

Equipping Markets for People: Transitional Labour Markets as the Central Part of a New Social Model

by

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FIRST DRAFT

Abstract

Formulated in the middle of the nineties Transitional Labour Markets theory (TLM) was first conceived as a labour market policy reform proposal, aiming to reintegrate excluded groups into gainful employment, and, further, to rethink the very notion of full employment. The paper intends to flesh out the argument that TLM can be presented in a more ambitious way, and tries to connect the core concepts of this approach to the global debate on social models and Welfare Regimes. Section 1 surveys the new challenges the Welfare Regimes have to cope with, arising from the “recommodification” of labour and the reconfiguration of social and demographic risks. Section 2 presents the main features of the TLM analytical framework. Section 3 contrasts the TLM social model with the “Asset Based Welfare” model promoted by followers of the social liberal “Third Way”.

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Introduction

Formulated in the middle of the nineties (Schmid 1995), Transitional Labour Markets (TLM hereinafter) theory was and still is first conceived as a labour market policy reform proposal, aiming at reintegrating excluded groups into gainful employment, and, further, at rethinking the very notion of full employment. But a number of studies done since (Schmid and Gazier (eds) 2002; Gautié 2003a; Gazier 2003) have shown that TLM can be presented in an even more ambitious way: as the central part of an emerging social model, a “second generation” social-democratic model, which can be compared with and opposed to the social-liberal model elaborated during the same decade (Giddens, 1998).

The aim of this contribution is to present a synthesis of the main arguments in favour of this enlarged view of TLM, and to connect the core concepts of this approach to the global debate on social models and Welfare Regimes (Esping-Andersen 1999) – i.e. to the related issues of social protection, poverty and inequality.

We proceed in three steps: first we briefly analyse the new challenges of today for the existing Welfare Regimes. In a second section, we present TLM as a new framework for the labour market – social protection nexus; our third section opposes two paths for a coordinated response to the new challenges: the “Asses based Welfare” (ABW) approach (connected to the “Third Way”), versus the TLM approach.

Section 1. New challenges for the Welfare Regimes

The changes undergone by the labour markets in industrialised countries are a key aspect of the new challenges met by the Welfare Regimes. Indeed, together with the socio-demographic mutations, these changes have contributed to the reconfiguration of risks.

1–1. The “recommodification” of labour

The concept of “decommodification” has been used intensively in Welfare state research. As Esping-Andersen (1999) points out, “*it is meant to capture the degree to which welfare states weaken the cash nexus by granting entitlements independent of market participation*” (p. 43). But following Polanyi (1944), it can be used in a wider sense, referring to all the institutions and regulations that prevent labour from being treated as a mere commodity. From this point of view, social protection systems – including “corporate welfare”, i.e. firm based health and pension plans – were only one element of the “decommodification” process which took place in the industrialized countries from the end of the XIX th century – and more intensively after WW II. The second aspect was the regulation of the labour market, based on the introduction of “statutory rights” for workers, through law and/or collective agreements, which transformed “*work into employment*” (Castel, 1996). But since the end of the seventies, the trend seems to have reversed: the traditional employment relationship has been under strain, and, therefore, firms play a lesser role in the “welfare mix” provision.

1-1-1) The decommodification through the employment relationship

The wage employment relationship which emerged was based on the acceptance of subordination in exchange for economic security (Supiot, 1999). The paramount of this conception was reached during the “Fordist era” (1945-1975). The model of the employment relationship was the one that was implemented in the big corporations through their “Internal Labour Markets” (ILMs) - even if many workers (and in some countries, the majority of them) were not part of them. Following the seminal work of Doeringer and Piore (1971), ILMs can be defined as institutional units within which the price and the allocation of labour are determined by administrative procedures, as opposed to an “external market” (the spot market of the “*conventional economic theory*”) where wage, training and the allocation of labour are determined by the market process (i.e. supply and demand).

By their very nature, ILM participated to the decommodification process.

First, once integrated in an ILM, workers were – in a certain extent – insulated from the market pressures. Job security was one aspect. The Japanese “life time employment” system in big firms was the extreme case. In the United States, where labour market was and still is more flexible, and in most of the European countries, only managers could benefit from the (implicit) rules of life time employment. But for the other workers, in particular in the unionised sectors, some job security was provided by implicit or explicit rules like “lay off and recall” or “short time working” and seniority based protections (as the “*last in first out*” rule). Economic security derived also from the wage determination process. Only the entrance wage was determined by the (external) labour market process ; once in ILM, the worker’s pay was disconnected from the adjustment of demand and supply on the labour market, and also from the economic current performance of the firm. This wage rigidity played as an (implicit) insurance contract (Malcomson, 1999). Wage increase was indexed on inflation and productivity gains, and, in the long term, was based on tenure (seniority).

The wage determination was also the key aspect of the second element of the “decommodification” process. ILM were based on job classifications defining the wage structure. This could lead, in a certain extent, to a *de-connection* between the *wage* attached to a job and the *productivity* of the individual worker holding this job. As Doeringer and Piore noted, “*when a permanent relationship is established [...] profit maximizing no longer compels the firm to equate the wage and the marginal product of labour in every pay period*” (op.cit., p.75-76). If we assume that a firm’s total wage bill is equal to the marginal product of all its workers, this means that some workers (those who were paid less than their productivity) did “subsidise” others (those who were paid more than their productivity). ILM were a nexus of such “implicit subsidies”, and thus, had (potentially) important distributional effects (Gautié, 2003b). As a consequence, the increasing wage profile with seniority was not only the result of the accumulation of human capital throughout the career. It was also a “deferred payment” scheme (Lazear, 1981), implying that senior workers were paid above their productivity, while younger workers were paid below. This system was justified by equity as well as efficiency reasons – the deferred payment playing as an incentive device.

