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Flexible and Secure Labour Market Transitions: Towards Institutional Capacity Building in the Digital Economy

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ABSTRACT

Flexible and Secure Labour Market Transitions: Towards Institutional Capacity Building in the Digital Economy[1]

Industry 4.0 and robots are said to speed up productivity thereby inducing a 'quantum leap' towards the 'end of work' and calling for a complete change of social security institutions that have so far been closely linked to employment. Unconditional basic income is the cry of the day, curiously advocated in particular by, for example, employers in high-tech industries and modern financial or distributive services. In the name of freedom, liberty and flexibility they suggest a form of security without any institutional complexity. The hidden agenda in the remaining empty institutional black box, however, is the dream of freedom from any bureaucracy and painstaking negotiations between competing interests or even getting rid of any responsibility to the new risks related to the digital revolution. This paper argues that the productivity leap promise of the digital economy is far from empirical evidence and that the proper answer to the new world of work are active securities, fair risk-sharing between employees, employers and the state and 'negotiated flexicurity' calling for a higher complexity of institutions corresponding to the increasing variability of employment relationships. The paper (1) starts with stylised facts about the new world of work with a focus on non-standard forms of employment in the EU28 member states and briefly explains the main determinants of this development. It (2) then proceeds with an analytical framework of the role of institutions and (3) applies this framework to develop suggestions of new security provisions to the main forms of non-standard employment. (4) The paper concludes by reflecting on the consequences for the prospective European Pillar of Social Rights.

JEL Classification: J21, J38, J41, J48, J68, R28

Keywords: Europe, non-standard employment, inclusion, productivity, flexibility, security, labour market policy, transitional labour markets, social rights

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Introduction

Industry 4.0 and robots are said to speed up productivity thereby inducing a ‘quantum leap’ towards the ‘end of work’ and calling for a complete change of social security institutions that have so far been closely linked to employment. Unconditional basic income (UBI), fervently propagated as early as 1991 by Philippe Van Parijs, became the cry of the day. Curiously, this idea is now advocated in particular by employers in high-tech industries and modern financial, distributive or communication services. Recently, in January 2016, the World Economic Forum in Davos lent this Utopia (going back to Thomas Morus’ famous work published in 1516) high prominence: In the name of freedom, liberty and flexibility UBI pundits (including recent Nobel Prize winners like Angus Deaton and Christopher Pissarides) suggest a form of security without any institutional complexity. The hidden agenda in the remaining empty institutional black box, however, is the dream of not only getting rid of any painful and often demeaning bureaucracy related to the current welfare state and of painstaking negotiations between competing interests, but also getting rid of any responsibility for the consequences of the new social risks stemming from the digital economy. By conceding more or less generous and unconditional lump-sum compensations to everybody, it seems that employers of the digital economy in particular want to shift responsibility to the losers of this development independent of their individual capability to adjust to the new situation.

This paper argues that the productivity leap promise of the digital economy is far from empirical evidence. Most of the forecasts of jobless growth due to automation are based on an occupational approach which inherently overestimates the impact of automation. A recent study, based on a task approach, estimates the average “risk of computerisation” for 21 OECD countries at 9 percent compared to the 47 percent found in the often quoted study by Frey and Osborne (2013) for the United States. The new OECD study also draws attention to the slow process and adjustment possibilities (including new demands) that could prevent substantial job loss and increasing inequality, in particular sufficient (re-) training especially for low-qualified workers (Arntz et al. 2016). The rise of non-standard forms of employment (NSFE) and their inherent risks for social security seems to be more relevant and calling for a proper response. Despite some sympathetic features of UBI, the proper answer to the new world of work lies in the provision of active securities, fair risk-sharing between employees, employers and the state and ‘negotiated flexicurity’ calling not for a lower but – according to the principle of requisite variety (Ashby 1979) – for a higher complexity of institutions corresponding to the increasing variability of employment relationships.

The paper starts with stylised facts about the new world of work with a focus on non-standard forms of employment in the EU-28 member states and briefly explains the main determinants of this development (1); it then proceeds with an analytical framework of the role of institutions (2); and applies this framework to develop suggestions of new security provisions to the main forms of non-standard employment (3); the paper concludes by reflecting on the consequences for the prospective European Pillar of Social Rights (4).

1. The Development of Non-Standard Forms of Employment in Europe

The last few decades have witnessed the rise of non-standard forms of employment (NSFE) in many parts of the industrialised world, in particular in Europe. The reasons for this shift are multi-faceted, including increased competition as a result of globalisation, technological change that has facilitated business and work re-organisation, the increased participation of women in the labour market, and the emergence of new types of contractual arrangements, sometimes as a result of legal changes, but also in response to changes in the business model. NSFE include part-time work, temporary work (fixed or project-based contracts, casual labour, minijobs or even zero-hour contracts), triangular employment relationships through temporary agencies or subcontracting companies and self-employment, in particular own-account work.

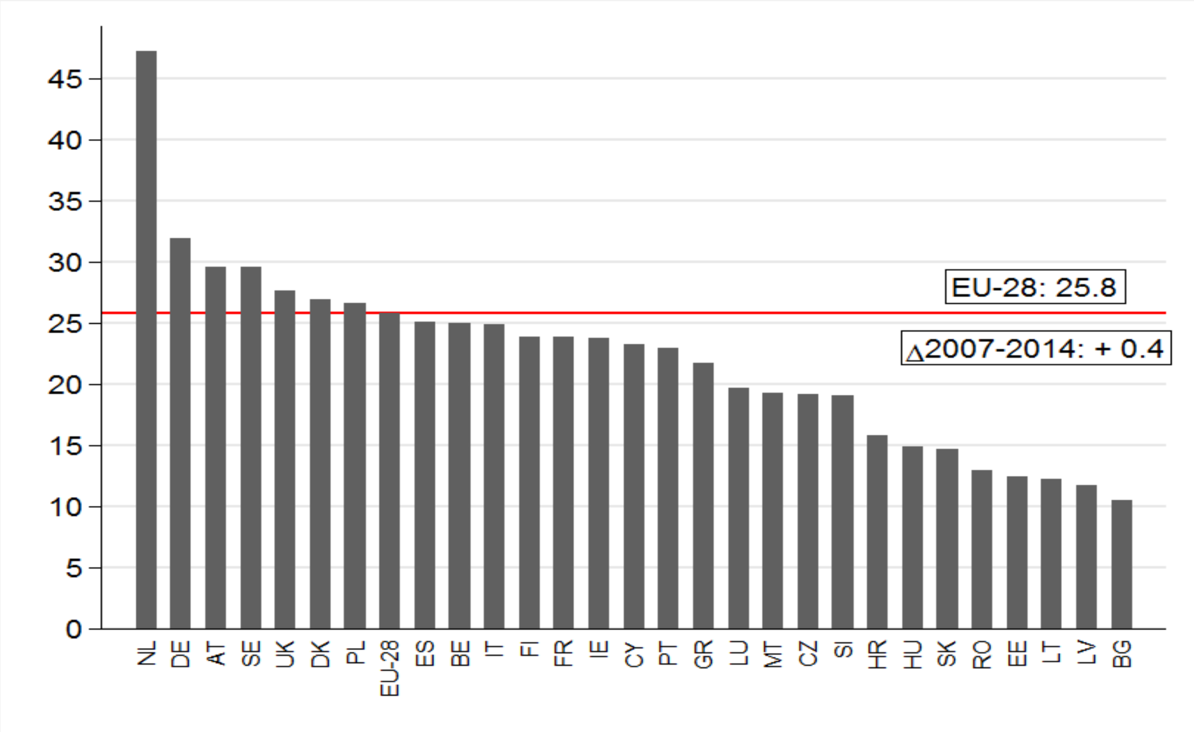
In the following brief account for all member states of the European Union (EU-28),[2] a simplified typology is used on the consistent database of the European Labour Force Survey (ELFS) for the period 1998 to 2014. Standard employment (SE) is considered as employment in open-ended contracts, in full-time work and in a wage or salary relationship. Three basic components of NSFE are distinguished: part-time work, temporary work, and self-employment. All figures are calculated as a percentage of the working-age population (aged 15 to 64).[3] The original analysis goes beyond description by testing possible causes of this development and by demonstrating the consequences of NSFE for economic performance and social inclusion. In the following, only the main results will be reported with a focus on one rather new and provocative observation.

In EU-28, the non-standard employment rate (NSE) increased to a level of 25.8 percent (2014); in other words, about a quarter of the working-age population works – controlled for overlaps – either in part-time, temporary work or self-employment (Figure 1). Since the overall activity rate (SE+NSE+U*-Rate)[4] is 72.1 percent, the share of NSE is 36 percent; related to the total EU-28 employment rate (64.5%), the share of NSE is even 40 percent.

The dynamics of NSE, however, slowed down drastically after the economic crisis (2008): only part-time employment increased further with a moderate tempo, whereas the share of temporary work and self-employment even decreased; in the most recent period part-time work increased especially among senior workers (55–64).

[2] This account is based on Schmid and Wagner 2016.
[3] A rich appendix in Schmid and Wagner (2016) provides further differentiation by age groups (15–24, 25–54, 55–64) and by education level (low, medium and high skill) for all EU member states, and aggregated for EU-28 and EU-19 (Eurozone).
[4] U*-rate (unemployment rate) is related here, for calculation reasons, to the total working-age population (age 15–64) and not to – as usual – the active working-age population.

