OECD labelled countries

⁴ Collective dismissals are attributed 40 per cent of the weight assigned to regular and temporary contracts (OECD, 2007).

⁵ The OECD regularly updates the EPL data series and when doing so backdates changes. The data used in this thesis is from the 2010 release of data covering EPL up to 2008 or in a few cases, 2009. The statistical analysis in this Chapter was replicated with both the releases of OECD data for EPL up to 2004 and 2008 with similar results.

had joined the EU. Countries that have recently joined the OECD, for example Chile, have not been included for lack of longitudinal data. It is also worth noting that for some Eastern European countries data is only available for the post-communist era, usually from 1990 or 1993 onwards. Overall, the usable range of years varies from 15 to 23 years: enough years to conduct a valid longitudinal analysis of reforms using EPL as a proxy for labour market flexibility, and those changes in EPL as a measure of European labour market flexibility reforms.

Table 2 describes both upwards (less flexible) and downwards (more flexible) EPL events. For the purposes of this Chapter, a change in EPL in either direction is labelled a labour market flexibility reform event given that a political reform process will have taken place to make such a change in the OECD's EPL measure occur. From Table 2, if first considering upwards EPL moves or reform events towards less flexibility, then it is clear that very few countries decided to make their labour markets less flexible in this way. Further, when they did so, the overall effect or change in the overall level of EPL was limited. For this reason, in subsequent sections the Chapter does not use the upwards reform events in the statistical event history analysis that follows – these upwards events (less flexible) are statistically “censored” (omitted) and instead the reform events towards more flexibility, that is downwards numerical events in EPL, are used to explore European labour market flexibility reform trends.

To verify the limited importance of omitting or censoring upwards (less flexible) moves in EPL, the only EU15 countries listed in Table 2 that have not increased flexibility (lowered EPL) are France, the UK and Ireland. For the OECD group similar exceptions are found in Hungary, Poland and New Zealand. This can be seen in Table 2 as a positive number in the column labelled “change”, which shows the difference between EPL in 1985 and 2008.

Table 2: Employment Protection Legislation Continuity and Change 1985-2008

Country by Social Model	No. of Downwards Events 1985-2008	EPL 1985 Employment Protection Legislation			EPL 2008 Employment Protection Legislation			Change		
		Overall	Regular	Temporary	Overall	Regular	Temporary	Overall	Regular	Temporary
EU15										
<i>Continental</i>	7	11.32	9.69	12.94	9.27	9.55	9.01	-2.05	-0.14	-3.93
Austria	1	2.21	2.92	1.50	1.93	2.37	1.50	-0.28	-0.55	0.00
Belgium	1	3.15	1.68	4.63	2.18	1.73	2.63	-0.97	0.05	-2.00
France	2	2.79	2.51	3.06	3.04	2.45	3.63	0.25	-0.06	0.57
Germany	3	3.17	2.58	3.75	2.12	3.00	1.25	-1.05	0.42	-2.50
Luxembourg	0	na	na	na	3.25	2.75	3.75	na	na	na
<i>Mediterranean</i>	16	15.14	13.03	17.26	10.48	10.19	10.76	-4.66	-2.84	-6.5
Greece	2	3.56	2.38	4.75	2.73	2.33	3.13	-0.83	-0.05	-1.62
Italy	5	3.57	1.77	5.38	1.89	1.77	2.00	-1.68	0.00	-3.38
Portugal	6	4.19	5.00	3.38	2.88	3.63	2.13	-1.31	-1.37	-1.25
Spain	3	3.82	3.88	3.75	2.98	2.46	3.50	-0.84	-1.42	-0.25
<i>Nordic</i>	11	10.95	10.45	11.47	7.28	9.38	5.2	-3.67	-1.07	-6.27
Denmark	1	2.40	1.68	3.13	1.50	1.63	1.38	-0.90	-0.05	-1.75
Finland	4	2.33	2.79	1.88	1.96	2.17	1.75	-0.37	-0.62	-0.13
Netherlands	3	2.73	3.08	2.38	1.95	2.72	1.19	-0.78	-0.36	-1.19
Sweden	3	3.49	2.90	4.08	1.87	2.86	0.88	-1.62	-0.04	-3.20
<i>Anglo-Saxon</i>	0	1.53	2.55	0.5	1.86	2.72	1.01	0.33	0.17	0.51
Ireland	0	0.93	1.60	0.25	1.11	1.60	0.63	0.18	0.00	0.38
United Kingdom	0	0.60	0.95	0.25	0.75	1.12	0.38	0.15	0.17	0.13
<i>Total, excluding Luxembourg</i>	34	38.94	35.72	42.17	28.89	31.84	25.98	-10.05	-3.88	-16.19
Rest of OECD										
Australia	1	0.94	1.00	0.88	1.15	1.42	0.88	0.21	0.42	0.00
Canada	0	0.75	1.25	0.25	0.75	1.25	0.25	0.00	0.00	0.00
Czech Rep.*	1	1.90	3.31	0.50	1.96	3.05	0.88	0.06	-0.26	0.38
Hungary*	0	1.27	1.92	0.63	1.65	1.92	1.38	0.38	0.00	0.75
Iceland	0	na	na	na	1.18	1.73	0.63	na	na	na
Japan	2	1.84	1.87	1.81	1.43	1.87	1.00	-0.41	0.00	-0.81
Korea*	2	2.74	3.23	2.25	1.90	2.37	1.44	-0.84	-0.86	-0.81
Mexico*	0	3.13	2.25	4.00	3.13	2.25	4.00	0.00	0.00	0.00
New Zealand*	1	0.86	1.35	0.38	1.40	1.56	1.25	0.54	0.21	0.87
Norway	2	2.90	2.25	3.54	2.69	2.25	3.13	-0.21	0.00	-0.41
Poland*	1	1.40	2.06	0.75	1.90	2.06	1.75	0.50	0.00	1.00
Slovak Republic*	1	1.80	2.47	1.13	1.44	2.50	0.38	-0.36	0.03	-0.75
Switzerland	0	1.14	1.16	1.13	1.14	1.16	1.13	0.00	0.00	0.00
Turkey*	1	3.76	2.64	4.88	3.72	2.56	4.88	-0.04	-0.08	0.00
USA	0	0.21	0.17	0.25	0.21	0.17	0.25	0.00	0.00	0.00
<i>Total, excluding Iceland</i>	12	24.64	26.93	22.38	25.65	26.39	22.60	-0.17	-0.54	0.22

Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD's employment protection website (www.oecd.org/employment/protection). Extracted 2010. All tabulations and calculations completed as part of research for this thesis. *Data only available from 1993 or later years onwards.

Moving to look at higher flexibility (downwards EPL reform events), it is evident from Table 2 that there is a strong directional trend towards labour flexibility reforms in EU15 countries, as expressed by EPL: the EU15 group of countries moved from an average of overall EPL of 2.8 to 2.1 between 1985 and 2008⁶. For regular EPL the trend is less marked with a move in the same period from 2.6 to 2.3. A large part, but not all, of the overall variation is derived from reforms of temporary EPL, which went from an average of 3.0 to 1.9 during the same period. The reforms correspond to a 25 per cent increase in overall labour market flexibility for the entire period and 11 and 38 per cent for regular and temporary EPL, respectively.

Politically, regular employment protection covers mainly existing labour market insiders and has therefore potentially remained fairly steady, yet flexibility has increased. However, the outsiders, who take up work or employment through temporary employment contracts, have experienced a significant liberalization. The result appears to provide strong descriptive statistical support for the general dualization of labour markets theory. That is so because outsiders were adversely impacted.

However, more important is the fact that the general trends in labour market flexibility reforms were driven by liberalization at the margin: temporary EPL events or reforms are at the margin of the labour market, across the board. For example, for a country like Denmark dualization is not the result of the observed relaxation of temporary EPL. Rather, the result of such marginal reforms is the almost complete liberalization of labour market flexibility when using EPL as the proxy unit of measure for labour market flexibility reforms. At the other end, Germany – the classic case of dualization (Palier and Thelen, 2010), comes closer to fulfilling the dualization thesis through reforms at the margin, as regular EPL remained high and even slightly increased between 1985 and 2008.

To compare, when looking beyond the European political economy, the Rest of OECD group of countries showed overall labour market reform stability: EPL overall averaged

⁶ Three countries had higher EPL in 2003 than the 1985 EU15 average of 2.8: France, Portugal and Spain.

1.8 in 1985 and remained at that level in 2008 with only a limited number of change reform events relative to the EU15 group of countries, representing a small 4 per cent per cent decrease in labour market flexibility over the time period. From Table 2, clearly the variance or increase in labour market flexibility is not very marked for the “Rest of OECD” group countries as a whole, although the trend towards either higher or lower flexibility is more mixed (observable as a positive or negatively denominated difference in Table 2). A good indicator of the difference in relative reform movement is the standard deviation of the difference in scores for EU15 OECD members (.67), which is over double that of non-EU15 OECD members (.33).

While EU15 countries started from a higher EPL base than the Rest of OECD countries, a sustained directional trend towards the OECD average was borne out by 9 of 15 countries completing more than one reform event during the measured time period, and 7 of those completing more than 2 reform events. Again, only the UK and Ireland did not have any downwards events and only Ireland, the UK and France experienced a marginal increase in their overall levels of EPL, from 0.60 to 0.75 for the UK, 0.93 to 1.11 for Ireland and 2.79 to 3.04 (in 2009) for France.

For France, the flexibility enhancing events that did take place happened, atypically for EU15 countries, for regular EPL and was insufficient (a difference of -0.06) to cancel out the reduction in flexibility put in place for temporary EPL (difference of 0.57). France has been used as an example of dualization (Palier and Thelen, 2010), yet the quantitative evidence presented here suggest France as a case more likely of limited or possible contradictory overall reforms (Marx, 2012). A result, which questions why politically France took so different a course to other EU15 countries and that will therefore need to be reviewed in the case study for France in Chapter 6.

Further, an equality of means test shows that the difference between EPL in 1985 and 2008 is statistically significant for the EU15 group of countries⁷. It could therefore be

⁷ Comparing EU15 EPL means and standard deviations, both are smaller in 1985 than 2008 and the difference is significant at the 5% confidence level ($t=3.14$ with 13df). Similarly, for the OECD group of countries, but the difference between the two time periods is not significant ($t=0.38$ with 13df).

argued that the EU is moving towards the Rest of OECD levels of flexibility rather than the EU remaining on a specific European path of inflexible labour markets. These results seem to, at least in part, work against much of the classic political economy literature which tends to argue that resilience of labour market regimes is the expected outcome (Estevez-Abe, Iversen and Soskice, 2001; Esping-Andersen and Regini, 2000), even if Thelen has recently challenged this view in support of liberalization-led labour market flexibility reforms, rather than a continuation of varieties or divergence, and Baccaro and Howell has taken this further by arguing that liberalization is a general trend across EU countries (Thelen, 2009, 2012; Baccaro and Howell, 2011). Yet it remains an empirical and out of scope question for this thesis what the exact economic or socio-economic impact has been, not least because the starting points for liberalization vary. However, importantly, the descriptive statistics presented in this Chapter do add robustness to the argument that the marginal, mainly temporary EPL reforms have been a key driver of overall labour market liberalization.

2.2 Event history analysis (EHA) of European labour market flexibility reforms

So far, the descriptive statistics presented in Table 2 indicate that EU15 countries had a strong propensity to engage in liberalizing labour market reforms. Yet it should also be recognised that, underlying the reform hazards or “probability of increased flexibility” of overall EPL in Europe, lies a higher but not exclusive, easing of restrictions for temporary rather than regular employment protection. However, to go beyond the descriptive results in Table 2, an event history analysis (EHA) is a convenient tool for longitudinal identification of the underlying political economy dynamics of observed policy changes expressed – in this case for EPL reform events (Martin and Steiner, 2013; Box-Steffensmeier and Jones, 2004)⁸.

⁸ Political science applications of event history analysis have tended to focus on the notion of time-dependency (cf. Bennett, 1996; Alt and King, 1994; King, 1990). Today, Cox proportional hazard models can be used to analyse relationships over time beyond time dependency (Box-Steffensmeier and Jones, 2004:47) as multiple-event Cox models no longer forces researchers to compress complex political processes into discrete events (cf. Jones and Branton, 2005; Guy-Peters, 1998:187).

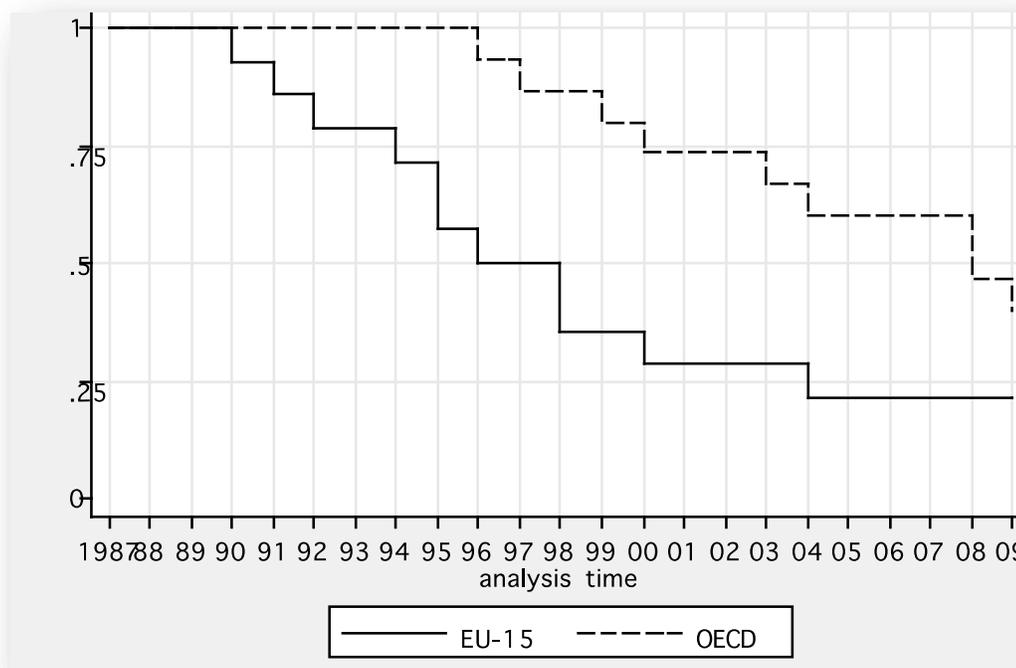
The event history analysis below will be carried out in two steps. First, by comparing EU15 Member States to the Rest of the OECD and, in line with the theoretical argument of the thesis, analysing institutional continuity by investigating if domestic institutions refract labour market reforms by comparing EU15 Member State reforms by social model indicating institutional continuity. Second, in Section 2.3 a multiple-event history analysis is used to test political economy explanatory variables at domestic, European and global levels. To effectively test whether EPL reforms in EU15 member states observed and listed in Table 2 are significantly different from those of the Rest of OECD countries, an estimate of the hazard or probability of increased flexibility is the most convenient EHA test.

To explain the methodology, in event history analysis, the hazard rate is the risk that a politically decided upon EPL reform event will take place during any one calendar year; yearly because the time interval of the data points for EPL provided by the OECD are also on a yearly time scale. In other words, EHA is a statistical analysis that transforms the identification of the underlying dynamics of policy change, the EPL reform events, by turning the descriptive data in Table 2 into a probabilistic estimation of how well or how poorly labour market flexibility reforms in the EU have progressed over time.

The standard EHA method to obtain the probability of a longitudinal difference between EU15 and Rest of OECD flexibility enhancing EPL reform events is the Kaplan-Meier non-parametric estimator of the survivor function; here calculated for *downwards* EPL events *only* to investigate the identified trend towards more flexible labour markets in the EU (upwards EPL events are censored, see above) (Kaplan and Meier, 1958). For the data in Table 2, the Kaplan-Meier estimator of the survivor function – survival here meaning not reforming labour markets as expressed through a change in EPL for any given year, is the probability that a country will *not revise* its EPL policy downwards (reform towards more flexible labour markets) between 1987 and the last year for which data is available (see discussion of research time limits set for this thesis in Chapter 1).

Calculated for the *first* change event towards increased labour market flexibility since the setting up of the Single Market in 1987 – a key event of interest to capture any effect of European integration, the resulting comparative EU15 and OECD Kaplan-Meier survivor functions are shown in Figure 1. The term survivor in this context is defined as the time a country ‘survives’ until a reform is completed: in the analysis here until flexibility enhancing changes in EPL (downwards) are observed. As per Figure 1, a labour market flexibility reform event may be repeated across several years as would be expected from a politically determined policy reform process.

Figure 1: Survivor Functions for EU15 and ‘Rest of OECD’ – EPL First Events



Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD’s employment protection website (www.oecd.org/employment/protection). All tabulations and calculations completed as part of research for this thesis using Stata statistical software. X-axis: years from 1987 to 2009. Y-axis: expression in probability that the observed groups of countries ‘survive’ without reforms.

The survivor functions in Figure 1 represent the *first* EPL downward change events across all countries for which data was presented in Table 2, above. Immediately obvious is the distinction between EU15 and non-EU15 OECD countries, somewhat

expected from the descriptive statistics in Table 2. EU15 countries start reforms in 1990, two years prior to the formal introduction of the EU Single Market in 1992. From Figure 1, OECD countries do not start putting their flexibility at risk or increasing their flexibility through labour market EPL reforms until 1996, perhaps in connection with rising global economic integration. Albeit OECD reforms start from a lower absolute level of EPL, some countries in this group do have quite inflexible labour markets; completed reforms may indicate globalisation starting to impact those countries in the mid-1990s.

A log-rank test comparing the statistical equality of the two groups' survivor functions show a significant difference and rejection of the hypothesis that they are equal⁹. This is an important result because the log-rank test is not just a point in time test. Rather, it is a test of differences in the overall survivor functions for each group. In other words, the log-rank test result becomes, by definition, *longitudinally* representative of distinctive continuity and change for the two groups of countries. In this case, the two survivor functions represent a significant trend towards labour market flexibility reforms over time that is different between the two groups, EU15 and Rest of OECD. The interpretation is that for the research question of this thesis, change and continuity in labour market flexibility reforms in the EU15 group of countries are analytically distinct from the Rest of the OECD.

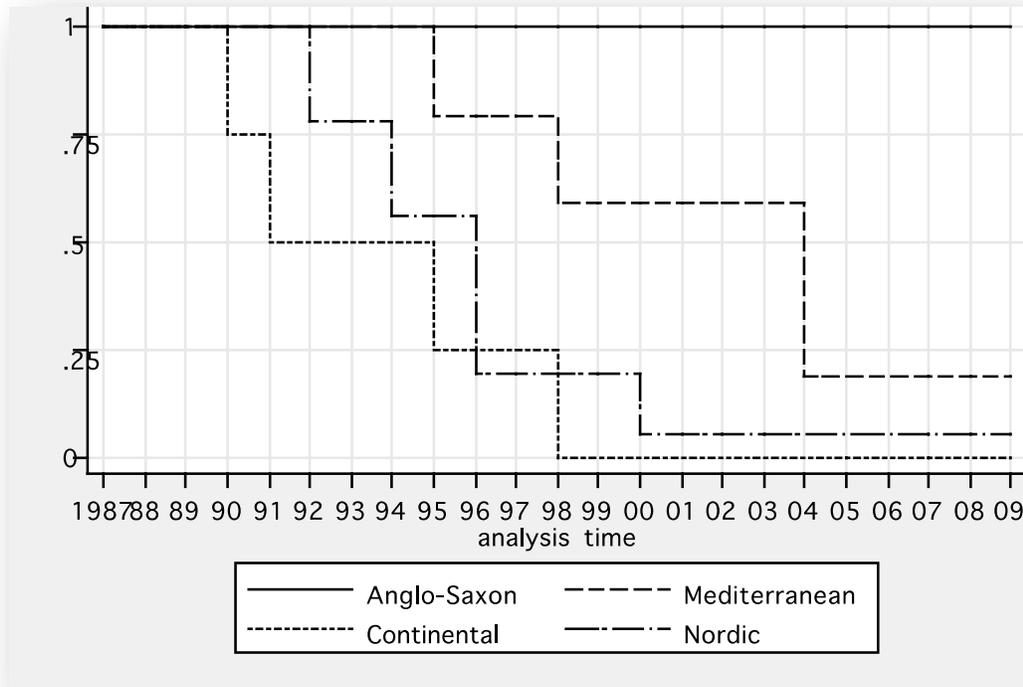
Further, the data in Figure 1 can be used to calculate a survivor function across Sapir's standard four-way typology of European social models, which combines both worlds of welfare and varieties of capitalism typologies with levels of EPL as a key differentiator (Sapir, 2006)¹⁰. Doing so, the survivor functions for each social model for the EU15 countries are as shown in Figure 2. By inspection, Figure 2 confirms the directional trend of change from Figure 1, above, towards more flexibility through labour market flexibility reforms. Also, as would be expected from the descriptive statistics of Table 2

⁹ The log-rank test is significant with $\text{Chi}^2=4.06$ ($P<0.05$).

¹⁰ Typologies used by Sapir for the EU15 are: Anglo-Saxon (UK, Ireland), Continental (Austria, Belgium, France, Germany, Luxembourg), Mediterranean (Greece, Italy, Portugal, Spain), and Nordic (Denmark, Finland, Netherlands, Sweden) (Sapir, 2006:375).

and the previously discussed economics literature, because upwards change events are censored/omitted, in Figure 2 the trend is flat or simply put, there is no hazard of change for the UK and Ireland that compose the Anglo-Saxon social model countries in the EU15 group shown in Figure 2.

Figure 2: Survivor Functions for EU15 Social Models – EPL First Events



Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD’s employment protection website (www.oecd.org/employment/protection). All tabulations and calculations completed as part of research for this thesis using Stata statistical software. X-axis: years from 1987 to 2009. Y-axis: expression in probability that the observed groups of countries ‘survive’ without reforms.

Then, what separates the remaining ‘Continental’, Nordic’, and ‘Mediterranean’ social models are the timings rather than the eventual intensity of the reform hazard rate. Again, a log-rank test confirms that the survivor functions are significantly different – important, given the expected and actual flat slope of the Anglo-Saxon social model survivor function¹¹. From a mixed-methods perspective, the log-rank test indicates that

¹¹ The log-rank test is significant with Chi2=26.68 (P<0.05).

different social models – through their domestic political coalitions, have refracted pressures to reform labour markets differently in a manner consistent with their prevailing social model or political economy variety. Hence, from a European social model perspective the plot in Figure 3 indicates a European trend in labour market flexibility towards the rest of the world taking hold just before the introduction of the Single Market.

2.3 Multiple EHA: analysing reforms as a political process

The repeated nature of labour market flexibility reforms evident from Table 2, above, (event column) indicates – as would be expected, that reforms represent an on-going political reform process: a significant number of countries engage in multiple reforms, here measured as multiple downwards EPL events (increased flexibility) – principally for the overall and temporary measures of EPL. At the same time the Kaplan-Meier estimators in section 2.2 of this Chapter suggested that labour market reforms varied between Europe and the rest of the OECD, but also across domestic institutions through the social model to which a EU15 member state belonged.

Therefore, the need arises for the formulation of an event history analysis capable of modelling not just first events, as was possible with the Kaplan-Meier estimators, but also *multiple* events. Technically, that would mean calculating the probability of survival times before a country reforms without assuming that any country ever leaves the risk set of reforms – from Table 2, that labour market reform events might happen repeatedly any year after a theoretically meaningful start date, assuming of course that data is available (Jones and Branton, 2005:20).

Within the scope of this thesis, the start date of the analysis is the year 1987 on the basis that 1987 was the year in which the European Single Market (SEM) was set apace. So for the multiple event history analysis that will be presented below, the analysis considers that from 1987 onwards EU level reform pressures stemming from the SEM would be discernible from the available data. However, more than taking into account the first reform event, the first reform event and all subsequent events being taken into

account in calculating the probability of labour market flexibility reforms, a multiple-event history analysis is also a quantitative way to reflect the continuous set of political coalitions behind those reforms, including explanatory variables for those reforms.

When policy adoption – labour market reforms through EPL events, is defined as a continuous political process of coalitions passing labour market flexibility reforms, then the appropriate EHA model also needs to account for the time or ‘gap time’ between such reform events (Jones and Branton, 2005:21). Technically, a gap time event history analysis adjusts the risk set of the analysed countries to account for the repeatability of observed EPL reform events. Therefore, for EPL multi-event modelling purposes, events need to be treated as conditional on past events – like most political reform decisions would be, and measured time at risk for each country to reform must be predicated on the time elapsed since the occurrence of (any) previous EPL reform events.

Drawing the theoretical elements of analysing a multiple event or political process together with the policy reform tracing purpose of this Chapter and Chapter 1, the most appropriate multiple event history analysis model is the Cox proportional hazard event history ‘gap’ model (Box-Steffensmeier and Jones, 2004; Jones and Branton, 2005). Following Hosmer *et. al.*, the gap model can be defined as:

$$h_s(t, x, \beta_s) = h_{0s}(t-t_{s-1})e^{x\beta_s} \quad (1)$$

Where, beyond the standard Cox proportional hazard model, t_{s-1} represents the time of the previous events, i.e. the ‘gap’ time (see Hosmer *et. al.*, 2008:290). Further, the proposed model stratifies events by the first event, i.e. the first post 1987 event is considered substantively different from subsequent events as doing so preserves the ordering of events (Jones and Branton, 2005; Cleves, 1999). By the same token, it is not possible to assume that the recurrence time between events is independent for each country in the analysis – from a political perspective that is straightforward: political coalitions change and previous reforms have or may have a substantive impact on subsequent reforms. Technically, therefore, robust standard errors adjusted for clustering

by country are used to control for the independence of events over time for each country (Cleves, 1999; Lin and Wei, 1989).

Further, the gap model when stratified by first event takes into account the sequential political process or enactment of reforms: first, the risk of a second reform event does not come before the first event has already happened and, second, the model controls for independence of events for the same country. In other words, the Cox proportional hazard event history gap model specified for the analytical purposes of this thesis takes into account the necessary adjustments to the model when analysing a continuous policy reform process like labour market flexibility enhancing reforms as expressed via downwards changes to EPL.

As a caveat, drawing on the seminal work by Berry and Berry on the use of EHA for policy adoption and reform tracing processes in the United States, the specified gap model is still open to the problem of potentially lacking independence of events between countries (Berry and Berry, 1990). Traditionally, a variable measuring the influence of one reforming or policy-adopting country on its closest geographical ‘neighbour’ has been used to control for this eventuality (cf. Brace *et. al.*, 2001; Berry and Berry, 1990). Considering the analytical scope of this Chapter as well as the obvious geographical issues, defining a ‘neighbour’ control variable across OECD countries is inadequate. Instead, a control variable is used to distinguish between the ‘status’ of countries as either belonging to the EU15 or non-EU15 OECD groups of ‘neighbourhoods’, as it were. Further, the ‘status’ variable also helps distinguish between models for EU15 countries (models 1 and 2) and model 3 (all of OECD) in the results Table 3, below.

Building on the theoretical discussion in Chapter 1, a quantitative analysis is provided below of what potentially explains labour market flexibility reforms from an explicitly longitudinal perspective using the specified multiple-event history model.

2.4 Domestic, European and global levels of analysis

In the existing political economy literature, part of which was referenced in Chapter 1, there are case-specific and cross-sectional statistical explanations for change and continuity in labour market flexibility. Tapping into that literature, the grouping of potential explanatory variables can be done at three distinct analytical levels: domestic, European, and global. For each level, the literature provides at least some theoretical impetus or empirical evidence for selecting explanatory variables and each level lends itself to operationalization using event history analysis. In short, this section assesses the likelihood that a country will increase labour market flexibility, analysed through EPL reforms or events, given domestic political institutional constraints, European integration, and globalisation and the variables for doing so are described below.

2.4.1 Domestic institutional constraints

Considering the discussion of labour market flexibility reforms towards liberalized or even dualized labour markets, the relationship between domestic institutions and the probability of policy reforms is important. Further, the same relationship has traditionally been at the core of analytical approaches emphasizing the resilience of social model typologies, the potential challenges faced by domestic economies from European integration, the continuation of varieties of capitalism, etc. (cf. Thelen, 2009, 2012; Palier and Thelen, 2010; Esping-Andersen and Regini, 2000; Scharpf, 1996). As such, the underlying question to be tested is the extent to which domestic political economy and institutions constrain or refract pressures for labour market flexibility reforms.