In addition to this age (seniority)-related “horizontal” subsidies¹, many ILMs also featured “vertical” subsidies between the various skill levels during the Fordist era. In many cases occupational wage differentials according to skill were narrower than the corresponding (marginal) workers’ productivity differentials. This relative narrowing of the wage

¹ At the same skill –occupational level.

differentials derived mainly from institutional constraints (Blau, Kahn, 1999). In some countries, like France, the statutory minimum wage helped to increase the relative wage paid to less skilled workers, narrowing wage differentials at the bottom of the wage distribution. In many other countries, the same result was obtained by collective agreements - given the egalitarian vision of equity promoted by the labour unions in all industrialised countries.

1-1-2) The destabilisation of ILM

For nearly 25 years, industrialised countries have witnessed a destabilisation process of the traditional ILMs (Gautié, 2003b). As Cappelli put it, “*several important developments combined to create an environment that substantially reduced the benefits derived from internalised employment systems. The most important were changes that increased the burdens of fixed costs*” (1995, p.566-7). These changes included the slowdown of growth, globalisation and increasingly intense competition on product markets, but also changes in financial systems and corporate governance. As for technological change and new forms of work organisation, they were causes as well as consequences of this process.

These mutations have had a significant impact on the wage employment relationship. The destabilisation of the ILM caused to some extent a “re-commodification” of labour, with a growing tendency to reward workers on the basis of their market value – i.e. to equate “spot” wage to “spot” productivity. As Summers noted, “*market forces have tended to pay everyone like salespersons - on the basis of what they produce*” (1999, p 102). The decline of ILM, which has been coupled in many countries with the decrease of unionisation, may contribute to explain (together with the “biased technological change” put forward by many economists) the increasing inequalities between skilled and unskilled workers. At the same time, the employment relationship became increasingly flexible. Employment security tended to decline, especially for the less skilled workers and those with low seniority, but also for old workers. The categories who used to benefit from the former “implicit subsidy” system suffered the most from these mutations. Indeed, downsizing affected not only labour market entrants and the low-skilled, but also senior manual skilled workers and white collar staff.

Of course, ILM and long tenure employment are far from having disappeared – even in the U.S, cf. Neumark, 2000. In many European countries – and notably in the “corporatist-conservative” ones, where the priority has always been to protect the male (middle-age) breadwinner – the average employment security remains high, because of employment protection legislation. As a result, the flexibilisation process mainly fostered the segmentation of the labour market – the contingent workers (the “outsiders”) bearing the brunt of economic insecurity. But even “insiders” feel less and less secure. They know that given the new economic environment, the (implicit) commitment of firms to provide life long employment and stable earnings is, for many, a thing of the past.

Moreover, the blurring of the edges between the market and the firm is not only the consequence of the flexibilisation process (contingent work, outsourcing, subcontracting...). It also derives from a new organisation and conception of work within the firm itself. The worker is now required to be more autonomous, polyvalent, etc. His/her efficiency depends on the various types of individual aptitudes that s/he can effectively mobilise in a work situation – the so called “competency”, which refers to skills that are not only technical (in the traditional sense) but also social (especially relational) and behavioural (autonomy, initiative, etc.) in nature. The worker is more and more considered as a service provider – a salesperson (cf. above). The market logic penetrates into the organisation: as Cappelli et alii. (1997)

emphasized “*pressures from product and labor market are brought into the organization [...] establishing market-mediated employment relationships*”.

As a consequence of all these changes, workers are required to become more mobile and “employable”, inside as outside the firm, and thus “marketable” throughout their professional life course.

1–2. The new challenges for risk management

In this context of changing labour markets, but also of new socio-demographic trends (rise of divorce, increase in women’s labour market participation, ageing etc.), social risks and their management undergo important transformations. We mainly follow and extend here some formulations made by Giddens (1998) and Schmid (2001 and 2003b).

1-2-1) The reconfiguration of risks

First, the connection between risks traditionally perceived as independent becomes closer. This is the idea of “manufactured risks” proposed by A. Giddens, i.e. a social situation where the occurrence of some risks depends on intertwined social causes and in the way back, these risks affect, by spillover processes, various parts of the society. A classical example of this is the unemployment problems generated when a family has to move in order that a member (say the husband) can take a new job, then constraining the other wage - earner (say the wife) to abandon her previous job and to look for another one at the new dwelling place. Another set of examples is given by environmental problems, that may lead to plants closings and again unemployment and displacement of workers and families. Such risks can no more be managed in an independent manner by separate institutions or devices: some coordination is needed. In other words, the boundaries between labour markets and other social systems (such as the educational system or private household economics) are becoming increasingly blurred.

Second, if we use Esping–Andersen’s (1999) broad typology of social risks in three categories, we can observe that the traditional risks, mainly covered by insurance and social protection systems, are changing and that new risks are emerging.

This is of course the case for the previously examined labour market related risks, here termed “*class risks*”, differently affecting different groups of workers. The process of the “recommodification” of labour described above, while concerning all the industrialised countries, challenges more specifically the “liberal” and the “conservative” Welfare Regimes. Indeed, in both regimes the employment relationship is a central pillar of the social protection system, through the corporate welfare in the “liberal” regime², and through the “corporatist logic” in the conservative one – where social rights are based on social contributions linked to the employment record. The security provided either by the State (classical social protection) or by ILMs being eroded, the related “manufactured risks” are not covered or inadequately covered.

But we have to introduce the second group of risks: “*life-course risks*”. They include family formation, childrearing, caring for dependent persons, as well as the risks associated with career development and ruptures, such as professional reorientation, burn-out problems.

² In countries like USA or Japan, for instance, the advent of corporate welfarism was closely connected to the constitution of ILMs (Morigushi, 2000).

In this field, the traditional insurance device was twofold: the family as a buffer, and the priority given to the male bread-winner for access to employment and full social protection – especially in the “conservative” welfare regime. A classical example is of course having children: the traditional way to deal with the need of caring was the withdrawal of women from the labour market, and their specialisation into domestic work.