Figure 1: Non-Standard Employment Rates in EU-28 as Percent of Working-Age Population, 2014



Source: European Labour Force Survey, own calculations (Schmid and Wagner 2016); the non-standard employment rate is defined as people working in non-standard jobs (part-time, self-employment without employees, temporary or fixed-term contracts) in percent of working-age population (15–64) and controlled for overlaps (e.g., fixed-term part-time or part-time self-employed); for country labels see Appendix.

Country differences within the EU-28 are huge: The NSE rate in the Netherlands is 47.2 percent (share of total employment: 65%), compared to only 10.6 percent in Bulgaria (share of total employment: 17%). Part-time explains the majority of this difference. The same holds true for gender: Women are slightly overrepresented in total NSE. Their NSE rate in EU-28 is 27.9, varying between 7.5 percent in Romania and 57 percent in the Netherlands.

A simple causal model suggests a two-dimensional approach based on whether labour supply is contingent or career-oriented and whether labour demand is fluctuating or stable. When contingent supply and fluctuating demand come together, the likelihood of a precarious NSFE is high; when career-oriented supply and stable demand come together, the likelihood of SE is high – in both cases relatively independent of labour market institutions. In the two other combinations (contingent supply + stable demand; career-oriented supply + fluctuating demand), labour market institutions play a stronger role in determining whether the employment relationship becomes ‘standard’ or ‘non-standard’. This simple model is quite powerful in explaining the following brief account of NSFE according to sectors, education and age.[5]

Part-time employment is – in all countries – most common in services and least frequent in manufacturing; within services we find most part-time jobs in hotels and restaurants,

[5] For an extended explanation supported by figures, see Schmid and Wagner 2016.

health and social services, and household activities; temporary employment is familiar in all sectors, even in manufacturing, particularly, however, again in hotels and restaurants and in household activities.

The probability of (career-oriented) high-skilled workers being in NSFE is lower than for the low skilled; the probability of (career-oriented) middle-aged workers (25–54) being in NSFE is lower than for the two ‘marginal’ age groups: the young and the mature-aged workers.

Employment protection is one of the major institutional determinants for NSFE. In particular, it is strong individual employment protection which induces employers to utilise NSFE, especially full-time, fixed-term employment. Lax employment protection related to temporary work seems to induce high levels of (all kinds of) part-time work. One reason for this could be that employers use more and more temporary work, in particular temporary part-time, as a screening device. Proper information on corresponding transition rates, however, is still missing.[6]

For men, the strongest reason for being in part-time is “not finding a full-time job” (40%); another reason is combining part-time with education or training (19%); for women, the strongest reason for being in part-time is “looking after children or incapacitated adults” (27%); 26 percent of women are involuntarily part-time workers. Over the observed time period (1998–2014), involuntary part-time slightly increased. On a cross-section basis, however, involuntary part-time is lowest in countries with high shares of part-time work, such as the Netherlands, and highest in countries with low shares of part-time work, such as Bulgaria. There is no significant gender difference related to temporary work or fixed-term contracts: in EU-28, on average, about two-thirds prefer a permanent full-time job; almost one in five workers combine temporary work with education or training.

In the meantime, myriad studies on the consequences of NSFE confirm that NSFE lead more or less to lower wages, higher income inequality, (gender) segmented labour markets, and even (to some extent) to a ‘new dangerous class’ of precariat.[7] Here, I refer to only one seminal study, which reports results from the intermediary role of institutions: Overall, women face not only a higher risk of being in part-time work but also a higher risk of receiving low wages, particularly in occupations requiring only low-level skills; institutions do not much matter here. In occupations requiring high-level skills, however (e.g. teaching), institutions matter: It is, in particular, full-time equivalent childcare provision and public employment which is preventing or at least mitigating the risk of being both in part-time and, at the same time, low-wage employment (Leschke 2015).

The literature on the relationship of non-standard employment and social protection is also unanimous in demonstrating that people in NSFE are not as well covered by social protection (health, pension and unemployment insurance) and are underrepresented in active labour market policies. The most common difference with standard workers is the exclusion of NSFE from benefits related to unemployment and work injury. These

[6] In this context this holds true in particular for transitions from temporary part-time work to open-ended part-time or full-time work. The state of the art of evidence and the missing gaps regarding transitions for the whole labour market, including jog-to-job transitions, would deserve a separate paper.

[7] To mention only a few: Eichhorst and Marx (2015); Kalleberg (2009); OECD 2015; ILO (2015); Standing (2011).

observations certainly contribute to the widespread opinion that NSFE is more of a curse than a blessing. The counterpart of this partially justified critique, however, has so far been neglected. It is the fact that NSE rates correlate strongly positive with labour force participation ('inclusion' indicator), with GDP per capita ('wealth' indicator) and with GDP per hour ('productivity' indicator).

Table 1: Correlates of the Shares of Non-standard Employment and Labour Force Participation Rates over the Time Period 1998–2014; 28 EU-Member States, 452 observations

	Total	Men	Women
Part-time open-ended	**.55**	**.54**	**.32**
Part-time fixed-term	**.48**	**.43**	**.28**
Part-time solo self-employed	.03	- .15	.01
Full-time fixed- term	.10	- .03	- .08
Full-time solo self-employed	**- .43**	-.13	**- .38**
Self-employed with employees	**- .25**	.10	**- .36**

Source: Eurostat (ELFS), own calculations; bold figures significant at 1% level; Schmid and Wagner 2016.

Table 2: Correlates of Non-standard Employment Rates and Labour Productivity (GDP/H) over the Time Period 1998–2014 (27 EU-Member States, 354 observations, without Luxembourg)

	Total	Men	Women
Part-time open-ended	**.77**	**.65**	**.78**
Part-time fixed-term	**.57**	**.50**	**.60**
Part-time solo self-employed	- .01	- .02	.01
Full-time fixed- term	.00	- .09	.06
Full-time solo self-employed	**- .31**	**- .23**	**- .46**
Self-employed with employees	**.21**	**.23**	.04
Total Non-standard employment	***.68***	***.29***	***.76***
Total standard employment	***- .28***	***0.19***	***- .54***

Source: Eurostat (ELFS), own calculations; figures in bold significant at 1% level; Schmid and Wagner 2016.

Tables 1 and 2 display the evidence for social inclusion and labour productivity. Although correlations do not allow them to be read as (one-directional) causal relations (here in the sense that NSE causes higher labour force participation and higher economic wealth or productivity), there are good reasons for generic causal links. Regarding social inclusion, it is quite evident and requires no further explanation that variability in working time makes it easier for young adults with obligations regarding child or elderly care to participate in the labour market. Regarding the link to wealth, it suffices to recollect Adam Smith's insight that, apart from skills, the level of labour market participation (as an indicator of inclusion) determines the nation's prosperity.[8]

With regard to productivity, the aggregate cross-country evidence observed here is confirmed, to some extent, by various micro-studies.[9] They show, for instance, that excessive use of temporary work or fixed-term employment does *not* contribute to wealth or productivity; it is rather the contrary because thriving innovation and high productivity require a *high quality work organisation*, which again needs open-ended employment relationships that foster skill accumulation, cooperation, loyalty and high commitment to work (Appelbaum et al. 2000).

As Table 2 shows, the strong positive correlation between NSFE and productivity at the aggregate level stems only from the component of part-time work, and even more specifically – not shown in the table – from voluntary part-time work.[10] There are, among others reasons, five plausible explanations for this astonishing result: First, part-time work allows taping into the (otherwise) underutilised resources of highly-qualified women (work-life balance). Second, as economies move towards services that often require timely delivery, employers need a more flexible work organisation (24-hour economy). Third, increasing the variability of employment contracts (e.g. through part-time work) enhances further labour division which is often related to higher productivity (recall old Adam Smith). Fourth, voluntary part-time work is often combined with training and education, fostering employability and productivity of all workers, not least migrant workers or refugees who need language abilities – best acquired in combination with part-time work – to prove their employability (lifelong learning). Fifth, marginal individual productivity (after increasing at the beginning) decreases with the length of working time (U-shaped productivity curve).[11]

A final caveat, however, has to be mentioned. The observation reported here refers only to the highly aggregate level of cross-country comparison; it cannot illuminate the precise mechanisms leading to these results and needs corroboration at the micro level. The few studies available that look at firms, however, provide no clear conclusion for the relationship between part-time work and productivity. They also draw attention to the fact that it greatly depends on the kind of part-time work (vertical or horizontal), and on the industrial branch and occupation (Garnero 2016).[12] Note, furthermore, that an unclear relationship at the micro level does not falsify the macro evidence which might result from deepening labour division of the overall production process.

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[8] "The wealth per capita must in every nation be regulated by two different circumstances; first, by the skill, dexterity, and judgment with which its labour is generally applied; and second, by the proportion between the number of those who are employed in useful labour, and that of those who are not so employed" (Smith 1776/1937, vol. 1, p. VII).

[9] See, among others, Kleinknecht et al. (2014), Lisi (2013) and Martin and Scarpetta (2011).

[10] The correlation between involuntary part-time and GDP/H (productivity) is significantly negative (-.33).