First, from socio-economic or economic ‘pressures on government’ (Hassel, 2007:254) to historical institutionalist path dependence, domestic institutional constraints would be expected to be significant in determining labour market policy discontinuities (cf. Thelen and van Wijnbergen, 2003). From a varieties of capitalism perspective, continuity of domestic political institutions were also instrumental in determining the relative economic competitiveness of countries (Iversen, 2005; Streeck and Thelen, 2005;

Thelen, 2004; Mares, 2006, 2003; Hall and Soskice, 2001). A straightforward indicator for domestic level political-institutional constraints is Henisz' political constraints (Polcon) index, which will be used to test for the effect of domestic political and institutional constraints on the probability of labour market flexibility reforms (Henisz, 2000).

The Polcon index is derived from a spatial model of domestic political interactions and incorporates the number of 'independent political institutions with veto power in a given polity' (Henisz, 2000:3). In other words, variables like the type of government in power, the electoral system, and so forth, are incorporated into the index to map the alignment and heterogeneity of the political actors that inhabit domestic institutions. For convenient interpretation of estimated hazard rates, i.e. the risk that a reform-event will take place during a yearly time interval, the Polcon index has been converted to percentages.

Second, the multiple event history analysis considers the impact of economic growth and analyses how, as might well be expected, the level of unemployment in a country impacts the willingness or ability of politicians to form coalitions to complete labour market flexibility reforms – especially reforms involving EPL (Siebert, 1997). To model economic competitiveness and the relationship between labour market reforms and unemployment levels, the World Bank's standard measures of percentage GDP growth and a country's unemployment rate will be used (World Bank, 2010).

Third, from a political coalitional perspective, the enactment of labour market flexibility reforms could well *a priori* be considered a result of the ideological leaning of the government in power. Therefore, the left, right or centre position of the main party in government is used as an explanatory variable in the specified event history analysis. Specifically, the Database of Political Institutions (DPI, 2010) is used to measure the ideological leaning of governments as an explanatory variable of observed EPL labour market flexibility reforms in the Cox model below.

2.4.2 Europeanization and globalisation

Overall, Europeanization research has focused on understanding the impact of European integration on continuity and change in the politics and policy outcomes of EU member states (Exadactylos and Radaelli, 2012; Graziano and Vink, 2006; Featherstone and Radaelli, 2003). Historically, convincing evidence of the direction of any causal link was ‘missing’ (Goetz, 2000:211), yet the initial and now decade old Europeanised politics argument by Hix and Goetz persists in the notion that ‘the impact of European level decisions on the choices available in national political systems is now too evident to ignore’ remains, at least to be tested empirically (Hix and Goetz, 2001:2).

However, as the EU only has limited jurisdictional powers in the area of labour market policy, the theoretical impact must necessarily be indirect. This is also true for the soft law driven Lisbon Agenda (Schmidt, 2006; Borrás and Jacobsson, 2004; Mosher and Trubek 2003; De la Porte, 2002) and the “Europe 2020” initiative that followed the Lisbon Agenda. At the same time, as shown by van Vliet, the European Commission’s European Employment Strategy (ESS) has played a significant role in shifting Member States’ labour market reform focus from passive to active reform measures (van Vliet, 2011); even if Fleckenstein reaches the conclusion that the ‘EES did not possess the capacity to Europeanise German labour market policy to any significant extent’ in a country specific application (Fleckenstein, 2006:283).

Therefore, following the survivor function results presented in this Chapter, (see Figure 2 and 3), it may be more appropriate to consider the extent to which European integration can be thought of as an extension of globalisation. Establishing such an extension would need to define both globalisation and European integration as a continued development of economic integration and political interdependence. The European Commission’s Internal Market Index (IMI) (Tarantola *et. al.*, 2004) covers EU member state compliance with the Single Market and shows a clear and significant correlation with the KOF Globalisation Index (Dreher, 2006). This is especially true for the relationship between IMI and the economic globalisation sub-component of the KOF

Globalisation Index, making the assumption of European integration as an extension of globalisation a plausible one¹².

This leaves the following imperfect avenues for empirically establishing the event history hazard rates or probability of labour market flexibility reforms, as explained by Europeanization and Globalisation. To measure globalisation, the KOF Globalisation Index is used as it covers economic, social, and political dimensions of globalization. The KOF index is supplemented by the World Bank's 'openness' index, a standard economic measure of countries' trade readiness (World Bank, 2010; Keefer and Stasavage, 2003; Romer, 1993). Further, European integration, as a catalyst for domestic policy change, is directly tested using indicator variables for the coincidence of events (EPL reductions) and the introduction of the Single Market (1993), Monetary Union (2002) and the Lisbon Agenda (2000).

2.4.3 Social model belonging and control variables

Given the results of the Kaplan-Meier Estimators discussed above as well as the theoretical arguments presented in Chapter 1, belonging to one of the four Sapir social model categories is carried over into the multiple-event history analysis for EU15 countries as both a control and potential explanatory variable for labour market flexibility reforms. However, for parsimony in the use of data the estimated hazard ratios are not broken down for each Cox models 1, 2, and 3 as this was already done using the Kaplan-Meier Estimators.

However, to test if EU15 countries are distinctive from the OECD country group, apart from helping control for the above mentioned "neighbourhood" effect, the status of countries is controlled for using an indicator variable (Status=OECD), meaning non-EU OECD, to allow two models (Model 1 and Model 2, below) to be developed covering EU15 countries only and then one for all of OECD (Model 3, below). Also, the existing

¹² It is not possible to use IMI on its own as measurements are only available for EU15 countries. A simple regression analysis of the IMI and KOF indices yield a coefficient .026 with $P < .001$ and a .73 correlation between IMI and economic globalisation measured by KOF.

level of wealth of each country is controlled for using a standard log transformed measure of real GDP per capita from the World Bank. Finally, lagged variables are used in the analysis to ensure control for the statistical own effect of each country.

2.5 Multiple event history estimation and results

The explanatory variables for the directional trend in labour market flexibility witnessed by EU15 member states since 1987 is modelled using three multiple Cox proportional hazard gap models as specified above, where the hazard rate is the limit of the probability of an event happening – that is, the probability of a labour market flexibility reform increasing event (a downwards move in EPL). Table 3 shows the results for explanatory variables at each level of analysis: domestic institutions, Europeanization, and globalisation.

Model 1 includes all the above-specified explanatory variables and reflects a careful model selection process. Model 2 is identical to Model 1 except that the events used for the dependent variable is not downwards events in Overall EPL but in Temporary EPL. Model 3 is identical to Model 1 but does not control for the belonging of countries to the EU15 group (Country Status). By excluding the status control, Model 3 becomes a model of all OECD countries as a homogenous group. As discussed above, all three models are stratified by first event, i.e. multiple events are accounted for and the first (post 1987) event is held as substantively different from any subsequent events.

Table 3: Multiple Event History Analysis: Cox Model Hazard Ratios

Multiple Event Model/ Explanatory Variables ³	M1: EU15 Status		M2: EU Status EPL Temp		M3: OECD as One	
	Hazard Rate	Robust St. Errors	Hazard Rate	Robust St. Errors	Hazard Rate	Robust St. Errors
<i>Domestic</i> ¹						
Political Constraints	1.10*	0.03	1.08*	0.03	1.10*	0.39
GDP Growth	0.83*	0.07	0.80	0.10	0.79*	0.73
Unemployment	1.17*	0.06	1.16*	0.08	1.21*	0.56
Government	0.95	0.28	1.22	0.34	1.09	0.30
Social Model	1.57*	0.34	1.33	0.39	1.70*	0.37
<i>EU and Globalization</i> ¹						
EU Initiatives ²	na	na	na	na	na	na
Openness	0.99*	0.00	0.99	0.01	0.99	0.00
Globalization	0.91	0.04	0.97	0.03	0.95	0.03
<i>Controls</i>						
Country Status (EU15)	0.13	0.15	0.60	0.58	na	na
Country Lag	0.99	0.00	1.00	0.00	0.99	0.00
Log GDP	1.15	0.68	2.14	1.29	1.84	0.80
	n=435		n=511		n=435	

1: (*) indicates significant at 5% level.

2: Not significant / removed to maintain model parsimony.

3: Stratified by first spell Cox-regression models using the Breslow method for ties and robust standard errors.

Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD, World Bank, ETH-KOF and Witold Henisz POLCON websites. All tabulations and calculations completed as part of research for this thesis using Stata statistical software.

Table 3 shows the exponentiated Cox regression coefficients, which is equal to the hazard ratio of increased labour market flexibility (expressed by EPL events as defined above), not the beta coefficients usually shown in results tables of cross-sectional statistical analysis. That is because the interpretation of a hazard rate is highly convenient and straightforward: the exponentiated coefficients can be interpreted as the ratio of the hazard's occurrence given a one-unit change in the explanatory variables, all other things remaining equal or *ceteris paribus*. In other words, the hazard rates express an increase or decrease in the risk of an event, in the case of the analysis here, the risk or likelihood of a labour market reform of EPL taking place towards more flexibility given an infinitesimal time interval.

Model 1 shows that an EU15 country with sticky political institutions, as measured by the POLCON political constraints measure referenced above, has a higher risk or hazard of being in the process of reforming its labour markets: even if the process may be

relatively slow, a high level of domestic institutional constraints increases the hazard of increased labour market flexibility by about 10 per cent. Somewhat counter-intuitive, this result may indicate that the pressure on policy makers to complete flexibility reforms has increased over time to an extent where even countries with more “sticky institutions” (with many veto points) have politically overcome that stickiness to begin a labour market flexibility reform process. A practical example would be Germany, that while famous for its joint-decision making traps (Scharpf, 1996), have completed a relatively high number of EPL labour market reforms.

So, while increased flexibility may be a clear economic strategy, contrary to general perceptions it is politically being carried out by policy makers in Europe in countries where political constraints would otherwise be expected to prevent or retard reforms. A caveat is due with respect to political expediency: the reform process is slow and is clearly driven, if not exclusively then to a large extent, by temporary EPL. This is confirmed by the hazard being significant and almost identical at 8 per cent in Model 2.

This finding would appear to support the general hypothesis of a dualization of labour markets in Europe, also adds robustness to the economics literature that has established a trend of marginal reforms in Europe for the covered period (Boeri, 2011). Specifically, for the research question of this thesis what can be deduced from Model 1 and 2 is that sticky institutions are not, from a domestic political perspective, retarding reforms as long as those reforms are at the margin, namely temporary employment protection reforms.

Hence, the results shown raise the spectre of policy makers actually following the road of reform, at least when the reform trend is measured using both Overall and Temporary EPL as the dependent variable. The reform trend is statistically significant when taking into account domestic political constraints – and, somewhat unsurprising given its traditional significance in the literature and as shown by each social model using a Kaplan-Meier Estimator above, belonging to a specific social model is also a statistically significant determinant of labour market flexibility reforms. As such, the social model

explanatory variable increases the hazard of increased labour market flexibility by about 60 per cent. A result which would seem to lend support to the research hypothesis that institutional continuity is to expected, even if there are economic pressures for governments to reform labour markets towards more flexibility,

Combining the results of sticky institutions with social model significance would qualitatively indicate that a further relationship exists between countries that adopt reforms at the margin, in some cases leading to dualization, and the stickiness of their institutions. From a quantitative statistical perspective, the multiple-event history analysis confirms and adds further robustness to the findings of the Kaplan-Meier non-parametric estimator of the survivor function (see Figure 2), which used a log-rank test to show that the event or reform trajectory was statistically different for each European social model. As such, during the analysed period, overall, reforms have been refracted by domestic political institutions towards a marginal reform trajectory that it appears in part is informed by the stickiness of domestic political institutions.

In terms of economic challenges having the effect of furthering the forming of reform coalitions, the event history analysis shows that GDP growth decreases the hazard of increased labour market flexibility by about 17 per cent, but is only significant for overall (Model 1) and the OECD as whole (Model 3), not temporary EPL (Model 2). This is unsurprising in so far as economic growth is the key challenge for EU countries not already at the more flexible end of the scale (Hassel, 2007; 2011). However, it does intuitively align with the argument that growth is important but perhaps less important than other factors, like for example unemployment, when politicians consider reforming labour markets as a response to Hassel's identified "problem of government" driver of reforms. A driver that in this thesis is represented by the hypothesis that such economic pressures for reforms are the most likely determinants of reforms – a hypothesis that cannot so far be rejected on the basis of the EHA results presented here.

However, it follows that unemployment rate increases the hazard of increased labour market flexibility between 16 to 21 per cent across models, which is unsurprising from

an economics and political economy perspective – a standard political response to unemployment would potentially be to increase labour market flexibility. Perhaps more surprising, globalisation is not significant and openness to trade has a very marginal hazard rate and is only significant for Model 1. As such, the distinction between a direct and indirect Europeanization and Globalisation effect is less important than popularly argued and seemingly feared by electorates across Europe (Giles, 2007).

This is underlined by the lack of any significant observed effect of the tested for EU initiatives, at least from a timing perspective. That said, the combination of GDP Growth and Unemployment, but not Europeanization or globalization being statistically significant explanatory variables in the analysed Models is somewhat counterintuitive given the often-presumed correlation between GDP growth and globalisation and the impact of Europeanization (not tested here).

In sum, the continued relevance of domestic institutions and tracing political coalitions that have emerged to “defeat institutional stickiness” would appear to be important. Not least if the topic of interest is to better understand the ability of politicians to enact de-regulatory labour market flexibility reforms like those discussed in this Chapter and which Baccaro and Howell more generally argue has become prevalent as part of a liberalization trend across Europe (Baccaro and Howell, 2011). A trend that Boeri has shown, and to which this Chapter adds robustness, in the area of labour market reforms being a case where marginal reforms have contributed to overall political economy liberalization for EU15 countries (Boeri, 2011).

Further, together with instances of reforms induced by classic economic challenges for governments, like unemployment and GDP growth, the domestic level of analysis appears more important than either European or global levels of analysis. For this reason, the European and global levels of analysis will only be used when a specific case warrants it in the country-case studies that follow in Chapters 3 to 6.

2.6 Conclusion

As the quantitative or large-N analysis of the thesis' mixed-methods approach, this Chapter has added robustness to the contention that most labour market flexibility enhancing reforms were at the margin – driven by temporary EPL reforms. First, descriptive statistics showed an observable trend towards increased labour market flexibility and helped gauge the extent to which European labour market flexibility reforms had progressed since the EU Single Market project was set apace. The results showed that from 1985 to 2008 only three EU15 group countries decreased their labour market flexibility, namely the UK, Ireland and France.

Opposite, for increases in flexibility there was a strong directional trend towards labour market flexibility reforms across EU15 countries. In total, reforms corresponded to a 26 per cent increase in overall EPL labour market flexibility for the 1985 to 2008 period and 11 and 38 per cent for regular and temporary EPL, respectively. In contrast, the Rest of OECD group of countries showed overall stability. In addition, most EU15 countries completed several reforms – observed as multiple downwards EPL events and hence part of an on-going political process of European labour market flexibility reforms.

Second, reviewing key political economy determinants of labour market liberalization, the distinctiveness of the EU15 countries' directional trend in labour market flexibility was tested. Using a standard Kaplan-Meier non-parametric estimator for downward EPL events (more flexibility), the results showed that EU15 countries started their, much deeper, reforms earlier than the Rest of the OECD comparator group of countries. The statistical significance of this difference was confirmed using a log-rank test, by definition a test that is longitudinally representative of a distinctive change in labour market flexibility.

Further, given the theoretical importance of social models, a Kaplan-Meier set of survivor functions were used to differentiate EU15 countries according to their social model, as defined by Sapir, either: Continental, Nordic, Mediterranean and Anglo-Saxon

(Sapir, 2006). Except for the Anglo-Saxon model countries (UK and Ireland) the estimator confirmed the directional trend in labour market flexibility reforms. The key difference between social models was the timing rather than the intensity with which countries within a social model reformed, except for the Anglo-Saxon model, which already had very flexible labour markets. Again, the survivor functions were significantly different using a log-rank test. Overall therefore, the estimators used support the descriptive identification of a European trend in labour market flexibility reforms “towards the rest of the world”, principally taking hold just before the introduction of the European Single Market.

Finally, a multiple event history analysis was used to model the probability or likelihood of labour market flexibility reforms using explanatory variables at three levels; and where feasible a combination of economic and political explanatory variables: domestic, European and global. The observed trend for EU countries was towards increased labour market flexibility and hence the multiple-event history analysis identified factors to help explain those observed labour market flexibility reforms. A carefully specified Cox proportional hazard event history gap model was developed to analyse reforms as a continuous political process, the processes being expressed in line with the multiple number of reform-events having been experienced by many EU15 Member States.

Once specified, the identified hazard rates became straightforward to interpret as they express an increase or decrease in the risk or likelihood of reforms: three multiple-event history models were specified, showing that for at least one of the models the following explanatory variables were statistically significant: political constraints or sticky institutions (where reforms have many veto points in the political system of a country), GDP growth, a country’s belonging to a specific social model, and the unemployment rate of a country.

Somewhat surprising, globalization and openness to trade were not significant and so it was also not possible to make a clear assertion around any potential Europeanization impact of European labour market flexibility reforms. Equally, the ideological leaning

left-centre-right of governments was not found to be significant – indicating that both left and right leaning governments were able and willing to implement reforms, even if mainly towards reforms at the margin.

Further, the importance of understanding the potentially marginal nature of reforms became clear from the conducted quantitative analysis. Theoretically, that implies a caveat to the hypothesis of no reforms derived from the inter-temporal challenge of establishing reforming coalitions for politicians who would like to be re-elected, as discussed in Chapter 1. In the sense that, politically, reforms of overall EPL changes were driven mainly by reforms “at the margin” or through temporary rather than regular EPL that may not have had the same impact politically on reforming coalitions as reforms of regular employment protection reforms would have had.

As such, perhaps the most important contribution of the Chapter towards answering the research question of the thesis – what determines labour market reforms, is that distinguishing between economic and political explanatory variables matters. That is because this Chapter has shown that for the European reform trajectory, political economy arguments that err on the side of economics cannot stand on their own as determinants of reforms. Instead, the combination of economic challenges to governments and political-electoral or political system variables that could be tested here – like political system veto points, also proved to be statistically important. Hence, the political system variable of sticky institutions or veto points, but also lack of ideological importance of reforming coalitions indicated that the hypothesis of political-electoral challenges for reforms as a determinant of reforms cannot be ignored.

Similarly, the significance of unemployment and lacking economic growth appeared important as support for the hypothesis that pressures on government from political economy problems of government are important. Most importantly, perhaps, this Chapter has helped make explicit the need to gain a better understanding of the trajectory and interactions between the *combination* of economic and explicitly political variables in producing coalitional support for European labour market flexibility

reforms. Therefore, the following four Chapters analyse the trajectories of reforms for Germany, the UK and Denmark that as evident from this Chapter's analysis experienced EPL reforms at the margin, and France – which did not.

3. Achieving labour market reforms in Germany

As discussed in Chapters 1 and 2, the purpose of the thesis case studies is to provide a qualitative perspective to the trajectory of reforms with the aim of uncovering what politically explains European labour market reforms up to 2008. Whereas the previous Chapter used event history analysis as quantitative approach to answer the research question, this Chapter as the first of four case studies covering Germany, the UK, Denmark and France uses a qualitative analysis format.

Specifically, this and the following case studies put the quantitative event history analysis into a broader political context by reviewing each event in respect of the foundations of each country's labour markets, the trajectory of reforms events for both EPL and functionally related reforms, and discusses their economic and political rationales. As such, by combining the qualitative and quantitative reform event analysis this and subsequent case study Chapters open up new avenues for explaining the political decisions made to liberalize European labour markets over time – the topic of this thesis.

With respect to its labour market foundations, the 1927 Job Placement and Unemployment Insurance Act are usually considered to be the bedrock of the German labour market. As the primary legal underpinning of the highly formal German labour market, the act established an insurance-based system under the Bismarckian welfare motto of “rights and duties” (cf. Thelen, 2004). While the 1927 act was replaced in 1969 with the Employment Promotion Act, the 1969 reform did not significantly alter the regular employment-oriented, insurance-focused features of the German labour market. Rather, the 1969 act continued to rely on compulsory employment insurance and high replacement rates i.e. the proportion of in-work income maintained when a person becomes unemployed. The 1969 Employment Promotion Act also initiated support for training initiatives, later furthered by legalisation in 1976 that introduced Temporary Work agencies (Wunsch, 2005:9).

For the purposes of this thesis, the 1927-1969 period was almost exclusively focused on a political economy balancing of demand and supply, i.e. on continuing the historical coordination, training, and skills formation capabilities of the German political economy (Thelen, 2004; Hall and Soskice, 2001). As originally argued by Hall and Soskice, the crux of the German archetypical case of a coordinated market economy variety of capitalism, is the ‘production strategies that depend on workers with specific skills and high levels of corporate commitment that are secured by offering them long employment tenures’ – or, in the language of EPL, employment based on high regular EPL (Hall and Soskice, 2001:27). With respect to Germany as a continental social model country in Sapir’s labour market focused typology referenced in Chapter 1, the model ‘provides generous unemployment benefits, but its EPL is stricter’ (Sapir, 2006:377).

The implication of both the CME and continental approach is that political coalitions forming to complete labour market reforms potentially represents an important and therefore politically challenging departure from the traditional German labour market set-up. As such, with respect to the German labour market reform trajectory, and of interest to understand labour market institutional continuity as well as this thesis’ interest in determinants of the political decision to reform, Germany entered the late 1970s European-wide period of high unemployment with its traditional insurance-based benefits system intact, albeit with a new layer of employment promotion geared towards balancing supply and demand through training.

One reason for continuity was that, at a political level, both the centrist liberal FDP and the two main catch-all parties (Kirchheimer, 1966) –the social democratic SPD and the centre-right Christian Democratic CDU/CSU –agreed, at least until the mid-1970s, on a broad consensus with respect to the German welfare state and labour market model. For example, according to Arndt, before Helmut Kohl became Chancellor for CSU/CDU in 1982, the prevailing ‘social-liberal coalition (1969-82), consisting of the SPD and the liberal party (FDP), expanded the welfare state in a faster and broader manner than any previous government’ (Arndt, 2013:101).

For example, the mentioned 1969 reform events were part of that expansion and a starting point for what this Chapter argues was a trajectory of German labour market reform events that, with due consideration to a longitudinal understanding of reform events, broadly succeeding in liberalizing the German labour market, albeit at the margin. In other words, Germany is a case of achieved labour market reforms; reforms that were mainly, but not only, for temporary EPL leading to a level of liberalization congruent with a dualized German labour market (Palier and Thelen, 2010).

Further, the Chapter argues that the determinants of the political decisions to reform changed over time, with an acceleration of reforms in the late 1990s and early 2000s due to a combination of political economy challenges, including from German re-unification, and a changing party political landscape, especially impactful for SPD intra-party dynamics. The following Section 3.1. covers the trajectory of German labour market reform events, followed by a discussion of how labour market reforms were achieved in Germany as Section 3.2. Section 3.3 then concludes the Chapter.

3.1 Trajectory of German labour market reform events

Arguably, following the 1969 and 1976 reforms referenced above, the next following, critical reform event was more profound even if it was arguably also EPL neutral at first, namely German re-unification in 1989. The reform event of expanding the West German labour market with East Germany was part and parcel of the political re-unification deal. For this reason, re-unification could be considered as supportive of the resilience of the highly coordinated German labour market, mainly because labour unions in West Germany were politically able to force through a complete transfer of the existing West German labour market model to the former East Germany (Eichhorst and Marx, 2011).

Likewise, the re-unification event can be viewed as a trigger for a longer term, more fundamental alteration of the underlying dynamics of the German labour market, setting in motion future economic pressures for EPL-type reforms due to the employment and economic growth challenges presented by extending equal terms to East German

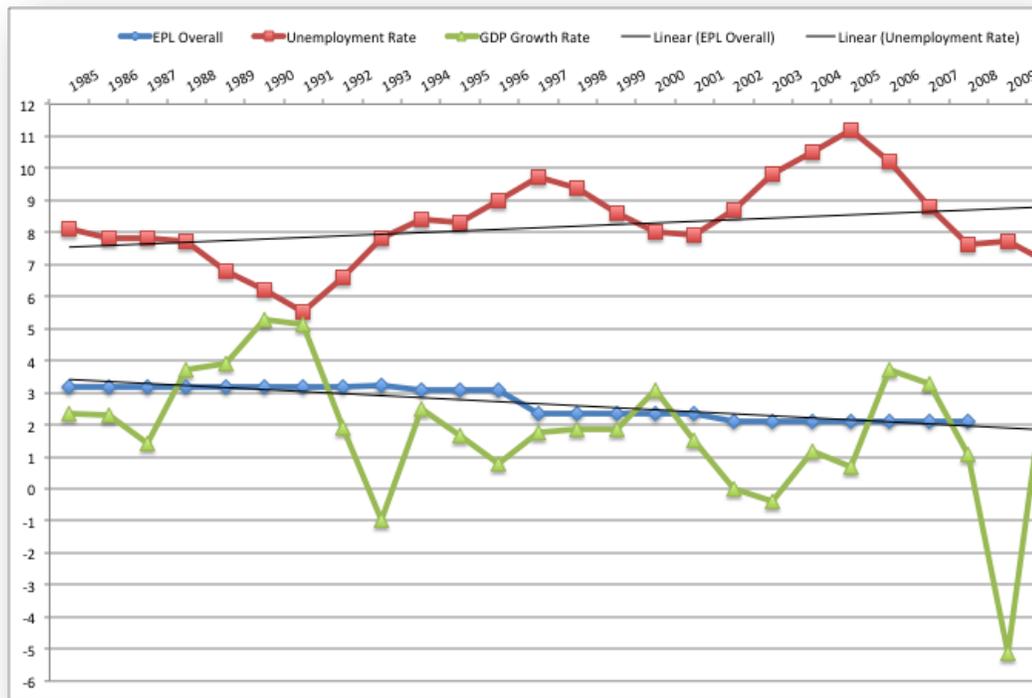
workers. This because, with re-unification, a new East German labour force was added and paid at, but could not compete on, West-German labour market terms (Eichhorst and Marx, 2011). Hence, while re-unification was strictly speaking a non-EPL reform, according to Eichhorst and Marx, it did create a starting point for later labour market reforms where the '[p]ressure for change increased further as a result of the initial response to the structural problems of the East German economy' (Eichhorst and Marx, 2011:77).

In addition to re-unification, another important factor in Germany's labour market reform trajectory, from at least the 1980s onwards, was the political-institutional constraints or veto points on reforms within the German political system. In Chapter 2, the equivalent quantitative Henisz (2000) POLCON index was used to statistically show the significance of political-institutional veto points for labour market reforms. Qualitatively, for Germany, the seminal argument by Scharpf concerning the German 'joint-decision making trap' –an expression of the challenge for German politicians to pass reforms due to multiple levels of government with veto powers or overlapping jurisdictions –by extension applies to German labour market reforms (Scharpf, 1996).

A point in case with respect to the institutional and political challenge of enacting German labour market reforms was Helmut Kohl's long period as Chancellor from 1982 to 1998. As argued by Wood, Kohl was first elected on a platform of promising 'less state, more freedom' as part of his 1982 electoral campaign, which 'deliberately pitched towards neo-liberal themes' –including labour market liberalization (Wood, 2001a:266). Yet the early Kohl governments were only able to manage minor welfare state reforms aimed at improved budget management (Schmidt, 2003:241). In fact, Kohl's situation became widely seen as an expression of the joint-decision making trap using the German moniker *reform-stau* or reform traffic jam, meaning a political gridlock where lacking reforms were perceived as the German political systems 'failure to adjust the German welfare state to changed socio-economic circumstances' (Arndt, 2013:104).

With the financial cost of re-unification and the negative European economic situation of the 1980s also impacting Germany, the reform challenge from socio-economic circumstances can be seen longitudinally through a simple descriptive statistic of GDP growth and unemployment for Germany, in Figure 3, together with Germany's overall OECD EPL reform events up to the Great Recession.