New “life-course risks” stem now from other sources, such as less stable two-earners families, plus unstable careers due to burn-out or to changes of preferences. So we witness again the erosion of an insurance device: the family as an institution is no more responding efficiently to these new challenges. It is quite clear even for stable families with two earners. It is of course possible that in some cases, the gains of one member of the couple may compensate for the job loss undergone by the other, but in most cases the gains or the losses go together for both members, in a cumulative way leading to polarised situations: two prosperous wage earners for the well integrated and qualified workers, and two unemployed (or one unemployed and one precarious employed) in the case of disadvantaged workers. The occurrence of unstable families or lone parents sharpens the problem with more poverty risks and more dilemmas as regards paid work and domestic tasks.

Another key issue related to life-course is the ageing of the workforce. The classical response to employment shortage in some countries, i.e. early retirement, does no longer hold because of its costs (especially for public finance and/or the pension system) and its consequences on the labour market functioning. Even if early retirement may remain useful and legitimate for some “social” cases, today it cannot be the separate *ex post* answer to the challenge of older workers perceived as redundant. And appears a new insurance need for psychic and functional disabilities.

The third and last category is “*intergenerational risks*”. This group corresponds to “inherited risks”, due to the fact of being born in a specific social class, race or gender. Occupational and educational attainment as well as poverty remain over-determined by social origins. As Esping-Andersen stresses, “*inheritance and markets are mutually reinforcing*” (1999, p.42). The rise of inequalities which is an aspect of the “recommodification of labour” process depicted above – especially in the liberal countries -, tends to increase those intergenerational risks, and requires a strong commitment to equal-opportunity policies.

1-2-2) New challenges

Taken together, these changes in the “old risks” and the advent of new risks put under pressure previous arrangements, and imply more or less visible long-term consequences. For example, the pensions rights of women with discontinuous work histories (with periods of unpaid domestic work and sporadic, part-time employment records) will be very low, at least in Bismarck - oriented pensions systems (cf. Gautié, Gazier, Morin, 2000 for the French case) and, if not corrected, may lead many of them to poverty. And the risk of obsolescence of skills, usually managed by some on the job training into firms, plus early retirement, is now a more permanent and collective risk involving regular retraining or recycling, and some coaching/reorientation, together with preventative measures such as periodic skill balances and diagnosis.

These two examples are central, because they help to better characterise the present situation as an uncompleted process. First, the demographic changes will lead to a new equilibrium whose traits are not fully acknowledged. The management of senior workers staying longer into firms implies a new set of preventative policies, and a long-term action on

work conditions. Early retirement as a systematic relegation policy device appears as an illegitimate ex post compensation of hard working conditions and ill-managed competition amongst workers. A second process is still under way: the gender revolution, with more and more women belonging to the workforce (and indeed we need them for financing pensions !), but still the domination of the traditional household model and a mix of segregation/discrimination practices on the labour market.

The consequences of the current ill-management of risks in many developed societies are at least threefold. First, many persons find in self-insurance devices (either through the accumulation of private assets, or through voluntary contributions to private insurance institutions) the supplementary risk management tool they need. Second, a diffuse but persistent feeling of insecurity appears, highly perceptible in opinion polls or subjective inquiries, even (and, worse, mainly) in the countries offering a high level of employment protection legislation. This apparent paradox is understandable because employed workers fear real difficulties in finding another job if they lose the present one. Last consequence already evoked: the tendency towards more inequality and polarisation of income and trajectories. Self insurance is only available for autonomous and well-paid workers, and the dynamic security against the new risks seems reserved to an important but minority group of high-skilled workers.

Section 2. Transitional Labour Markets as a new framework for the labour market – social protection nexus

This section deals with the core arguments underlying the TLM approach and proposals. Because many presentations have already been made of such central definitions and principles (Schmid 1995, 2001 and 2003a, Schmid and Gazier (eds) 2002...), we shall add to the overview of these arguments and principles by introducing two concerns relevant here : a direct connection between “transitions” and social risk management (based mainly on Schmid 2003b) (2.1), and a broadening of the reform field affected by TLM : from labour market policy reform to employment relationship reform (Gazier and Schmid 2001) (2.2).

2.1. Risk management through transition management

2-1-1) Focusing on transitions

We may start from the classical definition of TLM: they are a negotiated and systematic management process of *transitions* in and around the labour market. The traditional definition of transitions is the following: transitions are any departure from the traditional full-time and long term employment position. They include parental and training leaves, as well as apprenticeship, temporary jobs and subsidized programmes, but also within a single firm the switch from full time work to part time work and back to full time.

It may be observed here that this definition of transitions has two drawbacks: first it is a negative one (transitions are defined by opposition to a supposed fixed and stable reference position), and second it seems to leave out of the transition field the core and probably most socially desirable employment relationship. But in fact it is not the case: transitions appear and do matter within the most stable and traditional employment contract.