[11] For a further discussion of these provocative results see Schmid and Wagner (2016: 33–5).

[12] Horizontal part-time means working hours reduced at a daily basis; vertical part-time means full-time but only on certain days, weeks or even months. If the daily part-time is dominated by employees' interests, it might indeed lead to lower productivity.

The question now arises: What are the proper institutional responses to this mixed result? How can institutions further support the potential positive impact of some forms of NSE – in particular, working time flexibility – and prevent or mitigate at least the negative aspects – in particular, eroding social security? Before we start with concrete proposals, a general view of the role of institutions for managing social risks should be useful.

2. An Analytical Framework of Labour Market Institutions[13]

The labour market is not a market per se where 'demand' (employers looking for labour) and 'supply' (people providing their 'labour force') meet and freely contract. As in any market, the labour market needs a set of rules, organisations, policies and resources to properly function and to enforce the rules. Among them are unemployment or employment insurance, employment services, education and training systems, employment protection regulations, wage-setting rules including collective bargaining organisations, taxes on wages and in-work benefits and – last but not least – public sector work where employment, by definition, follows rules other than those of the market. All of these institutional elements build up an ensemble called *labour market institutions* (LMIs).

As "institutions" they provide both restrictions as well as opportunities. A minimum wage, for example, restricts the range of possible wages by a downward limit. It also provides, however, security of a decent minimum income for workers and protection against cut-throat competition between both employers and employees. LMIs, in particular, aim at providing a balance between equity and efficiency considerations (Okun 1975) and aim to overcome rational decision traps related to collective action problems (Frank 2012). Compared to product market institutions (regulation of capital flows, trade regulations, property rights), though, LMIs are much deeper rooted in the societies they belong to; they are embedded in cultures, induce people to stick to habits or traditions and to adhere to strong value systems related to fairness and solidarity. That is why Robert Solow (1990) chose *"The labor market as a social institution"* as the title of one of his seminal books, and that is why one is struck by the wide diversity of LMIs over the globe in general and throughout Europe in particular.

The parameters on which LMIs 'work' are: prices (wages and fringe benefits), quantities (workers and working time) and qualities (skills and competences). The diagonals in *Figure 2* symbolise that institutions always have to be considered both as restrictions (-) as well as opportunities (+), a point which pundits of labour market deregulation often neglect. Designing LMIs is a delicate art as one has to find the right balance between equity and efficiency and– as I will argue below – always has to consider the effectiveness of LMIs in the context of other institutions.

Unemployment insurance, for instance, might induce moral hazard, raise the reservation wage and thus prolong unemployment and reduce employment; but it might also maintain skills, raise morale and induce productive job search. Properly designed in an anticyclical

[13] The following considerations are based on Schmid (1994), profiting also from a recent survey article for ILO by Bernard Gazier (2013).

way (extended in recessions and scaled down in booms), it even induces positive external effects: macroeconomic stabilisation in particular through maintaining aggregate consumption or demand (e.g. Dolls et al. 2011) and the reduction of unfair job competition for scarce jobs in recession (e.g. Lalive et al. 2013).

Figure 2: Portfolio and Impact Parameters of Labour Market Institutions

	Prices (wages and fringe benefits)	**Quantities** (workers and working time)	**Qualities** (skills and competences)
U-/ Employment Insurance*)	+ -	+ -	+ -
Employment Services	+ -	+ -	+ -
Education and Training Systems	+ -	+ -	+ -
Employment Protection	+ -	+ -	+ -
Wage setting and Bargaining	+ -	+ -	+ -
Taxes and Benefits Related to Wages	+ -	+ -	+ -
Public Sector Employment	+ -	+ -	+ -

Source: + (= opportunities); - (= restrictions); authors design (GüS).
*) I prefer to use (instead unemployment [U] insurance) the term "employment insurance" (EI) because unemployment is only one of the labour income risks during the life course (Schmid 2008, 2011, 2015). Other common labour income risks are, for instance, short-time work, parental leave or occupational disability. A paradigm of EI is the short-time work allowance scheme in Germany (Möller 2010). The Canadian system of employment insurance also covers income risks due to parental leave, involuntary part-time or lower wages of new jobs (van den Berg et al. 2008).

Employment services, often publicly provided, restrict on the one hand the 'market' for private employment services, thereby reducing employment opportunities in the private sector. They also have to be financed by contributions or taxes, thus raising the burden of wage costs and thereby indirectly reducing employment. On the other hand, they may be better able to pool information and risks than private employment services, thereby increasing mobility (possibly connected with mobility incentives or training from the unemployment insurance) and employment opportunities of the unemployed or job seekers, both 'inactive' (school leavers, returning mothers) or 'active' (frustrated workers who would like to move). Because mobility raises the exit options and thereby the potential labour supply for potential vacancies, it reduces both the monopoly power of local employers and insider-workers, thereby lowering wage inequality and in this way – indirectly – unemployment (the efficiency wage argument). The example also shows that the causal slopes might be quite complicated, taking time to show their real impact on the final (positive or negative) balance on employment and demonstrates that the potential role of employment services in supporting mobility chains and transitions from non-standard to standard employment (or vice versa) might be substantial (e.g., Schmid 2008: 242–280; Schmid 2014b).

Employment protection restricts, first of all, employers' freedom of hiring and firing and may lead to cautious recruitment practices that lead to lower standard employment and to the recourse of NSFE as demonstrated above. Moreover, it limits the intergenerational exchange of staff which might induce employers to set the retirement age as early as possible with corresponding problems of social protection in old age or even self-respect related to work, a well-known phenomenon in particular in Japan and South Korea (e.g. Freeman et al. 2008). On the other hand, employment protection deters firing as a firm's first response to a downturn and thus encourages firms to build up mutual loyalties that, for instance, reduce the necessity and costs for the employers to control shirking, and give the employees incentives to invest in firm-specific skills in the expectation that the respective higher risks (reduced employability on the market) are either rewarded by the employer through higher wages and working time flexibility and/or compensated through generous unemployment benefits in case the firm suffers a closure. Employment protection also supports the unionisation of workers and collective bargaining since, in the absence of this protection, workers may be less disposed to join a union out of fear of reprisal.

The role of *public employment* is often neglected as part of labour market institutions. The opportunities related to this form of employment are quite clear: They can provide regular employment in areas which are not fully or simply are not covered by profitable markets (e.g. in the care sector) and they can probably more effectively handle situations where individual performance is, for some reason (age, health or psychological problems), slightly or temporarily restricted. Instead of providing in-work subsidies to private employers – including the costs of all the burdensome regulation, control and monitoring – public work might be more equitable *and* efficient.[14] The restrictions related to such forms of public employment are clear, too: public finance is always scarce, substitution or displacement of regular market work might occur, people in secure public service jobs might show a lack of incentive to work hard or to take further training. Furthermore, public sector employment might, on the one hand, relieve the pressure on the private sector to attain cost-competitiveness through non-standard employment, but might also, on the other hand, induce higher levels of NSFE through outsourcing.[15]

This is not the place to outline the totality of the diversities of LMIs between countries, and also not the place to explore the partially unifying and partially contested theoretical views of experts and researchers. All in all, at least from a European point of view, the nexus between LMIs and NSFE is far from clear, and respective research is still underdeveloped, either due to lack of proper data or due to the lack of rigorous methodology (Hipp et al. 2015). Some important common concepts and stylised facts,

[14] The market-supporting role of institutions in general, and in particular of public employment, would deserve further considerations and research; for a very informative state of the art see Gottschall et al. (2015).
[15] The 'spectacular' increase of self-employment in the UK in recent years seems to be an example.

however, have developed over time and are worthwhile reminders before starting with the application of this framework.

First, the concept of *institutional path dependency*: Building up mutual expectations between the actors in the labour market, institutions cannot be changed easily from today to tomorrow. Some institutions go back more than 100 years, for example, the cooperative industrial relations system in Denmark or the dual vocational training system (apprenticeship) in the German-speaking countries (Austria, Germany and Switzerland) where the bulk of school-to-work transitions flows through this channel which remains marginal in other countries. This diversity stems not only from the specificity of societal contexts and history, but also from the variety of objectives pursued by each scheme and rule. Efficiency and equity considerations may be combined in multiple ways. Moreover, labour markets are usually segmented in different submarkets. Some groups, benefitting from long-term and secured careers with promotional ladders, may be favoured by certain institutions, while other groups are left aside or excluded. Another essential source of variety is the degree of implementation according to the rules, depending on the size of the informal sector, on the political will and the amount of resources devoted to detecting and sanctioning non-compliance. There may be a big gap and even an abyss between laws or signed agreements and their implementation. In some countries, tax-avoidance – for instance – may be a culture or even a 'sport', in other countries it may be considered a criminal act or at least anti-social. So, for reasons of path dependency it is almost impossible to just copy institutions from other countries; learning from other countries is therefore restricted.[16]

Second, even if possible, copying might be ineffective for other reasons. All these institutions interact with each other and have to be analysed in the context of different social and economic situations. LMIs might be mutually supportive (*institutional complementarity*) but also incongruent (*institutional incongruence*) or hampered by trade-offs (*institutional trade-offs*).