Figure 3: German GDP Growth, Unemployment Rate and Overall EPL 1985-2009



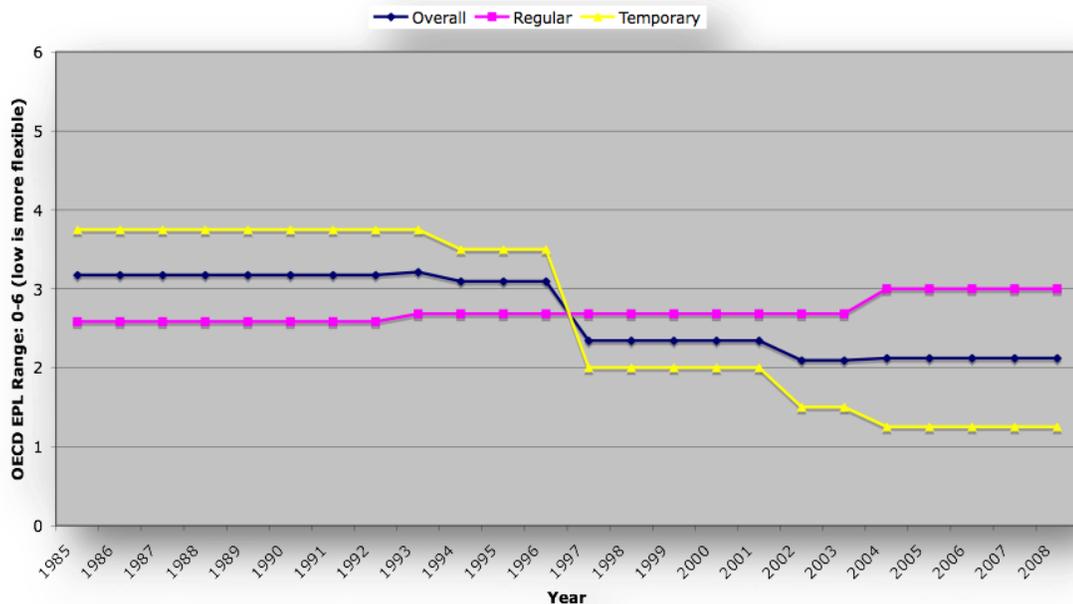
Data sources: Estimates of the employment protection indicators (EPL) from 1985-2008 available from the OECD's employment protection website (www.oecd.org/employment/protection) and GDP Growth and Unemployment Rate Data from the World Bank (www.worldbankgroup.org). All tabulations and calculations completed as part of research for this thesis. EPL range is 0-6 (six is most inflexible).

Figure 3 shows the development of German GDP growth, unemployment and changes to overall EPL. EPL data is shown until 2008, but GDP growth and unemployment figures have been brought forward to 2009. Note that the change in EPL appears muted as the range is from 0-6; in percentage terms the change over the period analysed is equivalent

to a 33 per cent increase in flexibility as German Overall EPL fell from 3.17 in 1985 to 2.12 in 2008 (vs. a 25% change for the EU15 countries, overall – see Chapter 2).

Figure 3 analytically illustrates a deteriorating and divergent trend between unemployment and GDP growth, consistent with calls from economists for EPL labour market reforms (Siebert, 1997). With pressures for reform evident from an economic perspective, and then factoring in the political *reform-stau* context of the German polity, actual EPL labour market reform events are shown for overall, regular and temporary EPL in Germany up to 2008, in Figure 4. Illustrating in detail the enacted German labour market flexibility reforms, Figure 4 covers EPL reform events using the OECD data series on overall, temporary and regular employment protection (EPL) from 1985, the first year of available data, until 2008. It expands on the reforms to overall EPL shown in Table 2 of Chapter 2, allowing a discussion of the specific policy discontinuities in the index, below, in terms of German politician’s ability to enact or achieve EPL reforms.

Figure 4: German Employment Protection Legislation (EPL) Trends 1985-2008



Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD’s employment protection website (www.oecd.org/employment/protection). All tabulations and calculations completed as part of research for this thesis.

At first Figure 4 shows continuity rather than change prevailing during Kohl's *reform-stau* period up to 1993, yet with reform events ensuing in 1997 and an expansive reform event-set during the early 2000s; the latter giving rise to a bifurcation of regular (less flexible) and temporary (more flexible) EPL reforms. Specifically, the reform events traceable from Figure 4 –carried over from Chapter 2's quantitative analysis of labour market reforms and having conducted a cross check of the OECDs EPL data shown in Figure 4 with that of the Fondazione Rodolfo de Benedetti's (FRDB) qualitative database for EPL reforms –are: (1) the introduction of the Labour Placement Act (1994) and (2) Social Code III in 1998 (Kohl, CDU/CSU led government), followed by (3) the 2002 Job-Aktiv reform (first Schroeder, SPD led red-green government) and then the 2003-2005 so-called Hartz reforms (second Schroeder, SPD led red-green government). Each of the three reform event-groupings will be briefly discussed below, followed by a review of the political factors underpinning the observed reform decisions.

The first set of EPL reform events took place when the last Kohl government (1994-1998) attempted or initiated several welfare state reforms in the areas of labour markets, social insurance and fiscal policy (Harlen, 2002). While the intent or political economy pressures to reform were there (shown in the secular decline in employment and GDP growth in Figure 3), Kohl had limited reforming success with only the Labor Placement Act (1994) enacted. Specifically, the Act raised the contract period for temporary work agencies and 'loosened the workings of temporary work agencies' and private employment services (FRDB, 2015).

The second EPL reform event, under Kohl and admittedly the more significant one, is the Social Code III reform that set in place a policy discontinuity by enforcing a move from coordinated market economy supporting training, and balancing of supply and demand as the key role of existing labour market institutions (as set up in 1969), to a more liberal job seeker focused benefit system (Wunsch, 2005). In practical terms, the change was achieved by the Federal Employment Service having to go beyond balancing supply and demand via training, to a combined emphasis of training and job seeking incentives, overall more akin to modern principles of active labour market policies.

Reforms-wise and as indicated in Figure 4, however, the impact was marginal and Kohl arguably lost the 1998 election on ‘social issues and high unemployment’ (Arndt, 2013:105).

The third EPL reform event was enacted by the red-green government led by Gerhard Schroeder (1st government 1998-2002) and did not reverse the piecemeal approach initiated by Kohl *per se*, but did introduce the Job-Aqtiv (2002) initiative. The *Aqtiv* initiative was certainly more forceful than the Social Code reform and led to enforcement of stricter job-search activities for unemployed receiving benefits and eased access to wage subsidies and training programs. Further, the *Aqtiv* reform was an active labour market policy reform that did not necessarily break with the traditional German labour market approach, but it did provide additional flexibility within a general trend of labour market liberalization for temporary EPL – entrenching Germany’s reform trajectory as one of reforms at the margin as well as, potentially, labour market dualization given the simultaneous weakening of temporary EPL and strengthening of regular EPL (see Figure 4).

In his second term (2002-2005), Schroder then initiated the four so-called “Hartz reforms” from 2003 to 2005. Politically, the Hartz I-IV reforms were advertised and implemented by the SPD-led government under the guise of giving a new lease of life to the German welfare state idea and key labour market tenet of “rights and duties”. In following with this mantra, from 2003 to 2004 Hartz I, II, and III addressed the efficiency of the workings of the Federal Employment Agency and introduced further active labour market policies following on the 2002 Job-Aqtiv reforms. Then, in 2005, Hartz IV came into force introducing significant changes to employment benefits and social assistance as well as EPL.

Specifically, Hartz IV introduced ‘hard’ liberalizing reforms, referred to in the literature as ‘real reforms of the German labour market’ with a move from pure insurance contributions sustaining social status to the use of stricter measurements of the unemployed’s ‘ability to work’ (Neugart, 2005:11). Further, the reform increased from 5

to 10 the number of employees a firm needed to have before it had to offer its employees dismissal protection. Overall, therefore, Hartz IV affected German EPL by further deregulating temporary work and lowering dismissal protection with the regularization of fixed-term contracts, the ability to not offer dismissal protection in firms with less than 10 employees being important in an economy driven by many small and medium sized companies.

Importantly, the Hartz reforms formed part of a broader Agenda 2010 reform programme. A programme that was the Schroder government's response to losing two elections at the state level shortly after coming to power, continued economic problems, and a high media profile scandal involving improper administrative actions taken by the Federal Employment Office (Hassel and Schiller, 2009). Presented by Schroeder to the German Parliament, the Bundestag, in 2003, 'Agenda 2010 represented a clear policy change' that immediately fed into public debates as a set of reforms that would have a 'negative social impact...producing bitter hardships for the persons concerned' (Arndt, 2013:106; Fleckenstein, 2008).

The Hartz reforms also targeted the German unemployment benefits system, hence not EPL, by converting the unemployment benefits of long-term unemployed workers away from the Bismarckian insurance-replacement rate system to a more (neo)liberal economic approach of means-tested flat rate benefits. An approach more akin to an Anglo-Saxon social model country labour market. Hence, the increase in regular EPL (less flexibility) might potentially have left unions and insiders more open to politically supporting the Hartz reforms. Certainly, Schroder very likely lost the subsequent election in 2005 over the Hartz reforms (cf. Padgett, 2005). Further, if the election was lost primarily because of changes to unemployment benefits, then that could question the use of EPL as a proxy for labour market flexibility reforms?

However, most likely, it was a combination of the impact of EPL and unemployment benefit reforms and the Hartz reforms were clearly picked up by the OECD EPL indicator used to gauge the overall trajectory of reforms achieved in Figure 4. Further, it

is not clear that Schroder's subsequent electoral loss in 2005 was due only or primarily to the insurance-system change to a means-tested approach for the receipt of unemployment benefits. This, because it was only during the following Grand Coalition of SPD-CDU/CSU, which followed the 2005 electoral loss for Schroeder, that 'a sizeable number of unemployed [...] experienced a loss of income, since their benefits had been decoupled from former earnings [through the Hartz reforms]' (Arndt, 2013:107).

Importantly, the Hartz reforms sit at the end of a reform trajectory leading up to the Great Recession. As shown in this Chapter, the German reform challenge had in fact remained for most of the 1980s. Further, as argued by Hassel 'pressures for reform' in Germany most often arose from 'mounting public deficits and labour market and social policy inefficiencies that burdened governments' yet only Schroeder had been able to move to more impactful reforms like those encompassed in Hartz I-IV (Hassel, 2007:254). Or, put slightly differently, reforms where 'selective liberalization of various forms of atypical employment – agency work, fixed terms contracts, and...so called mini-jobs' had started to create an impression with the German electorate of a changing German labour market (Thelen, 2014:131).

In practice that meant that the political response to pressures for reform appears to have been there more or less throughout or across both Kohl and Schroeder-led governments, slowly opening up avenues for reforms, i.e. non-traditional temporary work contracts; in effect slowly moving Germany towards a dualization of its labour market. Yet do the political economy pressures on government tell the full story of how reforms came about? And if so, what then explains the significant difference between the impactful reforms that Schroeder – as a social democrat, was able to achieve against those of a purportedly liberalization minded Kohl, most of who's reforms never left the German reform "traffic jam" – so to speak? To review those questions in light of the thesis hypotheses, the next section analyses the achieved reforms with the aim of better understanding what determined the political ability to enact reforms in Germany.

3.2 Achieving labour market reforms in Germany

In the preceding review of the trajectory of German labour market flexibility reforms, the most politically salient liberalization events were the Hartz reforms in the second red-green government of Gerhard Schroder and the general paucity, but not entirely reform-event free period, of the long reign of Helmut Kohl as German Chancellor. Jointly, these also represent a third type of “event”, namely a longitudinal trajectory of German reforms that conform to a general notion of labour market liberalization.

The Kohl period’s dearth of reforms, especially early on, is somewhat puzzling given that Kohl was elected on a liberal reform-friendly platform. Certainly, as noted by Wood, the reforms that were enacted paled in comparison with the far-reaching neo-liberal reforms implemented by Margaret Thatcher in the UK after her election on a liberalization platform in 1979 (see Chapter 5) (Wood, 2001a). In an effort to explain the lack of reforms under Kohl, Wood argues that the neo-liberal reforms that the Kohl governments did propose failed by and large because they were, counter-intuitively, opposed by business interests – not unions. To the extent, that ‘the rights and standing of unions and workers were never seriously threatened in the 1980s’ (Wood, 2001a:266).

In addition, Wood argues that the resistance of business interests to neo-liberal reforms targeting unions was a product of employer organizations not wanting such regulation to decrease union’s influence, because it would reduce those same business organizations ability to negotiate directly with labour unions: business interests as well as unions wanted to keep ‘collective bargaining free from state interference’ (Wood, 2001:268). Yet, while reforms of EPL did not materialize during the early Kohl years, Wood’s argument follows one of business interests supporting a continuation of coordinated market economy traditions through resistance to re-regulation. That is an important distinction in the sense that, for the purposes of this thesis, re-regulation is somewhat different to the standard definition of liberalization, which tends to focus on liberalizing reforms as institutional de-regulation (Baccaro and Howell, 2011).

Strictly speaking, therefore, Kohl's proposed yet failed neo-liberal reform program to cull the influence and powers of unions would not have been EPL type-liberalization, but instead legal adjustments that would have potentially further regulated rather than necessarily liberalized the German labour market. That said, Wood's argument is generalizable in that, as also argued by Hassel, what does appear to have continuously stifled German labour market liberalization across the Kohl and early Schroeder periods were the continued institutional strength of the German coordinated market economy's 'producer coalitions...driving and shaping [labour markets] and institutional change' as well as the joint-decision veto traps built into the German political system discussed in this Chapter (Hassel, 2011:10).

The result was marginal reforms that, as argued by the dualization literature, would promote labour market liberalization to the extent that, from a longitudinal perspective, they inserted enough flexibility into the German labour market to stabilize the core of the coordinated market economy (Palier and Thelen, 2010). Simultaneously however, the reforms also impacted the electorate's perception of the German labour market, especially with Hartz IV representing much tougher liberalization measures than had previously been the case (Neugart, 2005). This matters with respect to understanding the political determinants of those reforms, regardless of Gerhard Schroeder's self-effacing comments that '[political] courage means putting reform of your country before staying in power' (John, 2012).

To illustrate in terms of the thesis hypotheses: when reviewing the trajectory of reforms in light of the quantitative analysis in the Chapter 2, for Germany the determinants of the trajectory leading to the Hartz reforms appears to follow the socio-economic variables shown to be significant explanatory variables, namely unemployment and stagnating GDP growth. Or, what Clasen and Clegg have termed the then 'gloom surrounding the economic situation in Germany [that] has rendered radical reform proposals possible' (Clasen and Clegg, 2004:105). By extension, Hassel and Schiller argue that financial constraints put on local governments after re-unification, where municipalities pay out unemployment insurance, worked to precipitate the Hartz reforms (Hassel and Schiller,

2009). Or, specifically that ‘*both* public opinion and party position are driven by economic “danger signals” like escalating state debt or rising unemployment’ (Padgett, 2005:271; original emphasis).

However, the idea that the political economy challenges faced by German governments were conducive to reforms can only be part of the reform story. After all, those challenges were also evident during the Kohl period, e.g. unemployment and lacking growth, and have been for most if not all of the period analysed in this thesis up to the Great Recession. Therefore, the argument put forward here is that more attention is warranted for the role of politics in the German trajectory of reforms; for example, to the political impact of intra-party changes in Schroeder’s SPD, which arguably helped give the SPD the ability to complete the range of reforms reviewed in this Chapter.

One explanation in terms of a politically driven ability to reform follows Saint-Paul’s well known theoretical construct for structural reforms in modern mixed economies. Saint-Paul’s argument is that within a political economy reform context, the median voter theorem can be used to illustrate how politically significant labour market reforms are most likely to occur in two distinct stages. First, politicians buy the ‘support of incumbent employees by granting that the new arrangements’ –say in the case of Germany to lower Temporary EPL – ‘will only apply to new contracts’ and therefore will not affect the status quo for voters under regular employment arrangements, who are also the median majority winning voters (Saint-Paul, 2000:227).

Second, with marginal increases in flexibility in place, over time further and more systemic change to regular labour market institutions could potentially emerge. Using Saint-Paul’s logic, it appears that the first step was a long drawn out step or trajectory of reforms leading to an ultimately dualized German labour market – broadly as described above. The Hartz reforms could then be seen as the first round of Saint-Paul’s second step, yet that would not fit well with the subsequent loss of political power by the reforming government nor was regular EPL reformed.

Rather, it seems more important to connect the achievement of reforms with possible politically focused arguments for reforms, which leads to a slightly different explanation than that arrived at using Saint-Paul's approach. Namely, that to explain the marginal reforms trend observed in Germany, the intra-party and electoral preferences of Kohl's CDU/CSU and Schroeder's SPD constituencies may matter more with respect to their party leaders' ability to enact reforms. To illustrate, the German 'party politics of economic reform' have historically converged for both the CDU/CSU and SPD on the 'weakness of partisan cleavages on socio-economic issues' (Padgett, 2005:248).

What that means is that for liberal reform attempts, '[i]nstead of dividing the parties, the fault lines between welfare supporters and advocates of the market economy cut across party electorates' providing very limited political incentives for either Kohl or Schroeder governments to large liberalization reform programs (Padgett, 2005:270). In other words, on top of the existing challenge with powerful producer-coalitions mentioned above, there were no discernible electoral upsides or intra-party advantages for party leaders in Germany to promote liberalizing reforms. Rather, doing so would likely alienate important constituencies within each of the main catch-all parties that have formed governments in Germany since World War II (Padgett, 2005).

Hence, with respect to this thesis' interest in understanding the determinants of the political decision to reform labour markets, for Germany, it appears broadly correct to assume that between CDU/CSU and SPD governments, the ideology of the parties in government (and their constituents) did not vary significantly in terms of the political-electoral support that party leaders could gain from enacting reforms. As such, in the example of Kohl, a right-leaning leader in principle in favour of liberalizing reforms, there were plenty of economic but precious few party-political incentives to implement reforms.

Further, like Kohl before him, Schroeder initially had few intra-party incentives to implement reforms. Yet changing political dynamics arguably helped influence the political ability to enact reforms – especially for the Hartz reforms, as follows. First, the

party political composition of the German polity had by Schroder's second government changed to include a resurgent Left/PDS party. Secondly, Schroeder championed the more liberalization friendly Third Way as the ideological underpinning of the SPD, effectively going up against the non-liberalization friendly constituency of his own party (Arndt, 2013; Giddens, 1999).

To illustrate the rift, Giddens as author of 'The Third Way' (1998) argued that Schroder's electoral setback after the Hartz reforms reflected the way in which the German social model had negatively refracted the ability of German politicians to successfully enact liberalizing reforms (Giddens, 1999). However, it was more likely the direct alienation of core constituencies that cost the vote, with the then President of the DGB confederation of trade unions going as far as stating that the rationale for the Agenda 2010 reforms 'had not fully met the union's standards in terms of their effect on labour and social justice' (DW, 2002).

Specifically, on electoral platform Schroder moved from his first red-green governments election in 1998, which used an anti-liberal platform against the CDU/CSU, to a more centrist Third Way inspired platform in 2002 that did not rule out reforms. Labelled *neue mitte* or new middle, for the 2002 election Schroeder promoted and then subsequently for the Hartz reforms used a refined version of the German labour market's classic "rights and duties" motto (Arndt, 2013:103). Namely, that more liberal, active labour market policies would modernize "rights and duties" to towards the 'idea that labour market policy must "promote and oblige" (*fördern und fordern*)' (Clasen and Clegg, 2004:102).

Returning to German party system changes, there was an encroachment on the ideological space occupied by the SPD, in part self-inflicted with the Third Way move, in part as a result of the longitudinal liberalization trend exemplified by the resurgent Left/PDS party. An offshoot of the former East German communist party, the Left/PDS party became a serious party political competitor to the SPD, which from 1998 onwards was fully capable of repeatedly meeting and exceeding the 5% electoral threshold for

representation in the federal Bundestag (8.7% in 2005; 11.9% of the vote in 2009) (Arndt, 2013:103).

Therefore, the longitudinal reform trajectory had inserted enough flexibility into the German labour market to stabilize the core of the coordinated market economy (Palier and Thelen, 2010). Politically, however, that had also meant a further ability to enact reforms given that Schroeder, as party leader, turned to the centre. A move which was logical after the Left/PDS gained a stable foothold in German parliamentary politics and Schroeder's party own leadership platform within the SPD came to depend on the Third Way approach, rather than more traditional left-wing ideology.

Schroeder's leadership hinged on his ability to 'mobilise swing and middle-class votes' through a Third Way platform, with the addition of his running mate Oscar Lafontaine's left-wing ideological credibility that jointly provided the SPD with the 'ability to mobilize the social democratic core constituency' in 1997 (Arndt, 2013:103). However, with that came the realization that Schroeder could never be the SPD party's left wing electoral flag carrier – from an intra-party perspective that space was space occupied by Oscar Lafontaine, whom Schroeder made his first Finance Minister. Schroeder was personally only able to rally the SPD around the Third Way reform approach, which then started to vote with their feet, going to the Left/PDS as the longitudinal trajectory of liberalizing labour market reforms crystalized (Arndt, 2013).

At that point, in contrast to Kohl, Schroeder was not just attempting to deliver on labour market reforms as part of a response to pressures on the German government from political economy factors like lacking growth and persistent unemployment. He was also engaged in a set of intra-party political dynamics that made him personally aligned with and reliant on the SPD's Third Way constituency – internally and externally of the SPD. An alignment that was further cemented when Oscar Lafontaine left the SPD in protest at the liberalizing Hartz reforms, very publicly advertising his defence of more left-leaning social democratic values in his aptly titled book 'The Heart Beats on the Left' (Lafontaine, 2000).

In sum, the intra-party challenges faced by Schroder within the SPD and the rise, effectively, of the Left/PDS party outside of the SPD, showed the SPD shifting to the centre under Schroeder. A move that at least in part helps explain his ability – and willingness, to enact reforms, even if it ultimately had the political cost of losing Schroeder the subsequent 2005 elections.

3.3 Conclusion

This Chapter has shown that Labour market flexibility reforms were achieved in the case of Germany, in part, as a response to classic political economy challenges like unemployment and lacking growth. Further, the continental social model refracted reforms, as did the built-in reform breakers of the German political system especially evident through the *reform stau* period of the Kohl chancellorship. As such, GDP growth and unemployment put economic pressure on successive governments for reforms, yet producer coalitions were generally able to ensure that EPL stayed the course, at least during the Kohl years of the 1980s and 1990s (Wood, 2001).

However, the Chapter has also shown how the German reform trajectory was guided by a combination of economic liberalization pressures, including re-unification, and political challenges that when refracted by existing institutional constraints produced the 1998 Social Code III, 2002 Job-Aktiv, and critically, the 2003-2005 Hartz reforms. Specifically, for EPL, temporary EPL decreased and became much more flexible relative to regular EPL: temporary EPL went from almost 4 in the EPL range of 0-6 in 1985, to just above 1 in 2008. Regular EPL increased from 2.5 to 3 during the same period from 1985 to 2008, whereby overall, the Chapter lends support to the notion that Germany has moved towards a dualized labour market through ‘selective liberalization of various types of atypical employment’ (Thelen, 2014:131; Palier and Thelen, 2010).

Further, the Hartz reforms were part of a longitudinal trajectory of liberalizing reforms, that over time had started to alert German voters to a sense of continuous labour market

liberalization, most likely the reason Schroder lost the 2005 election (Padgett, 2005). However, what matters more for answering the research question of this thesis is how Schroeder in contrast to Kohl – facing more or less the same political economy challenges throughout their respective Chancellorships, was able to achieve reforms. The answer given in this Chapter is that, politically, the Hartz reforms coincided with then SPD leader Gerhard Schroder's move towards an electoral platform based around the so-called Third Way. Further, in combination with the emergence of a new electorally viable party on the left-ideological spectrum, the Left/PDS, enhanced the ability of reforms as a matter of intra-party competition.

To re-phrase, economic pressures for reforms had been present more or less throughout or across both Kohl and Schroder-led governments. Hence, economic pressures on government alone are unlikely to tell the full story of how reforms came about in Germany, as it was only under Schroeder that reforms were finally achieved, most clearly in the example of the Hartz reforms. Hence, with respect to what explains the political enactment of flexibility enhancing reforms in European countries, the German case does not provide evidence to reject the existing assumption in the literature that 'the persistence of differences in the organization of national political economies' remained valid for German reforms (Wood, 2001:247).

However, the case also does not provide evidence to reject the hypothesis that labour market flexibility reforms, or lack thereof, are best explained by a political focus on solving economic problems, e.g. high levels of unemployment, or maintaining institutional continuity. It does, however, not confirm that hypothesis either as the trajectory showed a persistence of similar-type political economy pressures on government across the trajectory of reforms. Instead, political-electoral and party leadership considerations in combination with economic pressures on governments are the likely determinants of Germany's reform achievements.

The Chapter illustrated that line of argument by showing how Schroeder's leadership platform within the SPD became closely related with the more liberalization friendly

Third Way approach, which had the intra-party and electoral effect of pitting Schroeder against the more left leaning, traditional parts of the SPD. A complication that lost Schroeder the support of Oscar Lafontaine and ultimately affected his 'ability to mobilize the social democratic core constituency' (Arndt, 2013:103).

The practical impact was that Schroeder moved towards the ideological centre, which in principle also should have brought support from centre-right voters and ensured an electoral win for Schroeder following the enactment of the Hartz reforms. Except, as shown by Padgett, there was always insufficient electoral support in the German electorate across both parties for reforms that would impact the German labour market towards a neo-liberal approach to labour market regulation, which the Hartz reforms were perceived as having done –perhaps more so when presented as part of a Third Way, rather than more traditional SPD electoral platforms (Padgett, 2005).

In sum, the case of Germany supports the thesis argument that the reform challenge remains first and foremost a political challenge of enacting reforms even if reforms led to a loss of voter support for the SPD in 2005. First, in the example of the Hartz program, the self-sacrifice espoused by Schroeder belies the success and failure of his Third Way electoral approach. However, it does lend support to answering the thesis question answer by drawing on a combination of economic challenges to governments and political-electoral advantages to reforming political parties and their leaders when seeking an explain for the political ability to enact reforms.

Second, the German case provides support for the idea that a better understanding of the trajectory of reforms, via a longitudinal analysis of reforms enacted, helped to clarify the political challenge of enacting reforms – as witnesses between the similarities and differences between the Kohl era and Gerhard Schroeder's changing approach to reforms across his two governments. A difference which is revealing politically given that the problems of government remained more or less the same from a political economy perspective.

However, the German case does not contemplate a situation where an elected leader confronts political economy pressures for reforms, enacts reforms, and gets re-elected. As such, the case of Germany conformed to Juncker's dictum discussed in Chapter 1. Yet the case of the UK represents a case of a reforming politicians going on to get re-elected, a case to which the thesis now turns with the UK being the second case study of the thesis.

4. Sustaining labour market reforms in the UK

As seen in the previous Chapters, both quantitative and qualitative, understanding determinants of the political decisions to reform is challenging but furthered through gaining knowledge of the trajectory of reforms and the interactions between economic or wider political economy and political explanatory variables that drive reform enactment. While the German case study showed that across the reform trajectory the political approach and political results for reforming politicians may vary significantly, e.g. between the Kohl and Schroder years, this Chapter turns its attention to the United Kingdom (UK); a country that, longitudinally, represents a case of a liberal market economy where labour market flexibility reforms took place both before and after the OECD EPL measure for labour market flexibility reforms became available in 1985.

Further, the UK represents a case where politicians across the political spectrum, again in difference to Germany, appeared to be able to enact and gain from EPL reforms and their sustainment over time. For example, after coming to power in 1979, Margaret Thatcher's Conservative government enacted labour market deregulation through the abolition of UK Wages Councils, lowering of employment protection, with state enterprise privatization and unions being prevented from taking disruptive industrial action from the early 1980s onwards (Wood, 2001:396). As such, the key area of non-EPL, but functionally linked, reforms that the UK has experienced is in the field of collective bargaining and the position and role of unions.

The result was arguably a 'revolution...best seen as a restoration of employer dominance in British labour markets...[with] the collectivist period from the late 1950s to the late 1970s [being] an aberration in recent British economic history' (Wood, 2001:396). A result, which politically turned out to be beneficial with Thatcher then going on to become one of the longest serving Prime Ministers of British history. However, more than Thatcher's enactment of reforms, as will be argued in this Chapter, what is significant in the UK case, particularly as it pertains to this thesis' research question, is

the continuous political commitment to a highly liberalized labour market, despite changes in governments (from Conservative to New Labour).

An often stated reason for this sustained commitment across the political spectrum and over time is the argument, that the “welfare regime inherited by Margaret Thatcher, in 1979, was...fundamentally inconsistent with the interests of employers and the institutional characteristics of the British [political economy]” (Wood, 2001:395). An argument which appears plausible and supports institutional continuity, to wit, the sustainment over time of high levels of labour market flexibility has (including low levels of EPL) been borne out by the actions of both ideologically right-leaning Conservative and left-leaning New Labour governments – giving weight to the quantitative results presented in Chapter 2, which showed that the ideology of governments was not a statistically significant explanatory variable for flexibility enhancing reforms.