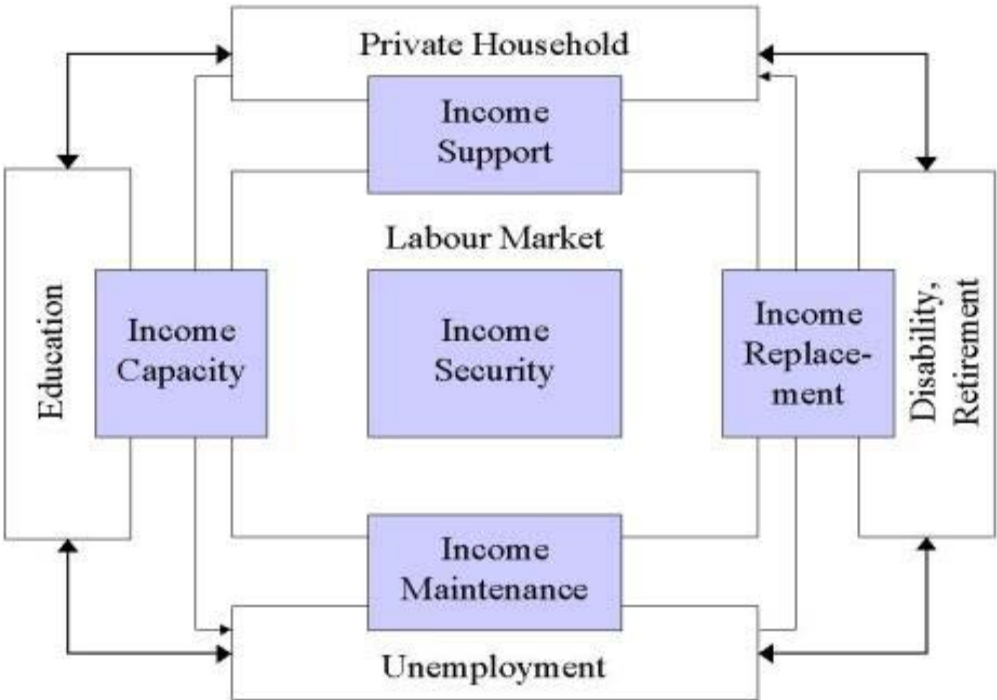
It is possible to go beyond such an imperfect (and transitional ?) definition by observing that work seen in a dynamic perspective is not a once for all arrangement, nor a short term exchange between a service seller and a service buyer – like in the “spot marke”, but a sequence of evolving *tasks* associated to evolving *competencies*, depending on social needs as well as on business needs. Domestic needs change over time, and paid employment tasks too (e.g. retraining, reorientation of production or processes). The important point is that today more than before, each “doublet” {task x associated competencies} depends on the previous trajectory of the worker. A simple example here is the re-employment problems faced by mothers after a maternity leave: if they have lost some marketable competencies and some contacts with the labour market, they need energetic retraining and placement help in order to get back to paid work. So the transitions may be more accurately conceived as the linking of doublets {tasks x competencies} over the lifetime career of anybody, affected by individual decisions, by social protection devices and by firms’ policies.

Such a perspective allows us to focus on “critical transitions”, i.e. transitions which lead to cumulative disadvantages and poverty. An obvious example is divorce splitting a poorly qualified family, a private decision which may have the consequence of increasing the risks of poverty for a lone mother. The question is how to control these “critical” transitions and how to adapt the labour law and social protection institutions to these new challenges.

2-1-2) From transitions to income risks

We have to evoke here the five traditional fields of transitions: transitions within employment; between education and employment; between unemployment and employment; between unpaid socially useful activities and paid employment; and between inactivity and employment. The recent presentations (Schmid 2001 and 2003b) associate each transition field with an income risk management according to the figure 1.

Figure 1. The five transitional fields and their income risks



The focus on income matters does not exclude, of course, other substantive efforts to foster security, such as work conditions control and work accidents prevention (see below). But it is central in our world shaped by the integration through autonomous paid work and contribution to production. The concern becomes a dynamic one, because the linked doublets tasks x competencies sum up the career autonomy of any person, his/her ability to earn one's living and to participate to social life. So we can start with the transitions between education and employment, because the problem is to build or preserve "income capacity" : the risks here bear on skills acquisition, then on skills attrition and competencies lacks or losses. Then we introduce the transitions within employment. The problem here is termed "income security", and appears with part – time arrangements, short-time work, volatile hours, etc. The transitions between unemployment and employment raise the question of "income maintenance", with the problem of preserving the living level and rights of unemployed people, and organizing their way back to employment. The transitions between socially useful activities and employment lead to the priority of "income support". The transitions between disability and/or retirement and employment can be managed in a perspective of "income replacement".

These multiples ways of securing income converge in the motto "*making transitions pay*", challenging the conventional and narrow wisdom often popularised by OECD and exclusively focussed on "*making work pay*". It must be observed that risks here are not conceived as purely negative odds, but as a possible mix of threats and opportunities. The point is not to overprotect people but to make them able to cope with the risks associated with activity and living. Some of these risks must be prevented as far as possible, others could be born by individuals. An example is the attempt, by redundant workers, to create their own enterprise, helped by their previous firm. If they do not succeed, and indeed this will be the case for some of them, they should have the right to come back into the firm or be treated as any other salaried worker. This guarantee ensures that a reasonable number of redundant workers will take the risk of engaging themselves into independent career. Put into a nutshell, the idea here is to switch from "passive protection" to "active security".

Concretely, the central proposal is to develop local-sectoral bargaining on mobility, with an enlarged set of partners, including regions, municipalities, non-profit networks. The bargaining process may be fuelled by the decentralization of state labour market policies, whose allocation may be left to local deciders. Organizing or maintaining a global transfer policy will be necessary in order to ensure that a relatively poor region is not condemned to poorly financed transitions.

With such resources, the target is to develop transitions, following a number of principles fostering autonomy, co-financing and shared responsibility, and capturing labour market externalities³.

2.2. The search for a functional equivalent to ILMs

However, this strategy raises a natural question: what about the firms' responses to this management of transitions ? Public intervention and negotiated arrangements seem to have an effect only outside of the firms, and could only compensate the negative consequences of decisions taken elsewhere. So we need to take a broader and more political view of the stabilization arrangements fostered by TLM. It could be done in two steps : first, by getting inside firms, and considering the whole set of risks associated with a salaried work relation,

³ For more details here, see Schmid and Gazier (eds) 2002.

compared with a non-salaried position; second, by examining the new complementarity between in-work stabilization and social protection rights.