An example of *institutional complementarity* is the interplay between dual education and training systems and income maintenance through unemployment insurance (Hall and Soskice 2001). As apprenticeship training, by definition, concentrates on the formation of occupation and firm-specific skills, the income risk is high due to the fact that firm-specific skills or narrow occupational skills become outdated or firms may go bankrupt; firm-specific skills can become a major barrier for the unemployed wanting to re-enter the labour market. Adequate income maintenance through unemployment insurance, in this case, is clearly a complementary institution since it allows for higher risks involved in occupation or firm-specific training and education. So, there is no wonder that, for instance, the conservative and strongly market-oriented Switzerland has one of the most generous unemployment insurance systems in the world. The Danish "Golden Triangle" (the 'flexicurity' model) can be considered another good example of institutional complementarity: low employment protection is complemented by high income security and strong activation measures in case of unemployment or mobility demanded through structural change (Madsen 2006).

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[16] For a classic on "compliance" related to EU regulation and directives see Falkner et al. 2005.

Institutional incongruence arises when the costs and returns of job creation investments fall apart. In Germany, for example, the municipalities were responsible for paying social assistance for jobless long-term unemployed whose unemployment insurance benefits ran out, but they were not endowed with sufficient financial means to create jobs or to fully reap the investments into job creation measures. The 'Hartz Reforms' partly solved this problem by shifting the responsibility to the central government who took over the bulk of the costs for means-tested unemployment benefits and corresponding employment services (Leschke et al. 2007; Schmid and Modrack 2008).

Institutional trade-offs might occur when the same institution affects different objectives either positively or negatively. Employment protection may (and is intended to) support the mutual investments of employers and employees in training and education, thereby enhancing productivity, particularly in the period following a downturn as workers are less likely to be laid off. Nonetheless, it may also create insider-outsider cleavages enhancing wage rigidities, preventing wage flexibility in a recession or the hiring of new apprentices to maintain a sustainable stock of skills. Several studies find strong positive correlations between high levels of employment protection and some non-standard forms of employment, in particular temporary jobs (e.g., Berkhout et al. 2013; Martin and Scarpetta 2011). In countries where employment protection is combined with the institution of life-time employment in large firms, corresponding mandatory early retirement might lead to (often precarious) self-employment in old age, as in Korea, or to precarious non-standard work in small and medium-sized firms, as in Japan (Freeman et al. 2008).

Third, and important for policy learning, are *institutional equivalents,* which means that one missing (or badly functioning) institution might be replaced by the functioning of another institution. An effective minimum wage, for instance, can be established by the state through mandatory legal minimum wages (as in France or Great Britain), but also through collective bargaining enforced by strong unions and employers' associations (like in Sweden, Denmark or Austria). Open-ended contracts (the essential element of 'standard' employment) might be combined with internal flexibility in terms of working time flexibility, task flexibility or even wage flexibility) and thus be an (even more) effective equivalent for external flexibility like temporary or casual work or contracting out to (dependent) self-employed. Both sides – workers and employers – might be interested in internal flexibility for various reasons. LMIs might even be (at least to a certain degree) a functional equivalent to product market institutions or financial market institutions. If, for instance, the devaluation of a currency is no longer possible due to joining a common currency union (like Greece in the Eurozone) or due to the binding of a national currency (like Denmark) to the Euro or the Dollar, then real devaluation might be implemented through working time and wage flexibility (like in Denmark). Other equivalents to devaluation are wage cost subsidies (Kaldor 1936) and labour mobility incentives.

Although this complexity of institutional arrangements and relationships is a good reason to dampen high expectations with respect to the learning potential of comparative institutional analysis, it does not justify using this as an argument to abstain from any institutional reform or to reduce this complexity as such. On the contrary: understanding the logical principles and the context in which institutions produce or support equitable and efficient results in the labour market will encourage necessary reform. Furthermore, overriding normative principles help to distinguish between ‘good’ and ‘bad’ institutions, in particular the overriding principle of social inclusion. In their seminal book, *“Why Nations Fail”*, Acemoglu and Robinson (2012) provide plenty of historical material on how “inclusive” instead of “exclusive” or even “exploitative” institutions contribute to prosperity and prevent poverty.

We are now prepared to ask which role LMIs play in preventing, mitigating and coping with the new social risks related to NSFE within the digital economy.

3. Managing Social Risks Related to NSFE in the Digital Economy

The term “managing social risks” in this headline has been chosen for the following reasons: First, ‘social risk management’ was introduced in recent decades as a concept to reemphasise risk prevention and risk mitigation as alternatives to reactive risk-coping (Esping-Andersen et al. 2002; Holzmann and Jorgensen 2000). Even if it sounds trivial, the important truth is nevertheless that the best social protection mechanism, e.g. unemployment insurance, is toothless as long as (preventative) job creation by sound macro-economic policy or the building up of high skills and adaptive competences by an effective education system are missing. Despite some caveats, social risk management is also inspired by the concept of social investment (e.g. Hemerijck 2013).

Second, individuals are faced with, and differently affected by, various risks over the life course, but they are endowed with different capabilities to cope with these risks (Anxo et al 2007; Sen 2001). From a life course perspective, unemployment may be the main risk of unsteady income flows or even a permanent loss of decent earnings; but it is not the only one. Income risks can also occur through changes in the individual earnings capacities related to parenthood, illness or eroding skills – or just by the bad luck of having chosen the wrong occupation. Some of these risks can and should be shouldered by the individuals. But sometimes even these risks accumulate or the shoulders are too small to carry the burden. Anticipating the respective need of solidarity requires building up redistributive institutional capacities to take into account differences of individual risk exposure and individual adaptive capabilities.

Third, labour market risks are to a large extent risks that require some kind of collective action to build up reliable institutional capacities of social protection. Structural and cyclical unemployment, for instance, are risks that private insurance cannot properly cover. Adverse selection and the correlation of risks plus efficiency considerations require at least some kind of public risk-pooling (Barr 2001; Bonilla and Gruat 2003).

Lastly, the intrusion of the term risk management on the employment policy discourse can be taken as a “moral opportunity” to reconsider the balance between solidarity and individual responsibility in managing risky labour market transitions over the life course (Heimer 2003; Schmid 2008: 213–219). In a world of changing context condition, the balance established, for instance, by European welfare state regimes after the Second World War seems to be seriously hampered by external challenges like globalisation, as well as by internal challenges like the rising demand of social inclusion, e.g. gender equality and the inclusion of people with disabilities.

In the following, I take the concept of transitional labour markets (TLMs) as a reference framework for managing social risks (Schmid 2008, 2015). In this framework, ex ante risk-sharing is the main advice offered to empower individual actors to adjust to structural changes in the labour market; in fact, ex ante risk-sharing is the essence of social insurance principles, which has at least seven great advantages related to ex-post means-tested social security:

1. Social insurance benefits are better protected against discretionary political decisions than means-tested benefits due to targeted individual or employers' contributions, often complemented by targeted fiscal budgets for reasons of redistribution. The way of financing (taxes or contributions) is thereby not the decisive point; the important point is long-term fiscal targeting. The digital revolution, however, might require an increasing share of general tax financing (preferably consumer taxes) to enhance the redistributive capacities and relieve wage income in exchange for burdening capital income.
2. Social insurance benefits are usually implemented through independent institutional bodies (often in tripartite arrangements) that develop over time a specific professionalism that is immune to short-sighted policy intervention.
3. Individual and wage-related benefits can be calculated much easier and fairer than means-tested benefits.
4. The incentives of work-related social insurance benefits to work are stronger than for means-tested benefits, not least due to the entitlement effect.
5. The macro-economic stabilisation impact of wage-related replacements is higher than those of (usually lower) means-tested benefits.
6. Generous short-term UB (up to about nine or twelve months) have various positive external effects: they reduce cut-throat competition between insiders (covered by insurance) and outsiders (not [yet] covered by insurance). They also provide individual workers with the choice to reject non-standard work especially in its precarious forms; and they protect – at least for a reasonable time – people from taking recourse to costly consumer credits.
7. Jobless people covered by U-/Employment insurance remain healthier and more self-confident than jobless people without such benefits or only means-tested benefits.

Two specific strategies follow from this general concept: First, making not only work pay but also making transitions pay via extending social insurance principles beyond the risk of unemployment, especially including volatile income risks associated with critical events over the life course reflected to some extent in NSFE (school-to-work-transitions, job-to-job transitions, working time transitions, and transitions from work to retirement). Second, making not only workers fit to the market but also making the market fit to the workers by enhancing the capacity of employers and employees to adjust to uncertainties by investing in human capital and in the workplace environment.

These are big words. What does it specifically mean for managing the social risks related to NSFE and the corresponding increase of transitions between different employment relationships over the life course? It is obvious that the following considerations to this major question have to be separated for the different forms of NSE.

3.1 The Case of Part-Time Work

As shown in the introduction, *part-time employment* is not only the most prominent but also the most dynamic feature of NSFE in Europe. Figure 3 provides a static overview of the year 2014 (for details related to the dynamics see Schmid and Wagner 2016) illustrating the huge differences between the EU-28 member states: On average, 12.3 percent of people at working age worked part-time (including part-time self-employed), varying between 1.4 percent in Bulgaria and 35.5 percent in the Netherlands. Albeit the dynamics of part-time has slowed down in recent years, even the countries with already high levels of part-time show no declining trend.