To further illustrate, over and beyond the mentioned reforms by Margaret Thatcher’s governments to be reviewed in detail in this Chapter, when in 1997 Tony Blair’s New Labour returned Labour to power for the first time since 1979, he did so on the basis of an election prospectus that stated that ‘New Labour believes in a flexible labour market that serves employers and employees alike. But flexibility alone is not enough. We need “*flexibility plus*”’ (New Labour, 1997, *original emphasis*). In practice, the *plus* part of the prospectus did not materialize in intent to significantly reduce flexibility, as might have been expected from a left-of-centre political party government with a clear parliamentary majority due to the majoritarian political system of the UK.

Instead, from 1997 when Tony Blair became Prime Ministers until the Great Recession, reforms were implemented that covered ‘minimum standards of fair treatment, including a national minimum wage’ and ‘an imaginative welfare-to-work programme to put the long-term unemployed back to work and to cut social security costs’ (New Labour, 1997). As such, and beyond rhetoric to actual practice, the New Labour reforms aligned

themselves with the general European trend at the time of adding active labour market policies (ALMPs) to ensure a welfare-to-work work flexibility driven approach.

With New Labour there was no reversal wholesale of the Thatcherite legislation for employment protection or trade unions. Rather, focus was on ALMPs. Hence, the UK is a case of overall labour market liberalization – both through EPL liberalisation and especially so through its sustainment at a low level. Overall then, New Labour sustained the high levels of labour market flexibility introduced by Margaret Thatcher's Conservative party decades earlier through keeping EPL low, maintaining collective bargaining under wraps, and the introduction of additional welfare-to-work ALMPs.

Of course, Thatcher's neo-liberal economic reforms, including labour market liberalization, have received a large amount of political science attention (cf. Jessop, 2003; Wood, 2001; Marsh, 1995; Hall, 1993), in particular with respect to understanding the political motivations for reforms. Similarly, the period of flexibility sustaining reforms under the New Labour governments of Tony Blair and Gordon Brown has received its fair share of attention (cf. Hopkin and Wijnbergen, 2011; Davies and Friedland, 2007; Clasen and Clegg, 2003; Deakin and Reed, 2000).

However, the linkages between political economy determinants of labour market flexibility reforms and their sustainment over time as part of the UK's liberalizing reform trajectory have not always featured prominently in the political science literature. Or to qualify somewhat, not usually in the sense of longitudinally linking up the trajectory of labour market reforms with an approach that hypothesises a general set of political-electoral and party leadership considerations as determinants of labour market reforms for both the Thatcher and Blairite government, with historical or legal accounts more common (cf. Addison and Siebert, 2000).

Therefore, in an effort to understand the case of liberalization and sustainment of labour market de-regulation in the UK, this Chapter will trace key reform events across EPL and areas of reform functionally linked to labour market flexibility, providing relevant

information about the politics of each stage and of the most important reform events. It will then analyse the determinants of reforms that have enabled the UK to enact and sustain labour market flexibility reforms. The main argument of the Chapter, as it relates to the research question of the thesis, is that the UK represents a country-case that has sustained labour market reform liberalization because of the economic and political benefits of reforms for the UK and for the Conservative and New Labour leaderships during the period covering in this thesis.

4.1 Trajectory of UK labour market reform events

In perspective, the UK's labour market foundations have traditionally relied on a voluntaristic approach where employees and employers used common law underpinnings for, often, factory-by-factory labour market arrangements (Marsh, 1995:602). In other words, 'both individual and collective labour law was kept to a minimum' leading to a labour market where the 'shape and outcomes of collective bargaining, depended not on the law but on the informal institutions and processes within the factory' (Marsh, 1995:603). Hence, UK labour market foundations are somewhat unique when compared to, say, the legalistic Job Placement and Unemployment Insurance Act considered the bedrock of the German labour market, as seen in Chapter 3.

Yet, to think of Thatcher's later liberalizing reforms from a purely voluntaristic starting point for reforms would be misleading. This in large part due to the fact that the UK labour market had been modified quite substantially towards a lower level of flexibility through labour market regulation during the 1960s and 1970s (Auerbach, 1993). As shown by Marsh, from '1963 to 1979 there was an almost continuous expansion of the individual rights of the employee' with respect to employment protection, and simultaneously, 'efforts to regulate collective action' (Marsh, 1995:603). Hence, the baseline for liberalizing reforms like those that were implemented by Thatcher was less against a pure voluntaristic labour market and more directed at a collectivist one where

unions and the employment protection rights of employees had been substantially regulated for, but not in a liberalizing or flexibility enhancing manner.

In tandem with the voluntarist foundations erosion, the political economy challenges of the UK's post-war labour market were not so much unemployment as a comparatively poor record of productivity and output growth (Crafts, 1995:246). Yet despite recognizing these challenges, both Labour and Conservative parties accepted the continued proliferation of crafts-originated unions after the Second World War – impeding a coordinated labour market approach as in the German case, and therefore collective bargaining was not always a straight forward or easy to coordinate process (Marsh, 1995). This, in part due to favourable UK unemployment levels ascribed to successful political and economic policies around post-war nationalisation of key industries making the case for reforms initially somewhat limited (Craft, 1995).

Therefore, since both the Conservative and Labour parties accepted a post-war consensus on producer coalitions built around voluntarism and state ownership of large industries – or rather the Conservative government of 1951 did not reverse the policies of Clement Atlee's first Labour led post-war government, the political parties turned to competing on Keynesian inspired economic policies focused on demand management rather than supply side adjustments to labour market policy. In the area of strengthening collective bargaining, according to the 1969 Donovan Report such initiatives often failed because the UK trade union movement continued to be highly fractured, often down to the level of the shop steward (Turner, 1969). For example, in 1960 out of 600 trade unions only 183 belonged to the Trade Union Congress (TUC) peak organization (Wood, 2001:261).

While Keynesianism kept focus on demand-management side-by-side with a voluntaristic labour market run through the 'conduct of peaceful industrial action, previously almost unfettered', as mentioned, the trajectory was eventually changed to strengthening employment protection via individual rights using unfair dismissal procedures and cost policy levers in the 1960s and 70s; this, coupled with deteriorating

industrial relations that then, eventually, gave way to a supply-side or neo-liberal set of post-1979 labour market reforms (Auerbach, 1993:37).

Critical to the trajectory of UK labour market leading up to the post-1979 reforms was the Conservative Edward Heath led government's 1971 Industrial Relations Act. The Act aimed at reducing the scope for industrial action, that had by then become challenging with an increased number of strikes, to 'defuse the perceived triggers of industrial conflict by offering a raft of new workers' rights, but at the same time sought to contain the activities of trade unions within a highly restrictive legal framework' (Auerbach, 1993:39).

Importantly, in terms of its political ramifications for the framing of labour market reforms within the Conservative party, the Act largely failed because of a 'powerful and highly effective campaign of opposition from the labour movement, abetted by a steadfast scepticism and indifference among employers' (Auerbach, 1993:39). To the extent that, arguably, the 1971 Act experience, coupled with the electoral loss of Heath in 1974 to Labour, proved galvanizing for the Conservative party; not for further labour market reforms during the remainder of the 1970s, but for a cautious electoral-benefits rather than political economy focused approach to flexibility enhancing labour market reforms in the period between 1974 and 1979. In other words, Thatcher who became party leader in 1975, did not initially focus on labour market reforms – instead being cautious on account of the perceived electoral fallout from the 1971 Industrial Relations Act (Auerbach, 1993).

Meanwhile, it was not just the Conservative Heath led government that looked to increase regulation of the voluntarist system, the Labour governments of 1964-70 and 1974-79 also worked to 'develop a framework of both individual and collective labour law' (Marsh, 1995:603). Stagnant growth and international competition pre-meditated an increase in 'individual rights at work' and, building out from the voluntarist base, a system of collective bargaining that led to industry or firm level 'institutionalization of collective regulation...beyond pay, hours and dispute procedures, to the whole range of

issues related to labour productivity' (Howell, 2005:88). A macro-economic challenge remained given the historic challenges with productivity, but the increase in labour market regulation was achieved through a bi-partisan, cross-class consensus spanning the two major Conservative and Labour parties whereby 'the public value of both strong trade unionism and collective bargaining was not questioned in this period' (Howell, 2005:89).

Yet the consensus based labour market of the post war period eventually failed politically for both Labour and Conservative parties. For Heath, it meant that he unexpectedly lost the Conservative party leadership contest in 1974 to Margaret Thatcher, his former Environment Secretary, who had not been considered a serious contender by the party leadership (Jaung, 2001:67). Politically, in hindsight, Heath's fate was likely sealed with the second 1974 general election result for the Conservatives. In that election, the party saw its share of the national vote drop below 40 per cent – a first since 1945. Arguably the loss was directly linked to the success of the labour movement in discrediting the 1971 Industrial Relations Act and failed wage constraint policies that had led to a 'rise of prices rather than the increase in profits and investment required for an intended investment boom' (Jaung, 2001:69).

In relation to the UK's labour market reform trajectory and the question at the heart of this thesis, the key issue is therefore when, how and why Margaret Thatcher decided to raise the spectre of reforms to the electorate and how she eventually became successful in reforming the UK labour market towards more flexibility. For one, wider political economy reasons are often quoted, e.g. following Garrett's general argument that over time the lack of productivity and severe economic conditions of the 1960s and 70s were ultimately responsible for the abandonment of the post-war consensus around Keynesian demand management (Garrett, 1998).

Certainly those are variables, e.g. economic growth, that were also seen as significant for labour market flexibility in the quantitative analysis of Chapter 2. Yet, the intra-party circumstances and policies promoted between Thatcher's 1975 ascension to party leader

and Prime Minister in 1979 and beyond warrants further review for their changing nature with respect to official labour market reform policy. A review that focuses on a general set of political-electoral and party leadership considerations as the determinants of flexibility enhancing labour market reforms.

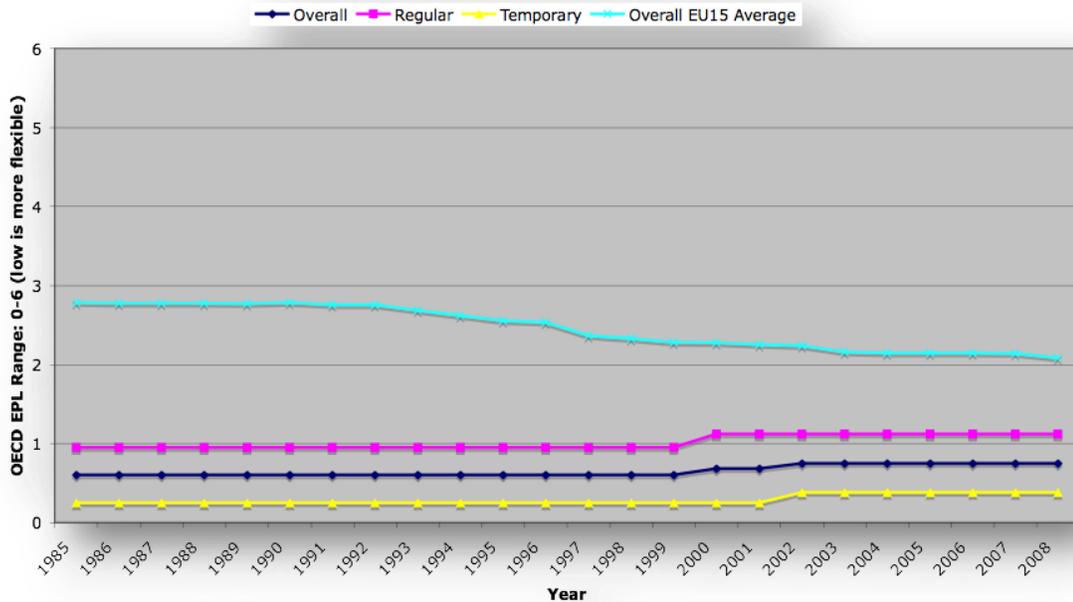
Critically, the main influence for Thatcher's pre-1979 leadership period with respect to labour market reforms was how keenly aware she and the party leadership were of the mentioned 1971 Industrial Relations Act's failure; to the extent that Thatcher did not publicly support labour market flexibility enhancing reforms in her time as Conservative leader in opposition from 1975 to 1979. In other words, as shown by Jaung, Thatcher did not publicly and hence from an election focused vantage point support labour market reforms of the neo-liberal type seen after 1979, i.e. before becoming Prime Minister. In particular, she continued to support then Shadow Employment Secretary, Jim Prior's line on making sure that the 'experiment from 1971 could not possibly be repeated' (Jaung, 2001:39). Similarly, the Conservative manifesto of 1979 was in the area of 'industrial relations law confined to a limited number of proposals said to address specific current problems, rather than any more fundamental [reform] agenda' (Auerbach, 1993:38).

Therefore, while in the opposition, Thatcher continued to publicly support an employment policy that did not involve major employment protection legislation or neo-liberal flexibility enhancing reforms, and labour market reforms were, as shown above, almost invisible in the successful 1979 Conservative election prospectus. That said, at the ideological level, the so-called New Right of the Conservative party had already in 1974 started advocating for a break with the Heathite official policies of the Conservative party towards monetarist, neo-liberal reforms of the economy overall (Jaung, 2001). For example, at the Conservative party's Preston conference in 1974, Thatcher's Conservative party mentor, Keith Joseph, made an impassioned speech for a neo-liberal and monetarist approach to setting economic policy that ran counter to the prevailing Heathite official policy that relied on Keynesian demand-management. Again, however, with respect to the early Thatcherite agenda there was no specific mention in the speech of labour markets or labour market reforms (Joseph, 1974).

Suffice to say that, while the Preston Conference in 1974 opened up the initial ideological attack on the status quo towards liberalization, the notion that labour market reforms should or could be at the centre of a Conservative party led neo-liberal reform agenda was not a foregone conclusion. To the extent that, arguably, with respect to labour market reforms ‘even in late 1978 it was impossible to predict the Conservatives’ likely future policy because they were faced by such contradictory views and pressures’ (Marsh, 1995:604).

At this point, to gain some perspective before reviewing how Thatcher politically arrived at the post-1979 reform trajectory, it is worth taking an overall look at the UK labour market trajectory, which can be easily gleaned from the EPL indicator used throughout the thesis as a proxy for labour market flexibility. Starting only in 1985, Figure 5 shows the UK to have one of the lowest EPL measures’ overall in the EU (and the OECD for that matter) up to the Great Recession in 2008. There is a slight increase in EPL (less flexibility) after 1999, i.e. under New Labour leadership, and then there are increases in 2000 and 2002, leading to a total of 0.75 by 2008 (OECD, 2010).

Figure 5: UK Employment Protection Legislation (EPL) Trends 1985-2008



Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD’s employment protection website (www.oecd.org/employment/protection). All tabulations and calculations completed as part of research for this thesis.

Figure 5 also shows that relative to the overall EU15 average the UK has had a very low level of Overall EPL, even if both Regular and Temporary EPL have increased to move the overall EPL for the UK marginally closer to the decreasing (more flexible) trend of the EU15 average. However, for example, no EPL reforms in the UK case would lead to dualization except a significant retrenchment or increase in regular EPL. However, the reforms discussed above are from before 1985 and not captured in Figure 5 because EPL data from the OECD only became available in 1985.

Thankfully, for the time period before 1985 the qualitative FRDB database discussed in Chapter 1 provides a useful primary data foundation (FRDB, 2015). Also, secondary sources provide context to the early Thatcherite ‘flexibilization and deregulation of labour markets’ (Jessop, 2003:142). Therefore, to complete the analysis of the trajectory of UK labour market reform events before 1985, those sources help gain an overview with respect to employment protection reforms with the main liberalizing reforms enacted being the Employment Acts of 1980 and 1982. Further, both acts were supported

by multiple minor revisions to legal codes in 1979, 1981, 1985 and 1989 (FRDB, 2015). Then, the non-EPL 1984 Trade Union Act, 1988 and 1990 Employment Acts, and 1993 Trade Union Reform and Employment Act focused on unions, mainly adjustments to strike rules (Addison and Siebert, 2000).

Overall, apart from the initial 1980 and 1982 Acts, subsequent revisions represented a piecemeal follow-up approach, as compared to the German Hartz reforms announced as a premeditated part of the larger Agenda 2010 reform package discussed in Chapter 3. Further, the Acts were often supplemented by code level revisions, e.g. covering the introduction of regulation to comply with the EU Directive on Transfers (1981) and the Unfair Dismissal Order (1985), which changed the qualifying period for unfair dismissal. The general reform direction was, however, usually towards further liberalization. For example, according to the FRDB, the 1985 Unfair Dismissal Order changed the ‘qualifying period of employment before employees may bring a claim for unfair dismissal [that was] raised to two years (before it was 1 year)’ (FRBD, 2015).

Specifically, the post 1979 reforms to EPL under Thatcher governments increased the qualifying period for ‘unfair dismissal claims from 26 to 52 weeks in 1979, and to 104 weeks in 1985’ (OECD, 1999:59). Further, as shown by Deakin and Reed, the ‘1980 legislation removed a provision placing the burden of proving fairness in dismissal on the employer’, so that part-time workers (those working less than eight hours per week) could not ‘qualify for basic protection at all’ – a disruption of the then existing employment protections system and a change that *de facto* made employment protection legislation somewhat ‘procedural rather than substantive’ (Deakin and Reed, 2000:122).

Principally, the 1980 and 1982 Acts were the critical reforms events as the 1980 Act limited ‘employee’s right against unfair dismissal, narrows the immunity for lawful picketing, and considerably reduces the immunity for secondary industrial action’ (FRDB, 2015). Further, the FRDB’s qualitative reform description indicates that the 1980 reform ‘was the first major enactment in the Conservative Party’s “step by step” programme to reform law and promote deregulation’ of labour markets (FRDB, 2015).

Step-by-step, or as mentioned above, piecemeal implementation appears correct, but may not have been as pre-meditated as is sometimes assumed, not least given that, as discussed above, the Thatcherite labour market flexibility-enhancing platform was not defined nor acknowledged as late as 1978.

Alternatively, therefore, an argument could be made that what is more likely is that Thatcher proceeded step-by-step, not as part of a grand design, but rather as part of a politically expedient approach to slowly build and test intra-party reform coalitions, appetite and through that also cement her own party leadership. Going step-by-step allowed for testing of the reactions of party leaders, the electorate and peak organizations for both employees and employers starting with the 1980 Act – ensuring or waiting and seeing if the resulting impact would be similar to the one suffered by Heath’s 1971 Industrial Relations Act (Auerbach, 1993).

A further key differentiator leading to the political calculation that the 1980, and subsequent Acts, were politically possible and expedient was likely the impact of the so-called Winter of Discontent in 1978-9 – a very different political economy backdrop to reforms than that which Heath had confronted in 1971. Arguably, an event which ‘strengthened the resolve of the Conservatives to reform’ away from the earlier calculation of Thatcher from 1974 onwards, that supposed a wait and see approach given the fallout from the 1971 Industrial Relations Act (Marsh, 1995:605). As such, the strikes and ensuing perception of the Labour party as economically incompetent following the Winter of Discontent was important in lowering the level of Conservative party political concern with respect to any electoral fallout from labour market flexibility enhancing reforms (Hall, 1993).

That said, over and beyond neo-liberal ideology being implemented through a monetarist control of the money supply – as argued by Keith Joseph in his 1974 Preston speech (Joseph, 1974), the argument can also be made that labour market reforms also provided a critical building bloc for an economic reform program that was by then politically not just expedient, but perhaps also necessary regardless of the underlying economic

wisdom of flexibility enhancing reforms. Necessary in the sense that, with the 1979 election win following the Winter of Discontent, Thatcher's internal party political leadership platform became inexorably linked to the need for liberalizing reforms, including labour market flexibility enhancing reforms that, as shown, were or had not been clearly formulated as late as 1978.

In other words, Thatcher had won the 1979 general election without much of a practical economic program except for the need to change the economic policy led by both Labour and Conservatives for most of the post-war period. A position corresponding to a new leader in power, suddenly and first and foremost politically in need of a specific economic reform program; a program that from a political perspective had to be radically different than that of all previous UK post-war governments. Arguably therefore, in practice, apart from neoliberal monetary and fiscal policies, for the trajectory of labour market reforms the policy response was first the 1980 Employment Act as a reform teaser, ostensibly chosen for 'the most dramatic political impact' emphasising its role as a political consideration rather than an economics or ideology based reform, then the 1982 reform and so forth (Auerbach, 1993:41).

The reform trajectory hence developed politically with the 1980 Act completed, and not having caused the upheaval experienced in 1971, supporting and even improving Thatcher's direct 'authority in her Cabinet', further putting her in a position within the Conservative party to replace Jim Prior as Employment Secretary, appointing instead the neo-liberal reform oriented Norman Tebbit in 1981 (Marsh, 1995:606). Tebbit's ensuing 1982 Employment Act was then allowed to be much bolder, targeting unions head-on by outlawing 'union labour only contracts' thereby 'effectively abolishing closed-shops, and narrowing the definition of trade disputes to tightly limit the scope for strikes' (FRDB, 2015). Significant with respect to EPL, the 1982 Act 'made it easier for employers to fire striking workers and not face unfair dismissal claims' (FRDB, 2015). Continuing with the step-by-step approach, Thatcher and Tebbit's flexibility enhancing legislation covered many smaller initiatives, making the electorates and the unions 'resistance at each point more difficult' (Howell, 2007:147).

Overall, the 1982 Act was focused on dismantling trade union legal protections that had been in place since 1906 and that were reinforced in 1974, setting-up the current day liberalized UK labour market clearly observable in terms of EPL in Figure 5. After the 1982 Act, until New Labour came to power in 1997, while numerous, Conservative governments subsequent ‘legislation tended to shift from encouraging a certain kind of industrial relations behaviour to enforcing it’ – again, especially with respect to closely managing the internal workings of trade unions, which explains the limited variation in overall EPL after 1985 (Howell, 2007:149).

In sum, for the Conservative-led liberalization of the UK labour market, the Thatcherite labour market reforms had as much a political as a political economy directional shift built in to the adopted policies. Yet the political motives or imperative for reforms becomes even clearer when considering the economic costs. To illustrate, UK unemployment was around 2 per cent until 1973 after which it increased to 4 per cent by 1979 – this would have appeared as a significant spike and a serious political challenge in the sense of being recognised as a problem of government similar to that of Germany discussed in Chapter 3 and using the variable of unemployment shown as significant in Chapter 2.

Yet the 1979 level of unemployment was low compared to the post-labour market flexibility reforms decade under Thatcher in the 1980s, when unemployment increased to a peak of over 10 per cent in the period between 1987 and 1989. After that period, it did decline to about 6 per cent, which was still well above the 1970s levels (Anderton and Mayhew, 1994:16). Hence, UK unemployment was comparatively high when Thatcher took power, but it is not clear that supply side policies like stricter monetary policies also necessitated radical labour market reforms – especially as the enacted reforms led to very high levels of unemployment that themselves, according to conventional wisdom of political economy pressures for reforms, should have then led to a reform reversal towards less liberalization of labour markets. Hence, the reasoning for implementing reforms, the continuation of those reforms after the high economic costs

became clear point to the relative importance of the political arguments for those reforms outlined in this Chapter.

Now for New Labour's reform trajectory, returning to the progression of EPL reform events in Figure 5, as data is available for the New Labour governments period until 2008, at first glance the period after 1997 when Tony Blair's New Labour came to power showed a slight increase in EPL (less flexibility). Specifically, the OECD measure for EPL for the UK in Figure 5 shows an increase from 0.68 to 0.75 in 2002 (on a scale from 0-6), attributable to the 2002 Employment Act. Further, EPL for regular employment increased (less flexibility) in 2000 from 0.95 to 1.12 on the OECD scale, and for temporary work from 0.25 to 0.38, attributable to the 1999 Employment Relations Act (OECD, 2010).

According to Shackleton there was a 'substantial increase in employment regulation' from Blair's EPL reforms (Shackleton, 2007:454). Yet as shown in Figure 5, overall, EPL for the UK is still considerably lower than those of most continental European countries. In this sense, New Labour more accurately represents a period of continuity of the Thatcher years as far as flexible labour markets are concerned, with clear 'echoes' of the 1980s (Davies and Friedland, 2007:7). That said, the 1999 Act was 'the most important and wide-ranging piece of employment legislation in the UK for many years', principally raising the cost for employers who unfairly dismisses employees as well as introducing 'legal protections against discrimination against employees on the grounds of trade union membership or activities' (FRDB, 2015).

Then, the 2002 Employment Act further set out a specific three-step procedure for dismissal, raising the cost of unfair dismissal to employers. Yet, overall, the liberal approach to flexible labour markets – including employment protection, was not challenged by New Labour's policies (Davies and Friedland, 2007). Further, while New Labour passed legislation to improve conditions for trade unions, union density and membership continued to decline (Shackleton, 2007). More significantly, there was no return to the pre-Thatcher era in that from a legal perspective, New Labour was still

officially committed to remaining ‘the most restrictive on trade unions in the western world’ (Taylor, 2005:193).

That said New Labour did put in place several active labour market policies. Policies that were, in part at least, the practical expression of the second tenet of labour market reforms promised in the New Labour 1997 Prospectus, the idea of ‘an imaginative welfare-to-work programme to put the long-term unemployed back to work and to cut social security costs’ (New Labour, 1997) (the first tenet was flexibility, which as per the analysis in this Chapter was not reduced significantly). Another area where New Labour distinguished itself from the Thatcher era was in the use of EU originated legislation.

Specifically, Blair included in the New Labour prospectus the need for the UK to change John Major’s decision to stay outside the so-called Social Chapter of the Maastricht treaty. A promise that Blair kept once New Labour came to power. Even so, most employment protection in the UK remained directed towards regular rather than temporary employment, making the UK labour market appear intrinsically flexible compared to other EU15 member states. In a comparative European perspective, this means that the UK already had or, to a large extent, was receptive to the ideas of flexible labour markets expounded at the European level, e.g. through the Lisbon Agenda and European Employment Strategy (EES).

Further, the UK ‘with its flexible labour market, dispersed wage structure and minimalist wage structure’ was better at this point placed to adopt EU labour market reform initiatives than other EU15 political economies (Hopkin and Wijnbergen, 2011:271). That said, according to Hopkin and Wijnbergen, the UK’s adoption and sustainment of a low EPL labour market was most likely the ‘result of British policy makers being influenced by the same thinking that also influenced the ESS, drawn from the experiences of non-EU countries such as the United States and Sweden’ (Hopkin and Wijnbergen, 2011:271). In sum, the UK does not present itself as a case of Europeanized labour markets and the labour market flexibility reforms trajectory documented above do not appear directly linked to EU initiatives. A result that is substantiated by the statistical

findings of Chapter 2, where European integration and globalization were not found to be significant for labour market flexibility reforms over time.

In sum, having considered the trajectory of reforms for the UK under the Conservatives and New Labour alike, in line with the case study methodology of the thesis, the following section looks at the likely determinants of the UK's ability to enact and sustain labour market flexibility enhancing reforms.

4.2 Sustaining UK labour market flexibility reforms

Thatcher's liberalizing reforms were a clear break with the prevailing approach whereby both the main political parties had until 1979 accommodated themselves to the post-war Keynesian inspired economic policy consensus. A consensus, which proscribed a positive attitude to Keynesianism that had tended to 'defuse conflicts among groups and classes by expanding the economy to everyone's benefit'; where '[p]owerful business interests need not necessarily oppose Keynesian programs that embody high levels of public spending' (Weir and Skocpol, 1983:6). Given the stark contrast, according to Hall, the reform process under the first Thatcher government was nothing less than a 'revolution' (Hall, 1992:90). Yet, as to the question of institutional continuity, the Thatcherite project also promoted 'enterprise, innovation and competitiveness' in a way that would 'subordinate a broad range of social policies to the demands of greater labour-market flexibility' (Jessop, 2003:140).