Extending and reformulating a previous analysis made by the labour law specialist M.L. Morin (1999), Gazier and Schmid 2001 proposed the following table:

Table 1 : From classical salaried employment relationships to new risk management

Type of traditional risks	Conventional risk management in employment relationship	Changes in the old risks and the emergence of new risks	Spillover on employed	Risk management by Transitional Labour Markets
Entrepreneur risks : - Bankruptcy risk - Risk of shirking and quality performance	Born by the firm: Workers' subordination and work place control	Increasing competition and market instability Breakdown risk "Shareholder risk"	Income volatility due to performance related wages; take-up of more responsibilities in responding to uncertainty	Concession bargaining; Wage income insurance
Employment risks: - Job loss risk - Work accident risks	Unemployment Insurance Born by the firm plus accident insurance	Increasing risk of (recurrent) unemployment Δ+ demand reactivity; risk of increased stress	Employment and related income insecurity More pressure on workers; increasing burn-outs	Flexible entitlements; Transportability of entitlements More mobility options
Human capital risks: - Lack of skills - Skill attrition	Born by the firm: Training and Retraining Age approach: Early retirement	"Employability risks": Risk of competency obsolescence; risk of functional disability	'Activating' public employment policies with emphasis on individual initiative	Mobility rights, training rights, education rights
Time variability risks: - Extra hours needed - Short-time work	Born by the firm: supplementary compensation of overtime work Risk sharing between firm and male workers through lay-off systems or part-time unemployment benefits	Δ+ demand volatility Risk of schedule volatility Risk sharing of care responsibilities due to increasing labour force participation of women	More pressure on workers Constrained balance between private time and working time	Time saving accounts Sabbaticals Protected part-time work More and re-equilibrated parental leaves
Social risks - Risks of interrupted income through sickness, disability, retirement	Collective management (sickness insurance; family allowances; pension schemes)	Risk of losses in accumulated social rights because of discontinuous careers; Risk of permanent reduction of income capacity	Self insurance Social exclusion or new poverty	In-work-benefits and subsidization of Socially useful activities; Decoupling social security from specific jobs and linkage with life-time employment

The interest of such an overview is twofold. First it explicitly introduces the entrepreneurship opportunities and risks, and globally takes into account the complex allocation of opportunities and responsibilities underlying any salaried work relationship. Second, it shows some additional ways by which the TLM approach may combat the today tendencies towards a spillover of risks on the individual worker, mainly inside the firms.

Among the dimensions introduced here, some have already been discussed: the employment risks, the human capital risks and the social risks. The remaining two can now be briefly presented: the “entrepreneur risks”, traditionally born by the firms’ owners and/or managers, and the “time variability risks”, partly shared through short-time working arrangements or supplementary hours. These risks undergo important changes. The “entrepreneur risks” have now partly shifted on the salaried’ side, with the promotion of individual reactivity and initiative, and it entails the increase of income volatility⁴. And the “time variability risks” do the same, through increased demand instability and sharpened conflicts between private and professional time use. So the main consequence here is the increase of time volatility.

The “transitional” responses here are wage income insurance and time saving accounts, two instruments aiming at regularizing the flows of income and work. If the variable part of workers gains (premiums, pay related to firm’s performance, dividends of shares owned by salaried workers) is paid, not directly to the workers but to a collectively managed fund, it may be regularized. Similarly, time saving accounts do not forbid firms to try flexible arrangements and untypical schedules (such as opening shops late in the evening), but give some initiative to workers who may choose their hours, and make the firms feel the social cost and consequences of their decisions in this field.

Finally, it is useful to underline that a new compromise emerges here, intending to replace the old one centred on the traditional ILMs, which basis appears today too limited and even shrinking for a good integration into work and social protection – cf. section 1. Securing careers into a single firm, and connecting work guarantees to social protection, this strategy needs to be complemented and enlarged, by securing transitions and giving additional social rights. Here we combine three interrelated stabilization processes. The first concerns work and earned income. The second is the whole set of social protection rights, which have to be extended to subsidizing socially useful activities. And the third is the connection between the two spheres of work and social protection, which must be loosened by “decoupling” paid work activity and the accumulation of social rights. The linkage has now to be made with lifetime employment, not with a specific work status. This means transferable rights to pension and mobility.

This compromise may be directly accepted by firms accustomed to social dialogue, because it does not impede their restructuring efforts. For others, the collective management of transitions has to create a tight labour market, with many opportunities available even for low-skilled workers, in order that they feel incentives to behave in a long-term perspective.

⁴ The “shareholder risk” corresponds to the norm of a fixed dividend (15 % of the engaged funds) partly imposed by some shareholders during the “new economy” bubble. The consequence of a systematic implementation of such a norm would be that wages become the adjustment variable in case of business fluctuation and take the role of profit, thus strongly disturbing the classical employment relation. However it seems that such an emerging norm disappeared with the bubble.

Section 3. TLM versus Asset Based Welfare and the “Third Way”

The sociologist Anthony Giddens has drawn the map of an ambitious social and political paradigm: the “Third Way” between liberalism and the traditional social-democracy. In the same line, some authors – attached to a Think Tank of the British New Labour⁵, have promoted an “Asset Based Welfare” (ABW) to replace the traditional Welfare State (Regan, 2001).

Concerning the labour market-social protection nexus, the TLM approach at first glance shares common principles with this approach: the focus on individuals throughout their life cycle (rather than in a static way), the emphasis on equality of opportunities – which requires the limitation of wealth and income inequalities -, the search for the reconciliation of flexibility with security, the insistence on employability and training

But these similarities deserve a closer look. Both the conceptions of the individual, the market and the collective regulations appear to be quite different in the two approaches. In a simplified way, one could assess that whereas the ABW intends to equip the people for the market, on the reverse, the TLM approach is a program to equip the markets for the people.