Figure 3: Part-time Employment Rates in Europe as Percent of Working-Age Population (including part-time self-employed), 2014

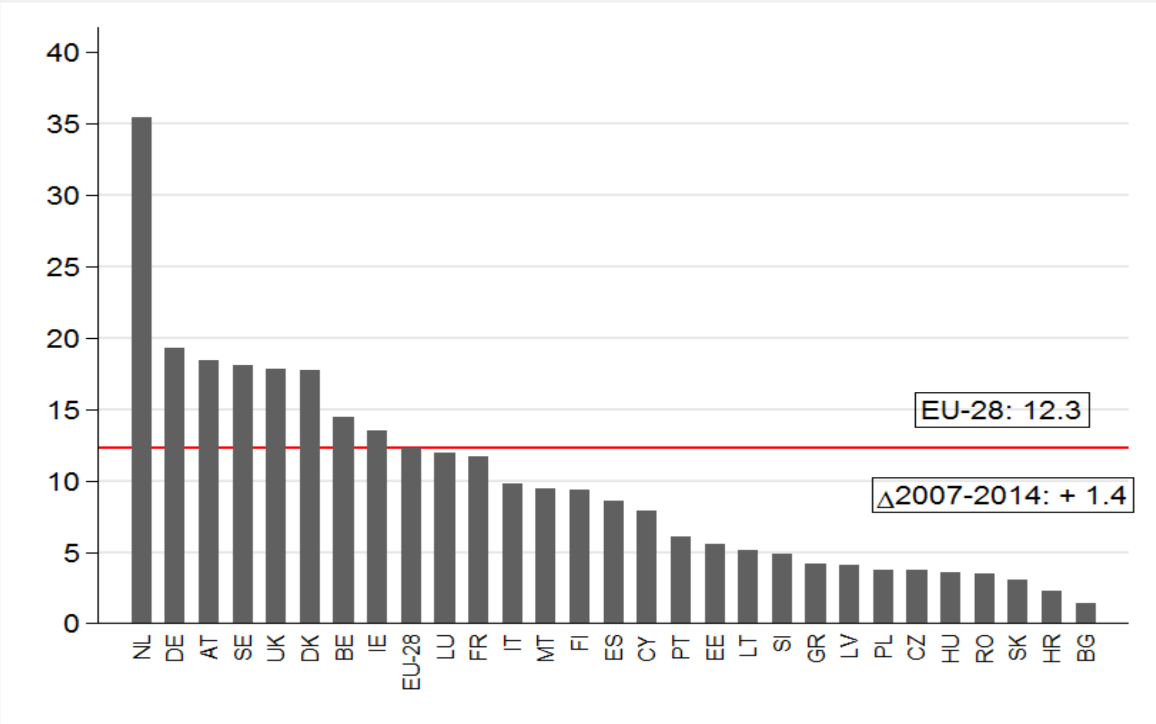


Figure 4 gives an overview of possible strategies of social risk management (complemented with best practices) based on the matrix of labour market institutions developed in the second chapter. I will concentrate on a few examples often illustrated with the German experience because I have more first-hand experience of my home country than for other EU member states.

Inclusion of part-time work into unemployment insurance is quite common yet ensures only pro rata the reduced wage income due to part-time work. Income loss caused by transiting from full-time to part-time, due, for instance, to parental leave, has so far not been covered in most European countries. The Canadian employment insurance, however, as a model for such an inclusion has already been noted in Figure 2.

In Germany, the new parental leave allowance (‘Elterngeld’), introduced in 2007, now insures the income loss due to full-time or part-time leave, like in the case of ‘full-time’ unemployment, by 67 percent of the former net wage income. Such leave allowance might be considered as an element of employment insurance although it is formally not included into UI and is not financed by individual or employer's contributions. The entitlements are portable from one employer to another and to any other location in the country.

Involuntary part-time, however, is usually not covered but might be an idea to make transitions pay: In many cases part-time serves as a stepping stone to full-time, and part-time unemployment insurance would provide an incentive for the unemployed to take up part-time. It would also encourage employers to use a part-time job as a basis to test the employability of the unemployed. Moreover, Denmark and Sweden provide UI for involuntary part-time workers (according to MISSOC, Comparative Tables, July 2014); and the interim allowance (*Zwischengeld*) in Switzerland is a functional equivalent that insures the income gap between 'full-time' UB and income of the new job (Schmid 2011: 129–130).

Figure 4: Managing Social Risks Related to Part-time Employment

Institutions/ Strategies	Making Transitions Pay	Making Market Fit to Workers
U/E-Insurance	Inclusion of parental leave and involuntary PT; portable entitlements	Subsidise U/E-insurance contributions for low-wage earners
E-Services	Inclusion of part-timers	Support employers to reasonably adjust work environment (E-pools)
E&T	Combining part-time with CEVT	Enhance Dual Learning Systems
EP	Same EP-rules should apply as for full-time	Entitlements to part-time and return to full-time
W-Formation	Wage insurance	Enforce non-discrimination related to part-time wages
T&B	Individual income taxation	Progressive income taxation
Public E&S	Enhance public employment wherever reasonable (public goods & services)	Full-time equivalent public child care or affordable private care

A case of making the market fit to workers could be to subsidise UI insurance contributions for low-wage earners by choosing, for instance, a progressive contribution scale for UI contributions, which in Germany is already the case for so-called 'midi-jobs' (i.e. part-time jobs in the range of a 450 and 850 Euro monthly wage).

A much neglected opportunity would be the easy transition from full-time to (temporary) voluntary part-time and to provide part-time unemployment benefits under the condition that the other part of the 'working' time is used for labour market education or training. In principle, this seems to be possible in Germany but is not much used as it requires a flexible work-organisation. Small and medium enterprises lack this institutional capacity which could be compensated by employment services or regional labour pools.

The same seems to be the case regarding the right to reduce working time and to return later on to full-time. This entitlement has existed in Germany since 2001 for workers in firms with more than 15 employees. This possibility, so far, has not been much used owing to the prohibitive costs related to flexible work organisation, but also due to the fact that the right to return to full-time (at comparable conditions that existed before going part-time) cannot yet be properly enforced. Apart from parental part-time leave, the individual decision to reduce working time is linked to the open-ended ('permanent') contract and thus a decision to be an open-ended part-timer without a guarantee to return to full-time work, unless the employer explicitly agrees to a temporary part-time arrangement. So the risk related to the reduced working time has to be shouldered completely by the individual if the labour law does not provide a helping hand, e.g. the obligation of employers to accept requests for temporary part-time unless he or she has good reason not to do so.

It is a well-established fact that equal tax treatment for married women has a strong positive effect on female labour force participation. In many EU countries married women, especially if they work part-time, are taxed more heavily than men or single women. Sweden is a good example of where the transfer from joint to separate taxation in combination with other family-friendly policies has led to higher labour force participation among women. A study for 17 OECD countries shows that women will participate more when they are being taxed individually and equally compared to men (Jaumotte 2003). Another study, referring to a Dutch tax reform changing tax allowances to non-transferable tax credits, found also a positive impact on female labour force participation (Bosch and Van der Klaauw 2009). Germany still has joint taxation which subsidises heavily traditional partnerships (men as full-time wage earners, women – if any – only as marginal part-timers) and thus discourages women from increasing their involvement in paid employment and establishing their own social protection in old age.

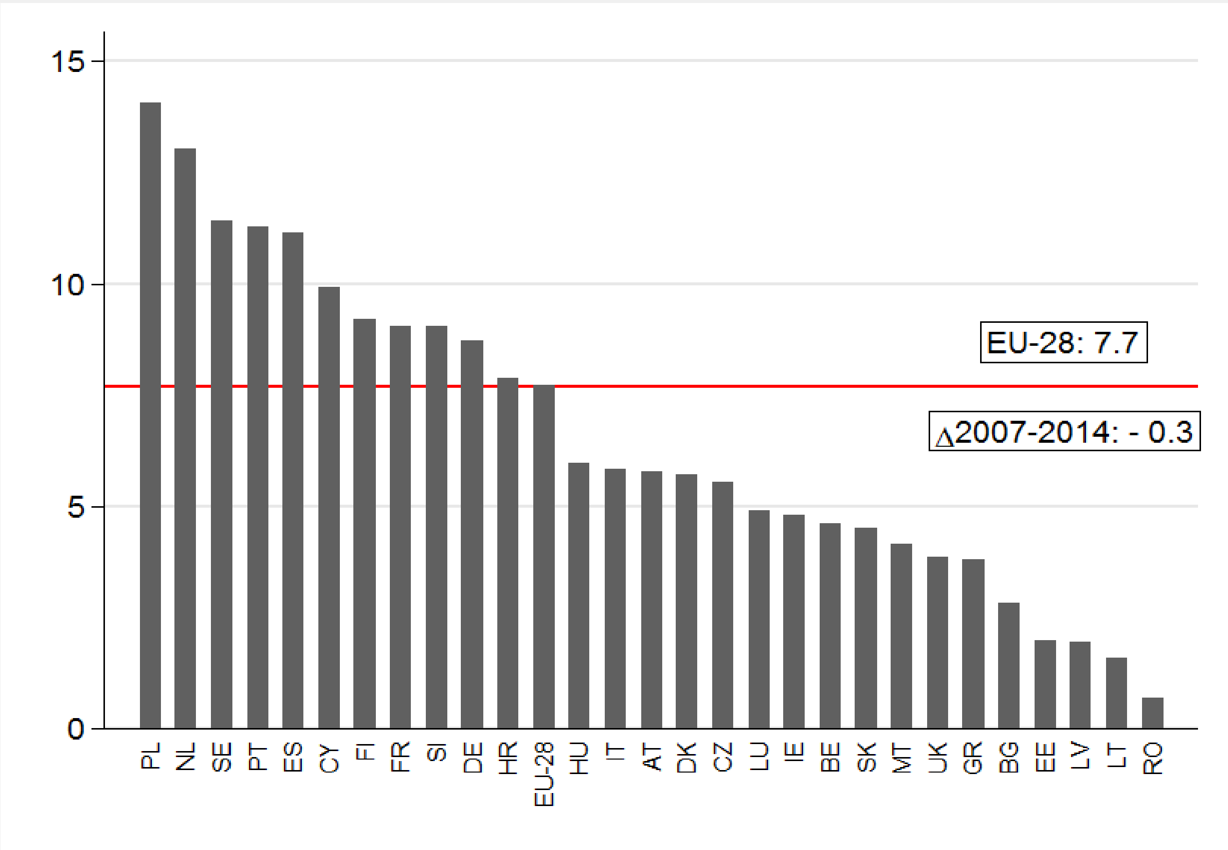
Finally, the importance of the state as employer not only of last resort but also as employer and promoter of public goods and services should not be neglected. High inclusive quality care or education is a collective action problem which the market does not solve or only insufficiently. The same holds true for providing adequate child care in the spirit of making the market fit to workers. Here, equity and efficiency considerations open up a win-win situation: women's improved education can only be turned into productive capabilities if the tasks related to societal reproduction are solved through collective action. Under such provisions, part-time work could even merge into short full-time work and long full-time work into long part-time work (30-hour week), opening up a new standard employment relationship. Last but not least, such a development would also facilitate the sharing of care responsibilities between men and women.