Similarly, Marsh and, separately, Auerbach have argued that while abandoning Keynesianism for a monetarist and liberal political economic agenda was perhaps inevitable after the Winter of Discontent, it principally serves to highlight how the enactment of labour market liberalization reforms was more likely than not 'affected by political considerations' rather than economic (neo-liberal) ideology (Marsh, 1995:603; Auerbach, 1993). Yet for the purposes of this thesis' research question, that still leaves out the question of exactly how Thatcher would benefit from labour market reforms overall? First, the enacted labour market flexibility reforms were both a productivity

enhancing political economic measure and a party political manoeuvre advantageous to Thatcher's ability to build and sustain her leadership of the Conservative party. Not only did Thatcher exploit and use the UK's majoritarian political system that made 'radical departures...possible', she was arguably willing to do so because it helped her consolidate internal power in the Conservative party (Wood, 2001: 260).

Second, while the majoritarian electoral system of the UK may have played a role in the sense that both Conservative and New Labour governments, with clear Parliamentary majorities could have completed fundamental labour market reforms without the institutional veto points that, say, German Chancellors had to worry about (Wood, 2001a:253). Yet only Margaret Thatcher's governments chose to de-regulate labour markets and subsequent New Labour governments did not reverse that overall approach. This matters because, as shown in the German case, government party leaders' ability to reform is often constrained by institutional veto-points, party system changes and, changes to intra-party dynamics with respect to the political platform of party leaders.

Third, unpacking those variables in this Chapter has pointed more towards 'a struggle for power within the Conservative party' as the reason for reforms to be put forward in 1980's Employment Act and then, after the Act did not suffer the fate of Heath's 1971 Act, to move forward with the fully liberalizing agenda of the 1982 Act (Howell, 2007). Hence, the argument that has driven the politics of reforms is that, while the group around Margaret Thatcher 'were genuinely seeking new solutions to Britain's economic problems' they also 'embraced the monetarist solution in large measure because it also had substantial political appeal' that would help drive electoral success following the Winter of Discontent. For example, as presented in the Guardian, and underscoring a typical view of the growing political necessity of moving swiftly forward with implementing neo-liberal reforms, for mainly political reasons, 'by success we mean regenerating the British Economy and winning the next election for the Conservative party' (Guardian editorial in Kwarteng, 2015:113).

Hence, the appeal of reforms was not only to attack Labour for economic incompetence, it was also a political raid against Thatcher's detractors within the Conservative party who had no problem with the then prevailing Keynesian orthodoxy – the so-called wets, including Jim Pryor who was Thatcher's first Employment Secretary and against radical liberalization reforms. In other words, there was a clear political leadership interest in reforms being successful for the Conservative party and for Thatcher to remain as its leader. Arguable, reforms became one of the (new) main selling points of Thatcher's government and was part of a liberal reforms platform on internal party leadership.

Not a small feat to be achieved when already in late 1981 'it seemed that Thatcher's rule, as well as that of her henchmen, would be short lived' (Kwarteng, 2015:112). So to speak, the implementation of labour market reforms were part and parcel of an electoral and intra-party strategy that would benefit Thatcher as party leader, notwithstanding that it was, admittedly, a 'high risk enterprise both for the Prime Minister [Thatcher] and for her nervous party' as well as a political economy reform component in the larger scheme of moving towards a supply rather than demand-side driven approach to national economic policy (Kwarteng, 2015:114).

Comparing the Thatcher and Blair years, the inter-temporal parallels in the completed reforms become apparent. First, Thatcher liberalized the UK labour market by tackling trade unions head-on and lowering or effectively eliminating EPL for both regular and temporary employment. Secondly, New Labour did not reverse Thatcher's reforms, but instead put in place ameliorating features so that (declining) union membership was not penalised without re-empowering unions to pre-1979 levels (Taylor, 2005). It also raised the cost to employers for unfair dismissals without changing the right to hire and fire. The result was that, according to the OECD, the UK, with Canada and the USA, with respect to dismissal costs, now 'occupy a middle position, since they have legislated considerable waiting periods and notification requirements' (OECD, 1999:64). Yet, overall the UK remains a political economy with a highly flexible labour market as indicated by Figure 5 – confirming its position as a liberal or Anglo-Saxon social model country.

Having analysed the politics around Thatcher's reforms in this Chapter and then briefly reviewed the very limited EPL reforms under Tony Blair, the parallel is striking in how both Thatcher's and Blair's reforms created intra-party capital for both of them as party leaders. To illustrate in the case of Blair, New Labour's labour market reforms 'created political capital for himself with the power bloc and the wider electorate through his sustained attacks on the economic and political power of trade unions' (Jessop, 2003:143). Adding ameliorating features to temper labour market flexibility without compromising the liberal nature of the overall UK labour market made sense for Blair from an electoral perspective, by not upsetting the 'middle class groups, which had supported the Conservatives in the 1980s', that liked the more liberal Third Way approach of New Labour, and that had made it possible for New Labour to return to power in the first place (Gualmini and Hopkin, 2012:11; Giddens, 1998).

Hence, Blair had no political reason to strengthen unions nor increase EPL because his own influence in New Labour had, at least in part, been enhanced by reducing New Labour's 'financial dependence on the trade unions and bolstering the control of the leadership over party governance and policy development' (Coulter, 2014:44). Further, continuing to limit unions' New Labour Party Conference bloc votes, Blair was able to convert New Labour from a mainly Conference decision-based to a parliamentary party-based decision making party, much more in line with the parliamentary party governance model traditionally used by the Conservative party (Arndt, 2013).

Therefore, in view of the thesis argument that intra-party political considerations are critical to reform enacting coalitions, including in the case of New Labour for re-regulating reforms that did not happen, Blair had no reason to decrease flexibility by reversing the reforms completed by Thatcher. This because, from an intra-party and political-electoral perspective, doing so would only weaken his own power base and diverge from the Third Way ideology to which New Labour aspired and that he had shown was electorally successful from 1997 onwards (Arndt, 2013; Giddens, 1998).

4.3 Conclusion

Labour market flexibility reforms were achieved and sustained in the case of the UK, in part, because of longer term developments in the post-War political economy culminating in the Winter of Discontent, Thatcher's rise to Prime Minister in 1979 and the liberalization of labour markets that followed. Reforms, that in their flexibility of labour market intent were then sustained by New Labour from 1997 until at least the 2008 Great Recession, albeit with minor EPL modifications and an expansion of ALMPs.

Implied in that trajectory were, as would be expected from the quantitative analysis in Chapter 2, challenges of GDP growth and unemployment that certainly put pressure on successive governments for various EPL and functionally-related labour market reforms. However, contrary to the German case in the previous Chapter, Margaret Thatcher was able to over-ride the dominant producer coalitions of the late 1970s, all but removing the influence of unions in the process of liberalizing the UK labour market. Similarly, Blair was able to stay the course of flexible labour markets after coming to power under New Labour guise in 1997.

Part of the existing literature argues that those liberalizing reforms were not much more than a re-alignment to the historical flexibility of the Anglo-Saxon social model (Wood, 2001). Or, that the inflexibility that had been created through an 'almost continuous expansion of the individual rights of the employee' through the 1960s and 70s (Marsh, 1995:603) would always or eventually have led to a 'restoration of employer dominance in British labour markets' (Wood, 2001:396). Similarly, from a political economy perspective, that over time the lacking UK productivity and severe economic conditions of the 1960s and 70s was what had led to the eventual abandonment of the post-war consensus around Keynesian demand management (Garrett, 1998).

Yet, while not invalid, those arguments belie the also significant political challenges for politicians enacting reforms that have been discussed in this Chapter. For example, how

politically the Conservatives prior to 1979 took an electoral rather than political economy driven view on the direction that labour market policies should take. An approach where making sure the ‘experiment from [the] 1971 [Industrial Relations Act] could not possibly be repeated’ was the main political-electoral consideration (Jaung, 2001:39). As such, the Conservatives political reasoning for not putting forward labour market reform proposals in opposition was the failed 1971 Industrial Relations Act.

Further, the Chapter’s analysis of the longitudinal trajectory of reforms supports Auerbach’s contention that rather than purely economic problems of government or political economic restitution there was not initially a ‘more fundamental [reform] agenda’ at the time of Thatcher’s election (Auerbach, 1993:38). That of course changed once Thatcher came into power, and the politics of reforms pivoted to moving those reforms forward in a form that would have the ‘most dramatic political impact’ in terms of reform achievements and the related consolidation of cabinet power for Thatcher within the Conservative party, which would follow, in part, from those reforms’ enactment (Auerbach, 1993:41).

To re-cap, the UK entered the late 1970s European-wide economically challenging period having completed re-regulation of its historically voluntaristic labour market – with a failed attempt to reverse that trend at a high political cost to Edward Heath via the aborted 1971 Industrial Relations Act (Auerbach, 1993). Then followed the step-by-step Employment Acts of 1980 and 1982, in tandem with the ‘wet’ Jim Pryor being replaced by the ‘dry’ Norman Tebbit as Employment Secretary and the liberalizing intent of the reforms becoming fully apparent (Jaung, 2001). Further, while Thatcher overwhelmingly de-regulated the UK labour market, New Labour from 1997 onwards preferred to use soft regulation, for example active labour market policies, as an instrument for sustaining a highly flexible UK labour market. Therefore, in terms of change and continuity across the trajectory of reforms, both the Conservatives (Margaret Thatcher and her successor, John Major) and New Labour (Tony Blair and his successor, Gordon Brown) governments followed political strategies that ultimately led to and sustained the UK labour market as an example of an Anglo-Saxon social model labour market.

Overall, therefore, the UK case does not provide evidence to reject the hypothesis that labour market flexibility reforms, or lack thereof, are best explained by a political focus on solving political-economic problems, e.g. severe economic problems, as was the case at the time of the Winter of Discontent. It does, however, not confirm it either as the trajectory showed that the enactment of reforms under the Conservatives, and the lack of reforms under New Labour, were politically motivated in support of the respective party leaders intra-party positions and electoral success, respectively. Hence, the determinants of reforms and explaining the ability of politicians to enact reforms in the case of the UK likely go beyond classic government “pressures for reform”. Instead, they point to at least a combined economic or wider political economy and political-electoral explanation for enacted reforms.

As a result, empirically the Chapter has provided a longitudinal, qualitative assessment of the most important EPL and functionally-related labour market reforms. A trajectory analysis showing that political economy arguments rarely on their own stood up as determinants of reforms. Instead, the Chapter showed how the combination of economic challenges to governments and political-electoral advantages of reforming political parties and party leaders appears to be a more fruitful avenue for understanding the determinants of the ability of UK politicians to enact and sustain labour market reforms from the early 1980s to the Great Recession.

5. Marginal reforms and flexicurity in Denmark

This Chapter follows a structure similar to that of the preceding two case studies. First, the Chapter looks at the Danish reform trajectory, then the politics of enacting and sustaining the Danish so-called “flexicurity” labour market model through marginal EPL and functionally-linked active labour market policy reforms. Flexicurity is defined as the combination of low levels of employment protection or EPL, generous unemployment welfare, and a high level of investment in active labour market policies (ALMPs) (Sorensen, 2010:18; Madsen, 2003). As such, flexicurity is one of the reasons the Nordic social model has been able to create economic growth and a level of social protection in downturns, which then limits unnecessary levels of inequality (Sapir, 2006).

In comparison with the preceding cases covering Germany and the UK, as a case of a Nordic social model country and through flexicurity, Denmark offers a particular insight into the politics and institutional modalities of flexibility enhancing reforms. Not only have Danish EPL reforms been at the margin. Reforms have also focused on enhancements to flexicurity and the institutions which support both the relatively flexible Danish labour market and the flexicurity model overall (Torfing, 1999).

Importantly, both EPL and ALMP reforms help illustrate how political coalitions formed to enact reforms, emanating not just from political economy pressures for reform but also as the result of intra-party developments within the Danish Social Democratic Party and the advent of a brief and unusual Social Democratic led majority government rather than the parliamentary-minority governments that have been the usual norm in Denmark. A political change from the traditional minority governments, which meant that significant labour market reforms, including for temporary EPL and ALMPS, could be enacted (Green-Pedersen, 2001).

Defining ALMPs, Katz argues that they are best seen as ‘measures targeted at the unemployed and disadvantaged (low-wage) workers with the intent of improving the functioning of the labour market’ (Katz, 1994:259). For the case of Denmark that

definition applies, but the timing and context of ALMPs matter even more in the Danish case. That is because ALMPs were the last of the flexicurity variables added to the mix in the mid-1990s. The other two components were low regular EPL (high flexibility) and high levels of social security added at the end of the 19th century and from the 1960s onwards, respectively. However, the modern foundation of the Danish labour market is agreements entered into by labour market peak organizations, with a limited role for direct state involvement.

To illustrate, the voluntary agreements underpinning of the Danish labour market matters because it has meant that shifting parliamentary coalitions did not drive nor overall meddle with labour market flexibility through, say, the civil service or *dirigiste corps* managing firms, nationalized or otherwise, as was the case for France and the UK following World War II. Rather, the politics of labour market flexibility in Denmark historically remained contingent on labour market flexibility not being captured by either left or right leaning governments. A capture that, so far, has not happened to any significant extent, although labour market reform events may slowly be disrupting the agreements based traditions of limited state involvement in labour market affairs (Goul Andersen, 2011). Yet, the absence of direct ideological interference by left or right leaning governments remains consistent with the statistical analysis in Chapter 2, which indicated that left or right leaning governments were not a significant explanatory variable for labour market flexibility enhancing reforms.

The same agreements based system makes reforms both difficult and to some extent unnecessary because the Danish labour market was always very flexible with respect to regular EPL (Thelen, 2014:141). Also, as mentioned, the political system in Denmark has more often than not produced minority governments, which means that small parties at the ideological centre have had an outsize influence on Danish public policy (Bille, 1989). For example, Danish governments have typically been coalitions across the middle of the ideological spectrum.

Typically, centrist parties would be ‘emphasising the need to reach ‘agreements across the centre’’ and had enough votes to do so (Bille, 1989:53). To the extent that it became almost ‘an ideology and a *raison d’etre* to compromise and mediate’ in Parliament for those parties; a target that could furthermore be easily achieved because the ‘distribution of seats in the Folketing [Danish Parliament] required their participation in the formation of any feasible majority’ for both legal acts and government formations since the second World War (Bille, 1989:53). In other words, Danish party leaders in government have for the most part always been constrained in their ability to move forward with any (radically) liberalizing reforms because of the political system and its support for the agreements basis of the labour market, regardless of the economic problems of the day.

More recently the traditional across-the-centre coalitions of Danish politics have somewhat changed, with the right-leaning government of Anders-Fogh Rasmussen right before the Great Recession becoming dependent for its parliamentary majority on the increasingly successful Danish Peoples party. Further, as a far-right competitor for influence on reforms the Peoples Party did not always align itself with the agreements basis of the existing labour markets system and instead being more open to direct conflicts with, among others, trade unions (Goul Andersen, 1999).

That said, in terms of this thesis research question, the up front empirical puzzle of the Danish case is why marginal EPL reforms were completed as with an already flexible regular EPL labour market, there was potentially little political gain from doing so. Further, why and how ALMPs were preferred to other functionally related areas of possible labour market reforms, e.g. unemployment benefits. The Chapter posits that Danish politicians were able to implement reforms because of the alignment of reforming coalitions across the ideological middle of Danish parliamentary politics with the key liberalizing reforms being enacted in 1993-1994. Reforms that were driven by the politically unusual situation of having a majority social democratic government and, simultaneously, the Social Democratic Party moving towards a Third Way approach due to an intra-party leadership contest in the early 1990s. With those political changes in

mind, the next section on the trajectory of Danish labour market reforms addresses those questions.

5.1 Trajectory of Danish labour market reform events

As already mentioned, an important historical underpinning of the Danish labour market and contributor to its overall flexibility, is the concept of voluntary agreements between unions and employer Organizations. Through the so-called “Main Agreement” or *Hovedaftale*, unions and employer organizations traditionally make arrangements for and negotiate wages, including arbitration, without state led involvement or interventions. Therefore, Danish collective bargaining results are *agreements* and not law based, as in the case of Germany nor law or state driven as in the case of France. Simply put, the key founding principle of the Danish labour market is a system of agreements between involved parties rather than state regulation (Sorensen, 2010:20).

Interestingly, the Main Agreement remains more or less intact from its first 1899 version and is still in force – practically, as well as in spirit, more or less as it was when originally signed. At its core stands a division of labour arrived at through the resolution of various strike actions at the end of the 19th and beginning of the 20th century as Denmark journeyed from an agricultural to an industrially advanced, and then post-industrial nation (Sorensen, 2010:20).

The ability of the Main Agreement to function as intended is its support for and the continued prevalence of very strong unions and employer organisations. Further, while the Main Agreement is not a law, a legal support framework dating from 1910 is in place to enhance the workings of the agreements-based labour market system. Principally, that framework includes the Danish labour dispute arbitration courts and *Forligsinstitutionen* or “Compromise Institution”, a formal state run office or forum for collective labour market negotiations that require mediation (Due and Madsen, 2010).

Hence, a supportive legal framework exists, yet its main purpose is to aid the functioning of the labour market independently from the state. Politically, according to Sorensen, the incentives for labour market organisations have so far been strong enough for the system to function effectively. Overall, unions and employers have preferred the agreements-based model, forming a classic coordinated producer coalition (Due and Madsen, 2010). In practical terms, the Main Agreement and its institutional corollaries keep the Danish state out of detailed regulations- and wage setting, instead leaving that space open for collective bargaining between unions and employers. Bargaining that, if needed, could be assisted with mediation through the non-political Compromise Institution (Sorensen, 2010:21).

With respect to labour market flexibility, the Main Agreement further ensures that employers recognise the right of labour to organize and to ascent to binding agreements on wages and working conditions. The same provision gives employees the right to form a union, which then has a negotiation prerogative *vis-a-vis* employer organisations. In that context, it is important to note that union membership has been correspondingly high in Denmark, giving a high level of negotiating credibility to labour unions, and implicitly, the maintenance of existing levels of flexibility. Unionisation has actually been on an increasing path over time: while peaking at 79 per cent in 1980, that was still considerably higher than the 56 per cent it was in 1950. As such, even though much is made from time to time in the Danish media about union decline, the rate of unionisation has remained in the low seventies as of the late 2000s (Sorensen, 2010:101).

Further, high unionisation rates also traditionally precluded Danish unions from being captured by a more militant minority view of the far left (or right) and enabled unions to play a role as credible and responsible day-to-day participants in the functioning and running of the economy at both the micro- and macro levels – an example of Danish corporatism (Jorgensen and Schulze, 2015). Put differently, Danish unions have rarely been considered as politically contentious *per se*, as in the UK, or explicitly left-wing militant as in France.

At the same time, Danish unions have not been co-opted with quasi business management rights as in the German system of co-decision making (although they are represented on company boards, co-decision is not within the scope of the Main Agreement). An approach, which meant the ‘inclusion of unions in the political process was a key element of the Danish model’ with respect to labour market flexibility and any contemplated reforms (Jorgensen and Schulze, 2015:637). Inversely, employers had, and continue to have, the right to lead and distribute work according to the most efficient and effective ways as dictated by the global market place. A right that, so the popular argument goes, would be somewhat meaningless without the overall ability, within reasonable contractual parameters, to hire and fire at will – hence the low level of regular EPL in Denmark. At least that is the core tenet of the employer’s side of the Main Agreement bargain (Due and Madsen, 2010).

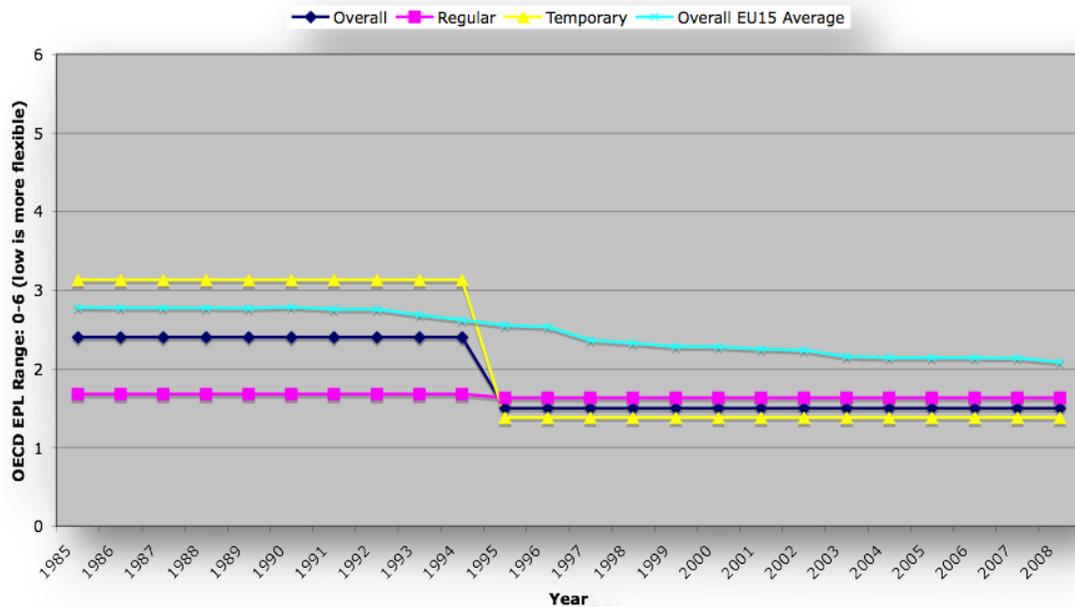
The Main Agreement has therefore been fundamental for the ability of Denmark to sustain flexible labour markets for an extended period of time, and illustrates why the social model – and especially the strong producer coalitions of employers and unions, have continued to play a role or to refract reforms in the Danish case. However, that is not to say that the key tenets of the Main Agreement, including the derived relative ease with which to hire and fire, are not party political. They certainly are, in the sense of often having been the subject of political contestation or elections in Denmark (Jorgensen and Schulze, 2015). Yet the political salience of the hiring and firing abilities of employers (high flexibility, low regular EPL) has traditionally not been a driving force of political parties’ approach to labour market flexibility nor to proposed reforms of the same on either the political right or left.

Instead, given the provisions and longevity of the Main Agreement, the flexibility of the Danish labour market has politically been contested by unions and flexibility kept high by adding generous welfare provisions for unemployed workers, through relatively high replacement rates (though in no way the highest in the EU) rather than EPL. Only later were ALMPs added and overall, a slow reduction in the corporatist influence of unions became more evident. A development that has accelerated and created a space for

reforms, where ‘union influence has declined, to the extent that unions are currently better defined as lobbyists rather than as part of a corporatist system’ (Jorgensen and Schulze, 2015:637).

With declining influence, unions have become less of a hindrance for political coalitions wishing to implement labour market flexibility reforms, especially so for the Social Democratic party. To analyse Danish labour market reforms, understanding the Main Agreement helps explain the historical acceptance and somewhat non-political nature of high levels of labour market flexibility. A characteristic that continues to characterise the Danish political economy and one reason why it overall remained stable, with only a limited number of reforms enacted until the early 1990s. The general flexible labour market is illustrated in Figure 6, showing how low regular EPL has been in place for the entire period for which OECD data is available, i.e. from 1985.

Figure 6: Danish Employment Protection Legislation (EPL) Trends 1985-2008



Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD’s employment protection website (www.oecd.org/employment/protection). All tabulations and calculations completed as part of research for this thesis.

That said, from Figure 6, Denmark did in the covered period from 1985 to 2008 enact labour market flexibility enhancing reforms for temporary EPL in 1993-1994, satisfying the case selection criteria of variation on the dependent variable outlined in Chapter 1. For overall, temporary and regular EPL, the trend of reforms for temporary EPL stands out as yet another European example of marginal reforms: between 1985 and 2008 Denmark went from a temporary EPL just above 3 to just shy of 1.5. Specifically, the primary reform events were enacted under the social democratic centre-left government of Poul Nyrup Rasmussen. They combined the lowering of temporary EPL seen in Figure 6 with the enactment of new ALPMs leading to a ‘significant shift towards liberalization through activation’ for the Danish labour market (Thelen, 2014:151).

The 1993-1994 EPL and ALMP reforms were somewhat unique in that during the 1980s and early 1990s Denmark had already been ‘plagued by high unemployment and growing public debt’ (Thelen, 2014:141). As such, a classic case of a political economy challenges had existed for a long time, putting pressure on Danish governments to reform the labour market prior to 1993. However, also evident in Figure 6, for the governments led by the Conservative Prime Minister Poul Schluter from 1982 to 1993, labour markets were not fundamentally changed through liberalizing reforms. Instead, they continued to focus on maintaining the ‘standard of living for the unemployed as well as possible’ (Torfing, 1999:13). Further, flexicurity had not yet emerged (ALMPs had not yet been added to the mix), with the result that at the ‘beginning of the 1980s, Denmark’s welfare state was still largely passive’ (Schulze-Cleven, 2009:185).

Schluter was, in essence, not politically in a position of strength with respect to reforms. The reason being that while he led a long series of ‘non-socialist minority governments’, they were usually composed of up to four coalition parties. In practice that meant that reaching consensus on labour market reforms proved difficult, albeit not for lack of intent (Green-Pedersen, 2001:59)¹³. Corresponding to ‘conventional wisdom about minority governments as weak in terms of governing capacity’, instead of fighting the

¹³ The Poul Schluter led governments of the 1980s and early 1993 were all parliamentary minority ‘right-wing centre’ governments with frequent elections and reconstitutions (Green-Pedersen, 2001:55).

social democrats and centre-leaning parties – some of the latter within his own government(s), Schluter focused on cost containment to reduce the national debt and administrative reforms under the hue of New Public Management (Green-Pedersen, 2001:53). However, within that gambit, in the area of labour markets he did achieve one labour market reform success, namely the ‘elimination of cost-of-living indexation for wages’ (Thelen, 2014:145). Yet, symptomatic of the Danish labour market reform challenge, other areas ripe for reforms like unemployment insurance were left untouched (Green-Pedersen, 2001:60).

Having put the eventual 1993-1994 Danish reforms in context, the political shift that eventually made temporary EPL and ALMP reforms possible were political through the entry of a majority, Social Democratic Party led government from 1993 to 1994 (Green-Pedersen, 2001). Described as a ‘highly energetic reform policy’ government, what had not changed were the political economy conditions that met Paul Nyrup Rasmussen’s government in 1993. Meaning that the pressures for reforms were still extant, with more than 12 per cent unemployment in 1993 (Torfing, 1999:381). Then, arguably through EPL and ALMP reforms, near full employment was eventually reached with unemployment dropping to 5 per cent by 2002 (Andersen, 2010:6).

Hence with respect to unemployment as a significant variable for explaining labour market reforms in Chapter 2, the Danish unemployment story went from very high levels to low levels and helped put a damper on any political arguments towards increasing unemployment protection. It certainly also put pressure on the Nyrup Rasmussen government for reforms. As such, an initial preference for wage depression policies was dropped in favour of increasing labour market flexibility through new and strictly active, rather than passive labour market policies that were enacted in 1993-1994 (Kristensen, 2011:93).

Looking at the specifics of the 1993-1994 reform events, they were mostly developed from a series of white papers arguing for reforms within the Main Agreement model (Thelen, 2014). The most important of those papers was the so-called Zeuthen Report,

which underlay the active component of the ALMPs that were eventually introduced by setting out the ‘discursive conditions for a transition from welfare to workfare’ (Torfing, 1999:386). The 1993-1994 reforms were in fact two acts – one on Active Labour-market Policy (1993) and another subsequent law in 1994 named Changes to the Law on Active Labour-market policy (Torfing, 1999:386). In practice, both Acts ‘lowered the generous unemployment benefits of the welfare model’ and invested aggressively in active, often mandatory ‘job – and education schemes’ (Torfing, 1999:387).

Further, the Zeuthen Report sheds some light on how the Danish approach to flexicurity actually works, remembering that the consensual fundamentals of the Main Agreement were still in place. As Madsen convincingly argues, the definition applicable to Danish flexicurity within the Main Agreement framework was always the interaction effect between three distinct parts of the Danish labour market: first, ‘a high level of labour market flexibility’ and second, ‘a generous system of economic support to the unemployed’ (Madsen, 2006:327). Thirdly, the Danish flexicurity model critically depends on the additional component of aggressively pursued ALMPs essentially impacting the second component by making unemployment support conditional on pro-active participation in those ALMPs.

That is why, as shown in this Chapter, the trajectory of reforms matters for the Danish case. With ALMP policies only introduced after 1993, as a marginal reform ALMPs did not fundamentally alter the other two components of flexicurity or the foundations of the Main Agreement itself. As such, the success of the flexicurity model was not an inherent or a longitudinal feature of the Danish labour market – as was low regular EPL and generous welfare and unemployment benefit provisions. In other words, low EPL and generous welfare were complemented by investments in AMLPs and the full liberalization of EPL through the lowering temporary EPL. Overall, no one was left out of reach of ALMPs, which in turn helped to sustain and increase Danish labour market flexibility through marginal reforms.