3-1) Equipping people for the market: the ABW approach

The first model involves a clear break with the “Fordist system” (employment protection legislation, ILMs...) as, in a sense, it promotes the recommodification of labour. But contrary to the classical neo-liberal vision, it also advocates for an ambitious public intervention through an “*Asset-Based Welfare*” system. The focus on employability – and thus training - is central here, and the ideal worker is the (new) “professional”, personified by the “portfolio worker”.

3-1-1) The individual, the market and the State

This first model allocates a central role to the individual. As Giddens claims, “*people are invited to constitute themselves as individuals, to plan, understand, design themselves as individuals...*” (1998, p.36). They are required to be responsible (no freedom without responsibility) and forward planning (precondition for self sufficiency). However, Giddens, in the line of Ulrich Beck, does not advocate for a return to the “atomistic” type of individualism that prevailed before the advent of collective regulations that emerged through the XXth century. He is in favour of “*institutionalised individualism*”. The individual is specifically endowed (or helped to endow him/herself) with assets that will enable him/her to behave as a real “agent”.

In this view, the role of the State should be to provide individuals with some of these assets that will help them to become “marketable”. The traditional Welfare State, which is “negative” because it only has a protective function, must be replaced by an “Asset-Based Welfare System” (Regan, 2001). In USA, this principle has been experimented at the local level through “*Individual Development Accounts*” and “*Universal Capital Grants*” for instance (White, 2001). In 2001, the British Prime Minister Tony Blair proposed to create a “*Child Trust Fund*” and a “*Saving Gateway*” (Emmerson and Wakefield, 2001). The former is a lump sum payment for every child at birth (higher for those from lower-income family) to

⁵ The *Institute for Public Policy Research*.

constitute a fund which is locked away until adulthood, in order to permit every young people “to embark on their adult lives with financial asset to invest in their future”. The latter is a saving account for the lower incomes; government would match individual contributions in order to provide an incentive for account holders to place funds in these accounts.

Asset based Welfare refers to the « *property owning democracy* » that Rawls advocates for in the preface of the second edition of his *Theory of justice*, : « *One major difference [with the traditional welfare state democracy] is that the background institution of property-owning democracy, with its system of (workably) competitive markets, tries to disperse the ownership of wealth and capital [...] The idea is not simply to assist those who lose out through accident or misfortune (although this must be done), but instead to put all citizens in a position to manage their own affairs and to take part in social cooperation on a footing of mutual respect under appropriately equal conditions*” (quoted by White, op.cit.).

The State should interfere as less as possible with the market. It may intervene upstream from the market - by providing individuals with those “assets” – and eventually downstream as well, but only via safety nets and/or through redistribution measures like negative income tax systems.

People are not only helped but also required to become “marketable”: the “welfare to work” strategy is not far from the “workfare” conception which insists on the fact that there are no rights without duties, no entitlements without a counterpart for the society – that is work (Mead, 1986). When implemented, these principles lead to the “work first” strategy: people are required to get a job, whatever the conditions, because it is always better than living on the welfare (Barbier, 2001).

3-1-2) Human capital and the advent of the portfolio worker

Economic security is mainly based, in this model, on “employability”, which is conceived as the functional substitute of the protective rules provided by the traditional ILMs. Employability enables individuals to break free from subordination that goes with traditional wage employment relationship, and also to re-appropriate, in a sense, their own career paths. Employability is directly related to competencies: as two leaders of the French employers’ union (MEDEF) stated, “*the best security we can give individuals is a well-stocked portfolio of competencies. This is what will make them autonomous and free in the firm. It is the key issue of employability...giving people the means to build up their capital of competencies so that they are not entirely dependent on one firm to develop their professional future*”.

Human capital is thus the core asset. According to Giddens, the State should promote training instead of offering direct income support. The United Kingdom, for example, has experimented “*Individual Learning Accounts*” people could use to finance training: 150 £ was given by the government, and the financial contributions of both the individuals and their firms were tax free⁶.

But the competencies are also – and above all – acquired within firms. The certification of skills acquired on the job and /or in further training programmes is a key issue. It has to be based on collective regulations. Yet this does not necessarily mean that the State should play

⁶ These accounts were suppressed in 2001 after various fraud scandals.

an important role. In the United Kingdom employer organisation play a leading role through the *National Vocational Qualifications*⁷ system, while trade unions are marginal actors.

To conclude, in this first model the ideal worker is no more the Fordist “salaryman” – exemplified by the white collars of the big post-war corporations. It is rather the “*portfolio worker*”, conceived as a kind of professional, who does not have any durable attachment to a given firm, and who therefore leads a “boundaryless career”. This new figure has already appeared in some sectors such as high-tech, or the arts and entertainment (in Hollywood or the Silicon Valley, for example: c.f., Osterman, 1999; Marsden, 2003). One could see in these evolutions the revival of traditional “occupational labour markets”, which were based on strong crafts unions very keen to control the definition and acquisition of the specific occupational skills⁸, and which played as the institutional infrastructure of inter-firm mobility. But the new reality is quite different: the institutional basis of the labour market of the artists, for example, is mainly restricted to the networks in which they participate. Indeed, more generally, the accumulation of social capital⁹ – Giddens insists on this point – is seen as crucial in this model.

3-2) Equipping the market for people: the TLM way

According to the TLM view, equipping individuals with assets is not enough to “empower” them. Their “capabilities” depends on institutional arrangements in which all the local actors must take part.

3-2-1) From assets to capabilities

Equipping people with assets is not enough to transform them into the ideal figure of the fully self sufficient and rational individual, enabled to make the optimal choices for him as well as for the community. A lack of collective regulations can lead to a situation where individuals are left to rely entirely upon themselves - what Osterman stigmatises as the “*pack your own parachute strategy*” (1999, p.185). More specifically, a system where individuals – provided with learning accounts, for instance - have sole responsibility for the preservation of their employability cannot help but increase dualism, particularly in those countries where ILMs used to play an important role.