3.2 The Case of Temporary Work

Temporary work, here including fixed-term contracts and temp agency work either part-time or full-time, ranged in 2014 from 0.7 (Romania) to 14.1 percent of working age population, with an EU-28 average of 7.7 percent. Apart from a few countries (e.g. Poland and the Netherlands), its importance stagnates or even decreases (e.g. Spain and Denmark) (Figure 5).

Institutional responses related to *temporary employment* (Figure 6) often trade-in flexibility with new securities ('flexicurity'): efficiency-enhancing reforms of employment protection that allow greater flexibility are compensated by efforts to provide adequate income support to temporary workers facing higher risks of unemployment than standard employees. As the Danish flexicurity model, however, reminds us: such deals have to be coupled with the institutional capacity of effective re-employment services to facilitate their reintegration into employment and to thereby balance efficiency with equity considerations.

Figure 5: Employment Rates in Temporary Work in Europe (part-time or full-time) as Percent of Working Age Population, 2014



A review by Martin and Scarpetta from OECD (2011) suggests that unemployment benefits appear to have a positive impact on average worker transitions, with particularly strong effects on youth and young adults who are over-proportionally employed in temporary jobs. Reforms in unemployment or employment insurance, should therefore consider two issues. First, the regulation of the waiting period for entitlements should be adjusted to the new situation of an increase in temporary jobs. Many EU member states require a contribution period of two or even three years which many, if not most of temporary workers, cannot fulfil. In general, shorter waiting periods are to be recommended.

Figure 6: Managing Social Risks Related to Temporary Employment

Institutions/ Strategies	Making Transitions Pay	Making Market Fit to Workers
U/E -Insurance	Easing inclusion plus mobility insurance; portable entitlements	Public support of mobility insurance of such funds (the case of Austria)
E-Services	Inclusion of temporary workers	Support employers to reasonably adjust work environment (e.g. E-pools)
E&T	Inclusion of temporary workers	Support specific training funds for temporary workers
EP	Principle of equal pay (only targeted or CA deviations); transition budget	Strict enforcement of existing labour law; single employment contract
W-Formation	Minimum wages; possibly wage premiums for risky temporary work	Enforce wage discrimination related to temp agency workers
T&B	Targeted U/E-Insurance contributions	Experience rating of U/E-insurance contributions to employers
Public E&S	Enhance public employment wherever reasonable (public goods & services)	Carefully targeted temporary public employment for long-term U

Another institutional response could be *mobility savings accounts* which owe their inspiration to the 2003 Austrian reform of dismissal law ('Abfertigungsrecht'). This reform converted uncertain firing costs for employers into a system of individual savings accounts, funded by an employer payroll tax (1.53% of wages). From the employer's perspective, this system guarantees certainty about the cost of any future dismissal at the time of hiring; dismissal decisions became independent from the length (and accumulated entitlements of severance payments) of the employment relationship. For the workers, costs associated with labour mobility are reduced because they do not lose their entitlement to 'severance pay' when quitting to take a new job; accumulated entitlements are paid out if transiting into retirement. The new law is inclusive because all workers are covered, independent of the number or duration of employment relationships, whereas the old law privileged insiders with 'standard' contracts. The state supports the corresponding funds through establishing and controlling private mobility administrations (*Mitarbeitervorsorgekassen*) which ensure the portability of accumulated individual entitlements and liquidity of the various funds (Schmid 2011: 123/4).

Another possible and widely discussed institutional reform would be to tackle the asymmetry between temporary and permanent contracts more directly by relaxing the stringency of EP for the latter while at the same time increasing the degree of stringency for the former. Steps in this direction have been repeatedly made in the Netherlands, most recently with the *Flexwet* in July 2015 that stipulated a maximum period of three fixed-term contracts within a period of two years after which a fixed-term contract is automatically transformed into a permanent contract.[17] The same law made dismissal again easier in exchange for an individual entitlement to a *transition budget* replacing

[17] www.english.szw.nl/

severance payments. Every employer (with 25 or more employees) has to provide a transition allowance in the case he or she initiates the termination of the employment relationship if that relationship exceeded two years. The transition allowance would be calculated as follows: For every year of service less than 10 years, the employee receives one-third of his monthly salary; for every year of service that exceeds 10 years, half of his monthly salary is granted. When the employee is over 50 years old, he or she is entitled to one monthly salary for every year of service that exceeds 10 years. A maximum of 75,000 Euros in total applies, unless the employee's annual salary exceeds this amount, in which case this higher amount counts as the maximum. The decisive difference to the severance payment is that the transition allowance has to be utilised – in a mutual agreement between employer and employee – for reintegration to another job, in particular through training or other employability measures. The law thereby intends to reduce the pressure on firms to rescue to fixed-term contracts, transforming 'passive' security into 'active' security.

Another concrete step towards this strategy could be the establishment of a single employment contract in order to move away from a dual EP system of the type which exists in many European countries today, with relatively strict EP for permanent workers and relatively lax EP for temporary workers. A single employment contract would set firing costs at initially low levels and rising with firm tenure, requiring, for instance, the transition from a temporary to a permanent or open-ended contract after three years at the latest (Casale and Perulli 2014). There are, however, serious doubts about the effectiveness of single contracts because the thresholds of such legal frameworks produce dismissal costs below those employers prefer to replace a worker with a new one whose protection starts from zero. This effectively means that newly recruited workers still face the same insecurity, at least for a certain length of time and for the weakest group on the labour market. Depending on how the single-employment contract is modeled, it is quite possible that it would make the situation of some workers with short tenure even more precarious than it would be with a temporary contract (Eichhorst et al. 2016).

In cases where the employment contract is combined with an education or training contract, e.g. in the case of apprenticeships or in the arena of academic education and research, there might be special regulations. However, the current practice in Germany—where young academics have employment contracts with an average of only nine months—is unsustainable.