To illustrate the flexicurity components interaction effect at a practical level, the universal tax funded rather than means tested, generous access to unemployment support provides Danish employees with additional freedoms to seek new jobs. For example, in 2000 when unemployment was relatively low, approximately 260,000 Danes left their jobs for a new one, but out of that number only 40,000 were fired under the low overall EPL regime (Kristensen *et. al.*, 2011:91). Therefore, as Kristensen argues, ‘a major flaw in the discussion on Danish flexicurity is that employers are attributed the active role’ in hiring and firing (Kristensen *et. al.*, 2011:88). Rather, ALMPs provide incentives and training to make employees more competitive in their changing jobs-careers. Then, with welfare provisions built in, they also help labour markets clear when paired with low levels of EPL.

Generalizing the argument that employees and not just employers benefit from a flexible labour market, the basic political argument for marginal reforms in Denmark was not impeded by fear of poaching between firms. Instead, the Danish labour market had ‘succeeded in institutionalizing poaching, without creating the consequence that employers would under-invest in vocational training and education’ (Kristensen *et. al.*, 2011:90). An argument that the varieties of capitalism theory predicts cannot be done with LME type flexible labour markets (Hall and Soskice, 2001). As such, the Nordic social model, to which Denmark belongs, becomes non-typical of both Liberal and Coordinated Market Economy typologies with features more akin a CME with LME-type labour market flexibility. Of course that is more or less the same result that Sapir reached in terms of the Nordic model being able to create equity with efficiency in terms of economic growth (Sapir, 2006).

However, in the context of the trajectory of reforms, what had gone wrong and was then corrected with the 1993 reforms was the passiveness of the social support offered, which had left large numbers of unemployed unable to re-enter the labour market or had given them scant incentive to do so (Torfing, 1999). Further, it is fair to say that the combination of generous welfare and ALMPs is what made the underlying hiring and firing flexibility politically sustainable, with the caveat that the latter has become

expensive to the Danish government. To the extent that it has in itself occasionally become a political economy issue (Madsen, 2006; Goul Andersen, 2011).

Again, to summarize the trajectory of reforms, it is worth remembering that the enactment of reforms supporting each of the three components of flexicurity aligned longitudinally: the early foundations of the Danish labour market had built-in, very low levels of regular EPL. Then, substantial welfare provisions were added as the Danish welfare state developed in the 1960s and 70s, which were only changed with respect to access conditionality as the third and last flexicurity component of ALMPs fully emerged. To understand the politics of Danish labour market reforms, the next section looks at what explains the described marginal yet flexicurity enhancing labour market reforms in Denmark.

5.2 Marginal reforms and flexicurity in Denmark

ALMP investments, combined with the relaxation of temporary EPL, took Denmark from a 12 to a 5 per cent unemployment rate; a macro-economic result that became the lead reason for why the EU began to tout the Danish flexicurity model as highly desirable, even if the other flexicurity components of low regular EPL, welfare payments and the Main Agreement framework were not always well understood at the EU level (Madsen, 2006:323). Further, looking objectively at the success of flexicurity, at least part of what drove the fall in unemployment was derived from a very aggressive fiscal stimulus – including fiscal funding of ALMPs.

To the extent, that Denmark at its peak in 1995 was spending almost 7 percent of GDP on ALMPs, compared to the UK's peak of 2 percent and similarly Germany (4 percent) and France (3 percent) (Thelen, 2014:114). Put bluntly by Madsen, 'the decline in unemployment can be directly attributed to the changes in labour market policy...[and] be explained perfectly well within the framework of standard macro-economic analysis' based on the level of fiscal stimulus provided (Madsen, 2006:329). Such a high level of expenditure of course puts pressure on governments to reduce spending, but while

flexicurity was a relatively recent phenomenon it had surprisingly quickly become institutionalised within the existing Danish labour market model (Madsen, 2006).

Clearly it is also not far fetched to assume that unions and employers would not resist reforms that, while more onerous on the unemployed came with a substantial additional investment in fine-tuning and enhancing the overall supply of labour. Specifically, flexibility enhancing EPL and ALMP reforms were the way in which previously *passive* labour market policies were converted into strictly *active* labour market policies (ALMPs). That was possible, in large part, because beyond leading a unique majority government, Nyrup Rasmussen's own leadership had come about as a conscious move towards the more centrist, even economically liberal Third Way approach to updating welfare states for the global economy (Giddens, 2008).

In a power struggle similar to that between Oscar Lafontaine for the traditional left and Gerhard Schroder's move of the German social democratic SPD party towards the Third Way in Germany (see Chapter 3), Nyrup Rasmussen had managed to 'overthrow' the more left-leaning Social Democratic Party 'party leader Svend Auken in 1992' (Pedersen, 2010:744). A historically unparalleled event for the Danish Social Democratic Party, from which Nyrup Rasmussen went forward to become Prime Minister in 1993 on what was effectively a Third Way electoral platform. A platform supported by a majority within the Social Democratic Party by virtue of the direct membership poll that ousted his predecessor Auken, and by winning the popular vote on a Third Way reforms electoral platform in 1993 (Arndt, 2013).

Hence, intra-party leadership and ideological platform changes, and being uniquely the Prime Minister of a majority government allowed Nyrup Rasmussen to go forward with 'path-breaking labour market reforms under the Third Way agenda' (Arndt, 2013:127). As such, Danish reform developments, as part of a political intra-party transition, aligns with the Hartz reforms of Gerhard Schroder's social democrats in Germany, but also Tony Blair's New Labour agenda that put emphasis on ALMPs (see Chapter 4). A political achievement in a Social Democratic historical context, because using ALMPS

as the political response to high levels of unemployment in the early 1990s was atypical within a Nordic social model context. First, by being re-commodifying in the reform's zealous approach to imposing benefit conditionality and activation requirements for the unemployed, an approach whereby the Danish labour market became more liberalized than it was previously, going from 'social security' without conditions to 'more conditional' (Arndt, 2013:127).

For example, employment-substituting activities and checks on participation in training programmes tailored to address actual market driven skills shortages were put in place (Torfing, 1999). Further, assessments of individual's ability to work rather than time or rule-based guarantees of (still relatively generous welfare) benefits were introduced. Likewise, unemployment benefit recipients were obliged to actively participate in ALMPs that were now to a larger extent run by local municipalities rather than union affiliated unemployment agencies, as had previously been the case (Madsen, 2006; Socialministeriet, 2001; Torfing, 1999).

Secondly, to achieve unemployment results via ALMPs meant obliging the unemployed to participate in ALMP programs in accordance with their assessed ability to work; what Goul Andersen stresses was a move to a 'work first' emphasis in both rules and spirit, and what ultimately became the underlying principle of the developing Danish flexicurity model (Goul Andersen, 2011:204). Politically and in the trajectory of reforms, that had an impact. For example, in a careful analysis of reforms from 1990 to 2010, Goul Andersen highlighted the political challenges of fiscally maintaining the very costly ALMPs and, critically, the political impact of the earlier achieved flexibility – or flexicurity – enhancing reforms (Goul Andersen, 2011).

For one, when in 2001 the liberal Anders Fogh-Rasmussen took over as Prime Minister after Nyrup Rasmussen (1993-2001), he further tightened ALMP conditions already in place. Then, as a second step, Fogh-Rasmussen favoured an ALMP implementation approach that disregarded the agreements-based foundations of the Danish labour market by limiting unions involvement in managing ALMP programs – one of the key reasons

they had had for being in favour of ALMP reforms in the first place (Gould Andersen, 2011; Jorgensen and Schulze, 2010). What that meant was that there was a political impact of the marginal reforms enacted, affecting Main Agreement signatories directly, i.e. unions were now prevented from having a ‘formal position in the implementation of ALMPs’ (Gould Andersen, 2011:202).

Overall, ALMP management discontinuity by unions can, to some extent, be explained party politically by looking at the Fogh-Rasmussen government’s reliance on the far right Danish Peoples Party for his (minority) coalition governments after 2001. First, the Peoples Party took over the pivotal role of providing the parliamentary majority support role previously held - for decades, by the centre and centre left Radical Party and Centre Democrats Party. In fact, the Centre Democrats did not meet the threshold for the Danish parliament when Fogh-Rasmussen took over as Prime Minister in 2001. It was an important change in the sense that the consensus politics of labour market flexibility enhancing reforms, like most of Danish economic policy, had for more than a century been decided across the middle of the aisle, with cross-party support so to speak.

Secondly, while the Fogh-Rasmussen changes to ALMPs may appear somewhat muted to the casual eye, the implications of even marginal reform tweaks have become potentially important for the forward stability of flexicurity. For example, unions have started to request increases to EPL – reforms that would lower flexibility, as part of collective bargaining talks between unions and employer organizations (Goul Andersen, 2011:204). If fruitful, then such discussions about non-trivial increases in protection against dismissals or regular EPL would fit within a trend that would potentially feed already emerged doubts among the Main Agreement’s union-side signatories about the wisdom of maintaining across-the-board, low levels of employment protection simultaneously with strict ALMPs.

In sum, the division of labour management enshrined in the Main Agreement was based on and has over time been able to support an *entente cordiale* between employers and employees as well as between producer coalitions and the Danish state. The result was,

as seen in the trajectory of EPL reform events in Figure 6, a historically low level of regular EPL. To that was added, through unique intra-party developments of the Danish Social Democratic Party and the advent of a somewhat unique majority government, reforms to temporary EPL reforms and ALMPs within the political context and ascendance in Danish politics of Third Way thinking. Certainly, a sharp reversal from passive to active labour market policies took off and helped create a Danish labour market model exhibiting the defining features of flexicurity. Therefore, as a case of a country with variation on the dependent variable of reforms, the subsequent Section concludes on the trajectory of Danish labour market reforms with respect to the thesis research question and hypothesis.

5.3 Conclusion

Denmark's journey to flexicurity provides a picture of marginal labour market reforms increasing overall flexibility. The pattern is strikingly similar to reforms observed for Germany in terms of the reasons given and the intra-party challenges and opportunities for reforming politicians to enactment reforms. As expected from the quantitative analysis in Chapter 2, labour market flexibility reforms were achieved in the case of Denmark, in part, as a response to economic challenges of high unemployment in the early 1990s. Further, the Nordic social model –especially the underpinnings of the Main Agreement, refracted reforms. The result was a political reform ability or focus on a move from passive to active labour market policies, and full liberalization of EPL – lowering temporary EPL to match the already low levels for regular EPL (see Figure 6).

The reforms enacted by social democrat led governments of the early 1990s, and subsequently enhanced by liberal government in the early 2000s, stand out in contrast to the challenge of reforms during the 1980s. A period of liberal but also minority coalition governments led by Poul Schluter with high national debt and unemployment levels, which put political pressure on his successive governments for reforms. However, as shown in this Chapter, parliamentary majority challenges and producer coalition residual strength meant that the existing low regular EPL and generous but passive

welfare remained in place. Ideologically in favour of reforms and having had them as part of his electoral platform, the only reforms that Schluter was able to achieve was lowering the cost of welfare payment by de-indexation of unemployment benefits (Thelen, 2014:145). As such, other areas ripe for reforms like unemployment insurance remained largely unreformed (Green-Pedersen, 2001:60).

The trajectory of the Main Agreement, low regular EPL and then temporary EPL and ALMP reforms took place in 1993-1994 with a continued backdrop of high unemployment, around 12 per cent (Thelen, 2014). However, with the political ability to move from passive to active labour market policies, and fully liberalizing temporary EPL, Denmark achieved liberalizing labour market reforms that when described as flexicurity became widely seen as a potential model for Europe (Madsen, 2006). Overall, a conclusion which draws attention to the politics of reforms with respect this Chapter's contribution to answering the research question of what explains the political enactment of flexibility enhancing reforms in European countries (or lack thereof) in the period from the early 1980s to the Great Recession in 2008.

Critically, the ALMP reforms re-commodified workers by insisting on assessments of the ability to work, mandatory participation on ALMP programs, and a change of those programs to promote job-taking at almost any cost. As such, if anything, the notion of flexibility enhancements to the Danish labour market at the cost of lower de-commodification under a Social Democratic Party government underscores the importance of understanding the politics of reforms when analysing European labour countries labour market reform enacting coalitions.

Specifically, the social democratic led government was able to enact reforms with a rare parliamentary majority, but also because the intra-party dynamics had changed. A drastic change in that the party unceremoniously discarded its party leader, Svend Auken, while in office and after he had won a historically high overall share of votes in the preceding general election, for Poul Nyrup Rasmussen. Nyrup Rasmussen being a new party leader, fully signed up to the modernisation of the Danish welfare state and labour

market through adherence to the Third Way approach (Jorgensen and Schulze, 2010; Arndt, 2013).

The result was that between 1985 and 2008 Denmark kept regular EPL comparatively low at just below 2 on the 0-6 OECD scale, but then went from just above 3 to just shy of 1.5 for temporary EPL. Simultaneously, the social democratic centre-left government of Poul Nyrup Rasmussen gave up on improving the labour market through wage compression and instead significantly increased investments in ALPMs resulting in what for Denmark was a ‘significant shift towards liberalization through activation’ (Thelen, 2014:151). In other words, reforms that lent support to ALMP type reforms that Tony Blair and Gerhard Schroder also worked towards under the Third Way banner.

In sum, with respect to what explained the political enactment of flexibility enhancing reforms in European countries, the Danish case does not provide evidence to reject hypothesis that labour market flexibility reforms, or lack thereof, are best explained by a political focus on solving political-economy problems, e.g. high levels of unemployment, or maintaining institutional continuity. It does, however, not confirm it either as the trajectory showed a persistence of similar-type economic ‘pressures on government’ across the trajectory of reforms under Poul Schluter in the 1980s and early 1990s, and the early governments of Nyrup Rasmussen.

Rather, the political ability to reform labour markets in combination with economic pressures on the reforming government of Poul Nyrup Rasmussen appear to be the key explanatory factor for the ability to enact reforms. Although the trajectory of reforms does not have a large number of reform events, which somewhat limits the generalizability of the argument, the trajectory of Danish labour market reforms leading up to the Great Recession did coincide with intra-party, party political, and parliamentary majority alignment changes rather than continuity. Changes that, as documented in this case study, provided sufficient political impetus for the described reforms to go ahead. All while economic pressures for reforms continued to exert

unrelenting pressure on governments, with Denmark exhibiting double digit unemployment rates at the time.

Hence, the determinants of reforms in the case of Denmark likely go beyond classic government pressures for reform like growth and unemployment and instead point to at least a combined political-economy and political-electoral explanation of the enacted reforms. As such, in line with the theoretical background discussed in the Chapter 1, this Chapter provides evidence for the contention that labour market flexibility reforms are best explained by understanding the short-term electoral prospects for reforming politicians.

The Danish case also provides support for the idea that a better understanding of the trajectory of reforms, via a longitudinal analysis of reforms enacted, helps to clarify the political challenge of enacting reforms – as witnesses between the similarity and difference between the governments of Schluter, Nyrup Rasmussen and Fogh-Rasmussen across the ideological spectrum. Interestingly, and different from the German case Denmark does present a situation where an elected leader confronted economic pressures to reform, enacted reforms, and then got re-elected. In that respect, the Nyrup Rasmussen government and its re-election was more akin to that of the UK, even if the reforms enacted were not as drastic as those of Margaret Thatcher.

In a broader context, this Chapter has illustrated the case of a Nordic social model country, Denmark, successfully implementing reforms to temporary EPL and flexicurity enhancing ALMP measures. However, the implementation modalities chosen for the ALMP measures may be putting unintended political pressure on the continuity of existing high levels of labour market flexibility. As such, it is no longer anathema in collective bargaining negotiations for Danish unions to bring up the possibility of increasing employment protection or EPL. Therefore, in terms of the thesis research question, Denmark represents both a country where reforms have been at the margin – as expected, and where Junker’s dictum may at some point be reversed in the sense that Danish politicians may consider lowering the overall level of labour market flexibility.

At the same time, the observable Danish reforms – say of its temporary EPL, are broadly in line with the reform pattern of most of Europe. Namely, liberalising reforms that have mainly been at the margin. The next Chapter looks at France as a case that has had similar if not more persistent economic pressures for reforms, but where the politics of reforms have not aligned to produce consistent flexibility enhancing reforms, marginal or otherwise.

6. Challenging labour market reforms in France

In previous Chapters, we have seen that labour market reforms were enacted and sustained in the UK, achieved in Germany against a backdrop of limited electoral support for reforms, and in Denmark how a combination of economic and political circumstances led to marginal reforms that established flexicurity in Denmark.

The thesis now turns its attention to the case of France, a country that, while having a generally recognised baseline of an inflexible labour market, has in practice moved forward with what is perhaps more accurately described as a ‘contradictory reform pattern’ (Marx, 2012:714). Contradictory in the sense that EPL-driven marginal reforms, and labour market reforms more broadly, have oscillated between increased and decreased flexibility across the in-scope time period from the early 1980s.

Because of its sheer number of attempts at reforms, which largely failed, France represents an opportunity to better ascertain the determinants of reform – what explains their success, their failure and their often contradictory results—in a context where economic pressures for reforms (such as high unemployment) were unremitting for most of the period covered by this thesis. The French reform trajectory, therefore, helps to provide a unique understanding of the economic and political conditions for reforms covering both successful and unsuccessful EPL reforms.

The generally recognised baseline of an inflexible labour market – making France a case of *a priori* no reforms, can be seen by considering the comparative average difference in EPL reforms completed by EU15 countries from 1985 to 2008, in Table 4. Similar to the descriptive statistics used in Chapter 2, Table 4 shows that from 1985 to 2008 France’s EPL remained almost flat around 3.0 (remembering that the EPL indicator goes from 0 to 6 with figures closer to zero denoting higher flexibility). Hence, France at 3.0 in 2008 was at the mid-point between high and low EPL flexibility. However, that level over time became a comparatively inflexible level of overall EPL compared with the EU15 average of 2.08 in 2008.

Table 4: Overall EU15 Employment Protection Change and Continuity 1985-2008

EU15 Member State	1985	2008	EPL Change*
Portugal	4.19	3.15	-1.04
Spain	3.82	2.98	-0.84
Italy	3.57	1.89	-1.68
Greece	3.56	2.73	-0.83
Sweden	3.49	1.87	-1.62
Germany	3.17	2.12	-1.05
Belgium	3.15	2.18	-0.97
France**	2.79	3.05	0.26
Netherlands	2.73	1.95	-0.78
Denmark	2.40	1.50	-0.90
Finland	2.33	1.96	-0.37
Austria	2.21	1.93	-0.28
Ireland**	0.93	1.11	0.18
United Kingdom**	0.60	0.75	0.15
<i>EU Average</i>	2.78	2.08	-0.70
<i>Overall EPL Totals</i>	38.94	29.17	-9.77

Data Source: Estimates of the employment protection indicators from 1985-2008 available from the OECD's employment protection website (www.oecd.org/employment/protection) for employment protection legislation (EPL). All tabulations and calculations completed as part of research for this thesis. **Indicated in bold: positive indicates less flexibility in 2008 than in 1985.

The implication is that, by remaining static and in fact raising its overall level of EPL slightly, France at 3.05 in 2008 was approximately one full EPL point above the 2008 EU15 average of 2.08. So not only is France a possible case of no-reform, in relative terms to the other EU15 countries, the decline in French labour market flexibility measured through the EPL indicator is quite dramatic: while the rest of EU15 member states made their labour markets more flexible through the liberalization of hiring and firing practices, mainly at the margin, France through its overall stability became relatively less flexible.

Yet this does not mean that lessons on what explains reform cannot be gleaned from the reform events that did take place and for France, also those that did not. Further, France is the only EU15 member state apart from the liberal market economies of Ireland and the UK – both of whom had EPL levels close to one in both 1985 and 2008, to have

increased its overall EPL from 1985 to 2008. In practical terms, France's trajectory shows increases (less flexibility) in both Temporary and Regular EPL, which is unusual given the overall labour market liberalization trend witnessed across Europe (Boeri, 2011). A trend that was also captured, and to which the thesis has added robustness, through showing a picture of marginal reforms quantitatively in Chapter 2 and then in the preceding qualitative case studies of Germany, the UK and Denmark.

Comparatively, in brief, France completed flexibility enhancing reforms in the early 1980s before the EPL indicator became available, in 1986-87 for regular EPL, and then attempted several reforms between 1990 and 2006 for both regular and temporary EPL that eventually failed. Finally, a flexibility enhancing reform to EPL was successful in 2007-08, just before the Great Recession. This briefly outlined, contradictory trajectory of reforms is discussed below with a reconstruction of reform events that succeeded and the most important, politically, also of those that failed.

6.1 Trajectory of French labour market reform events

France has as its labour market foundation a 'tradition of strict employment protection and social protection systems' (Clasen and Clegg, 2012:254). As such, French employment protection typically divides into permanent and fixed term contracts, roughly equivalent to the categories of regular and temporary EPL categories used throughout the thesis. In addition to employment protection, the French labour market has an overlay of insurance based unemployment and social protection (Amable, 2012:1173). The insurance-based social welfare system was set-up to maintain the social status of the main "male breadwinner" and therefore labour market reforms have often focused on so-called "insertion" policies: policies that target young people and women with respect to granting work on special contract types that are more flexible than regular contracts, and hence can further access to the labour market (Levy, 2005). An approach that became increasingly used 'to provide social benefits as a cushion against the unemployment generated when French firms rationalized' as EU integration and global competition ramped up during the 1989s and 2000s (Hall, 2007:72).

Paired with *dirigisme* or the French tradition of an elite from the *Grande Ecoles* running the French state through comprehensive, highly technical-administrative planning, the insurance based labour market arrangements would after the Second World War be managed through ‘an activist industrial policy that modernized the economy’ (Hall, 2006:5). However, the French state delegated the administration of insurance contributions to recognized trade unions and employer federations (the so-called social partners). By doing so, the French state could co-opt unions to help manage key elements of social welfare and the labour market, but avoid strengthening too much ‘a labour movement dominated by a communist union’ (Hall, 2007:49).

As such, involvement of social partners became a pre-requisite for labour market reforms. For example, the Grenelle Accords agreed in the aftermath of the 1968 student riots led to the establishment of a framework for the maintenance of labour market policy through the ‘inclusion of unions and employers in the deliberation of labour market policy reform’ (Davidsson and Emmenegger, 2012:214). However, the social partners in general remained a weak labour market reform partner – in part by design, as mentioned above, to avoid too leftist a capture of collective bargaining (Hall, 2007). In part, that weakness was driven by the trajectory of unionization going from below 25 per cent in the 1970s to below 10 per cent in the 1980s – the lowest in any OECD country (Levy, 2000:310; Palier, 2010a:77).

Overall, *dirigisme* with the post World War II nationalization and creation of large companies became the main, sustainable, avenue for setting labour market standards in France and reducing the need for strong partners for reforms. To wit, the 100 largest companies in France increased their share of the industrial production output from 20 per cent in 1950 to more than 50 per cent in the 1970s, many of them state owned (Levy, 2000:317). The implication was that the French state took on a large share of the economy to run with or via the state, and French society became ‘accustomed to looking to the state to resolve its problems’ including the labour market (Hall, 2006:5).

The upshot with respect to the trajectory of labour market reform events is that the producer coalitions of the French economy were at least at the end of the 1970s and beginning of the 1980s aligned with and often mainly driven from within the French state itself, continuously testing its ability to directly manage the economy, and by extension the labour market – preferably in concert with, but often against the desire of its social partners (Hall, 2007). For example, under ‘President Valery Giscard d’Estaing increased state aid to industry and expanded social programmes for those without employment’ became the stock ‘response of France to the socio-economic challenges’ at the time (Hall, 2007:54).

Hence, the existing literature on French labour market reforms draws focus towards initiatives led by the French government, indirectly illustrating the ‘relevance of socio-economic pressure for the [labour market] reform process’ (Marx, 2012:312). Yet while driven by economic or wider political economy concerns, politically, French reform initiatives more often than not were directed at propping up ‘traditional values and a “social treatment of unemployment”’ rather than being dictated by market forces or economic problems of the government of the day (Clasen and Clegg, 2003:361).

Challenges like unemployment were therefore tackled by state interventions, which was very different from the liberalizing reforms studied in the other cases covered previously. For example, while France started privatizing industry in the early 1980s – comparable to Thatcher’s UK labour market reforms, the UK went further by also deregulating unions and adopting a monetary policy leading to an overall reduction in the state’s role. In Denmark, the focus was on maintaining political support for high levels of flexibility by compensating through flexicurity; and in the case of Germany, the direct involvement of producer coalitions and unions set up a trajectory of successful collaboration between governments and social partners for overall coordination of labour market reforms – at least until the Hartz reforms came into place.

A further differentiator of the French case, over and beyond political economy considerations, was the political consideration that ‘since 1981 no government has ever

been re-elected' (Amable, 2012:1169). With no repeat governments, from a political science perspective, the electoral calculation behind reforms and reform attempts changes significantly – contrary to its peers, French governments do not appear to be focused on re-election. This is important because, as discussed in Chapter 1, a general political-electoral dilemma exists where, even if well-designed, liberalizing reforms that are structural in nature and may have long term (economic) benefits are not implemented because politicians are too well aware that the 'pains of reform usually precede the gains, making it even harder to push through the needed reforms' (Bean, 1998:355). That would scantily be expected to count for Prime Ministers of France as they could not expect their governments to be re-elected, with electoral focus and incentives therefore shifting to the Presidential level – examples of which will be illustrated below.

Further at the political level, France 'is not generally considered to be a case where labour market flexibility or rigidities have played a substantial role in the debate on unemployment...[and therefore] French governments have not attempted to induce significant changes in terms of [labour market] flexibility' (Malo *et.al.*, 2000:245). However, this thesis argues somewhat differently that French politicians have, in fact, been focused on labour market reforms, especially when the combination of economic and political gain has been jointly evident or where taking the initiative to implement reforms has been connected to a (Prime) Minister's ambitions to run for subsequent Presidential elections (cf. Petit, 2006). As such, the following paragraphs will review the specific events of the French reform trajectory, noting the reactive nature of reforms to economic problems of governments, as well as the implicit fear of union led riots and the political leadership implications that has often had for reform enacting politicians.

For the overall trajectory of French labour market reforms, neither permanent (regular EPL equivalent) nor fixed term (temporary EPL equivalent) contract types were 'governed by a special provision' meaning that a 'fixed-term contract could provide more employment stability than a permanent one, which could be practically terminated at any time unilaterally' (Marx, 2012:710). In short, historically a relatively flexible labour market existed, which then changed after the Second World War to the *dirigiste*

heyday, when between ‘1950 and 1980 termination of permanent contracts became more and more restricted by law and collective agreements’ (Marx, 2012: 711).

Hence, the baseline of labour market flexibility was quite high (flexible), certainly it was higher than what can be read for the EPL indicator level of 2.8 in 1985 from Figure 7, below. France then reduced its flexibility in the post-war political economy; and, went from a relatively flexible labour market in comparisons with other EU15 countries between 1985 and 2008, as shown in Table 4. Flexibility, which was mainly derived from widespread (some times illicit) use of fixed-term contracts, which towards the end of the 1970s, as unemployment increased, had surged both in terms of the overall number of companies using them and the share of the overall workforce being employed on fixed term contracts (remembering that fixed term corresponds to temporary EPL-based contracts). This led to the enactment of a labour market reform in 1979 by the centre-right government of Giscard d’Estaing, which at the time was argued for on the basis that ‘jurisdiction could not sufficiently constrain opportunistic hiring’ on fixed term contracts (Marx, 2012:711).

The solution arrived at was putting in place a binding framework for fixed-term contracts (FTCs) that had previously not existed, principally creating a more ‘predictable and stable legal basis for the use of such contracts’ (Marx, 2012:711). Yet while tightening on paper, the reform was contradictory in that the ‘regulatory approach was rather liberal’ because the ‘law did not specify conditions under which FTCs could be concluded’ (which had been the case before 1979) (Marx, 2012:711). Therefore, in terms of France’s reform trajectory, flexibility was increased through allowing the use of FTCs, both technically with respect to the contract form and overall in its usage vis-à-vis regular contracts. A trend, which continues to this day, and in large part has been used as evidence for a dualization of the French labour market (Palier and Thelen, 2010).