French surveys on trainees enrolled in further education programmes have shed light on the existence of different types of attitudes toward training. Engineers and technicians have indeed a medium or long run strategy, which their training actions are geared towards specific goals in terms of career achievement. Inversely, for blue collar workers and clerks training appears more as a short-term initiative, aimed at a limited adaptation to the current employment, or connected to the attempt to take advantage of a one-off opportunity (Germe, 2001). Moreover, the impetus for undertaking a training programme is even more unevenly spread. Around 25% of all workers in France declare they have unsatisfied training needs, but

⁷ NVQs are quality certification procedures that are intended to enable an evaluation and a certification of competencies that workers have implemented and acquired in a given work situation.

⁸ This was mainly achieved through the control of trade unions over the apprenticeship system.

⁹ Social capital refers to “*the circumstances in which individuals can use membership in groups and networks to secure benefits*” (Sobel, 2002). According to Szreter (2001), social capital minimises the transaction costs on the markets, and “*permits human capital to achieve its most productive combinations and outcome for the economy*” (p.296).

this proportion is much lower for blue collar workers and clerks, especially for the less skilled ones (Lichtenberger, Méhaut, 2001). This might stem from their lesser preference for training (often the consequence of their failure at school) and/or from the fact they do not see clearly what advantage training will bring to them in terms of career and/or wage. This under-assessment by many workers of their own training needs can lead to insufficient or inappropriate investments in human capital. Other actors must therefore take part in decisions concerning training, and in the funding thereof.

The example of training leads us to a more general issue. Empowering people is not only a matter of providing them with assets or “primary goods” – following the Rawlsian definition. It is about developing the individuals “capabilities”, a concept put forward by Amartya Sen. As he points out, the relationship between assets or primary goods on the one hand, and well-being on the other hand, may vary because of personal diversities in the possibility of converting these assets into achievements, i.e. “functionnings” in Sen’s words¹⁰. Similarly, the relationship between assets and the (real) freedom to pursue one’s objectives – well being or other objectives – differs from one individual to another. As a consequence, “*capability is primarily a reflection of the freedom to achieve valuable functionnings. It concentrates directly on freedom as such rather than on the means to achieve freedom [...] it can be read as the reflection of substantive freedom*” (Sen, 1992, p.49).

Let us turn to the implications of these principles for labour market policy and welfare provision. Whereas the ABW model tends to implement “one fits all” general tools (like capital accounts, inwork benefits...), TLM focuses on active labour market policy based on the provision of sophisticated and individually-tailored services: peoples are treated not as abstract or ideal individuals, but rather as concrete persons who differ according to their specific characteristics and needs. This is why intervention at the local level is so crucial.

3-2-2) Beyond networks and social capital: the institutional foundations of labour markets

In a way, as already emphasized, TLM can be seen as a continuation of ILMs: the objective is to replace (or complement) the security provided by the traditional employment relationship but in a more flexible way. Beyond the active labour market policy already mentioned, several local arrangements and/or institutions, can play a crucial role. During the Fordist era, there was a lesser need for such institutional framework: mobility primarily took place within the ILMs; and transitions between ILMs were less frequent, more rapid and sufficiently well supported by income protection “safety nets” (family support or unemployment benefit system). The reality of this era is accurately rendered by Doeringer and Piore’s dichotomy: ILM (i.e. institution) *versus* external labour market (i.e. the competitive market, as in the standard economic theory). But nowadays, as a (partial) “marketisation” of ILMs takes place, inversely, there must be in a way an “institutionalisation” of external markets – in order to create a continuum between internal and external labour markets, instead of the classical gap.

Indeed, new institutional arrangements are appearing. At the local level, programmes involving various actors have been set up in an effort to simultaneously organise mobility and training.

¹⁰ Functionnings include elementary achievements, like being well-nourished, avoiding escapable morbidity etc. but also more sophisticated ones, such as having self-respect, being able to take part in the life of the community, and so on.

The *San Francisco Hotels Partnership Project* (SFHPP) is a particularly interesting example (Bernhardt, Dresse, Hatton, 2003). It was created in 1994 as a part of a multi-employer contract between eleven first-class hotels and the largest union in the industry. The aim was to provide job security and solid compensation to workers (often immigrants) while also increasing the competitiveness of the member hotels. The partnership is based on a labour-management collaboration concerning all the dimensions of human resources management, including work organisation, wage, training and even mobility, horizontal as well as vertical¹¹. In many countries, these types of multi-employer contracts tended to develop, especially in the agricultural and the tourist sector. They can be seen as institutional setups which combine the security of ILMs with the flexibility of external labour markets.

In the Netherlands, the experience of *arbeidspool* (“job pools”, or “flex pools”) is also worth mentioning (Wilthagen, Rogowski, 2002). These are private or public private organizations (or joint venture involving several organizations) which allocate workers to firms (or network of firms) within a certain geographic area or sector. The workers can be integrated by the firms, or simply serve as temporary workers. Those who were previously unemployed are offered training and education facilities. In many cases, temporary work agencies are taking on the role of coordinating those pools. Even if such “job pools” are particularly innovative, it must be stressed that more generally, in Europe as well as in the United States, temporary work agencies are playing an increasing role of intermediation on the labour markets. They offer more and more human resource management services to their client firms, but also to the workers – by providing them with general training for instance (Lefèvre, Michon, Viprey, 2002, Finegold, Levenson, Van Buren, 2003).

From the SFHPP and the “job pools” experiments, we can draw the conclusion that the success relies on the coordination of all the local actors (employers, unions, educational system, public employment services...). In the field of adult further training, a key element of the widely celebrated “life long learning” objective, Schmid (2003c) emphasizes that in Denmark and Sweden, two countries that perform well in this area, the success is also based on interactions between multiple actors within a framework of complex institutional support measures that are enacted at a local level. It is also today well known that the local conditions of implementation are crucial for the success or failure of the active labour market schemes (Heckman, 1999).