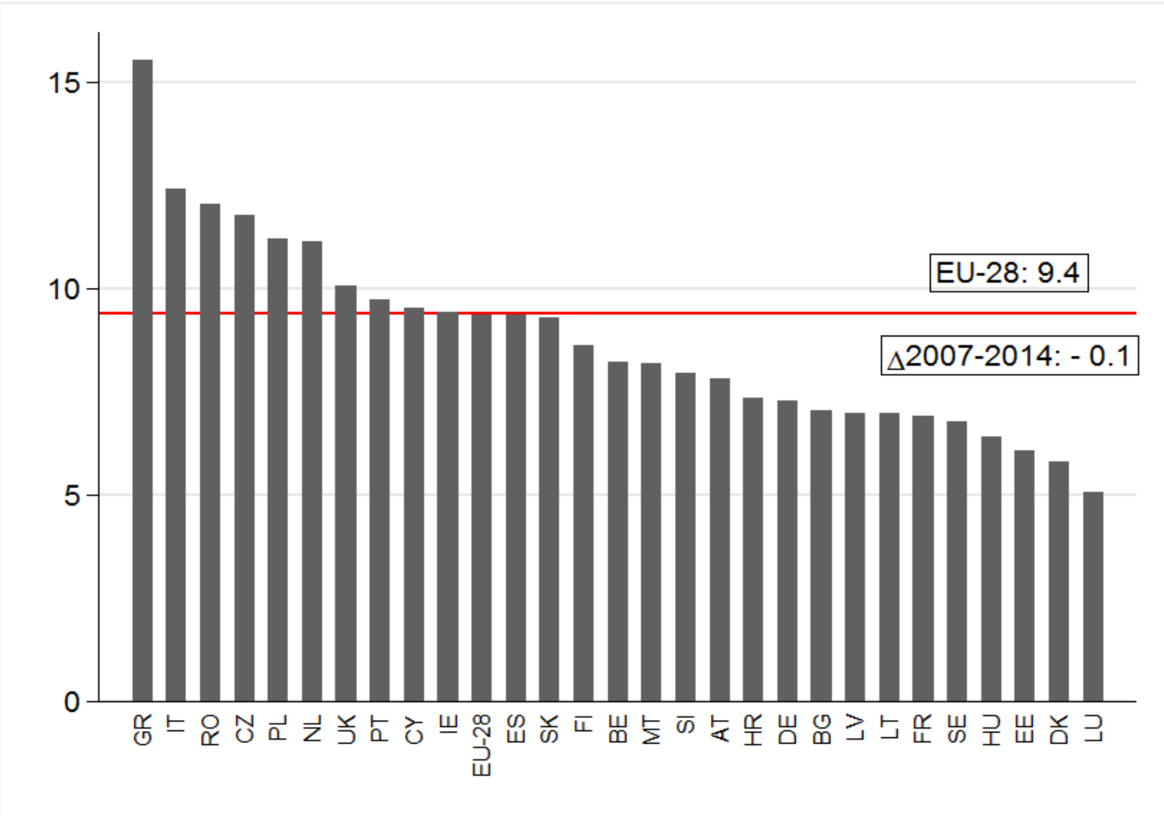
Finally, minimum wages (MWs) are an effective instrument to prevent miserable wages below a decent level and are therefore an essential element for a social protection floor to NSFE. Germany only recently introduced a mandatory minimum wage of €8.50 (January 2015), which the government – according to the recommendation of the German Minimum Wage Commission – decided to increase to €8.84 in January 2017. Contrary to expectations of some mainstream economists, this MW has had – so far – no evident damaging effects on employment. It is, however, too early to definitively assess its impact (Mindestlohnkommission 2016). In theory, the employment impact is indeterminate (Manning 2003) so that positive or negative effects depend much on the implementation of MW; an evidence-based setting of MW is, therefore, indispensable.

The UK seems to be a model for other countries that have not yet taken this step (Metcalf 2008, Brown 2014, Butcher 2012). To the surprise of even the Low Pay Commission, however, that so far was de facto setting the level and pace of the British national minimum wage, the British conservative government introduced in April 2016 a minimum living wage of £7.20 (about €9.20) for adults older than 25 with the ambitious aim of increasing this living wage to at least £9.00 in 2020. The impact of this policy remains to be seen.

3.3 The Case of Self-Employment

Self-employment, in particular in the form of start-ups or freelancers, is often considered as a prototype and driving factor of employment in the digital economy. Evidence, however, suggests that this is not the case or needs at least qualification. Unfortunately, the official statistical and comparative information basis is too limited to draw a clear picture. The self-employment rates shown in Figure 7 include self-employed with and without employees as well as part-time self-employed. A look in the 'black box' allows a more differentiated picture which I have to dismiss here (for further details, see Schmid and Wagner 2016).

Figure 7: Self-Employment Rates in Europe as Percent of Working Age Population (including part-time self-employment and self-employed with employees), 2014



The main point to be emphasised here is the fact that it is in particular own-account work which is growing, statistically 'compensated' to some extent in many countries by the continuing declining trend of self-employment in agriculture. Overall, self-employment as a 'non-standard form of employment' stagnated in Europe and the corresponding self-employment rate varied in 2014 between 5.1 percent in Luxembourg and 15.1 percent in Greece, compared to the EU-28 average of 9.4 percent. To some extent, only the declining trend in Spain and Portugal and the increasing trend in UK and the Netherlands were ‘spectacular’.

Figure 8: Managing Social Risks Related to Self-Employment

Institutions/ Strategies	Making Transitions Pay	Making Market Fit to Workers
U/E -Insurance	Inclusion of self-employed as far as possible or specialised U/E-I-funds	Loans or credits for U/E-I contributions to self-employed with low income
E-Services	Advice for start-ups	Quality standards for business start-ups
E&T	Include start-up training in regular school/ university curricula	Quality standards for services providers
EP	Improvement of author’s royalty or exploitation rights	Enforce royalty and exploitation rights
W-Formation	Minimum income for contract work	Enforce minimum income
T&B	Maintain accumulated B-entitlements when transiting to self-employment	Basic income guarantee (decouple social security from job career)
Public E&S		Provide facilities and other infrastructure for start-ups

The basic issue for proper institutional responses in the case of *self-employment* is certainly to ensure social security in old age (Figure 8). Schulze Buschoff and Protsch (2008) argue, on the basis of comparative studies, that contributory financing systems with income thresholds down at the bottom (e.g. mini-jobs) are not suitable for covering the specific risks related to non-standard employment, especially not for the new self-employed. They propose an extension of tax-financed basic income guarantees in old age to cover the risk of extreme income disparity or volatile income streams related to self-employment: Tax-financed basic income guarantees (‘folks’ pensions) would prevent or at least mitigate extreme poverty for the self-employed in old age. As a complement, self-employed could – or even should – also be included in the existing unemployment or employment insurance schemes for two reasons: a universal coverage would ease transitions between or combinations of the two employment relationships, and the corresponding individual contributions of those self-employed with a very low income could be supported by loans or credits that are paid off in times of higher or stable income.

One of the most effective labour market programmes in Germany (even in times of mass unemployment) was a start-up scheme that transformed individual unemployment benefit entitlements into capitalised loans combined with subsidies for contributing to social security (e.g. Caliendo and Künn 2011). At the height of this measure, 350,000 unemployed (about 10% of the unemployed) were supported in their bid for self-employment. Despite these high figures, the majority were still self-employed after two years, and about 30 percent of these start-ups even expanded to small entrepreneurs with employees (Schmid 2011: 145). Apart from the financial incentives, institutional capacities were built up to ensure a careful selection of candidates and an examination of their business plans according to quality standards, thus contributing to the success. The programme, however, was substantially reduced through the government's drastic austerity measures in 2011/12, although repeated evaluations confirmed the effectiveness *and* efficiency (at least for parts) of the programme.

A most recent evaluation (Bernhard et al. 2015) reports that 90 percent of supported start-ups were still self-employed after 18 months, 7.5 percent transited to standard employment and only 2.5 percent again became unemployed. Furthermore, in the vein of the austerity philosophy (aiming at zero debt-budget) the original individual entitlement to such a measure (provided that certain conditions were fulfilled) was transformed into a discretionary measure, the size of individual support was reduced, access conditions were made more difficult, and placement into standard employment now had priority – conditions which have been found to be somehow too restrictive among evaluators. A more supportive stance, particularly intensive advice and training assistance for those unemployed willing to start-up a business, is recommended.

Furthermore, maintaining accumulated unemployment benefits for an interim time up to five years would encourage the unemployed to take the risk of self-employment because they could fall back onto the standard benefit scheme. Moreover, specific insurance schemes for certain categories of self-employed could be established, for which the French and the German (*Künstlersozialversicherung*) artist social insurances would be an example (Schmid 2008: 189–190).

Parallel to employment protection and fair wage regulation, there is also a need to protect the royalties or exploitation rights for the self-employed and to take care to enforce these rules.

Finally, contract work is becoming more and more widespread and often involves self-employed or freelancers as contractors. A minimum income regulation seems to be necessary – corresponding to minimum wages – to ensure a minimum level of decent income.

4. The Inclusive Labour Contract as a Roadmap for the European Pillar of Social Rights

In light of the increasing complexity of the world of work in the digital economy, the overall conclusion has to be more general rather than specific. The main message is that we should rather embrace NSFE as an opportunity than as a danger. The consequence of this view, however, is a responsibility to take care of new institutional capacities that provide social protection for people engaging in these risky employment relationships. We have to acknowledge that NSFE are to some extent a tribute to the 'external' challenges of the traditional welfare state through globalisation or digitalisation and to the 'internal' challenges stemming from rising demands of social inclusion in terms of gender and human capability equality (especially related to aging populations), to the increase in chronic health conditions, to the high and growing disability prevalence and the increasing streams of migrants and refugees.

So far, the *dangerous elements* of risks related to NSFE have been emphasised: precarious and dead-end jobs, rising inequality and segmentation. This view is certainly justified by the facts, but I hope to have added and justified a more optimistic view by pointing to the *opportunity elements* of risks related to NSFE: *enhancing productivity through increasing the variability of employment relationships and greater sovereignty of workers for choosing the most suitable form of employment relationship over the life course with changing needs and preferences*. The provocative news from the empirical part of this paper is the observation that it is voluntary part-time (here, an indicator for working time flexibility over the life course) in particular which seems to be an important driver for a new 'marriage' of equity and efficiency in the digital economy. Furthermore, Europe should not dismiss the labour market complexity of the global world around its small continent which is, to a large extent, still strongly characterised by informal employment relationships with low social protection (ILO 2015).