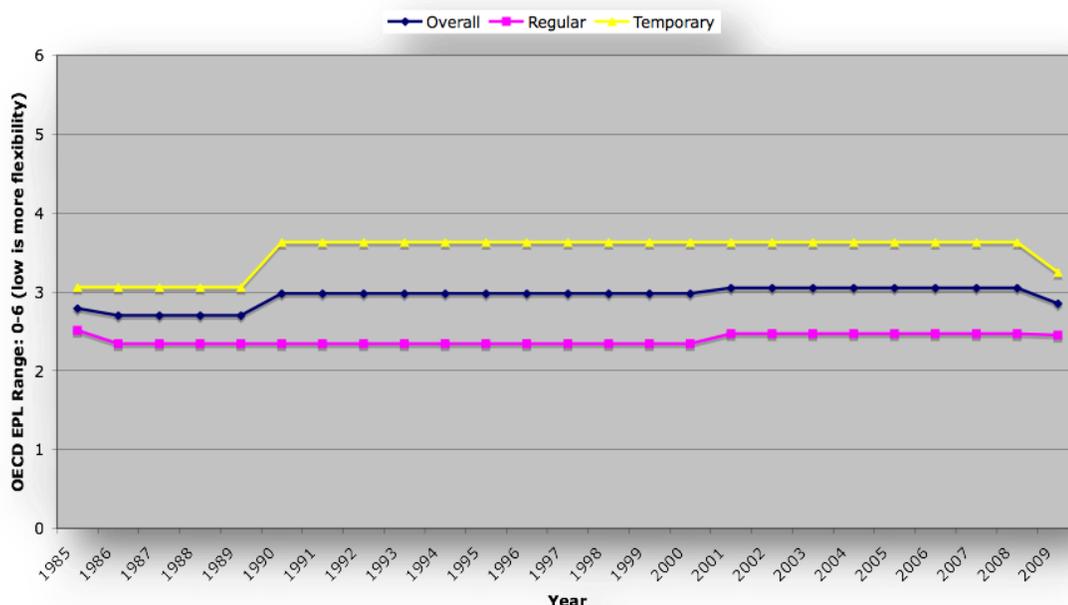
By the time socialist Francois Mitterrand became president in 1981, the political ‘position towards FTCs changed’, leading to a ‘re-regulatory reform in 1982’ (Marx, 2012:712). Specifically, the 1982 reform set-up a list of areas under which FTCs could

be used, imposed a maximum duration, and only allowed one extension instead of the previous two (Davidsson and Emmenegger, 2012:215). However, as unemployment did not abate, ‘the economic needs of firms overwhelmed the legislative stopgaps of the Socialists’ under Mitterrand’s leadership and FTCs continued to be used extensively (Howell, 1992:79). Further, social tension rose due to a near permanent 10 per cent level of unemployment, which became ‘a structural problem linked to fundamental defects in the economy or its regulatory regimes’ (Hall, 2006:3).

In response, the continued high levels of unemployment meant that the socialist party that led the first government under Mitterrand’s presidency began to ‘accept the need for deregulation’; yet it was also aware of the ‘low popularity of such measures’ (Marx, 2012:713). Involving unions and employer associations in negotiations or reforms proved difficult, as there was no agreement on pursuing either temporary or regular contract reforms. Ultimately, the government in 1985 passed a reform that would soften or increase the flexibility of temporary contracts such that ‘more grounds were admissible for the use of fixed-term contracts and the maximum duration was extended to 24 months’ (Davidsson and Emmenegger, 2012:216). As such, politically, the unions accepted a lowering in protection of regular contracts given the ‘socio-economic pressure’ for reforms (Marx, 2012:713).

So far then, both under centre-right and then socialist government leadership, a contradictory reform trajectory had characterised the French labour market. A reform trajectory that had been implemented in agreement with or at least not blocked by any of the social partners, and that aligned with the political economy pressures for reforms variables analysed in Chapter 2, e.g. unemployment. Noticeably, these reforms were implemented and affected labour market flexibility before 1985, when EPL data became available. Now, to link the period before and after 1985, the trajectory of EPL from 1985 is shown in Figure 7 and a discussion follows for each depicted reform event and key attempted reform events that failed, below.

Figure 7: French Employment Protection Legislation (EPL) Trends 1985-2008



Data Source: Estimates of the employment protection indicators from 1985-2009 available from the OECD’s employment protection website (www.oecd.org/employment/protection). All tabulations and calculations completed as part of research for this thesis.

In 1986, while Mitterrand remained as socialist President, a centre-right government replaced the socialist led one that had agreed to increase flexibility for FTCs – a classic case of so-called “co-habitation” between a president and government with a different party political and ideological background (Sartori, 1997). Then, with unemployment rising rapidly to double digits, ‘the growth of FTCs was presented as evidence for desperately needed flexibility and was used to legitimise de-regulation (Marx, 2012:713). Further, the new government had momentum behind it in the sense that public opinion – somewhat counter intuitively given the general story of France maintaining inflexible labour markets, turned in favour of liberalization (Balme, 2006). For example, in 1978, only 49 percent of the French electorate ‘favoured State regulation over freedom for firms’, including support for the liberalization of EPL (Balme, 2006:254).

That shifted in the 1980s to 60 percent of French voters being in favour of giving firms more freedom and ‘public opinion became clearly economically liberal’ (Balme,

2006:254). So the 1986 decrease in regular EPL, shown in Figure 7, happened with a centre-right government in power and electoral or public support for more liberal policies overall. The result was the 1986 reform that ‘included a significant relaxation of regular dismissal protection’ (Marx, 2012:714). However, as is also clear from the trajectory of EPL reforms in Figure 7 that the trend of liberalization did not continue.

One reason was that reforms of EPL for French governments were a challenging approach to liberalization given that, based on survey data, the French electorate was contradictory in wanting ‘both economic freedom and social regulation of the economy’ (Balme, 2006:256). That said, the following reform of temporary EPL in 1989 seen in Figure 7 – after Mitterrand was re-elected President in 1988, was ‘re-regulation of job security for temporary workers’ or an increase in temporary EPL (less flexibility) (Davidsson and Emmenegger, 2012:218). Clearly visible in Figure 7 is also the increasing span between regular and temporary EPL from 1989 onwards.

Politically, voters ambivalent approach to economic freedom and regulation of EPL in support of social stability became, potentially, evident in the long period of no EPL reforms from the early 1990s to the early 2000s. In that period, however, there was an increase in related areas of reforms, principally the previously mentioned special employment programs – including the so-called ‘re-insertion’ policies or programs, as well as macro- economic liberalization efforts to better insert France into the global economy (Hall, 2007).

First, the special employment programs were meant to help unemployed outside formal regular employment conditions enter or re-enter the labour market (Palier and Thelen, 2010:83; Hall, 2007; Culpepper, 2006:38; Malo *et.al.*, 2000:247). More formally, Clegg argues that the programs of the late 1980s were a ‘dualistic regulation of the unemployment risk and the use of non-standard employment arrangements’ to complement the already discussed extensive use of FTCs (Clegg, 2011:49). Yet, as is evident from Figure 7, the programs did not change the overall EPL status for France.

For example, the 1988 *Revenu minimum d'insertion* (RMI) provided for a minimum income to be received by a person who had never before worked. At its creation, about 400,000 workers registered for the RMI. In 2009, about 1.13 million or 3 per cent of the active population were dependent on it (Palier and Thelen, 2010:134); 8 additional per cent became dependent on other minimum schemes while 25 per cent in 2007 are in atypical work relations – up from 3 per cent in 1970. With those use-numbers, about one third of the entire working population in France came to be outside of the “normal” labour market, the underlying reason for France’s status as a dualizing labour market (Palier and Thelen, 2010)¹⁴.

However, most of the (re)insertion schemes had mixed reviews and several failed outright, thus representing failed reforms. An example was the CIP or *contrat d'insertion professionnelle*, introduced by the conservative Balladur government in 1994. Created as a new form of employment contract ‘with a lower minimum wage for the young’, government decrees were issued but the CIP was never actually implemented due to weeks of violent street protests (Tompson, 2009:203). Importantly, as an example of a failed reform in France’s trajectory, the CIP was different in its conception and political enactment compared to earlier successful reforms in the late 1970s and early 1980s. The differentiator was how successive governments, including Balladur’s, would try and “go it alone” without the traditional incorporation of social partners’ views that had provided support for reforms in the late 1970s and early 1980s.

To illustrate, in the case of the CIP, organized interests were largely ‘excluded from policy making and social tensions were marked’ as a result (Tompson, 2009:203). Similarly, another important case of non-reform or reform failure influenced by street protests instigated by unions was the critical attempt to lower EPL in 2006 by then Prime

¹⁴ In the French political debate, a working time reduction is understood as a means to increase internal (within companies) and decrease external flexibility that relates to indicators measured by EPL (Malo *et.al*, 2000). Working time reductions began in 1993 with the Robien Law and reached its most significant shift with the Aubry II Law in 1998, with the latter famously reducing working hours from 39 to 35 hours per week. In return, employers that agreed to the new limits were given higher exemptions on social contributions. In effect, substantive financial incentives made these reforms at least somewhat attractive to employers (Vail, 2008:342).

Minister de Villepin. Called CNE for *contrat de nouvelle embauche*, the reform was intended to ‘facilitate the hiring of young people by small firms understood to be reluctant to hire because of the existing high levels of EPL (Petit, 2006:111). In practical terms, the CNE ‘allowed small firms to fire new employees at any time during the first two years of employment’, ironically a duration equivalent to the typical time of a normal FTC (Petit, 2006:111).

Petit argues that de Villepin moved ahead with the CNE because of ambitions for the 2007 Presidential election, yet did not approach the topic logically given that ‘70 per cent of young people under twenty-five [years of age] entering the labor market were already on temporary [FTC] contracts’ – hence the mentioned irony (Petit, 2006:112). Politically, it was moved through parliament without debate, using an exception clause. Yet again, perhaps most important with respect to the challenge of labour market reforms in France, it did not conform to the successful political process of including social partners in the development and implementation of the new reform measure.

Further and important for the politics of labour market reforms in France, the measure was an example of a reform that was not intended to impact electoral considerations for de Villepin as Prime Minister, but rather focused on his position towards the up-coming 2007 Presidential election campaign to replace then French President, Chirac. Specifically, de Villepin was contesting the role of Presidential campaign candidate for the UMP centre-right party with one of his ministers, Nicolas Sarkozy. Hence, the CNE was likely targeted as an electoral play with de Villepin aiming to show his ‘statecraft and his ability to reform a social model in crisis’ rather than a political economy solution to high unemployment or a leadership calculation for re-election at the level of Prime Minister (Petit, 2006:114).

In sum, the somewhat or often completely failed insertion policy(ies) and EPL reforms from 1989 to 2007 were symptomatic of Prime Ministers aiming to promote their own stature with respect to reforms and Presidential elections. As such, the one reform that did succeed in the same period was a regular EPL reform observable in Figure 7 from

2000-2001, lowering flexibility. The reform was enacted under socialist Prime Minister Lionel Jospin (1997-2002) within the framework of the so-called Social Modernisation Bill. The Bill was intended as an ameliorating feature to the previously passed, widely unpopular "new economic regulations" law (*nouvelles régulations économiques*, or NRE), which was intended to prepare France for participation in global capital markets (Tiberghien, 2007). Specifically, for the area of EPL, the Social Modernisation Bill enacted measures to 'tackle precarious employment through restrictions on fixed-term contracts' (FRDB, 2015). Publicised politically as an 'anti-layoff law' it was arguable a side-payment to the coalition partners of Jospin's government, a 'concession to the communist party' (Tiberghien, 2007:100).

In essence, the Social Modernisation reform continued the trajectory of French labour market reforms by tinkering with FTCs or marginal and at times contradictory reforms. The reform thereby helped ensure that the 'period which must elapse between the uses of fixed-term contracts for the same position is made longer' (FRDB, 2015). The point of making the time between using an FTC for the same position longer being a marginal reform, yet an important one because of the increasingly irregular use of FTCs. For example, by using several FTCs after each other for the same position or inventing new FTC positions to hire existing employees into, Jospin's reform looked to 'contain the uncontrolled use of flexible employment' contracts that had spun out of control with potentially 'systematic violation of [FTC] regulation' (Marx, 2012:718).

Another supporting political factor for Jospin's reform was the French electorate's resistance to liberalization, which had grown through the period in which the NRE was discussed and implemented. For all intents and purposes, the previous calculation of voter's dual expression of support for both social regulation (including EPL) and firms following liberal market principles (see Balme, 2006) had changed: by 2001, opinion polls showed that '65 percent of the [French] people expressed their resistance to globalisation' into which they also read attempts at EPL reforms – visible if nothing else through the abuse of FTC contracts (Tiberghien, 2007:101). In that sense, the French

electorate had potentially, like the German one, come to see a trajectory of reforms that was unforgivingly targeted at liberalization – which they rejected.

The political result of the NRE, related privatizations in the context of preparing France for a globalising economy, and a labour market with FTC usage spiralling out of control was Jospin getting the ‘lowest percentage of the vote for a socialist leader [as Presidential candidate] since the 1970s’ in the 2002 Presidential election (Tiberghien, 2007:103). And that was even though Jospin was politically able to claim credit for introducing the famous French 35 hour working week and had, uniquely in the political economy trajectory of France, presided over a *reduction* in unemployment from 12 to 8 per cent (Tiberghien, 2007:103).

That leads to the last of the reform events covered in this thesis for France shown in Figure 7. A reform that in 2007-8 lowered EPL with incoming President Nicolas Sarkozy having won the election on a ‘campaign that emphasized his desire to break with the traditional ways of policy making in order to enact structural reform’ (Milner, 2012:290). In practical terms, temporary EPL was decreased to try and move the overall level of EPL towards the ‘liberal ideal’ of a ‘single labour contract abolishing the distinction between regular and unconventional work contract’ (Amable, 2012:1179).

In political terms, Sarkozy’s reforms had as an enabling feature the promise of a move towards flexicurity to go with the intended, liberalizing reforms. Yet with the onset of the Great Recession, the political economy implications ‘made the flexicurity approach to labour market deregulation unsustainable’ due to the potentially high fiscal costs of active labour market policies needed for flexicurity (Amable, 2012:1185; see Chapter 5 on active labour market policies and flexicurity definitions). In other words, the coalitional support for reforms may have been in place at the outset of Sarkozy’s Presidential period, but political economy considerations cut short the reform attempts – ironically illustrating both the continuing economic pressures on the government of the day.

To further explore the contradictory French trajectory of reforms, the following section reviews the challenge of labour market reforms for France and what can explain how France remained at the side lines of the Europe-wide trend of labour market liberalization.

6.2 Challenging labour market reforms in France

For France, the result of the reform events analysed in the previous section from a longitudinal perspective was the continuation of, on the one hand, a labour market based on social insurance within the traditional legal-protections focused labour market system. On the other hand, an increasingly large part of the working population became dependent on tax-based, means-tested assistance and non-regular labour market employment modalities, including irregular use of FTCs. The opening shot at the French trajectory was most likely politically set off by the end to the so-called single country experiment from 1981-1983, under President Mitterrand (Malo, et. al., 2000:248). At that point, when Mitterrand had to back down or “turnaround” from his electoral promise of socialism in a single country, not only did the turnaround mean a change from *dirigiste* intervention at the micro or firm level of the economy. It also meant privatization of firms and an overall farewell to Keynesian demand management.

However, unlike in the UK, the farewell to Keynes was softer and did not politically include an element of increased labour market flexibility via EPL reforms; even if, as evidenced above, adjustments were certainly made along the way. Arguably, in the context of this thesis research hypotheses, one reason for this was that there was no party political or intra-party gains to be made from reforms. Neither for Mitterrand nor any subsequent Presidents – possibly bar Nicolas Sarkozy (Milner, 2012), as there had been for Margaret Thatcher in terms of establishing her credentials as leader of the then largely Keynesian Conservative party in 1979; albeit at the government or Prime Ministerial attempts at limited reforms were made and some succeeded –in either direction, as described above.

Rather, at the political level, and certainly different from Thatcher's approach, discussed in Chapter 4, Mitterrand, for example, argued for political economy reforms as a vote for France in terms of deepening its European leadership role, and as a measure commensurate with France's intentions of full European market integration participation (Hall, 2007). Hence, European integration and later globalization pressures were used politically for electoral cover, but not to the extent that Europeanization or globalization occurred so that European integration became an explanatory factor for labour market reforms, that as shown in this Chapter really never happened. The one exception potentially being Jospin's politically disastrous macro-economic liberalization platform that included a small change in labour market flexibility, as discussed in this Chapter (cf. Tiberghien, 2007).

Instead, the trajectory of reforms suggests that political calculations at the Prime Ministerial rather than the Presidential political level may in a few cases have been conducive to reform attempts. Not in the classic sense of government re-election calculations by party-leaders, but though the Presidential ambitions of sitting Prime Ministers or Ministers. For example, in a case of a failed reform, the challenge of labour market flexibility reforms in France was evident in the de Villepin government's attempt to introduce a flexible entry-level employment contract for individuals under the age of 26 labelled *contrat premiere embauche (CPE)*, in 2006. That effort remains perhaps the most serious political investment in employment protection reforms that then did not happen: while the reform passed politically through Parliament and was signed into law by then President Chirac, public protests in the end led to a government climb down – even 'humiliation', in the spring of 2006 (Howell, 2008:219). Nicholas Sarkozy then went on to win the Presidential election.

Hence, in terms of the research question of this thesis it would appear that the contradictory reforms that were implemented support the hypothesis that economic and broader socio-economic or political economy pressures for reforms do matter. Yet for the overall trajectory of reforms to become one of liberalization, the political conditions need to be in place – in France they were not, at least not in the period covered by this

thesis. So for the hypothesis that economic pressures are what mainly drives reforms, for France the consistent political answer has been to create a web of exceptions to general rules, a formal second tier of non-regular employment through insertion policies, and limited ALMPs that do not reach flexicurity levels. In other words, variables like economic growth and unemployment were important, but not important enough to help implement significant reforms to EPL and override the aversion to liberalization held by the French electorate (with a few limited exceptions as explained above).

That makes France an important case for this thesis argument that what determines labour market flexibility reforms in Europe has been the combination of economic or wider political economy pressures for reforms and political intra-party and electoral advantages for politicians who then implement those reforms. That would appear to be affirmed in the case of France as the former has been plenty evident, yet the latter has blatantly not been. Yet as a corollary, one of the gains that France may have taken away with political implications is that, as Milner argues from a review of the Sarkozy presidency, that the trajectory of non-reforms mitigated the otherwise ‘international trend towards rising poverty and inequality, in comparison with other advanced economies’ (Milner, 2012:302).

Hence, the strength of the French political system may be its inability to enact reforms because of the way in which its social model refracts the extant pressures for reforms. As such, therein lies perhaps a more political explanation of the reluctance of French Presidents let alone Prime Ministers, once in office, to carry through with reforms: the potential negative social and political impact of flexibility enhancing reforms, which was certainly felt in the UK under Thatcher and perceived as a distinct possibility by German workers from the Hartz reforms (see Chapters 3 and 4, respectively). Reforms may simply not have been worth the risk for French presidents as both they and the electorate were aware of what Balmer argued was a dual preference for economic efficiency and social rights (Balmer, 2006). Overarching, the result is that the French political economy has refracted calls for reforms through political coalitions rejecting anything but marginal reform proposals.

That still leaves the argument that ‘France is not generally considered to be a case where labour market flexibility or rigidities have played a substantial role in the debate on unemployment...[and therefore] French governments have not attempted to induce significant changes in terms of [labour market] flexibility’ appears to have changed (Malo *et.al.*, 2000:245). Which would to an extent invalidate the use of France as a case of lacking labour market flexibility reforms – other related macro-economic areas may simply have been more important? However, that argument belies the change evident in the political debate and the actual reform attempts, albeit failed, illustrated in this Chapter. For one, for a government in power de Villepin risked everything for a set of EPL reforms, and the electorally winning platform of Sarkozy had a clear element of proposed labour market reforms.

To illustrate, Nicolas Sarkozy’s winning Presidential election bid was based on a reform platform that including labour market reforms. As such, in a recent review of the Sarkozy Presidency, Milner sums up Sarkozy’s performance but also France’s from a longitudinal perspective by highlighting the inconsistency ‘between the political discourse of structural reforms and a practice of incrementalism’ in the enactment of labour market flexibility reforms (Milner, 2012:290). Evidently, Sarkozy did not manage to implement significant labour market flexibility reforms before the Credit Crisis hit France in 2008. Yet, importantly, both the examples of de Villepin and Sarkozy do however indicate that reforms are squarely on the agenda, but also that the political incentives, as argued here, did not in the studied period align for France to overcome the challenge of labour market flexibility enhancing reforms.

6.3 Conclusion

In the case of France, labour market flexibility reforms remained an unfulfilled challenge. Not that classic economic government problems like unemployment and low growth did not exist or that no EPL reforms were implemented, as overall the French reform trajectory was contradictory (Marx, 2012). Yet as shown in this Chapter, the

French labour market has remained inflexible and become more inflexible relative to other EU15 countries. That was evident from the analysis of how French reforms oscillated between increased and decreased flexibility across the reform trajectory of the in-scope time period.

In addition, because of a number of attempts at reforms, which largely failed, France showed that without political coalitions for reforms, as a determinant of reforms, economic variables on their own are not likely to lead to the enactment of labour market flexibility reforms. As such, political choices were made in the case of France to address political economy challenges like high unemployment, especially youth unemployment without resorting to EPL reforms. Instead, insertion policies of various types were introduced and interacted with the use of existing FTC (temporary EPL) contracts to provide labour market flexibility. An approach which has meant that an increasing number of jobs have shifted to those programs or FTC contract modalities, which in turn is the root of France as a case of labour market dualization (Palier and Thelen, 2010).

Politically, whether or not dualization is a desirable outcome, for the purposes of answering the thesis research question, the trajectory of EPL and functionally related reform events like the insertion programs show a contradictory reforms pattern. Contradictory in the sense that draws attention to the politics of reforms more than the political economy outcomes or pressures for reforms. For example, comparatively, while France started privatizing industry in the early 1980s – comparable to Thatcher’s UK labour market reforms, the UK went further by de-regulating unions and adopting a monetary policy leading to an overall reduction in the state’s role. In Denmark, the focus was on maintaining political support for high levels of flexibility by compensating through flexicurity; and in the case of Germany, the direct involvement of producer coalitions and unions set up a trajectory of successful collaboration between governments and social partners for overall coordination of labour market reforms.

For France, a model of reform involving social partners was initially successful in the late 1970s and early 1980s but was discontinued. Instead, from the analysis in this

Chapter, France became a case of no-reforms because the combination of both political economy and political determinants were not present for France to join the European trajectory of liberalizing reforms seen in the other case study Chapters and across the EU15 group of countries in Chapter 2. Hence, in terms of the research question, the contradictory reforms that were implemented support the hypothesis that economic or wider political economy pressures for reforms do matter. Yet for the overall trajectory of reforms to become one of liberalization, the political conditions needed to be in place – in France they were not. In other words, variables like economic growth and unemployment were important, but not important enough to implement significant reforms to EPL and override the aversion to liberalization held by the French electorate.

Over and beyond economic considerations, the French case of political incentives for politicians to enact reforms was arguable influenced by governments not being re-elected in the period from 1981 onwards (Amable, 2012:1169). With no repeat governments, from a political science perspective, the electoral calculation behind reforms and reform attempts should or could change significantly. As discussed in Chapter 1, a general political-electoral dilemma exists where, even if well-designed, liberalizing reforms that are structural in nature and may have long term (economic) benefits are often not implemented because politicians are too well aware that the ‘pains of reform usually precede the gains, making it even harder to push through the needed reforms’ (Bean, 1998:355).

In the case of France, an electorally negative outcome from reforms should not have played a major role as Prime Ministers could not have expected to be re-elected, potentially offering less risk and more of a possibility of a self-sacrificing approach to structural reforms. However, that is not the most likely result given that would-be reformers at the Prime Ministerial level did not fare well regardless. For example, as shown in the case of Prime Ministers Lionel Jospin’s EPL adjustments towards less flexibility in 2002 and de Villepin’s CPE 2006 CPE reform towards more EPL flexibility – both of which arguably cost them a clear shot at the French Presidency.

Instead, it is more likely that the shift in public opinion demonstrated by Balmer away from a popular preference for economic efficiency in the early 1980s, when limited reforms were possible, can provide a political reason for lack of reforms. The reason being that a balanced preference for both efficiency and social protection later emerged as the mainstay of electoral preferences of French voters and that those preferences were successfully channelled through the French political system (Balmer, 2006). A conclusion which is further supported by the lack of reforms having, uniquely in Europe, ensured that large increases in inequality have been largely avoided (Milner, 2012).

In sum, the French case does not provide evidence to reject the hypothesis that labour market flexibility reforms are best explained by a political focus on solving political-economy problems, e.g. high levels of unemployment, or maintaining institutional continuity. Rather, the French case shows that the political conditions were not present, that the electoral-political incentives and/or intra-party dynamics were not present for flexibility enhancing or liberalizing reforms to take place. As such, the social model or rather the political system of France was able to refract pressures for reforms, by implication confirming that it is more likely than not the *combination* of political economy and political-electoral conditions which determines labour market flexibility reforms – including when they are not successful, as was the case for France.

7. European labour market reforms: politics of change and continuity

This Chapter summarizes the findings of the thesis and puts them in a comparative setting by reviewing empirical support for the theoretical framework and the argument concerning the political ability to reform argument set-out in Chapter 1. To do so, the Chapter addresses the extent to which the observed change and continuity in the four case studies in Chapters 3-6 are consistent with the quantitative analysis in Chapter 2. Finally, the Chapter provides a brief discussion in terms of the thesis' contribution to the existing literature and its possible policy implications.

7.1 General expectations and summary of findings

The main point of departure for this thesis was that while economics often takes a front seat, politics matters for understanding the ability of European countries to successfully engage in labour market flexibility reforms. Arguably under-researched and set against a classic political economy literature focusing on continuity rather than change of labour market institutions, a political approach recognises the importance of contributions to the study of reforms that have recently moved towards 'analysis of the political coalitions on which economic institutions rest' (Thelen, 2012:139). As such, the expectations set forth in Chapter 1 were about furthering our ability to chart a path towards an explanation of the 'way in which shifts in the political coalitions on which institutions rest drive changes', in the case of this thesis, in European labour markets (Thelen, 2009:473).

However, the thesis has stopped short of analysing outcomes from the way in which labour markets have changed over time, for two reasons. First, the main intent of the thesis, recognising the complexity of the existing literature, is to understand the *ability* of politicians to enact liberalizing reforms. A limitation that leaves out the impact or political economy outcomes of labour market reforms, which remain an empirical question. Second, for parsimony of analysis and to gain the benefits of a mixed-methods, longitudinal research design the thesis focused on tracing reform events for EPL as a

proxy for labour market reforms. In the main using EPL based on its political salience up to 2008 (cf. Boeri, 2011; Siebert, 1997).

The choice of EPL was a limiting factor for the ability to draw inference from the thesis with respect to the determinants of European labour market reforms. However, beyond remaining politically salient, EPL did offer the opportunity to conduct a longitudinal review of reforms across European and within selected case countries. With EPL as the dependent variable, change or continuity were straightforward to define as de-regulatory, rather than systemic or institutionally transformational, with the former being the ‘removal of legal or contractual restrictions’ (Baccaro and Howell, 2011:527). An approach, which through analytical parsimony would not be lost within an area of political science that can otherwise quickly become unwieldy, and recognising that ‘[g]overnments influence the operation of labour markets in a wide variety of ways’ (Thelen, 2014:112).

To ameliorate some of the limitations of EPL, other functionally related labour market reforms were taken into account in the four country case studies that covered Germany, the UK, Denmark and France. An approach, which proved useful for understanding labour market reforms in Denmark and Germany where changes to flexicurity and unemployment benefits, respectively, were politically important within the reform enactment trajectory of those two countries. Further, the thesis recognised and showed how other labour market reforms than those for EPL could complement and enrich our understanding of what constitutes the “perfect storm” for labour market reforms.

That “perfect storm” analogy was theoretically underpinned by the assumption that the reform trajectories under investigation were ‘relying on strict unemployment laws at a time of rapid change when old jobs and practices are no longer warranted’ or where high EPL ‘discourages adaptation to change and preserves the status quo’ (Sapir, 2006:381). The need for reform then, in turn, allowed for the development and testing of two regulatory reform-level hypotheses derived from the thesis research question of *what*

explains the political enactment of labour market flexibility enhancing reforms in European countries in the 30 years to 2008?

The first hypothesis had a political-electoral perspective where the political impact of enacting reforms would be the most likely determinant of whether or not politicians had the ability to enact reforms. The second hypothesis set out the idea that the prevailing economic or wider political economy conditions of a country, e.g. unemployment and economic growth levels or social model belonging, would determine the ability of politicians to enact reforms. Further, the difference between the two hypotheses were not assumed to be trivial, which perhaps is clearest from the evidence presented in the case study conducted for France in Chapter 6.

In France, there were persistently high political economy or economic pressures for reforms, but in fact only limited or contradictory reforms to liberalize labour markets were achieved. In other words, France was a case of no or few and contradictory reforms, even though, like the other European countries in this thesis, which did enact (marginal) labour market reforms, there were significant political pressures on successive governments to enact reforms. As such, with a trajectory of contradictory reforms, France highlighted the possibility that the absence of political change, a lacking political ability to enact reforms could continue to hamper reforms regardless of the level and incessantness of economic or wider political economy problems.

While a more detailed analysis of the empirical Chapters of the thesis follows below, the case of France highlights the conclusion that neither hypothesis was likely to be rejected, and indeed are not based on the evidence presented in this thesis. Instead, the combination of economic or wider political economy and electoral-political explanations is a more fruitful avenue to understand what determined politician's ability enact labour market reforms. The reason being that, as a general case, the answer to the posed research question is that reforms appear more likely to emerge when both economic pressures *and* political-electoral, often intra-party variables, change or align for reforms to actually be enacted.

The implications are that change or continuity of variables like intra-party competition, political party composition, and party electoral platforms need to be taken into account when explaining the observable longitudinal trend of (marginal) EPL and functionally related reforms, i.e. ALMPs, unemployment benefit reforms, etc. For example, as shown across quantitative and qualitative Chapters of the thesis, economic or wider political economy challenges remained across European countries for the covered time period, yet only when beneficial to political leaders' intra-party or electoral platforms did reforms typically emerge.

To illustrate, the Third Way ideological platform changed the approach to reforms in both Germany and Denmark, in the sense of being essential to the emergence and continued leadership of Gerhard Schroder – vis-à-vis Oscar Lafontaine, and Poul Nyrup Rasmussen – vis-à-vis Svend Auken (see Chapter 3 and 5, respectively). As for Tony Blair in the UK, there was no need for further reforms, as they had already been completed – indeed, the Third Way approach was in that case simply used to maintain already flexible labour markets. Hence, as argued also by Arndt (2013), the Third Way changed the ideological-political premise for reforms in Denmark, the UK and Germany, including liberalizing reforms within traditional social democratic parties. Yet further, as underlined by the research in this thesis, the link to intra-party leadership politics also was non-trivial.

In brief, the general transmission mechanism for successful reforms (at the margin) from the research of this thesis appears to run as follows: as predicted by the existing literature the ability to enact labour market reforms for European politicians emerges from economic challenges to governments, with social models and producer coalitions likely to refract the proposed reforms towards marginal reforms. Yet, as shown in this thesis, reforms are more likely to be enacted if they substantially favour party leaders' positions or their responses to changing political conditions, i.e. the emergence of Third Way ideology, party system changes, and historical political support for specific types of programmes that enhance social partners' standing or participation – for example

ALMPs in Denmark, so-called insertion programmes in France, or “rights-and duties” and voluntaristic-cum-flexibility traditions in Germany and the UK, respectively.

Further it is worth noting that the suggested transmission mechanism for reforms adds a caveat to the contention that the evidence presented does not allow rejection of the hypothesis that the political-electoral impact of enacting reforms would be the most likely determinant of whether or not labour market reforms are enacted. That is because, while the hypothesis is about political ability it also acknowledges that politicians are inclined to avoid implementing reforms because of the likely electoral risks, i.e. the Juncker dictum of reforms leading to an almost “guaranteed” loss in subsequent elections. This dictum is, in the main, supported by the existing literature relating to the hypothesis, as discussed in Chapter 1 (cf. Leiner-Killinger *et. al.*; Bean, 1998; Saint-Paul, 2000).

However, the caveat is that subsequent elections were not lost by reform enacting politicians in the UK and Denmark, but were lost by Gerhard Schroder in Germany following the so-called Hartz reforms. Further, in the case of France, re-election was somewhat irrelevant as Amable showed no government was re-elected at all in the period covered by the thesis, suggesting a systemic polity issue for the case of France (Amable, 2012). Instead, for France, reforming politicians – most often unsuccessfully, even if they were proponents of reforms, reforms typically only put forward as part of politicians setting forth Presidential ambitions (cf. Petit, 2006).

Hence, while the hypothesis is not rejected, the results are mixed when focusing on re-election as the main impediment or driver of politicians’ abilities to enact reforms. Rather, the underlying *general* idea that “politics matters” comes to the fore, which is perhaps a somewhat novel result given the existing literature’s tendency to focus more *narrowly* on electoral results following reforms – exemplified by the Juncker dictum, as the reason for lacking ability to enact reforms. Certainly a result, which this thesis suggests warrants further research.

Therefore, through the cross-country quantitative and then country-by-country qualitative analysis presented, rather than reject both hypotheses the thesis shows the need to engage or “control” for political economy pressures for reforms by combining political and economic variables within a longitudinal understanding of country-specific reform trajectories. Of course, even when doing so, there continues to be a range of country-specific explanations for reforms. That said, the thesis has added robustness to the existing literature showing that most pre-2008 European reforms were indeed at the margin, targeting non-regular employment within European labour markets (Boeri, 2011). That said, in some cases like Germany, it does appear as if the longitudinal trajectory of liberalizing reforms at the margin became cumulatively more significant – potentially as a sign of overall rather than just marginal liberalization, and certainly as a driver of labour market dualization (Palier and Thelen, 2010).

Overall, the thesis has contributed a political understanding of the European reform trajectory up to 2008. The implications for future research are that the enactment of flexibility enhancing reforms should be treated more explicitly as the outcomes of political decisions and less as reactive steps to economic predictions or pressures for reforms, even if the latter continues to play a role in bringing reforms on to the political agenda. However, before reviewing or discussing those common themes emerging from the thesis further, the subsequent sections review the findings of the quantitative and qualitative Chapters of the thesis in light of the mixed-methods guide set out in Chapter 1.

7.2 Political-economic pressures on governments for reforms

In Chapter 1, the reasoning behind using a mixed-methods was, in part, to avoid a bias between arguments for continuity or divergence in respect of European structural reforms across and within countries (Gualmini and Hopkin, 2009). Yet just as important was to have a method that would allow appropriate hypothesis testing. First, a quantitative approach was arguably more appropriate to understand the impact of political economy variables on the ability of politicians to enact reforms. An argument

which has been borne out by the quantitative analysis in Chapter 2, which helped to start identifying statistically significant explanatory variables across EU15 countries. Further, as the descriptive statistics presented in Chapters 1 and 2 showed, reforms are the result of a continuous political process. Therefore, an event history analysis was selected as the method for quantitative analysis because it uniquely provides the ability to test political change processes over time (Martin and Steiner, 2013; Barriga, 2004; Box-Steffensmeier, 2004).

The results from the event history analysis in Chapter 2 showed rather unequivocally that economic and wider political economy variables like social model belonging play a role that need to be, if not necessarily statistically controlled for, then certainly qualitatively taken into account when reviewing in-country and cross-country political motivations for reform enactment. That economic or wider political economy variables matter is not surprising given the extensive literature on change and continuity of social models, which depends on variations in political economy institutional configurations for their socio-economic outcomes (Sapir, 2003; Hall and Soskice, 2001; Esping-Andersen, 1996).

From that perspective, the results of the event history analysis in Chapter 2 are straightforward to interpret in that high levels of unemployment, faltering GDP growth and the social model or political economy variety of a country were statistically significant in explaining EPL reforms across the most integrated EU Member States from 1985 to 2008. Further, the EU15 between 1985-2008 exhibited a reform trajectory showing a change towards labour market flexibility of about 25% for the overall EPL measure: the summary overall EPL score for EU15 countries decreased from 39 in 1985 to 29 in 2008. However, the thesis showed that the change for temporary EPL was a large -16 versus that of regular EPL, which was more subdued at only -4 between 1985 and 2008. Hence, the two-tiered nature of the reforms emerging from Chapter 2's analysis adds robustness to the marginal reforms argument by economists, which signalled a gap 'emerging between a reformed and an unreformed segment of the labour market' (Boeri, 2011:1185).

In addition, most EU15 countries completed several reforms – observed as multiple downwards EPL events, confirming a longitudinal political process of European labour market flexibility reforms at the margin. To wit, from 1985 to 2008 only three EU15 group countries decreased their labour market flexibility, namely the UK, Ireland and France – with the main reforms enacted by the UK not visible in Chapter 2’s analysis because, as shown in Chapter 4, they happened before 1985 when the OECD EPL indicator first became available.

Further, given the theoretical importance of social models, a Kaplan-Meier set of survivor functions were used to differentiate EU15 countries according to their social model, as defined by Sapir, either: Continental, Nordic, Mediterranean and Anglo-Saxon (Sapir, 2006). Except for the Anglo-Saxon model countries (UK and Ireland) the estimator confirmed the directional trend in labour market flexibility reforms. The key difference between social models being shown in Chapter 2 being the timing rather than the intensity with which countries within a social model would eventually reform their labour markets. Importantly, the survivor functions were significantly different using a log-rank test, meaning that the statistical analysis supported the descriptive identification of a European trend in labour market reforms towards more flexibility.

A carefully specified Cox proportional hazard event history gap model was then used to show that the following explanatory variables were statistically significant: political constraints or sticky institutions (where reforms have many veto points in the political system of a country), GDP growth, a country’s belonging to a specific social model, and the unemployment rate of a country. Somewhat surprising, globalization and openness to trade were not significant and so it was also not possible to make a clear assertion around any potential Europeanization impact of European labour market flexibility reforms. Equally, the ideological leaning left-centre-right of governments was not found to be significant – indicating that both left and right leaning governments were able and willing to implement reforms, even if mainly towards reforms at the margin as already defined above.

Most importantly, the quantitative analysis in Chapter 2 showed that within the European reform trajectory, political-economic arguments cannot stand on their own as determinants of reforms. Instead, the combination of economic challenges to governments and political-electoral or political system changes in variables like political system veto points, also proved to be statistically significant. Hence, the political system variable of sticky institutions or veto points, but also lack of ideological importance of reforming coalitions indicated quantitatively that the thesis hypothesis of political-electoral challenges as explanatory for reforms was at least as important as economic variables like growth and unemployment.

The implication methodologically was two-fold, as seen in the execution of the country-case studies, the results of which will be reviewed below. The first was that each EPL event of a country undergoing reforms and its politics would need to be understood for the coalitions that supported it. The second was to try to discern what the impact of the statistically significant variables in Chapter 2 looked like qualitatively, using both primary and secondary sources, in each country case. The results of explicitly focusing on reform events – and in some cases non-events, therefore provided a set of country specific, but also general findings with respect to what has determined labour market reforms in Europe up to 2008. The political-electoral variables for explaining labour market reforms in Europe are reviewed, below.

7.3 Political-electoral variables determining reforms

As part of the mixed-methods approach, the thesis used country-case studies for Germany, the UK, Denmark and France as a follow-on to the statistical investigation of reform events in Chapter 2. Doing so was useful to provide the opportunity for an examination of ‘*within*-case processes and/or variation’ derived from the quantitative analysis and theoretical background of the thesis outlined in Chapter 1 (Lieberman, 2005:440). However, the selected cases also needed to ‘theory test’ the posed research hypotheses (George and Bennett, 2005:75). Two theoretical criteria were specified to ensure a theory test component to the research design and case selection. The criteria are

repeated below, then related to the results of each case study and how, if at all, the qualitative findings are consistent with the quantitative ones from Chapter 2.

The criteria set out were that each case needed to help (1) test the specified research hypotheses and (2) provide a better understanding of the determinants of the observed variation on the dependent variable of EPL reform events. Starting with the UK and Germany, those two countries were ideal as tests for the two main strands of social models in Europe both within Sapir's typology of continental and Anglo-Saxon countries, and the varieties of capitalism coordinated and liberal market economy typology. More importantly, in terms of the criteria both Germany and the UK showed a trajectory of labour market reforms in a liberalizing direction. In fact, both at least to some extent, were shown to have gone slightly beyond marginal reforms. In the sense that reforms in Germany and the UK were shown to politically chart new ground for both the achievement and sustainment of reforms, reforms going to the limits of each of their respective social models at the time.

To illustrate in the case of the UK, Margaret Thatcher completed significant labour market flexibility enhancing reforms against the UK post-war political consensus, making the UK the most liberalized of the liberal social model countries in Europe during the period covered by the thesis (Wood, 2001). As such, the UK confirmed the criterion of exhibiting variation on the dependent variable. Yet most UK reforms were completed before the EPL variable became available from the OECD in 1985. For this reason, the qualitative Chapter on the UK proved useful in completing the picture on UK EPL and functionally linked reforms in a way that would have been difficult, if not impossible to achieve quantitatively. At the same time, the reforms observed quantitatively in Chapter 2 did show the UK to have had two small increases (less flexibility) in EPL from 1985 onwards, both reforms enacted under New Labour governments led by Tony Blair.

Yet for the UK, reviewing the results of the analysis across both quantitative and qualitative Chapters, a trajectory of liberalization and its sustainment, even during New

Labour, is the most accurate representation of UK politician's ability to enact reforms. With reference to the Conservatives' reforms under Margaret Thatcher, the UK trajectory supports or at least does not contradict the contention that the enactment of reforms was evidence of a re-alignment of the UK labour market to its historic levels of Anglo-Saxon flexibility (Wood, 2001). Further, that the reformed inflexibility, enacted by Thatcher's early governments through the 1980 and 1982 Employment Acts, had been done against a backdrop of an 'almost continuous expansion of the individual rights of the employee' through the 1960s and 70s (Marsh, 1995:603).

However, with respect to the second criteria of understanding what determined them, UK reforms were achieved in the case Thatcher as part of changes in the political policy approach that accompanied her rise to Prime Minister in 1979 with the political economy problem or background of the Winter of Discontent. Further, as argued in the UK Chapter of this thesis, the intra-party need for Thatcher to make a U-turn on existing Conservative labour market policy, and to consolidate her party leadership through a clear demonstration of neo-liberal reforms to stand out or break off from the post-war consensus, were politically critical to the labour market liberalization that followed.

Following through on the trajectory of UK reforms, the thesis showed that liberalizing reforms in their flexibility of labour market intent were then sustained by New Labour from 1997, until at least the 2008 Great Recession, albeit with minor EPL modifications and an expansion of ALMPs. Implied in that trajectory were, as would be expected, challenges of GDP growth and unemployment that certainly put pressure on successive governments for various EPL and functionally-related labour market reforms. Overall, therefore, in terms of the research question and hypothesis of this thesis, the UK case does not provide evidence to reject the hypothesis that labour market flexibility reforms, or lack thereof, are best explained by a political focus on solving political-economy problems, e.g. severe economic problems as was the case at the time of the Winter of Discontent. It does, however, not confirm it either as the trajectory showed that the enactment of reforms under the Conservatives and the lack of reforms under New Labour were politically motivated in support of both the Conservative and New

Labour's party leaders intra-party positions. Hence, explaining reforms in the UK goes beyond classic economic pressures for reform and point instead to at least a combined economic and political-electoral explanation for the enacted reforms.

Now turning to Germany, the case study confirmed that the so-called Hartz reforms meant Germany fell in a category of a case with variation on the dependent variable of EPL (Neugart, 2005). Overall, German reforms were achieved even as it was also shown how the continental social model refracted reforms, as did the built-in reform breakers of the German political system. First, as expected from the existing literature and demonstrated in the quantitative Chapter of the thesis, GDP growth and unemployment put pressure on successive governments for reforms. However, for the most part, producer coalitions were generally able to ensure that EPL stayed the course during the Kohl years (Hassel, 2005; Wood, 2001).

Second, the non-EPL reform of German reunification was an important change to the German political economy let alone political system, which ultimately provided a political backdrop for later labour market reforms because of the stark difference in factor costs between East and West (Eichhorst and Marx, 2011). The result became a trajectory of EPL reforms that produced the 1998 Social Code III, 2002 Job-Aktiv, and 2003-2005 Hartz reforms. In other words, Germany achieved a significant level of reforms when viewed from a longitudinal perspective.

The German case contribution to answering the research question becomes clearer if accepting that while Schroeder faced union and intra-SPD resistance to labour market reforms, he also like Kohl had had few intra-party incentives to implement reforms in his first government from 1998 to 2002. Yet the German party system and SPD intra-party politics arguably transitioned to change that. For example, Schroeder's electoral platforms moved between his first successful election in 1998, which used an anti liberal platform against the CDU/CSU, to the more centrist even liberal Third Way inspired platform of the 2002 election (Arndt, 2013:103).

Further, German parliamentary and SPD intra-party changes shifted the political space within which Schroder was able to or decided to propose reforms to further his leadership of the SPD. First, the resurrection of the PDS/Left party (an offshoot of the former East German communist party) rose to a point where it no longer struggled to exceed the 5% electoral threshold for parliamentary representation (Arndt, 2013). Secondly but related to the rise of the Left/PDS, Schroder was no longer, if ever, able to appeal to the SPD party's left wing electoral wing.

That was because that space was occupied by Oscar Lafontaine, whom Schroder made his first Finance Minister. Then, when Oscar Lafontaine left the SPD in protest at the liberalizing Hartz reforms, very publicly advertising his defence of more left-leaning social democratic values in his aptly titled book 'The Heart Beats on the Left' (Lafontaine, 2000), Schroder effectively lost the 2005 election. Hence, ironically, the intra-party change to the third Way and the rise of Left/PDS that had helped him against Lafontaine on his SPD party leadership, through going forward with reforms, most likely then cost him the 2005 election as he ultimately was not able to convince enough centrist voters to move to the SPD. The wider implication that confirms this is that German governments have since 2005 been grand coalitions between CDU/CSU and the SPD.

Again, the case of Germany supports the thesis argument that the reform challenge remains first and foremost a political challenge. Further, as shown in the example of reforms represented by the Hartz program, the self-sacrifice espoused by Schroeder belies the success and failure of his Third Way, but lends support to the thesis hypothesis that it is most likely a combination of economic challenges to governments and political-electoral advantages to reforming political parties and their leaders that offers a more precise understanding of the conditions for European labour market flexibility enhancing reforms.

For Denmark, the case study showed reforms increasing overall flexibility, with a pattern of reforms strikingly similar to the reform pattern observed for Germany. As such, labour market flexibility reforms were achieved as a response to classic political

economy challenges of high unemployment in the early 1990s. However, the Nordic social model refracted reforms, resulting in a move from passive to active labour market policies, and full liberalization of EPL – lowering temporary EPL to the already low level of regular EPL that Denmark had historically exhibited.

To illustrate with respect to the determinants of reforms for Denmark, under Prime Minister Poul Schluter in the 1980s, high national debt and unemployment put political economy pressures on his successive governments for reforms. However, the Danish political system made gaining a parliamentary majority a challenge and therefore the pre-existing low levels of regular EPL and generous, but passive, welfare remained in place. With the exception of Schluter lowering the cost of welfare by de-indexation of unemployment benefits, other areas ripe for reforms like unemployment insurance remained largely unreformed (Thelen, 2014; Green-Pedersen, 2001).

That changed with the social democratic led government under Poul Nyrup Rasmussen, which from 1993 for a brief period gained a parliamentary majority providing the ability to enact a key 1994 reform. A reform that both lowered temporary EPL and changed the dynamics of Danish ALMPs towards enforced active rather than passive unemployment support. In terms of the corresponding moves in the EPL proxy for reforms, the results were that between 1985 and 2008 Denmark kept regular EPL comparatively low at just below 2 on the 0-6 OECD scale, but then went from just above 3 to just shy of 1.5 for temporary EPL. As a summary, Nyrup Rasmussen gave up on improving the labour market through wage compression and instead significantly increased investments in ALPMs, resulting in what for Denmark was a ‘significant shift towards liberalization through activation’ (Thelen, 2014:151).

At the intra-party level, Nyrup Rasmussen moved forward in a similar way to that of Schroder in Germany. Namely, through an ideological move to the Third Way as an anchor of Nyrup Rasmussens’ party leadership. A change had further come about by the Social Democratic party unceremoniously discarding its then party leader, Svend Auken,

even after the latter had won a historically high overall share of votes in the preceding general election (Jorgensen and Schulze, 2010).

The Danish case, therefore, does not provide evidence to reject hypothesis that labour market flexibility reforms, or lack thereof, are best explained by a political focus on solving government problems, e.g. high levels of unemployment, or maintaining institutional continuity. It does, however, not confirm it either as the trajectory showed a persistence of similar-type economic pressures on governments across the trajectory of reforms under Schluter in the 1980s and early 1990s as well as the early governments of Nyrup Rasmussen.

Although the trajectory of reforms does not have a large number of reform events, which somewhat limits the generalizability of the argument, the trajectory of Danish labour market reforms leading up to the Great Recession coincided with intra-party, party political, and parliamentary majority alignment changes rather than continuity. As such, the Danish case provides support for the idea that a better understanding of the trajectory of reforms, via a longitudinal analysis of reforms enacted, helps to clarify the political challenge of enacting reforms.

Interestingly, and different from the German case but similar to the UK, Denmark presents a case where an elected leader confronts political economy pressures for reforms, enacts reforms, and then gets re-elected. In that respect the Nyrup Rasmussen government and his re-election after the 1994 reforms is more akin to that of the UK, even if the reforms enacted were not as drastic as those of Margaret Thatcher. More importantly, the cases of the UK and Denmark together challenge the conventional wisdom that labour market reforms will necessarily lose party leaders their next election.

Finally, the last case study for France was a case of no-reform, at least as far as EPL went. In the case of France, the expectation one of limited variation on the dependent variable in terms of the theoretical criteria for case country selection (See Chapter 1). As such, the thesis confirmed that labour market flexibility reforms remained an unfulfilled

challenge, even if on closer inspection of EPL events the French reform trajectory was somewhat contradictory (Marx, 2012). That said, the French labour market remained overall inflexible, and increasingly so relative to other EU15 countries up to 2008.

In addition, a number of reform attempts failed. A result showing that without change at the political level, for political coalitions to form, economic problems of government are unlikely to be successful. To illustrate, political choices were made in the case of France to address challenges like high unemployment, especially youth unemployment without resorting to EPL reforms. Instead, insertion policies of various types were introduced and interacted with the use of existing FTC (temporary EPL) contracts to provide labour market flexibility. An approach which meant that an increasing number of jobs shifted to those programs or FTC contract modalities resulting in France becoming a case of labour market dualization (Palier and Thelen, 2010).

However, politically in terms of answering the thesis research question, whether or not dualization is a desirable outcome, the trajectory of EPL and functionally related reform events like the insertion programs draws attention to failed politics of reforms. For example, comparatively, while France started privatizing industry in the early 1980s – comparable to Thatcher's UK labour market reforms, the UK went further by deregulating unions and adopting a monetary policy leading to an overall reduction in the state's role. In Denmark, the focus was on maintaining political support for high levels of flexibility by compensating through flexicurity; and in the case of Germany, the direct involvement of producer coalitions and unions set up a trajectory of collaboration between governments and social partners for overall coordination of labour market reforms.

For France, a model of reform involving social partners was initially successful in the late 1970s and early 1980s, but was discontinued. Therefore, comparatively across all four cases, France becomes a case of no-reforms. The reason arguably being that the combination of both economic challenges and political changes that had led to reforms in the other cases were not present in France. Hence, France was unable to join the

European trajectory of liberalizing reforms. Overall, for France the reforms that were implemented support the hypothesis that economic pressures can lead to a trajectory of contradictory reforms, but without aligning political change, the overall trajectory remains flat with respect to EPL.

In sum, neither the UK, German, Danish or French cases provide evidence to reject the hypothesis that labour market flexibility reforms are best explained by a political focus solely on solving economic political-economy, e.g. high levels of unemployment, or maintaining institutional continuity. Rather, the cases show that when the political conditions are present, when change rather than continuity of the electoral-political incentives and/or intra-party dynamics prevail, then flexibility enhancing or liberalizing reforms can and did take place in the period to 2008. As such, the cases lend support to the thesis argument that it is more likely than not the *combination* of economic and political-electoral conditions that explain the ability of politicians to enact labour market flexibility reforms.

7.4 Discussion

Change and continuity for European labour market reforms have in this thesis been illustrated to follow-on and add robustness to the literature arguing most pre-2008 reforms were mainly at the margin, targeting non-regular employment parts of labour markets (Boeri, 2011). However, the thesis also posits that reform determining junctures of a political nature have guided labour market change and continuity during the same period. From leadership-driven ideology changes like Thatcher's neo-liberal approach to reforms, the Social Democratic parties move to the Third Way, which opened new avenues for reforms in the 1990s, and intra-party leadership and electoral competition, the politics have come to the fore when determining what explains reforms.

Overall, the contribution of this thesis has therefore been to provide a longitudinal perspective on determinants of labour market reforms from a political perspective. A perspective that theoretically fits within the emerging research focused on 'analysis of the political coalitions on which economic institutions rest' and through which they can

and have been reformed, as demonstrated both quantitatively and qualitatively in this thesis (Thelen, 2012:139). As such, the thesis posits that economic or problems of government arguments, prevalent in the existing literature as a competing explanation for reforms, rarely on their own stand up as determinants of politician's ability to enact reforms. Instead, the argument put forward by this thesis is that, based on the evidence presented across the empirical Chapters, a general set of political-electoral and party leadership considerations need to be brought to bear when trying to determine what explains the ability to enact reforms.

If correct, even within a somewhat ambitious mixed-methods approach where the thesis has addressed the research question within the limiting assumptions of using EPL as a proxy for reforms, then one possible implication for future research is that the enactment of reforms should be treated more explicitly as the outcome of political decisions. That is, less as a reactive step or steps to economic predictions or political economy pressures for reforms in the traditional sense – even if, as recognised in this thesis, European social models often continue to refract the form, intensity and type of reforms that politician have been able to enact.

Therefore, the tentative answer offered for the research question of what explains the political ability to enact flexibility enhancing labour market reforms in European countries, is that it is more likely than not a *combination* of traditional political-economy pressures for reforms and political-electoral motives of party leaders in government, changes the latter of which influences the ability of party leaders to establish reform enacting coalitions. Further, those motivations are not necessarily, as conventional wisdom would dictate, only hinged on immediate re-election considerations. Rather, as shown in this thesis, successful reform coalitions may also depend on alignment of the ideology and intra-party dynamics underpinning party leaders and, in some cases, party system changes that have affected the ability of those leaders to promote a reform agenda.

To illustrate, the French case stood out as one where political incentives were absent for politicians to enact reforms even if the economic challenges were aplenty or clearly evident during the period up to 2008. Would-be reformers from both left and right-leaning parties at the French Prime Ministerial level did not fare well, regardless, in their (failed) attempts at labour market reforms. Similarly, but in a broader context for the cases of Germany, the UK, and Denmark where reforms *were* enacted, and linking the quantitative and qualitative findings, the respective social model appears to have set an implicit boundary for the reforms that were successful.

For example, Denmark implemented a reduction in temporary EPL and added focus was put on ALMPs that fitted within the Main Agreement Framework and produced the politically successful flexicurity model. In Germany, the Hartz reforms appealed to a renewal of the rights and duties underpinning of the highly legalistic traditions of the German labour market, yet passed appeared only as Gerhard Schroder moved to the Third Way with the intra-party and electoral ramifications that brought for his subsequent failed re-election. Whereas in the UK, the liberalization of the labour market by Margaret Thatcher and its subsequent sustainment by a New Labour government under Tony Blair played to the long term strengths of liberal market economies, yet also clearly had a basis in the promotion and maintenance of the respective party leaders against internal opposition, e.g. Wets for Thatcher and the Unions for Blair. For both the Danish and UK reforms, the party leaders were also re-elected.

As a conclusion, the thesis has added robustness to the literature showing most pre-2008 global recession reforms were at the margin, targeting non-regular employment parts of European labour markets. However, overall, the thesis has provided new knowledge on the pathways of European reforms, arguing that a political understanding of change and continuity is as critical as economic arguments for reforms, the latter of which rarely on their own stand up as explanatory variables of reforms. The implications for explaining the ability of politicians to enact reforms, is that future research needs to pair the policy ambition of reforms with an explicitly analysis of political change and continuity.

8. References

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