3-2-3) Rights, rules and the promotion of the “citizen-worker”

Beyond local institutional arrangements, labour law (whether State provided or based on collective agreements) has also a key role to play in the “empowerment” of individuals. During the fordist era, labour law mainly consisted in general rules, aiming at protecting the worker (his/her health, physical and mental integrity...) through “labour standards”, and his employment through “employment protection legislation”. In order to promote both flexibility and security, the good balance in regulatory techniques would be less substantive mandatory rules and employment rights and more procedural rules, which shape the framework within which partnerships and contractual agreement must take place.

¹¹ Recently, the San Francisco Partnership started to work with employers, unions and community colleges in three other cities (San Diego, San Jose and Los Angeles) , on long term programme (“*Four city Hospitality Career Ladders Project*”) which intends to solve the problem of upward mobility in the industry.

According to Collins there is a “third way” in labour law. In his view, labour law must not deal with distributional issues, “*its purpose is instrumental: to improve the competitiveness of the business. The rights are not accorded to the workers out of respect for basic values or to ensure compliance with ideal standards of fairness and justice*” (2001, p. 302). The employment relationship is conceived more as a “*symbiotic*” contract than as a subordination contract. Referring to the principal-agent model used by the economists, Collins argues that the employer and the employee are both principal and agent: the employee is the agent for the employer in carrying out the work he has been hired for, but symmetrically, the employer is the agent for the employee in creating work to be performed and in enhancing the worker’s employability (p.307). Even if he acknowledges that the labour law cannot be replaced by the commercial law – because of the asymmetries of information on the behalf of the worker –, the conception he puts forward tends to assimilate the labour contract to a (special) civil contract. The TLM approach insists more on the asymmetry issue – which is not only a matter of information resources but, more widely, of bargaining power. As Supiot states “*subordination relationships are changing but continue to exist none the less. And subordination calls for a range of specific rights and safeguards, which have been worked out in the course of the historical development of labour law*” (1996, p.612). Using Hirschman’s (1970) terminology, the aim is not only – as in the ABW “Third Way” view – to enhance the “*exit*” capacity of the worker – i.e., thanks to his employability, based on his portfolio of competencies, the worker can exit from a given employment relationship and contract with another employer, the market playing as discipline device, for both the employers and the employees. Due to the specific nature on the employment relationship, empowering the individuals requires also to enhance their “*voice*” capacity. And the purpose is not only “*instrumental*” – in Collins’ way; it is also connected with fairness issues, and, more fundamentally, to the issue of citizenship¹².

Moreover, what is at stake is not only empowering the individuals in the workplace, within the traditional employment relationship. Following Supiot (1996), a core of “*work-related human rights*” must be reinforced and even extended, beyond the wage employment, to self employment or even all sorts of unremunerated work. Contrasting with the traditional approach, both labour and social rights should be more and more attached to the individual rather than to his employment status. In particular, the objective is to secure the individual during his entire professional life cycle, rather to protect his current job. This is the key idea of TLM, as we have seen.

A related consequence is that in order to secure transitions, social rights must be disconnected from the employment position – i.e. from the firm. The extension of existing “*portable rights*” varies widely between the universalistic welfare systems (like in the Nordic countries) and the liberal ones – like in the United States, where health and pension plans are often provided by the firm, if they are. Beside protective entitlements concerning the traditional social risks (as sickness, unemployment, work accident, retirement), new rights tend to appear, which aims at widening the set of choice of the individuals, concerning the management of their career and the conciliation between their private and professional life. The systematisation of such “*social drawing rights*” – concerning sabbatical or parental leave, training, working time arrangements... -, advocated for instance by the Supiot report (1999), would contribute to the legal foundations of TLM. Contrasting with the ABW approach, these rights would not be simply entitlements to capital accounts – as learning accounts, time saving accounts ...-. Their use must be defined by collective agreements, in order to balance

¹² In the same line, promoting citizenship in the workplace was a key aspect of the German report “Work in year 2000” – Carl Offe being one of the authors. See Mückenberger, 1996.

and reconcile the (potentially) conflicting interests of the individuals, the firms and the society (Wilthagen, Rogowski, 2002). But moreover, as emphasised before, the use of these rights must be based on institutional supports. For instance, in order to make the right to “life long learning” effective, it is not sufficient to give vouchers to individuals, and then let them go on the free labour market. A wide range of institutional actors, well coordinated, is necessary to help individuals to make the right choice: public employment services, valuable training providers, certification procedures etc.¹³

Concluding remarks

To summarize, the TLM approach differs from the ABW one in the conception of “institutionalised individualism”: if indeed individuals – as real agents – cannot exist without social underpinnings, these underpinnings are not (mainly) restricted to “assets”. The promotion of capabilities requires a wide array of institutional supports. As a consequence, rather than simply “equip people” for the (free) labour market, the challenge is to “equip” the market for people. As a consequence, employability, for instance, is not just a matter of accumulating marketable skills at the individual level; the definition, acquisition and recognition of skills depend on institutional framework and collective agreements (Gazier, 1999).

Beyond the labour market place, ABW and TLM refer to two different social models. TLM can be seen as part of a program to reform the “labour market-social protection nexus” underpinning the “conservative” welfare regimes; it is as well a renovation of the universalistic social-democrat regime. As for the ABW, it intends to reform liberal welfare regime, but it does not question its main foundations.

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¹³ This point is also stressed by Schmid (2002) : “*Strengthening the personal resources on which individuals can draw (empowerment) [...] would be one condition; the provision of a material infrastructure in the form of a competent information services, for example, would be another ; the establishment of a procedural infrastructure by providing support for local networks, for example, would be a third [...]*” (p.186).

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