Embracing more contractual complexity requires enhanced institutional capacities to respond to the new challenges of fair risk-sharing at three levels: the legal, the financial, and the organisational level. At the legal level, a new labour standard based on the idea of a right to a decent income beyond formal employment might be the solution. At the financial level, social insurance – in a digital economy – has to rely less on wage-based contributions and more on general taxation (including capital gains, wealth and luxurious consumption). At the organisational level, negotiated flexicurity and effective labour market services are at the core, like matching, monitoring and evaluation, case management based on individualised assessment, continuous training and vocational education, co-financing implemented within modern governance structures such as co-determination and participation in investment decisions.

As far as the legal level is concerned, expanding the range of the labour contract to all forms of work, also including unpaid but socially highly valued work as proposed, for instance, by the Supiot Report (Supiot 2001, 2016), seems to be the most radical and promising route towards a new standard. The main aim is the move from protecting jobs to protecting the employability of people, or from job security to labour market security (Auer 2007; Auer and Gazier 2006). Social security linked to traditional employment relationships would be extended in the new standard to include income and employment risks related to transitions between various employment and labour market statuses (Schmid 2008, 2015). The legal core is the establishment of new social rights and new social obligations on both sides of the labour market.

The *new social rights* would be new in that they would cover subjects unfamiliar to industrial wage-earners on which the traditional standard employment relationship is built: the right to regular employability assessment, to appropriate working hours including the right to request shorter working hours (Coote 2013: XXI), to a family life, to occupational redeployment, retraining or vocational rehabilitation, and – lastly – to a flexible employment guarantee through the state (Atkinson 2015:140–7). In contrast to earlier job guarantees, this guarantee would be flexible in three respects: First, individuals would be free to choose an offer by the state. Second, individuals could combine this right with various 'non-standard' forms of employment, e.g. involuntary part-time; third, the guarantee could also take the form of subsidised employment in the (private) market sector. This right is also an immediate conclusion from the insight that employment has not only instrumental but also intrinsic features. Providing job opportunities can, for instance, take youth out of their ‘natural’ neighbourhood and eliminate, at least for a certain time, the often negative effects of peer groups in disadvantaged environments (Akerlof and Kranton 2010).

The *scope of new social rights* would also be new since they would cover not only ‘standard’ wage-earners but also the ‘non-standard’ part-time workers, the self-employed or semi-self-employed, the temp-agency workers, the marginal workers, and even zero-hours contract workers. One example would be including the risk of reduced earnings capacity in a way analogue to short-time work (of full-time workers) covered by unemployment insurance: The income loss induced by reduced working time (due to, for example, unpaid care obligations) could be compensated by part-time unemployment benefits or – as in the German case – a wage-related parental leave allowance. Such an insurance benefit would also be helpful when related to the increasing demand of care for frail elderly which, for example in Germany, in its majority (three-fourth) is still provided within the family and again predominantly by women.

The new social rights are *new in nature* because they often take the form of vouchers, social drawing rights or personnel accounts, which provide transition securities from one labour contract to another and allow workers to rely on solidarity within defined and perhaps collectively bargained limits when exercising their new freedom to act (Korver and Schmid 2012). A good practice example for such coordinated flexibility is the German collective agreement established in the chemical industry in April 2008, setting up so-called demography funds. This overall framework agreement requires all employers to contribute an annual sum of €338 for each employee into a fund, which can be utilised after corresponding negotiations and deliberations at the firm level for various aims, among others for training or retraining, for buying occupational disability insurance or for early retirement, however, under the condition of building a bridge for young workers entering employment.[18]

To the extent that these new rights enhance the range of individual choices, a corresponding new field of individual responsibilities opens up. This dimension, strange enough, is not covered in the Supiot Report. Amartya Sen, however, is quite outspoken in this respect: “Freedom to choose gives us the opportunity to decide what we should do, but with the opportunity comes the responsibility for what we do – to the extent that they are chosen actions. Since a capability is the power to do something, the accountability that emanates from that ability – that power – is a part of the capability perspective, and this can make room for demands of duty – what can be broadly called deontological demands” (Sen 2009: 19).

The *new social obligations* arising from the extended room of individual freedom to act would be new in that they would cover subjects unfamiliar in the traditional employment relationship: obligations to training and retraining both for employees as well as for employers to maintain employability; to actively search for a new job or accept a less well paid job under fair compensating rules; to healthy lifestyles and occupational rehabilitation; to reasonable workplace adjustments according to the capabilities of workers (Deakin 2009) or to changing working times according to the needs either related

[18] The recent collective agreement in this sector (27 March 2015) provides a stepwise increase of the amount to €750 in April 2017, which corresponds to an (otherwise) 0.9% increase in wages.

to the individual life course or to volatile market demands of goods and services. A good example in this direction is the 2010 modification of the German law for severely disabled people, which stipulates the right of the disabled against their employer to an employment which enables them to utilise and further develop their abilities and knowledge, the right to privileged access to firm-specific training, the right to facilitate the participation in external training, the right to a disability-conform work environment, and the right to equip the workplace with required technical facilities. It is evident that these kinds of adjustments duties require support through collective agreements or social pacts between firms and other key actors in the local or regional labour market with the support of modern labour market services.

The *scope of new social obligations* would also be new since they would cover not only certain categories of workers or employers but also the core workers in open-ended contracts and all firms independent of size and function. The exemption of civil servants or the self-employed from contributing to social security (especially pensions and unemployment insurance) as, for instance, in Germany, would not be justified under the regulatory idea of an inclusive labour contract. A good practice example is the obligation to work-share in case of cyclical troughs of demand if workers' representatives (*Betriebsrat*) require this from the employer whereby; in turn, the law entitles them to ask employers to work-share as an instrument to maintain the employment relationship. The German scheme of short-time work (*Kurzarbeit*) demonstrates the usefulness of such a device for internal flexibility as well as the need to fine-tune the contractual arrangements (Möller 2010, Schmid 2015: 84–6, Storrie 2012).

The new social obligations would be *new in nature* since they often take the form of 'voice', i.e. being ready to negotiate at individual, firm, regional and branch level in order to reach mutual agreements and to accept compromises in case of different interests, so-called negotiated flexicurity (Schmid 2008: 317–22). Voice as an adjustment mechanism to structural change involving high uncertainty is known in the literature on industrial relations as legally acknowledged *learning communities*. *Covenants* are a good practice case, which – for instance – are widely used as a governance instrument in the Netherlands. A covenant is an undersigned written agreement, or a system of agreements, between two or more parties, at least one that is or represents a public authority, meant to effectuate governmental policy. There is no single format of a covenant, but they share common features: enough overlapping interests of participants, mechanisms bringing about both definition and the machinery of achievements. The parties cooperate and formal sanctions are absent, yet parties have the opportunity to go to court in the case of another party defaulting. Covenants could also be understood as a "pressure" or "incentive" mechanism for coordination to economise on the most scarce and strategic resource: the ability to take adequate decisions and to avoid decision traps of collective good production in uncertain environments (Frank 2012; Korver and Schmid 2012: 39–41).

To sum up: The European Pillar of Social Rights could be taken as a chance to design a roadmap guided by the regulatory idea of an inclusive labour contract. New social rights and obligations under this systemic reorientation would increase the internal flexibility of 'standard' employment as a functional equivalent to external flexibility which often ends up in precarious NSFE. But they would also include voluntary forms of NSE in a broader social protection framework as currently existent, for instance, by extending the conventional unemployment insurance to a system of employment insurance which also covers income risks other than unemployment, such as voluntary or involuntary part-time or short-time work (Schmid 2015). The European Union could help to develop such an extension on national levels through establishing not a unified central European Unemployment Insurance (Andor 2013; Dullien 2013) but a European Fund for Employment and Income Security (EIS) financed by targeted contributions of the EU member states. Such a fund would not replace the national unemployment or employment insurances but would supplement them according to the federal model of the US Social Security Act of 1935 under Franklin D. Roosevelt and adjusted to European minimum standards of social protection (for a corresponding proposal see Schmid 2014a: 20–28).

The establishment of new social rights and new social obligations according to the regulatory idea of an inclusive labour contract would also ensure the development of institutional capabilities that not only make workers fit to the market, but that also make the market fit to the workers (Gazier 2007, Schmid 2008). The employment strategy of inclusive growth should be based on the regulatory idea of a new labour standard which goes beyond employment and includes all kinds of work that are socially valued or even obligatory. The inclusive labour contract brings together the supply strategy of investments in human capabilities over the whole life course, and the demand strategy of inclusive growth through job creation by proper fiscal and monetary policies enhanced by the protected variability of labour contracts. This would also be an essential element of a global social policy that aims at the prevention of a vicious cycle or cut-throat global competition, originally described by the socialist political activist, Ferdinand Lassalle, as the iron law of falling real net wages towards an existence minimum (Supiot 2016: XXXVIII). The broader aim of the ESPR should be to turn this threatening vicious circle into a virtuous circle through a global solidaric income, wage, and employment policy as a strategy for inclusive growth.

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Appendix

Abbreviations of the EU-28 member states

AT	Austria
BE	Belgium
BG	Bulgaria
CZ	Czech Republic
HU	Croatia
DK	Denmark
DE	Germany
EE	Estonia
GR	Greece
ES	Spain
FR	France
IE	Ireland
IT	Italy
CY	Cyprus
LV	Lithuania
LT	Latvia
LU	Luxembourg
HU	Hungary
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom